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for all gas and electricity customers

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

Consultation

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Contact: Tom Mackenzie (RIO-T1 and GD1)
Grant McEachran (RIO-T1)
Team: RIO-T1 and GD1
Tel: 0207 901 7406 / 0141 331 6008
Email: thomas.mackenzie@ofgem.gov.uk
grant.meachran@ofgem.gov.uk

Overview:

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

To give effect to the new RIO model, we will need to modify the licences of the gas and electricity transmission and gas distribution companies. This is our second informal licence consultation on our proposed draft licence changes. The purpose of this document is to provide stakeholders with a further opportunity to comment on our proposed draft licence changes.

This is the final informal licence consultation before the statutory licence modification consultation required to implement Final Proposals. In this document, we have sought to respond to stakeholders' feedback from the first informal licence drafting consultation and we have included updated drafts of the licence conditions proposed to take effect from 1 April 2013.

Context

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

We decided that the business plans submitted by SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission Ltd (SHETL) were suitable for fast-tracking and we have published their Final Proposals¹ (FP Documents). The business plans submitted by National Grid Electricity Transmission (NGET) and National Grid Gas, with respect to its gas transmission business (NGGT), were not considered suitable for fast-tracking. We have published Initial Proposals for NGET and NGGT² (T1 IP Documents) and we are now considering stakeholders' responses before we publish Final Proposals in December 2012.

In November 2011, the Gas Distribution Networks (GDNs) submitted their first business plans, and on 17 February 2012 we published our initial assessment of those plans.³ We decided not to fast-track any of the GDNs therefore, as with NGGT and NGET, we have published Initial Proposals for the GDNs⁴ (GD1 IP Documents) and we are now considering stakeholders' responses before publishing Final Proposals in December 2012.

The licences of the network companies will need to be modified to give effect to the RIIO-T1 and GD1 Final Proposals. In July this year we informally consulted on our proposed licence changes ("the First Consultation"). This second and final informal licence drafting consultation ("the Second Consultation") provides our latest working drafts of the proposed licence conditions to take effect from 1 April 2013.

Timetable for RIIO-T1 and GD1 licence modification process

Stage	Date
Final Proposals ⁵ and 28 day statutory licence modification consultation and notices published	December 2012
Licence modification decision and modifications published	January 2013
Licence changes come into effect	1 April 2013

¹ [RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd](#)

² [RIIO-T1: Initial Proposals for NGGT and NGET](#)

³ [Initial Assessment of RIIO-GD1 business plans and proportionate treatment](#)

⁴ [RIIO-GD1: Initial Proposals](#)

⁵ For NGET, NGGT and the GDNs

Associated documents

Supporting Documents to this consultation

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

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

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

[Supporting Document 4 Response template for RIIO-T1 and GD1-Second licence drafting consultation](#)

[Supporting Document 5: RIIO Licence Drafting Response Log](#)

[Supporting Document 6: Environmental Discretionary Reward Scheme: Guidance Document](#)

[Supporting Document 6A: Environmental Discretionary Reward scoring spreadsheet](#)

[Supporting Document 7: Network Access Policy - SHETL/SPTL](#)

[Supporting Document 8: Stakeholder Engagement Reward Guidance](#)

[Supporting Document 9: RIIO Licence Drafting Response Log-Financial Conditions](#)

[RIIO ET1 Price Control Financial Handbook](#)

[RIIO GT1 Price Control Financial Handbook](#)

[RIIO GD1 Price Control Financial Handbook](#)

Associated Documents

[RIIO-T1 and RIIO-GD1: Draft licence conditions – First informal licence drafting consultation](#)

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

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

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

[Disapplication Conditions - Informal licence drafting consultation](#)

[RIIO-T1 \(Gas\): Further views sought on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives](#)

RIIO-T1 and GD1: Draft licence conditions – second informal licence drafting consultation

[RIIO-T1 and GD1: Draft Regulatory Instructions and Guidance](#)

[RIIO-T1/GD1: Office National Statistics \(ONS\) review of RPI methodology](#)

[Non-Statutory Consultation on the draft Network Innovation Competition \(NIC\) and Network Innovation Allowance \(NIA\) governance documents](#)

[Supporting Documents \(Initial Proposals\) – RIIO-T1](#)

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

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

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

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

[Supporting Documents \(Initial Proposals\) – RIIO-GD1](#)

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

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

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

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

[Other key documents](#)

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

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

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

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

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Executive Summary

Following on from the First Informal Licence Drafting Consultation (“the First Consultation”) in July this year, this Second Informal Licence Drafting Consultation (“the Second Consultation”) gives all interested parties a further opportunity to provide views on our working drafts of the proposed licence changes. In this document, we have sought to respond to stakeholder feedback from the First Consultation and have included updated drafts of the proposed licence conditions.

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

Whilst the draft licence conditions have been further developed and, where appropriate, updated to reflect stakeholder feedback, they remain working drafts and we recognise that further work will be required to ensure that the conditions are fully consistent as a package and appropriately reflect Final Proposals.

In December 2012, following the publication of Final Proposals for NGET, NGGT and the GDNs, we intend to publish final versions of the licence conditions for all relevant licensees as part of the requisite 28 day Statutory Consultation.

1. Introduction

Chapter Summary

This chapter sets out the purpose and structure of this document. It identifies and considers feedback received on the scope of our proposed licence changes and on our general approach to licence drafting. It also explains the differences between the different types of licence conditions.

Purpose of this document

1.1. This document should be read alongside the following documents:

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

1.2. This document sets out our latest view of how the licences of the transmission companies and GDNs should be amended to implement the RIIO-T1 and GD1 price controls. This Second Consultation takes into account responses to the First Consultation.

Responses to the First Consultation

1.3. In this document we outline stakeholders' responses to the First Consultation, our response to these comments, and we provide updated draft licence conditions. We received responses⁶ from the following companies:

For RIIO-T1
National Grid Electricity Transmission plc (NGET) National Grid Gas [Transmission] plc (NGGT) Scottish Hydro Electric Transmission Limited (SHETL) SP Transmission Limited (SPTL)
For RIIO-GD1
National Grid Gas Distribution (NGGD) Northern Gas Networks (NGN) Scotia Gas Networks (SGN) Wales and West Utilities Limited (WWU)

⁶[RIIO-T1 and RIIO-GD1: Draft licence conditions – First informal licence drafting consultation](#)

1.4. Supporting Documents 5⁷ sets out substantive licence drafting related comments received from respondents in relation to specific licence conditions. The remainder of this chapter considers some of the general issues raised by stakeholders.

Scope of proposed licence changes

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

- (a) For RIIO-T1 - the electricity transmission licences of NGET, SPTL and SHETL and the gas transporter licence of NGGT
- (b) For RIIO-GD1 - the gas transporter licences of the following GDNs:
 - NGGD
 - NGN
 - Scotland Gas Networks
 - Southern Gas Networks
 - WWU.

1.6. As part of the First Consultation, we set out the scope of our proposed licence changes.

1.7. In its response to the First Consultation, NGGT noted that it did not understand the rationale for including some non-RIIO changes in this consultation and delaying others until the Gas Transporter Licence Review (“GTLR”). We note that this reflects the way the licence drafting process has evolved. Originally we had intended to modernise all Special Conditions (SpCs) as part of RIIO. Over time, and in response to feedback at the Licence Drafting Working Groups, the focus has been on specific licence changes necessary to implement RIIO.

1.8. However, given that some work on non-RIIO licence changes had already been considerably developed and discussed with the Licence Drafting Working Groups, our view is that it is sensible to continue to progress these and implement at the start of RIIO-T1 and GD1. Examples, include changes to:

- modernise SpC C11: Transmission Planning Code [GTC 37]
- remove SpC C12: Restriction of prices in respect of tariff capped metering activities.

1.9. Both SGN and SHETL suggested that we need to make a distinction between RIIO related licence changes and non-RIIO related changes by conducting separate modifications for each set of licence changes. Both cited potential differences in the treatment of RIIO and non-RIIO related licence modifications were an appeal to be made to the Competition Commission (CC).

⁷ [Supporting Document 5: RIIO Licence Drafting Response Log](#)

1.10. We note that under the new appeal process put in place by the Third Package price control decisions are subject to a different appeals process to other licence modification decisions. However, we do not consider it necessary to conduct separate modifications for RIIO related changes and non-RIIO related licence changes. It is for the CC to determine whether or not a condition (or conditions) relates to a price control decision. This determination by the CC is made independently and regardless of any distinction made by us.

Overview of licence conditions

1.11. There are three different types of licence condition. We have summarised these below.

Standard Licence Conditions (SLCs)

1.12. SLCs set out the duties and obligations applicable to holders of a particular type of licence. All transmission and gas distribution licences contain SLCs. The SLCs are grouped into different parts/sections that either apply or do not apply according to the activities carried out by the licence holder.

Standard Special Conditions (SSCs)

1.13. SSCs are similar to SLCs but only apply to NGGT and the GDNs. As with SLCs, they are grouped into different parts that, either apply or do not apply, to NGGT or to the GDNs. In this consultation we are proposing changes to:

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

Special Conditions (SpCs)

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

Approach to licence drafting for RIIO

1.15. As part of the First Consultation, we set out some of the main outstanding issues with respect to developing the licences to implement RIIO. In light of responses to the First Consultation we have updated this section to reflect how we intend to continue to develop the licence conditions.

Licence Drafting and Policy Working Groups

1.16. Since May 2011 we have held regular Licence Drafting Working Group meetings and worked closely with network companies to develop the draft licence conditions. We will continue this process for the remainder of 2012.

1.17. To facilitate the development of the associated documents that are part of RIIO we also intend to hold further Policy Working Groups to provide stakeholders with further opportunity to develop their content.

1.18. We have set out below the feedback received from stakeholders on our general approach to licence drafting for RIIO. A log of material comments on specific licence drafting received in response to the First Consultation is provided in Supporting Document 5.

Definition of terms

1.19. Respondents broadly welcomed our proposed approach of using capital letters to signify a defined term. In our view, this approach makes it clearer to the reader when they should refer to the definitions section for further information. This is consistent with our approach in the electricity distribution licences. We propose to adopt this approach for all licence conditions that we are changing as part of RIIO-T1 and GD1.

1.20. We recognise that such an approach will temporarily create inconsistencies in the licence. We will look to rectify these inconsistencies by reviewing the licences in all sectors, and carrying out a non-RIIO related modification to capitalise all defined terms.⁸ Ultimately, our aim is to capitalise all defined terms across all licences.

1.21. We also note, and tentatively agree with, NGGD's suggestion that the drafting for the special defined terms licence conditions should include an interpretative rule to mitigate scope for confusion when dealing with terms that are defined in upper case in the SpCs and then used in lower case in the SLCs. Therefore, we intend to explore further the suggested use of a rule in the SpC of each licence that sets out the defined terms.⁹ This purpose of this would be to make it clear that terms defined in upper case in the SpCs shall bear the same meaning as those same terms defined in lower case in SLCs.

1.22. For the purposes of RIIO related licence changes our preference is for all defined terms used in SpCs to reside within the dedicated 'Definitions' condition of the respective licence wherever possible. To that end, we consider it appropriate for all defined terms that fall within the scope of RIIO related licence changes¹⁰ to be

⁸ As part of the consistency review and GTLR referred to below.

⁹ ETC/GTC/GDC 19: Definitions

¹⁰ Existing defined terms that may have been retained/amended as part of RIIO as well as any new defined terms created as part of the RIIO licence drafting process.

moved into this condition. This action has not yet been undertaken in the draft licence packs included in this consultation.

1.23. In following the proposed approach above we recognise that there may be some instances where, given the very specific and discrete nature of a defined term, it may be more appropriate for that defined term to reside within the specific SpC to which it relates.

1.24. We propose to discuss the issue of how best to accommodate defined terms in the licence with the relevant network companies in forthcoming Licence Drafting Working Groups. As part of these discussions, we also propose to explore how best to accommodate any consequential changes that may be needed to existing definitions. For example, where an existing definition refers to a condition that we propose to remove as part of RIIO.

Best/reasonable endeavours

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

1.26. In the First Consultation we sought views on the above approach. Those network companies that commented were broadly supportive. NG highlighted some concern that, in a number of places, the intensity of obligations which are “reasonable endeavours” have been made stronger by amending them to “best endeavours”.

1.27. With respect to any updates we have made to existing draft licence conditions, our intention (unless explicitly stated as part of developing the particular condition) has not been to place a higher burden on the network companies. If this has occurred, we would ask companies to highlight this in its response to this consultation.

Licence condition and paragraph numbering

1.28. In developing the draft licence conditions, a RIIO tracking number has been assigned to each condition where amendments are being considered. The RIIO tracking number appears in the following format:

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

1.29. In recognition of the fact that stakeholders have become familiar with these tracking numbers, and that the final structure of the licence may change, we have used them throughout this document and in the licence packs. It should be noted that these tracking numbers will not be part of the final licence.

SLCs and SSCs

1.30. For both RIIO-T1 and GD1 we are not minded to alter the current structure of the SLCs or SSCs or amend the existing condition numbering. This is in order to minimise referencing issues that altering these numbers may create.

1.31. Where we consider an existing SLC or SSC to no longer be required, we propose to substitute the title and entire text of that condition with the words “Not Used”. This will ensure the condition numbering is retained in order to minimise any potential cross reference issues.

1.32. Where we propose to introduce a new SLC or SSCs we have provided indicative¹¹ condition numbers for those conditions in the relevant Supporting Document. These proposed condition numbers for new SLCs and SSCs are reflected in this consultation. We have also sought to retain the existing format of paragraph numbering (and indeed ‘house style’ eg font size, type and list convention) for the SLCs and SSCs.

SpCs

1.33. Given the extensive number of proposed changes to the SpCs we consider there is no benefit in retaining the current numbering or structure for the SpCs and intend to completely restructure and renumber the SpCs. Due to this proposed restructuring, we expect to change most, if not all, of the existing condition numbers for the SpCs.

1.34. This will require minor modifications to be made to most SpCs, including non-RIIO related SpCs, to reflect the new structure and new condition numbers whilst ensuring that existing cross references are preserved. In these instances we do not propose to amend the policy intent or the actual text of these conditions other than to update the licence condition numbers and any cross references.

1.35. We have set out in Appendix 3 what we think the final numbering of the SpCs should be for each sector. At this stage, we have not sought to use the final condition numbers for the SpCs in Supporting Documents 1,2 and 3 and have continued to use the RIIO tracking numbers.

¹¹ We will finalise the proposed condition numbers for SLCs and SSCs by the Statutory Consultation but do not anticipate substantive changes to the condition numbers proposed in Supporting Documents 1, 2 and 3.

1.36. At the November Licence Drafting Working Group we will look to discuss the high level structures for the SpCs so we can complete the task of providing final condition numbers, updating cross references and re-ordering the licence packs.

1.37. As stated above, we are not proposing to modify all of the SpCs (other than to change condition numbers) as part of RIIO. This means that there will, for a time, be inconsistencies with the paragraph numbering style in some of the SpCs. We do not consider this to be a material issue and intend to revisit this matter as part of the consistency review and GTLR (for GD and GT). For all SpCs our ultimate aim is to include the condition prefix in the paragraph numbering. For example, the first paragraphs of SpC 26 would be numbered 26.1, 26.2 etc.

Future reviews

1.38. In the First Consultation we noted that we would undertake a review to address consistency issues¹² for electricity transmission following the Statutory Consultation. For matters relating to the gas transporter licence, we propose that these are addressed through the GTLR.

1.39. In responses to the First Consultation some respondents have requested clarity in terms of when the above reviews are likely to be carried out. At this time, we expect to commence a consistency review and the GTLR¹³ after work on proposed RIIO related licence changes has concluded and the RIIO-T1 and GD1 price controls have been implemented.

Proposed next steps

1.40. We intend to conduct the requisite 28 day Statutory Consultation in late December 2012.

1.41. Following the implementation of the Third Package Regulations¹⁴ the procedure for making licence modifications has been amended. Under the revised procedures, any proposed licence changes no longer require licensee consent, but can only come into effect at least 56 days after we have published our decision to make those licence changes.

1.42. At this time we expect to publish our decision on making the licence changes in late January 2013. This is shortly after the close of the 28 day Statutory Consultation. Key timings for implementing the RIIO licence conditions are set out below.

¹² For example, with respect to capitalisation of defined terms and paragraph numbering style.

¹³ The GTLR would also cover outstanding issues raised in the First Consultation, such as reviewing the capitalisation of all defined terms in the licence.

¹⁴ [The Electricity and Gas \(Internal Markets\) Regulations 2011](#)

Stage	Date
Final Proposals ¹⁵ and 28 day statutory licence modification consultation and notices published	December 2012
Licence modification decision and modifications published	January 2013
Licence changes come into effect	1 April 2013

Responding to this consultation

1.43. We have taken into account drafting-related comments received in response to the First Consultation and, where appropriate, reflected this in the updated draft licence conditions.

1.44. A summary of material drafting-related comments received in response to the First Consultation and our views in relation to those comments is provided in Supporting Document 5.

1.45. The primary purpose of this consultation is to seek views on the proposed licence changes required to give effect to RIIO. We would particularly welcome comments on the proposed drafting (terms, form, structure, etc) in addition to the specific questions set out for each chapter.

1.46. If possible, we would ask stakeholders to use the Response Template¹⁶ to provide feedback on the draft licence conditions and ensure that any points raised in cover letters etc are also made in the Response Template.

1.47. This is the second of two informal licence drafting consultations. We will continue to provide stakeholders with opportunities to feed in comments on licence drafting and discuss our responses to the First Consultation as part of the Licence Drafting Working Groups. We do not intend to publish a further Ofgem response addressing each drafting-related comment received in response to this consultation. For the Statutory Consultation we will make clear the reason and effect of any licence changes with reference, where appropriate, to the Final Proposals.¹⁷

Structure of this document

1.48. There is considerable overlap in the licence conditions of the licensees operating in the GT, ET and GD sectors. To avoid unnecessary duplication of explanatory text and for ease of reference, this document has been structured to present proposed changes to licence conditions that are 'common' across all three energy sectors, together wherever possible. Any proposed changes that are specific to a particular sector or licensee have been presented separately.

¹⁵ For NGET, NGGT and the GDNs.

¹⁶ [Supporting Document 4 Response template for RIIO-T1 and GD1-Second licence drafting consultation](#)

¹⁷ [RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd](#)

. Final Proposals for NGET, NGGT and the GDNs to be published later this year.

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


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

1.50. This document also includes the following appendices:

- Appendix 1: Responses to First Consultation
- Appendix 2: Indicative tables showing proposed changes to the price control related licence conditions within the GT licence, and
- Appendix 3: Proposed structure and numbering for SpCs
- Appendix 4: Stakeholder Satisfaction Incentive for Scottish TO's – Draft guidance notes

1.51. Alongside this document we have also published the following Supporting Documents:

- Supporting Document 1: Draft RIIO-T1 electricity transmission licence changes
 - Supporting Document 2: Draft RIIO-T1 gas transmission licence changes
 - Supporting Document 3: Draft RIIO-GD1 gas distribution licence changes
 - Supporting Document 4: Response template
 - Supporting Document 5: RIIO Licence Drafting Response Log (Except the Financial Conditions)
 - Supporting Document 6: Environmental Discretionary Reward Scheme: Guidance Document (Electricity Transmission)
 - Supporting Document 6A: Environmental Discretionary Reward scoring spreadsheet
 - Supporting Document 7: Network Access Policy - SHETL/SPTL
 - Supporting Document 8: Stakeholder Engagement Reward Guidance (T1 and GD1)
 - Supporting Document 9: RIIO Licence Drafting Response Log - Financial Conditions
 - RIIO ET1 Price Control Financial Handbook
 - RIIO GT1 Price Control Financial Handbook
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- RIIO GD1 Price Control Financial Handbook

1.52. Supporting Document 5 and 9¹⁸ set out material drafting related responses received from the First Consultation and also sets out our views on drafting related points raised in response to the First Consultation.

¹⁸ Supporting Document 5 covers all licence conditions except the Financial Conditions. Supporting Document 9 is specific to the Financial Conditions.

2. Electricity transmission – changes to SLCs and SpCs

Chapter Summary

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

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to the SLCs and SpCs in the ET licence. These are outlined in this chapter and the draft licence conditions are in Supporting Document 1.

Question 2: We welcome views on our proposed deletion of the NGET specific SpCs listed in Table 2.3.

Question 3: We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

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

2.2. The remainder of this chapter has been split into two parts. Part 1 sets out the limited proposed changes to the electricity transmission SLCs. Part 2 sets out the more substantive proposed changes to the electricity transmission SpCs.

Part 1: Overview of proposed changes to electricity transmission SLCs

2.3. We set out below the proposed changes to SLCs that currently reside in Sections A, B C and D of the electricity transmission licence. SLCs within sections A and B are applicable to all electricity transmission licence holders.¹⁹ SLCs within section C are applicable to the System Operator only and SLCs within section D apply only to the Transmission Owner (TO).

¹⁹ Unless the Authority has directed otherwise.

A1: Definitions and interpretation [ETC 105]

Drafting status: No changes proposed at this time. To be discussed further at Licence Drafting Working Groups.

2.4. This condition sets out definitions for words and expressions that are used in the SLCs. It also sets out the general rules of interpretation of provisions within the licence.

2.5. We propose to discuss the issue of how best to accommodate defined terms in the licence drafting with the relevant network companies at the forthcoming Licence Drafting Working Groups. We consider that the changes required to this condition will be minimal and will largely be to accommodate any consequential changes that result from changes to the other SLCs identified below.

2.6. Further details on our approach to defined terms can be found in Chapter 1.

A2: Application of Section C [ETC 112]

A3: Application of Section D [ETC 107]

A5: Application of Section B [ETC 108]

A6: Application of Section E [ETC 109]

Drafting status: No proposed changes.

2.7. The above conditions allow for the Authority to issue a Direction²⁰ to give effect (in whole, or as the case may be, in part) to SLCs contained within the relevant section. They also provide for variation and cessation of the relevant Sections.²¹

2.8. The above provisions are not impacted by RIIO and we do not propose to make any changes to these conditions.

A4: Payments by the licensee to the Authority [ETC 81]

Drafting status: We are currently consulting separately on proposed changes to this condition. Changes to this condition are to be implemented separately to RIIO.

2.9. As stated in the First Consultation we are reviewing the above condition separate to the RIIO process given that it applies²² across all licence types. We will be conducting an informal consultation on our proposed changes to the above condition shortly.

²⁰ Under paragraph 2 of the respective condition.

²¹ The Authority may, with the consent of the licensee, issue a direction to vary the terms under which the relevant section applies or provide for the relevant section to cease to have effect.

²² Corresponding condition contained in other licences.

2.10. Any comments regarding our proposed changes to this condition should be submitted as responses to that consultation. It is the current intention that any changes to this condition are intended to take effect from 1 April 2013.

B1: Regulatory Accounts [ETC 71]

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

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

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

2.12. We propose to amend this SLC as follows:

- delete references to the earlier Companies Act 1985
- incorporate references to the Companies Act 2006
- introduce segmental reporting²³
- clarify that any CA2006 allowed Applicable Accounting Framework may be used provided that the regulatory accounts (whether consolidated or individual accounts) must be in the same format as the recent or concurrent statutory accounts of the licensee
- allow for amendments introduced by the new Statutory Instrument 2012, No.2301
- make any necessary incidental or consequential changes to the condition including clarifying definitions.

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

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

Summary of responses and way forward

2.15. Responses to the First Consultation, and our views on those responses, can be found in Supporting Document 5.

²³ A type of financial reporting in which the company discloses information by identifiable industry segments.

B2: Change of financial year [ETC 136]

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

2.16. This SLC provides a mechanism for the definition of “financial year” (for the purpose only of the statutory accounts of the licensee) in standard condition A1 (Definitions and Interpretation) to cease to apply to the licensee from the date at which the licensee sends a notice to the Authority for that purpose.

2.17. It allows the licensee, for the purpose only of its statutory accounts, to change its financial year from that previously notified by sending to the Authority a new notice pursuant to paragraph 1 of this condition which specifies the licensee’s new financial year-end.

2.18. The definition of “financial year” has been superseded by proposed changes to Standard Condition B1. Regulatory Accounts [ETC 71]. As such this condition has been rendered obsolete.

2.19. We therefore propose to remove this condition by substituting the title and entire current text with the words “Not Used”.

Summary of responses and way forward

2.20. We did not receive any responses in relation to this condition and remain of the view that this condition should be removed.

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

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

2.21. This SLC places an obligation on transmission licensees to provide such information and procure and provide such reports²⁴ that the Authority may reasonably require in order to perform its functions.

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

Summary of responses and way forward

2.23. NGET commented that it considered the scope of paragraph 1(b) to be too wide and should be limited to legislation relevant to Ofgem’s regulatory functions. NGET suggested that no change was needed to existing drafting.

²⁴ In such manner and at such times as the Authority may reasonably require.

2.24. In our view the proposed amendment simplifies and future proofs the drafting

B13: BETTA implementation [ETC 93]

Drafting status: No proposed change to this licence condition as part of RIIO-T1.

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

Summary of responses and way forward

2.26. In the First Consultation we proposed to remove this condition and substitute the title and entire current text with the words 'Not Used'.

2.27. We received two responses to this proposal. One respondent considered that this condition is redundant and should be removed. A second respondent did not agree that this condition should be removed as further consideration is required on whether the BETTA conditions can be removed at this time.

2.28. We note that SHETL considered that further discussion is needed to identify if it is appropriate to remove this SLC at this time. As these changes are not required for RIIO, we do not intend to remove this condition as part of this review.

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

Drafting status: No proposed change to this licence condition as part of RIIO-T1.

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

2.30. See B13: BETTA implementation [ETC 93] above for Summary of responses and proposed way forward

B15: Price Control Review Information [ETC 74]

B16: Price Control Revenue Reporting and Associated Information [ETC 74]

Drafting status: Existing SLC B15 to be replaced by proposed new SLC B15 [ETC 74]. Current working draft of proposed new SLC B15 provided in Supporting Document 1. SLC B16 to be removed by substituting the title and entire current text with the words "Not Used".

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

B17: Network Output Measures [ETC 73]

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

2.32. During TPCR4, licensees developed methodologies for deriving and reporting Network Output Measures (NOMs) as set out in current SLC B17.

2.33. The purpose of this condition²⁵ is to ensure that the methodology continues to meet its objectives, and provides for implementation and modification of the methodology.

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

Summary of responses and way forward

2.35. Responses to the First Consultation, and our responses to them, can be found in Supporting Document 5.

B17A: Specification of Network Replacement Outputs [ETC133]

Drafting status: Current draft provided in Supporting Document 1. No previous drafts have been seen by licensees.

2.36. The purpose of this proposed new SLC is to specify the Network Replacement Outputs the licensee shall deliver during the price control period and the allowed expenditure associated with them.

2.37. The effect of this condition is to record the outputs that the companies are expected to deliver over the RIIO-T1 period. If the outputs need to change (eg because of a change in the NOMs methodology as set out in ETC73) then a licence modification will be required to modify this table.

2.38. We have provisionally allocated this condition the number "B17A". We will finalise this condition number in time for the Statutory Consultation in December.

B20: Data Assurance [ETC 76]

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

2.39. We propose to introduce a new SLC relating to Data Assurance across all three sectors. The purpose of this proposed new condition, our reasons for introducing it, together with their intended effect are described further in chapter 7.²⁶

²⁵ Similar changes proposed for equivalent gas transmission condition - Special Condition C13: Network Output Measures [GTC 73].

2.40. We have provisionally allocated this condition the number “B20”. We will finalise this condition number in time for the Statutory Consultation in December.

Proposed changes to SLCs applicable to NGET only

C1: Interpretation of Section C [ETC 110] (NGET only)

Drafting status: No proposed changes

2.41. This condition sets out the defined words and expressions that are used in the SLCs in Section C of the electricity transmission licence and gives their definitions alongside them.

2.42. We are not proposing any changes to the SLCs that reside in Section C as part of RIIO. Therefore, we do not propose to make any changes to this SLC.

C4: Charges for use of system [ETC 140]

Drafting status: Current working draft provided in Supporting Document 1

2.43. This condition sets out certain obligations on the licensee in relation to how it charges for use of system.

2.44. We did not propose any changes to this condition in the First Consultation. As a result of our decision on how to mitigate network charging volatility we are, as part of this consultation, now proposing changes to this condition.²⁷ The intent of the revised drafting is to implement our decision to limit the ability of the licensee to change use of system charges on a date other than 1 April each year. It also provides for the Authority to direct or consent to changes on a date other than 1 April.


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

Drafting status: No change to this licence condition as part of RIIO-T1.

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

²⁷ For details see page 20 of [Decision on measures to mitigate network charging volatility arising from the price control settlement](#)

²⁷ For details see page 20 of [Decision on measures to mitigate network charging volatility arising from the price control settlement](#)



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

Summary of responses and way forward

2.46. In our First Consultation views were invited as to whether this condition remains relevant or should be removed. Specifically views were sought on whether this condition remains relevant given the Connect and Manage conditions.

2.47. We received views from one respondent who supported removal of this condition and substituting the title and entire text with 'Not Used'.

2.48. We note the comments by this respondent. However, we note comments made by a second respondent in respect of other BETTA licence conditions. For this reason as these changes are not required for RIIO, we do not intend to remove this condition as part of this review.

Proposed changes to SLCs applicable to SPTL and SHETL only

D1: Interpretation of Section D [ETC 111] (SPTL/SHETL only)

Drafting status: No proposed changes

2.49. This condition sets out the defined words and expressions that are used in the SLCs in Section D of the electricity transmission licence and provides their definitions.

2.50. We are not proposing any changes to the SLCs that reside in Section D as part of RIIO. Therefore, we do not propose to make any changes to this SLC.

D12: Scottish Settlement Agreement [ETC 93]

Drafting status: No change to this licence condition as part of RIIO-T1.

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

Summary of responses and way forward

2.52. In our First Consultation we proposed to remove this condition and substitute the title and entire current text with the words 'Not Used'.

2.53. We have received one response to this proposal. This respondent did not agree that this condition should be removed stating that further consideration is required on whether the BETTA conditions can be removed at this time.

2.54. We note that the respondent considered that further discussion is needed to identify if it is appropriate to remove this SLC at this time. As these changes are not required for RIIO, we do not intend to remove this condition as part of this review.

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

Drafting status: No change to this licence condition as part of RIIO-T1.

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

2.56. We note that the condition also contains provisions²⁸ that allow the Authority to settle any terms in dispute²⁹ in circumstances where the licensee and any applicant or existing user fail to agree upon the terms of an agreement based upon an offer made pursuant to this condition.

Summary of responses and way forward

2.57. In our First Consultation we invited views as to whether this condition remains relevant or should be removed. Specifically views were sought on whether this condition remains relevant given the Connect and Manage conditions

2.58. We have received two responses to this proposal. One respondent considered that SLC D15 is no longer needed as a result of the Connect and Manage regime. Another respondent did not agree that the BETTA conditions should be removed as further consideration is required on whether all of the conditions can be removed at this time.

2.59. We note that one respondent considered that further discussion is needed to identify if it is appropriate to remove this SLC at this time. As these changes are not required for RIIO, we do not intend to remove this condition as part of this review.

²⁸ Paragraph 10 & 13 of this condition.

²⁹ Pursuant to section 7(3)(c) of the Electricity Act 1989 and on application of the licensee, an applicant or an existing user.

Part 2: Overview of proposed changes to electricity transmission Special Conditions (SpCs)

2.60. We outline below our proposed changes to the SpCs together with the reasons why we consider the proposed changes, or introduction of new SpCs, to be necessary. We also outline the intended effect of the proposed changes.

2.61. We see no benefit in retaining the current numbering or structure for the SpCs, given the number of changes we are proposing, and therefore intend to restructure and renumber the SpCs. We expect to change most, if not all, of the existing condition numbers for the SpCs.

Special Condition A: Definitions and interpretation [ETC 129]

Drafting status: No change as part of RIIO

2.62. In light of the new structure being proposed for the special conditions, see Appendix 3, we do not consider that any changes are needed to this licence condition in order to implement RIIO. The cross references in this condition are unchanged from the existing ET licences.

Special Condition D1 (NGET) and J1 for SPTL and SHETL: Transmission Network Revenue Restriction: Definitions [ETC 19]

Drafting status: No changes proposed at this time. To be discussed further at Licence Drafting Working Groups.

2.63. This condition sets out definitions for words and expressions that are used in certain SpCs.³⁰ We propose to discuss the issue of how best to accommodate defined terms in the licence drafting with the relevant network companies in forthcoming meetings of the Licence Drafting Working Groups. Further details on our approach to defined terms can be found in Chapter 1.

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

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

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

2.65. There are no significant changes to the intent of this condition from the equivalent current condition. This condition brings together the output of other SpCs that impact on the value of maximum revenue that the licensee can collect through

³⁰ In SpC D1 to D10 inclusive

charges to its customers. There may be a need to add /remove terms once other licence conditions are finalised.

2.66. Changes for RIIO-T1 include:

- an updated methodology for calculating the price index adjustment factor³¹
- amendments/additions to the defined terms used in this condition.

2.67. We have incorporated the calculation of the correction factor (K) into this licence condition. This replaces SpCs outlined in Table 2.1. Since the First Consultation, following our decision in relation to mitigating network charging volatility, we have made changes to how the calculation is made (see parts to E to H of ETC20).

Table 2.1: SpCs to be removed by ETC 20

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

Summary of responses and way forward

2.68. There were limited comments raised in response to our consultation. Minor amendments have been made to address comments raised in relation to drafting and consistency.

2.69. We have removed the calculation of the innovation revenue adjustment (II), and included the two terms within this adjustment (network innovation competition adjustment (NICF) and network innovation allowance (NIA)) into the principle formula. We consider that a separate section is unnecessary and that this change improves the structure of the condition.

2.70. We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

³¹ This is consistent with our [Decision on the RPI indexation method to apply allowed revenues in the forthcoming RIIO price controls \(T1 and GD1\) and the Transmission Price Control \(TPCR4\) Rollover](#)

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

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

2.71. SpCs J3 (SHETL and SPETL) and D3 (NGET) are the existing SpCs that govern the Transmission Investment for Renewable Generation (TIRG) funding mechanism. The mechanism provides the three electricity transmission licensees with mechanisms for potential revenue allowances to facilitate the connection of renewable generation outside the price control provisions. This section covers the proposed changes to the TIRG licence condition for all three electricity transmission licensees.

2.72. The changes proposed to the TIRG licence condition are to update the condition such that it is compatible with the rest of the updated RIIO licence. This includes:

- changing the condition number and the current title of the condition to “[ETC 15] Special Condition [x] Transmission Investment for Renewable Generation”,
- putting the existing drafting into a template that is consistent with the rest of the special conditions being created for RIIO, and
- changing references to other licence conditions such that they are compatible with the final structure of the RIIO licence, eg SpC J2/D2.

2.73. Areas that will need to be changed are highlighted in yellow in Supporting Document 1.

2.74. The effect of the above proposed changes is to ensure the continuity of the TIRG funding mechanism during RIIO. We note that the proposed changes do not materially alter the existing TIRG licence conditions and their purpose. We also note that we are not proposing any changes to the associated Annex or Schedule.³²

Summary of responses and way forward

2.75. As part of our First Consultation, we noted that we would consider the ATIRG term and its role during the post-incentive period shadow-RAV to RAV transfer. We considered that the existing mechanism would not automatically allow for the update of the transfer value in line with the approved income and asset value adjusting events. Responses to our consultation considered that the mechanism should allow for such update.

2.76. Whilst the relevant adjusting events could be quite material, there is a limited number of projects that would be impacted. We note that these projects are not

³² Annex to SpC D3 (NGET) and Schedule C to J3 for both SPTL and SHETL).

expected to be commissioned until 2016 or 2017. This means that transfer to RAV would be likely to take place in 2021 or 2022. Therefore, we consider that any adjustments could be accommodated as part of RIIO-T2 review.

**Special Condition D4 (J4 for SPTL and SHETL): Pass through Items [ETC 21]
[Proposed change of name to 'Calculation of allowed pass-through items']**

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

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

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

Drafting status: Proposal to delete.

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

2.79. The provisions relating to efficiently mitigating the leakage of sulphur hexafluoride are now contained within ETC25: Incentive to Reduce Sulphur Hexafluoride Emissions³³ and provisions with respect to energy not supplied will be contained within ETC2: Reliability Incentive Adjustment in Respect of Energy Not Supplied.³⁴

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

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

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

Drafting Status: Proposal to delete current text and replace with ETC20: Restriction of Transmission Network Revenue

2.81. This condition contains provisions for the calculation of the correction factor (K). This will remain for RIIO but will be incorporated in ETC20. We therefore propose to delete this condition.

³³ See ETC 25: Incentive in Respect of Sulphur Hexafluoride (SF6) Gas Emissions below for further details.

³⁴ See ETC 2: Reliability Incentive Adjustment in Respect of Energy Not Supplied below for further details.

Special Condition D7 (J11 for SPTL and SHETL): Allowance in Respect of Security Costs [ETC 128] [Proposed change of name to 'Allowance in respect of Security Period']

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

2.82. We do not plan to change the current policy intent of the current condition. Only minor changes are proposed to ensure this condition:

- where possible, is consistent across NGET, SPTL and SHETL
- has been updated in terms of style, eg capitals for defined terms, amending the font, so that it is consistent with the other special conditions being developed for RIIO
- has the correct and up-to-date referencing eg to the Fuel Security Code and a new title to make it clear it refers to costs in relation to a Security Period.

2.83. The effect of making these changes is to retain the licensee's ability to recover Allowed Security Costs in the event of a Security Period.

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

Drafting status: We are currently consulting separately on proposed changes to this condition. Changes to this condition will be implemented as part of our package of proposed RIIO related licence changes.

2.84. As stated in the First Consultation we elected to review the above condition separately to the RIIO process given that they apply across all licence types.

2.85. We are currently consulting separately on our proposed changes to the above condition. Our proposed licence drafting, together with our reasons and the intended effect can be found in that consultation.³⁵

2.86. Further details on the consultation on the disapplication provisions across all network licences can be found in Chapter [7].

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

Drafting status: Proposal to delete.

2.87. In our First Consultation, we proposed to delete this condition. We noted that the close out of TPCR4 and TPCR4 Adapted Rollover capital expenditure incentive revenue adjustment (sometimes referred to as Work in Progress (WIP)) would be

³⁵ [Disapplication conditions - informal licence drafting consultation](#)

handled through the new special condition ETC 64: Legacy price control adjustments – Transmission Owner and the Financial Handbook. We further noted that any adjustment to allowed revenue would be via the Annual Iteration of the Price Control Financial Model (PCFM).

2.88. Therefore, capital expenditure incentive revenue adjustments will form part of the calculations made in ETC 64: Legacy price control adjustments – Transmission Owner and the Financial Handbook, published alongside this document. The Handbook sets out the methodology to determine the revised PCFM variable components for the TPCR4 capital expenditure incentive scheme and the TPCR4 Rollover capital incentive scheme. The proposed methodology is in line with, and refers to, the policy set out in the TPCR4¹ and Rollover² Final Proposals documents, and is based on the approach set out in licence conditions³ that were in force at 31 March 2012.

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

Special Condition D11 (J12 for SPTL and SHETL): Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) [ETC 52] [Proposed change of name to 'Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period']

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

2.90. SpCs D11 (NGET) and J12 (SHETL and SPETL) are the existing SpCs that govern the Transmission Investment Incentives (TII) framework (the TII condition). The TII condition was introduced into the licence on 1 April 2010 to reflect the TII framework for providing project-specific, interim funding for critical large-scale investments within TPCR4. The TII condition was subsequently modified for application in the TPCR4 rollover year 2012-13.

2.91. The TII condition provides for cost recovery by the three electricity transmission licensees in relation to specific pre-construction and construction works for which the Authority determines capital expenditure allowances covering planned expenditure in one or more financial years up to and including 2012-13. It also includes mechanisms for adjusting allowances, and associated deliverables, and for annual reporting on expenditure against allowances and progress against deliverables.

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

2.93. However, certain provisions within the current TII condition, as amended for TPCR4 rollover, will need to be retained under RIIO-T1, specifically:

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

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

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

2.95. To achieve the above, we will:

- retain an amended version of the TII condition in the RIIO-T1 licence, ETC52, which will include the adjustment mechanisms and reporting arrangements referred to in paragraph 15.4, and set out the basis of the revenue adjustments to be made under RIIO-T1 in line with paragraph 15.5, with reference to input variables defined in ETC52
- set out, in Chapter 15 of the Financial Handbook, the methodology for calculation of those revenue adjustments, based on the input variables specified in ETC52, and any associated RAV adjustments, to derive revisions to the IAR and IRAV PCFM Variable Values, and
- take the revised IAR and IRAV PCFM Variable Values into account in the calculation, under ETC64, of the LAR and LRAV PCFM Variable Values which in turn form part of the calculation of the MODt term in the Annual Iteration Process.

2.96. The key input variables referred to above include the capital expenditure allowances determined for a given year (the TII Actual Allowance), and the capital expenditure allowances that had been assumed for the purposes of the original revenue calculation for that year (the TII Assumed Allowance). Any differences between these will lead to a revenue adjustment in respect of the “true-up”. The values for these input variables are specified in Appendix 1 of the ETC52, and take into account the capital expenditure allowances determined by the Authority for construction works on the Western HVDC link in the decision letter published in July 2012. For the purposes of ETC52, those works are identified as “further works” and are not subject to the adjustment mechanisms (TII AVAE and TII OMAE) defined in ETC52 but the associated expenditure and capital expenditure allowances will be taken into account for the purposes of application of the COAE provisions in ETC39 of SPTL and NGET’s licences.

2.97. We note that the current TII condition specifies that the first revenue adjustment in respect of the “true-up” will be made on 1 April 2013. This is recognition of the fact that the revenue in 2012-13 had been based on the aggregate provisional TII allowance assumed for the purposes of the TPCR4 Rollover Final Proposals (as reflected in the value of the TII Assumed Allowance for 2012-13 specified in ETC52), and calculated before capital expenditure allowances for that year had been determined and reflected in the licence.

2.98. However, we note that the Annual Iteration Process does not allow for calculation of a non-zero value of MODt for the relevant year 2013-14.

2.99. Therefore we propose that the first revenue adjustment in respect of the “true-up” will be made on 1 April 2014, as a consequence of the Annual Iteration Process commencing in November 2013. Given that all revenue adjustments will include an allowance for the time value of money, we do not expect this change to the timing of revenue flow will have any adverse financial effect on the TOs.

2.100. The difference in capital expenditure allowances will also be taken into account in the revenue adjustment in respect of the capital expenditure efficiency incentive regime. A further input variable for the calculation of this adjustment is the provisional revenue adjustment made in 2012-13 in respect of the application of the capital expenditure efficiency incentive regime taking into account actual expenditure and capital expenditure allowances for 2009-10 and 2010-11.

Special Condition AA5: Definitions (NGET only) [ETC 130]

Drafting status: Changes to condition being brought forward as part of SO 2013 review.

2.101. We expect changes to be required to this condition in light of the changes being proposed under both RIIO-T1 and the SO 2013 review. From a RIIO perspective, ahead of Final Proposals, we will look to consider which of the current definitions are required, need updating or can be replaced. We propose to work with NGET to consider the changes that are relevant for RIIO as part of the upcoming licence working groups.

2.102. Any changes to this condition will be implemented as part of the SO 2013 review.

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

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

2.103. This condition calculates maximum System Operator (SO) revenue the licensee is allowed to recover from customers. Our intention is not to alter the broad purpose of the existing condition.

2.104. We propose to change the title of this condition from 'Balancing Services Activity Revenue Restriction' to 'Restriction on System Operator Internal Revenue'. In order to improve readability we have also split this condition into internal and external revenues and propose to restructure (see Table 2.2 below).

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

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

Table 2.2: Proposed new structure of SpC AA5A under RIIO

Existing condition reference	Proposed new structure	In conjunction with
Part 1	Remove – no substantive reason to retain.	RIIO-T1
Part 2 (i) – SO external costs	Propose to introduce a separate condition for SO external costs (ETC127).	SO 2013 ³⁶
Part 2 (ii) – SO internal costs	Remains within this licence condition (ETC12) with the existing income adjusting event term (IAT) being moved to a specific condition ETC117: Arrangements for the recovery of SO uncertain costs	RIIO-T1
Part 2 (iii) Information on balancing services	Will need to be considered as part of SO 2013 review. Could form part of ETC127 or become separate condition.	SO 2013
Part 2 (iv) TO incentives	Incorporate within the created SO external costs condition along with definition of 'ON' and 'IONT' from Part 2 (ii).	SO 2013

³⁶System Operator incentive schemes from 2013: Initial Proposals

Special Condition AA5C: Information to be Provided to the Authority in Connection with the Transmission Network Revenue Restriction (NGET), and

Special Condition L2: Transmission losses reporting (SPTL and SHETL) [ETC45] [Proposed change of name to 'Transmission Losses']

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

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

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

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

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

Drafting status: We are currently consulting separately on proposed changes to this condition. Changes to this condition will be implemented as part of our package of proposed RIIO related licence changes.

2.110. As stated in the First Consultation we elected to review the above condition separate to the RIIO process given that they apply across all licence types.

2.111. We are currently consulting separately on proposed changes to the above condition. Our proposed licence drafting, together with our reasons and the intended effect can be found in that consultation.³⁷

2.112. Further details can be found in Chapter 7.

Special Condition H: Amended standard conditions (NGET) [ETC 43]

Drafting status. No changes proposed.

2.113. This condition sets out amendments to certain SLCs in NGET's licence

³⁷ [Disapplication conditions - informal licence drafting consultation](#)

2.114. We do not propose to make any amendments to this condition as part of our proposed RIIO licence changes.

Special Condition F: Amended standard conditions (SPTL/SHETL) [ETC 43]

Drafting status. Current working draft provided in Supporting Document 1

2.115. This condition sets out amendments to certain SLCs in the licences of SHETL and SPTL .

2.116. The condition includes an amendment to SLC B1.Regulatory Accounts. In our view proposed new B1:Regulatory Accounts [ETC 71] sufficiently addresses the intent of this amendment.

2.117. We therefore propose to delete this amendment as it is no longer relevant. The effect of this proposed amendment is to remove an obsolete provision from SHETL’s and SPTL’s licences.

Special Condition K (Special Condition G for SPTL and SHETL): Requests for transit [ETC 44]

Drafting status: Proposal to delete.

2.118. This condition requires the licensee to notify the Authority, the Secretary of State and the European Commission of applications for transit.³⁸

2.119. We note that the Directive referred to in this condition³⁹ has been repealed and replaced twice and has now been replaced by provisions in the Third Package Regulations.

2.120. Therefore we propose to delete this obsolete condition. The effect of our proposal is to remove a condition that no longer has any relevance.

Summary of responses and proposed way forward

2.121. NGET agreed with and SHETL supported in principle, our proposal to remove this condition. We remain of the view that this condition should be removed.

³⁸ As defined in paragraph 1 of this condition.

³⁹ Directive No 90/547/EEC, 29 October 1990 – Transit of electricity through transmission grids. This was repealed and replaced in 2003 by Regulation 1228/2003, which was then repealed and replaced by Regulation 714/2009 as part of the EU Third Package.

Proposed new Electricity Transmission Special Conditions (SpCs)

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

Financial conditions

2.123. Further details on the following financial related condition can be found in Chapter 6.

Drafting status: Current working drafts provided in Supporting Document 1

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

ETC 1: Financial Incentive for Timely Connections Output

Drafting status: Current working draft of condition for SHETL and SPTL provided in Supporting Document 1. No condition included for NGET.

2.124. The RIIO-T1 connection output requires all the TOs to deliver their licence obligations relating to timely delivery. The output contains a financial incentive with a downside only adjustment to revenues limited to 0.5% of revenues in the relevant year. The purpose and effect of the proposed licence condition for SPTL and SHETL is to implement the financial incentive component against the pre-existing obligations.

2.125. The obligations for NGET as SO and TO are different from those for SPTL and SHETL whose timely connection obligations come through the SO:TO code. While both sets of obligations involve multiple activities, NGET's involves a large number of activities that are associated with timely connections but without precise specified delivery timings.

2.126. NGET has suggested that there is potential for the financial incentive for the timely connections output to incentivise licensees to focus on the particular activities with precise timeframes at the expense of other things. While we propose to address this in full in our Final Proposals document for NGET, we have not included a version of this condition for NGET. As the timely connections obligations are retained elsewhere in NGET's licence, it is more appropriate to consider its performance

across the whole of these rather than applying the financial adjustment to the one activity.

2.127. SPTL and SHETL Final Proposals were published on 23 April 2012. These established the provisions of the financial incentive associated with timely connections. The number of activities involved in timely connections are sufficiently few in these cases to avoid the concern around distorting the incentives on particularly activities. We therefore continue to propose to apply ETC1 to SPTL and SHETL's licence condition.

ETC 2: Reliability Incentive Adjustment in Respect of Energy Not Supplied

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

2.128. The purpose of this condition is to calculate the revenue-adjusting term that reflects the licensee's performance against the primary output of Energy Not Supplied (ENS) that was set out as part of our RIIO-T1 March 2011 Strategy Document⁴⁰ (T1 Strategy Document).

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

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

2.130. For SHETL's version of the condition, we have also included an additional section relating to its customer compensation incentive. We are working with SHETL to develop this section further.

Summary of responses and way forward

2.131. For information about comments received in the First Consultation in relation to this licence condition, and our response, please see Supporting Document 5: Response Log

ETC 9: The Innovation Roll-out Mechanism, ETC 10: The Network Innovation Competition, and ETC 11: The Network Innovation Allowance

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

⁴⁰ [Decision on strategy for the next transmission price control – RIIO-T1](#)

2.132. The above three new innovation related conditions are common to ET, GT and GD licences. Please see chapter 7 for further details on the purpose, our reasons for introduction and intended effect of these new licence conditions.

ETC 17: Adjustment in Respect of the Environmental Discretionary Reward Scheme

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

2.133. The purpose of this proposed new condition is to establish arrangements for the Environmental Discretionary Reward (EDR) Scheme, and through the Environmental Discretionary Reward (EDR) Scheme Guidance (also established by the licence condition) determines the amount of incentive the licensee shall receive in relation to its assessed performance against the scheme in each relevant year. As part of RIIO we have consulted on introducing the EDR Scheme to encourage the licensee to achieve high standards in environmental management as well as facilitate the industry to move towards a low carbon energy system.

2.134. The effect of this condition is to make a positive adjustment to the licensee's revenue if the licensee makes a submission to the annual scheme and the licensee is assessed as having met the level of performance required under the EDR Scheme for a reward.

2.135. For further information on the EDR Scheme Guidance, which will cover the performance categories, submission requirements and performance criteria as well as arrangements relating to administration, governance and revision of the EDR Scheme please see Supporting Document 6.

Summary of responses and way forward

2.136. Stakeholders did not raise any major issues in relation to the draft licence condition. For more information about comments received in the First Consultation in relation to this licence condition, and our response, please see Supporting Document 5.

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

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

2.137. The purpose of this proposed new condition is to enable the licensee to specify visual amenity outputs in National Parks and Areas of Outstanding Natural Beauty and to request the Authority to determine the allowed expenditure for the delivery of those outputs. The condition also establishes provisions for the Authority to determine the amount of allowed expenditure the licensee can recover, as a PCFM Variable Value and to make ex ante adjustments through the annual iteration of the PCFM.

2.138. The effect of this condition is that it will allow licensees to reduce the impact of existing transmission infrastructure in National Parks and Areas of Outstanding Natural Beauty and to recover efficiently incurred costs.

Summary of responses and way forward

2.139. Stakeholders did not raise any major issues in relation to the draft licence condition. For more information about comments received in the First Consultation in relation to this licence condition, and our response, please see Supporting Document 5.

ETC 24: Stakeholder Satisfaction Output

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

2.140. The purpose of this draft condition is to set out the key components of the stakeholder satisfaction output. This contains two separate components. One is based on performance against a survey of stakeholder and/or customer views of the transmission network company's performance along with supporting information. The other provides for a discretionary reward for effective engagement⁴¹ where the decision to apply such a reward would be determined by the Authority.

2.141. Parts B and C of the draft licence condition give rise to the stakeholder engagement reward and the Stakeholder Engagement Reward Guidance associated document. The purpose of this associated document is to provide the licensee with information on the application and reward process. The proposed licence drafting establishes this associated document and provides governance arrangements should it need to be changed.

2.142. As part of this consultation we have included the first draft of the Stakeholder Engagement Reward Guidance.⁴² This is essentially the guidance that has been developed for electricity distribution as part of DPCR5. We do not see any reason why the guidance should be markedly different for RIIO-T1 and GD. We would welcome views from stakeholders on whether there are any sector specific reasons why the guidance should differ.

2.143. For RIIO-T1 and GD1, we expect the guidance document to come into force on 1 April 2013. Recognising this is the first time the guidance has been used, we intend to test it in mid-2013, by holding a trial run of the Stakeholder Engagement Reward process.

⁴¹ The core components of the customer satisfaction output for were agreed as part of the T1 Strategy Document.

⁴² [Supporting Document 8: Stakeholder Engagement Reward Draft Guidance](#)

2.144. The results of this trial can be used to further develop the Stakeholder Engagement Reward Guidance which can then, if necessary, be modified through the governance arrangements set out in the licence condition.

2.145. Part D of the licence condition relates to the customer or stakeholder survey-based incentive. As we stated in our Strategy Decision, it was understood that the workings of this incentive might differ amongst TOs.

2.146. NGET have proposed drafting reflecting its need to include customer feedback and stakeholder feedback. SPTL and SHETL have developed an approach for their stakeholder feedback to be informed by a survey and other information. Both sets of drafting have been informed by work carried out by the companies in the light of dry run surveys and other research of stakeholder views.

2.147. The drafting attached at in the Annex to the draft of ETC24 in Supporting Document 1 reflects the TO's latest proposals for Part D (and in the case of SPTL /SHETL further new parts to explain the components of their proposed approach). We have been discussing these approaches in general terms with them over the year. We are currently reviewing the drafting proposed and would welcome views.

Summary of responses and way forward

2.148. Comments received in relation to this condition have been noted in Supporting Document 5.

2.149. We will work with the companies to further develop Part D of the licence, in line with explanation above.

ETC 25: Incentive to Reduce Sulphur Hexafluoride Gas Emissions (SF₆)

Drafting status: Current working drafts for NGET, SPTL and SHETL provided in Supporting Document 1.

2.150. The purpose of this proposed new condition is to establish an incentive for the licensee to efficiently mitigate the leakage of sulphur hexafluoride (SF₆) from assets on the licensee's transmission system.

2.151. As part of RIIO we have modified the TPCR4 incentive scheme⁴³ to apply to actual emission levels from the licensee's transmission system instead of a percentage rate of emissions.

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

⁴³ As set in Part 3 of SpC D5 (NGET) and J5 (SPTL and SHETL).

2.153. The effect of this condition is to adjust the licensee's revenue up, or down, based on the difference between its baseline and the actual level of SF₆ emissions for that licensee.

2.154. We consulted on the version of the licence condition for NGET and SPTL in the First Consultation. We therefore include new drafting for SHETL.

Summary of responses and way forward

2.155. Stakeholders did not raise any major issues in relation to the draft licence condition. For more information about comments received in the First Consultation in relation to this licence condition, and our response, please see Supporting Document 5.

ETC 28: Arrangements for the recovery of uncertain costs and ETC 117: Arrangements for the recovery of SO uncertain costs

Drafting status: Current working drafts are provided in Supporting Document 1. One draft for each licensee.

2.156. The purpose of this new condition is to allow for the recovery, during the price control, of additional costs through allowed revenues. The current licences also include this provision.⁴⁴ In NGET's licence there is a separate condition (ETC 117) to allow for changes in SO internal costs.

2.157. We have updated the areas of cost covered by this mechanism from those in the current conditions. The details of the cost areas that are included are set out in the T1 IP Documents for NGET and the FP Document for SPTL and SHETL. We have also updated how adjustments to revenues as a result of the application of this condition will impact allowed revenues, ie the adjustments will now impact revenue through a change in MOD, the output of the annual iteration of the Price Control Financial Model (PCFM).

2.158. Since the First Consultation we have made significant changes to the text of this condition, however the intent remains the same. The effect of this change is to clarify how this condition interacts with the financial modelling approach that will be used.

Summary of responses and way forward

2.159. There were a number of comments raised in relation to how this condition interacts with the annual iteration process. We consider that these points have been addressed by the updated structure of the condition.

⁴⁴ Currently SpC D2 (J2 for SPTL and SHETL) contains provision for logging up costs (LC term), and SpC J4 (SPTL and SHETL only) contains provision for an income adjusting event (IAT term), these provision will no longer exist.

2.160. One response queried why this condition should allow for the Authority to propose adjustments. We have retained this provision in the current drafting as it reflects the policy position we set out in our Strategy Decision. It is intended that the uncertain cost condition allow for the Authority to propose adjustments, ie if costs were to fall below those included in base allowances then the Authority could propose a negative adjustment to allowed revenues.

2.161. Responses commented on the inclusion of the paragraph that references the RIGs. We consider that this paragraph should remain. The intention is that the RIGs will set out the specifics of the information that will be gathered. It is not the intention that changes to the RIGs would result in changes to the intent of this condition.

2.162. We have now included definitions for all defined terms. We welcome comments on these as part of this consultation.

2.163. We are aware that NGET may incur costs during RIIO-T1 if it assumes responsibility for the delivery of Electricity Market Reform (EMR) measures. We note that a proportion of these costs may be on NGET as the internal electricity SO. We currently consider that this uncertain cost condition may be the appropriate place to address any such costs.

2.164. Responses to the First Consultation, and our views on them, can be found in Supporting Document 5.

ETC 31: Services treated as Excluded Services

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

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

ETC 39: Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure

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

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

2.167. As part of RIIO-T1, licensees are funded to deliver specific wider works outputs for the reinforcement of the main interconnected transmission system. This

condition specifies the baseline wider works that the licensee has been funded in its opening revenue to deliver.

2.168. It also makes provisions for large reinforcement works to be added during the price control period as strategic wider works outputs and for an ex ante revenue adjustment to be made to cover the additional expenditure incurred by the licensee to deliver these outputs.

2.169. The effect of this condition is to:

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

Summary of responses and way forward

2.170. Comments in relation to the First Consultation, and our response, have been summarised in Supporting Document 5.

2.171. We are continuing to work with the licensees to develop specific licence drafting to include in ETC39 to reflect our July 2012 funding decision on the Western HVDC link⁴⁵. We currently expect that this will include specification of Baseline Wider Works Outputs and associated WWE values for this project together with provisions to ensure that the project will be treated the project as a whole with a fixed cost allocation ratio between the two TOs in line with the July 2012 funding decision. In addition, the COAE provisions for this project will take into account capital expenditure allowances (as set out in ETC52) and associated expenditure for the pre-RIIO-T1 period.

ETC 41: Allowed expenditure for Incremental Wider Works (NGET only)

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

2.172. The purpose of this proposed new condition is to require the licensee to have a Network Development Policy, approved by the Authority, setting out how licensees will determine when to invest and reinforce the licensee transmission system that is in the best interests of existing and future consumers. The condition also sets out a volume driver mechanism to determine the licensee allowed expenditure for incremental wider works outputs. The allowed expenditure

⁴⁵ Decision on funding arrangements for the Western High Voltage Direct Current link ("Western Bootstrap"), July 2012
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=69&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

determined by this condition will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.

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

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

2.175. This is the first time we are consulting on this draft condition. Matters raised in bilateral discussions with the licensee in relation to the condition are summarised in Supporting Document 5.

ETC 53: Network Access Policy

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

2.176. The purpose of this proposed new condition is to provide for each TO to develop a Network Access Policy (NAP). These policies are being designed to support effective co-operation and communication between the TOs and the SO in relation to managing planned and unplanned outages on the system. A previous progress update on this work was provided in Appendix 1 of the RIIO-1 Outputs incentives and innovation Supporting Document.⁴⁶

2.177. In terms of the draft condition:

- Part A sets out the basic obligations. In light of the complexity of the issues the NAP provides for a range of scenarios and expected approaches that the TOs will be required to act consistently with, as overall package.
- Part B outlines the minimum headings that should be contained in the NAP
- Part C is where arrangements to update and change the NAP are set out. This includes arrangements for consulting with the SO
- Part D is about publication and availability of the NAP.

⁴⁶ [RIIO-T1: Initial Proposals for NGGT and NGET – Outputs, incentives and innovation](#)

Summary of responses and way forward

2.178. Comments in relation to the First consultation, and our response, have been summarised in Supporting Document 5.

2.179. In this consultation, stakeholders have the opportunity to provide views on the draft NAP provided at Supporting Document 7 produced jointly by SPTL and SHETL after extensive work from them and NGET (both TO and SO) to establish working practices, planning approaches and other aspects of co-ordination. This is an early draft, yet to be reviewed and remains work in progress.

2.180. While recognising that this is a technical document, this is an opportunity for stakeholders to comment on the NAP. For example while needing to be a package of arrangements rather than a single measure of performance, it should be an important driver of TO (and TO/SO) activity. Comments, including on areas where further clarity would be useful, are welcome. The first formal NAPs are due to be published within a month of the start of the RIIO-T1 period.

ETC55: Baseline Generation Connections Outputs and Generation Connections – SPTL and NGET

Drafting status: Current working draft for SPTL in Supporting Document 1. Consistent with our July Initial Proposals for NGET we envisaged including a draft licence condition for NGET in this Second Consultation that would be very similar to the current working draft for SPTL. However, in light of consultation responses we received on our proposals in this area we are reviewing this feedback and will take a final decision on the policy as part of our Final Proposal for NGET. We will include the licence condition with our Final Proposals consistent with our decision in this policy area.

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

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

2.183. The condition will set the agreed unit cost allowances for delivering new generation connections on the licensee's transmission system. There will be three

versions of this condition to reflect differences in the policy described in the FP Document for SPTL and SHETL⁴⁷ and as set out in the T1 IP Documents for NGET.⁴⁸

2.184. We consulted on a version of this licence condition for SPTL in the First Consultation.

Summary of responses and way forward

2.185. Comments in relation to the First Consultation, and our response, have been summarised in Supporting Document 5.

ETC55: Baseline Generation Connections Outputs and Generation Connections – SHETL

Drafting status: The draft licence pack does not contain a draft licence condition for SHETL. However for the purpose of this informal consultation we set out below a detailed description of the draft licence condition we are developing for inclusion in the Statutory Consultation.

2.186. The purpose of this condition is to specify baseline generation connection outputs and allowed expenditure. It also defines a Price Control Financial Model (PCFM) variable value term for SHETL's annual allowed expenditure for delivering generation connection capacity and makes provisions to derive this term each year for input to the SHETL's price control financial model.

2.187. The effect of this condition is to adjust SHETL's allowed expenditure if connection capacity required by customers and delivered by SHETL turns out to be different to the baseline level.

2.188. Generation connection types covered by this condition are: sole-use and shared-use generations connection capacity works and high cost sole-use and shared-use generation connection capacity works with unit costs exceeding £150k/MW and £166k/MVA respectively.

2.189. This condition should be read in conjunction with relevant revenue licence condition.

Part A: Baseline capacity and funding

2.190. The condition will set out overall baseline connections capacity threshold for sole-use and shared-use connections as per Final Proposals. This will be set as an overall threshold of delivered connection capacity for the whole of the price control period.

⁴⁷ [RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd](#)

⁴⁸ [RIIO-T1: Initial Proposals for NGGT and NGET - Overview](#)

2.191. The condition will also set out an annual profile of baseline expenditure to deliver the sole-use and shared-use connections capacity.

2.192. Baseline will be reflected in opening revenues in relevant licence condition.

Part B: Principal formula for volume driver

2.193. The condition will set out principle formula for deriving PCFM variable value term for generation connections allowed expenditure each year.

2.194. Allowed expenditure for a given relevant year will comprise a baseline funding term, a forecast expenditure term, and a delivered output adjustment term.

Part C: Forecast expenditure adjustments

2.195. The purpose of this part is to derive a forecast expenditure term to feed into the principal formula in Part B.

2.196. Each year SHETL will provide forecasts of the cumulative sole-use and shared-use connections capacity (excluding atypical sole-use and shared-use connections) it is contracted to deliver up to four years ahead. SHETL's forecast should include its best view of the timeline for delivered connection capacity (based on customer requirements).

2.197. If the forecast is larger than the baseline threshold then the volume driver will calculate the efficient costs of delivering the connections works and make an adjustment to SHETL's allowed expenditure for efficient costs above the baseline funding.

2.198. The efficient costs will be calculated as follows:

- If connections capacity in the year preceding the forecast delivery year is less than the baseline threshold then efficient costs will be the difference between the forecast and the baseline threshold multiplied by the unit cost allowance
- If connections capacity in the year preceding the forecast delivery year is greater than baseline threshold then efficient costs will be the difference between the connections capacity and the forecast connections capacity multiplied by the relevant unit cost allowance.

2.199. The volume driver will calculate a forward adjustment to SHETL's allowed expenditure for the efficient costs of the connection capacity derived in 5a or 5b. This will be profiled over four years in equal instalments of 25% of the efficient costs ie in year 1, year 2, year 3 & year 4, adjusted for real price effects.

2.200. SHETL will also provide forecasts of atypical sole use and shared use connections.

2.201. Forecasts of atypical sole use and shared use connections will cover both capacity and efficient costs of delivery.

2.202. If atypical connections are forecast, the volume driver will calculate the efficient costs of delivering atypical sole use and shared-use connections based on 50:50 split of forecast connection capacity multiplied by the atypical unit cost allowance and SHETL's forecast cost of connection works. SHETL's allowed expenditure will be adjusted by profiling the efficient cost over the next consecutive four years ie year 1, year 2, year 3 & year 4. This will be profiled in equal instalments of 25% of the efficient costs, adjusted for real price effects.

Review of outputs delivered

2.203. Purpose of this part is to derive a delivered output adjustment term to feed into principal formula in Part B. This term adjusts, if necessary, the company's allowed expenditure for the amount of connection capacity actually delivered, taking into account the forecast expenditure derived in Part C.

2.204. SHETL will report annually on expenditure and delivered connection outputs completed in the previous activity year. In general there will be a one year lag reporting on delivered connection capacity in the activity year.

2.205. If SHETL's forecast for connection capacity to be delivered in the activity year was less than the baseline threshold, and SHETL reports that actual delivered connection capacity in the activity year is less than the overall threshold there will be no adjustment to allowed expenditure. The totex efficiency incentive will be applied through the annual iteration of the price control financial model on actual expenditure compared to the baseline allowed expenditure for the relevant activity year.

2.206. If at the end of the price control period the baseline threshold capacity is not exceeded, the volume driver will calculate and profile for each activity year the efficient costs of the actual connection capacity SHETL delivered over the price control period. The efficient costs of the delivered capacity will be calculated by multiplying the actual delivered connection capacity in each activity year and the relevant unit cost allowance, with an adjustment for real price effects.

2.207. If SHETL reports that it has delivered connection capacity above the baseline threshold in a particular activity year the volume driver will compare this amount to the connection capacity forecast SHETL previously submitted for that activity year. If there is any difference between the delivered volume of connection capacity and the forecast submitted by SHETL for that activity year the volume driver will derive a delivered output term to adjust allowed expenditure to match the actual delivered connection capacity. To adjust the allowed expenditure in the relevant

activity years, the delivered output term will revise the allowed expenditure for the previous four years in equal instalments of 25% of the efficient costs ie in year 1, year 2, year 3 & year 4, adjusted for real price effects. This is the mirror opposite of the forward profiling undertaken in Part C. The volume driver will not have any impact on forecast allowed expenditure for the activity year that is for the delivery of connection capacity in a later year than the activity year.

2.208. In the case of atypical connections, SHETL will report on both the delivered connection capacity and the actual expenditure incurred. Similar to the case of typical sole-use and shared-use connections the volume driver would derive a delivered output term to adjust allowances for differences in the volume between forecast and delivered capacity. In addition there would be a second adjustment to account for differences between the forecast delivery costs and actual delivery costs. The volume driver would update the efficient costs of delivering atypical sole use and shared-use connections based on 50:50 split of delivered connection capacity multiplied by the atypical unit cost allowance and the actual cost of the delivered connection capacity.

2.209. The delivered output term will also include an annual allowance for the operation and maintenance of delivered connection capacity over the overall threshold. This will be derived each year that the delivered connection capacity exceeds the threshold as 1 percent of the difference between cumulative delivered connection capacity and the baseline threshold for connection capacity.

ETC 62: Pre-construction Engineering Outputs for Strategic Wider Works Outputs

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

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

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

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

Summary of responses and way forward

2.213. Comments in relation to the First Consultation, and our response, have been summarised in Supporting Document 5. RIIO Licence Drafting Response Log.

2.214. One of the main structural changes since the First Consultation has been to clarify that the licence condition does not need to go through the Annual Iteration of the PCFM.

ETC 122: Allowed expenditure for Underground Cabling and volume driver (NGET only)

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

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

2.216. It also sets out a volume driver mechanism to calculate an adjustment term for licensee's allowed expenditure if the level of undergrounding required during the price control period turns out to be different to the baseline. This term will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.

2.217. As part of NGET's Initial Proposals we proposed to include some baseline expenditure for underground cabling of 10 per cent of new transmission routes. However, this assumption could be too large or too little. Therefore we proposed to make provision for a volume driver to adjust allowed expenditure for underground cabling if this turned out to be different to the baseline amount. The volume driver adjustment would be triggered by decisions taken by the Secretary of State about the length of underground cable that is required when granting Development Consent Orders for new transmission routes.

2.218. The effect of this new condition is to adjust the licensee's allowed expenditure for the efficiently incurred costs of delivered undergrounding outputs.

2.219. This is the first time we are consulting on this draft condition. However issues raised in bilateral discussions with the licensee in relation to the condition are summarised in Supporting Document 5.

ETC 123: Baseline Demand related infrastructure outputs and volume driver (NGET only)

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

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

2.221. It also sets out a volume driver mechanism to calculate an adjustment term for licensee's allowed expenditure if the level of demand related infrastructure outputs during the price control period turns out to be different to the baseline. This

term will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.

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

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

2.224. This is the first time we are consulting on this draft condition. However issues raised in bilateral discussions with the licensee in relation to the condition are summarised in Supporting Document 5.

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

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

2.225. As part of RIIO-T1, we considered introducing a new condition to set out an uncertainty mechanism to make adjustments to licensee's allowed expenditure if it is required to undertake preconstruction engineering works for integrated onshore-offshore network reinforcement during RIIO-T1.

Summary of responses and way forward

2.226. No issues have been raised as part of the stakeholder responses.

2.227. Since the first informal licence consultation we have discussed the development and need for this condition with NGET. We will be progressing policy in this area, and therefore any necessary licence changes that may be required, on a different timetable to that of the RIIO process. Later this year we will look to consult with stakeholders on options to take this forward.

ETC 127: Restriction on System Operator External Costs

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

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



ETC137: Removal of certain SpCs listed as 'not used' in the NGET's licence

Drafting status: To be deleted. See Supporting Document 1

2.229. There are several SpCs currently in NGET's licence that are marked as 'Not Used'. These SpCs are set out in the table below.

Table 2.3: SpCs in NGET licence listed as Not Used

Special Condition I. Not Used
Special Condition L. Not Used
Special Condition AA5D. Not Used
Special Condition AA5F. Not Used
Special Condition AA5G. Not Used
Special Condition AA5H. Not Used

2.230. As part of RIIO and in line with the our proposed restructuring and renumbering of the ET Special Conditions set out in Appendix 3, we propose that all of these conditions be removed.

2.231. In our view parties will not be affected by the removal of these conditions, as they are obsolete. We would welcome views on whether there are reasons to retain these conditions

3. Gas transmission – changes to SpCs

Chapter Summary

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

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to the SpCs in NGGT’s licence. These are outlined in this chapter and the draft licence conditions are in Supporting Document 2.

Question 2: We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

Question 3: As part of the proposed changes to GTC 121 (Entry and Exit Capacity Obligations and Methodology Statements), do you agree with our proposal to amend the frequency of the review from annual to every two years?

Question 4: As part of the proposed changes to GTC 126 (Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes), do you agree with our proposal to amend the frequency of the review from annual to every two years?

Question 5: Do you agree with our proposal to establish the review frequency requirement as every two years as part of the introduction of GTC 134 (Methodology to determine revenue drivers)?

Question 6: We would welcome comments on the prospect of five methodology statements being consulted at the same time as indicated in GTC 121. If you do not agree with this proposal please indicate why and propose your views on alternative solutions.

Changes to SLCs and SSCs (part A)

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

Overview of proposed changes to Gas Transmission SpCs

3.2. We outline below our proposed changes to the SpCs together with the reasons why we consider the proposed changes, or introduction of new SpCs, to be necessary. We also outline the intended effect of the proposed changes.

3.3. We see no benefit in retaining the current numbering or structure for the SpCs, given the number of changes we are proposing, and therefore intend to restructure and renumber the SpCs. We expect to change most, if not all, of the existing condition numbers for the SpCs.

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

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

3.4. This condition sets out amendments to SSCs relating to LNG.

Summary of responses and way forward

3.5. No specific responses were received. However, we have discussed this condition as part of the Licence Drafting Working Groups. We note that reflecting these amendments in the SSCs⁴⁹ could create definitions that are not relevant to the GDNs. We therefore do not propose to make any changes to this condition for RIIO other than to change the condition number.

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

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

3.6. Please see response above to Special Condition C1: Amendments to Standard Special Conditions relating to LNG [GTC 125] above for summary of responses and way forward.

Special Condition C1B: Amendments to Standard Special Condition A40 (Price Control Review Information) [GTC 135]

Drafting Status: Drafting status: Propose to delete this condition. See Supporting Document 2.

3.7. This condition sets out amendments to SSC A40. Price Control Review Information.

Summary of responses and way forward

3.8. No comments were received in relation to this condition.

3.9. SSC A40 is being replaced by a new licence condition – Regulatory Instructions and Guidance [GTC74] which can be found in Supporting Document 2.

⁴⁹ The SSCs in Part A are applicable to both NGGT and the GDNs

3.10. As such, the amendments that SpC C1B makes to the existing SSC A40 are no longer relevant. We propose to delete this licence condition.

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

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

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

Summary of responses and way forward

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

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

3.13. We agree that changes should be considered however, this is being undertaken separately to RIIO as it relates to the funding of a part-regulated entity⁵⁰.

Special Condition C5: System Management Services [GTC 36]

Drafting status: Any changes to this condition will be progressed as part of the SO 2013 review.

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

Summary of responses and way forward

3.15. In the First Consultation we noted that any changes to this condition would be developed and progressed as part of the SO 2013 review. Comments received in relation to this condition have been noted in Supporting Document 5. These comments and the implementation of any changes to this condition will be considered as part of SO 2013 review process and not RIIO.

⁵⁰<http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/LNGPriceControl/Pages/LNGPriceControl.aspx>

Special Condition C7: Charging obligations [GTC 49]

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

3.16. This condition sets out amendments to SSC A4 and A5.

Summary of responses and way forward

3.17. We note that reflecting the amendments set out in this condition into the SSCs could create definitions that are not relevant to particular licensees. We do not propose to make any changes to this condition for RIIO.

Special Condition C8

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

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

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

Drafting status: No changes proposed at this time. To be discussed further at Licence Drafting Working Groups.

3.20. This condition sets out definitions for words and expressions that are used in SpC C8. We propose to discuss the issue of how best to accommodate defined terms in the licence drafting with the relevant network companies at the forthcoming Licence Drafting Working Groups. Further details on our approach to defined terms can be found in Chapter 1.

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

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

3.21. This condition calculates the maximum NTS transportation owner revenue that the licensee is allowed to recover from customers by bringing together terms from other licence conditions. It also sets out the calculation of the price index adjustment factor used throughout the licence and the correction factor (K) for the treatment of over/under recovered revenue. We also propose to amend the title of this condition

from 'NTS transportation owner activity revenue restriction' to 'Restriction of NTS Transportation Owner Revenue'.

3.22. We are also proposing to make the following changes to the terms that make up the revenue restriction formula:⁵¹

- Introducing the term BR, and a formula for its calculation. In broad terms, the BR term will pick up an opening base revenue allowance which will be set out in the licence. This term will be revised annually by the addition of the MOD term, which is derived through the Annual Iteration Process.
- Introducing new terms for schemes and incentives that have been introduced as part of RIIO.
- Removing schemes that are not part of the RIIO model eg:
 - the Innovation Funding Incentive (IFI) in Part 3 of the current condition
 - the Capex Expenditure Safety Net in Part 5 of the current condition.
- Implementing an updated methodology for calculating the price index adjustment factor. This is consistent with the policy as set out in our decision on RPI indexation in July 2011.⁵²
- We have also proposed to update defined terms and introduce additional defined terms.
- Making provision for price control disapplication in a specific dedicated licence condition see GTC 29: Disapplication of Relevant Special Conditions
 - As stated in the First Consultation we elected to review these conditions separate to the RIIO process given that they apply across all licence types.
 - We are currently consulting separately on our proposed changes to the above condition. Our proposed licence drafting, together with our reasons and the intended effect can be found in that consultation.⁵³
- Replacing the term TOF for the pass-through of costs with the term 'PT' and moving provisions for this into a new specific licence condition, GTC 21: Calculation of allowed pass-through items.
- Removing the term 'TOIAT' (which currently covers income adjusting events) from licence, and instead making provision for uncertain costs through the MOD term in accordance with the new licence condition, GTC28: Arrangements for the recovery of uncertain costs.

⁵¹ Note, we have removed the pre-fix 'TO' from these terms. In order to differentiate between TO and SO equivalent terms we are proposing to add the pre-fix 'SO' to the equivalent terms.

⁵² Decision on RPI indexation method:

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

⁵³ [Disapplication conditions - informal licence drafting consultation](#)

3.23. Appendix 2 of this document provides more detailed information on how the new proposed licence conditions update or replace existing arrangements under the current condition.

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

3.25. Following our decision in relation to mitigating network charging volatility we have now included drafting for the calculation of the correction term (K) (parts to F to I). This replaces SpC C8B paragraphs 1(b) and 3(d).

Summary of responses and way forward

3.26. There were limited comments raised in response to our consultation in this area. Minor amendments have been made to address comments raised in relation to language and consistency.

3.27. We have updated the drafting for the calculation of NTS Transportation Owner Revenue (TOR) in line with proposed drafting from NGGT. We note NGGT's comment that the term TORCOM may need to be amended when a resolution is reached on the ability to collect pension deficit charges from the GDNs.

3.28. We have removed the calculation of the innovation revenue adjustment (II), and included the two terms within this adjustment (network innovation competition adjustment (NICF) and network innovation allowance (NIA) into the principle formula. We consider that a separate section was unnecessary and that this change improves the structure of the condition. We note that the inclusion of the NICF term, and the licence condition that derives it (GTC 10), are subject to a parallel consultation.

3.29. NGGT raised in its response the need to consider other terms that may be required in the true-up related to the price index adjustment factor. As set out above we have updated this condition to reflect those terms which we consider require this treatment. We will consider whether further amendments are required in light of any changes to other conditions.

3.30. We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

3.31. Responses to the First Consultation, and our views on them, can be found in Supporting Document 5.

Special Condition C8C: NTS System Operation Activity Revenue Restriction (Propose to amend title to 'Restriction of NTS System Operation Revenue) [GTC 7]

Drafting status: Current working draft provided in Supporting Document 2. We also propose to amend the condition title to 'Restriction of NTS System Operation Activity Revenue'.

3.32. The purpose of this condition is to calculate the maximum NTS system operation (SO) revenue that NGGT is allowed to recover from customers by bringing together terms from other licence conditions. It also calculates the correction factor (SOK) for the treatment of over/under recovery of SO revenue.

3.33. In the first informal licence drafting consultation we proposed to change the title of this condition. We have further revised the title of this condition to align it with the equivalent condition for TO. We now propose the following title 'Restriction of NTS System Operation Activity Revenue'.

3.34. We are proposing a number of changes to this condition to ensure consistency of format between the TO and SO controls including:

- Introducing the term 'SOBR', and a formula for its calculation, to allow for the annual iteration of the Price Control Financial Model, through the SOMOD term. The reasons for introducing this are analogous to those set out in relation to the BR term for Special Condition C8B. This change also results in the current term SOIntIRC no longer being required.
- Removing the terms SOEIRC and SOExIRC from the SO control, with funding arrangements for investment related parts of the entry and exit capacity expected to move to the TO control. We propose to retain specific dedicated licence conditions for the calculation of entry and exit revenues (currently Special Conditions C8D [GTC3] and C8E [GTC4]). See their respective sections below for more information
- Legacy revenue adjustments to cover funding of pre-RIIO incremental capacity remains on the SO side
- Removing the term 'SORA' (which currently covers income adjusting events) from the licence, and instead making provision for uncertain costs through the SOMOD term in accordance with the new licence condition GTC117: Arrangements for the recovery of SO uncertain costs.
- Making provision for price control disapplication in a specific dedicated licence condition see GTC29: Disapplication of Relevant Special Conditions. This is being progressed separately to RIIO and is currently being consulted. Our proposed licence drafting, together with our reasons and the intended effect can be found in that consultation.⁵⁴

⁵⁴ [Disapplication conditions - informal licence drafting consultation](#)

3.35. Appendix 2 of this document provides more detailed information on how the new proposed licence conditions update or replace existing arrangements under the current condition.

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

3.37. Following our decision in relation to mitigating network charging volatility we have now included drafting for the calculation of the correction term (SOK) (parts to F to I). This replaces SpC C8C paragraphs 1(b), 1(c) and 3(c).

Summary of responses and way forward

3.38. There were limited comments raised in response to our consultation. Minor amendments have been made to address comments raised in relation to language and consistency.

3.39. We have updated the drafting for the calculation of NTS System Operation Revenue (SOR) in line with proposed drafting from NGGT.

3.40. We have moved the term related to legacy revenue adjustments (LRD) to the formula setting out the calculation of base revenue (part D). This is to ensure that the adjustment is in nominal prices.

3.41. Responses to the First Consultation, and our views on them, can be found in Supporting Document 5.

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

AND

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

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

3.42. The purpose of these conditions are to determine the process for allowing the licensee to recover revenue in return for providing extra entry and/or exit capacity. This will be modelled under the Annual Iteration Process and reflected in TO base revenue allowances through the MOD term.

3.43. We stated in First Consultation that we expected the need for a number of changes to these conditions to implement the arrangements from 1 April 2013. This includes:

- As a consequence of the adoption of the RIIO approach, allowed revenue relating to entry and exit revenue drivers would be provided through the TO rather than the SO as at present. This has the advantage of matching the expenditure with the costs. This approach allows the expenditure to be reflected in RAV rather than as part of a shadow RAV calculation.
- Changing the existing licence titles to:
 - Determination of incremental obligated entry capacity volumes and the appropriate revenue drivers to apply
 - Determination of incremental obligated exit capacity volumes and the appropriate revenue drivers to apply
- Appendix 2 provides more detailed information on how the new proposed licence conditions are updating or replacing existing arrangements under the current condition.

Summary of responses and way forward

3.44. In response to the First Consultation, NGGT made comments that have general applicability to these two conditions. These cover two issues:

- revenue driver calculations; and
- use of the SO revenue described in our July 2012 consultation.

3.45. In relation to the first of these points, in parallel to this consultation, we have published a consultation letter⁵⁵, seeking further views on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives. In conjunction with this the parallel consultation, the draft licence conditions including here set out provisions:

- a) to retain the existing revenue drivers, converting them from annual increments to a project total expenditure basis,
- b) for NGGT to calculate updated revenue drivers at points where it considers a possible likelihood of this being needed
- c) for NGGT to develop a generic revenue driver methodology.

3.46. Point (b) and (c) are something that NGGT is discussing with industry stakeholders at transmission workstream in November 2012.

3.47. The conditions are drafted to be capable of incorporating these three options, including the use of a generic revenue driver methodology if approved by the Authority at 1 April 2013 (Part E). There are also provisions for the absence of a generic methodology (Part D) which would cover points (a) and (b).

⁵⁵ [RIIO-T1 \(Gas\): Further views sought on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives](#)

3.48. On the second issue, as part of our First Consultation we proposed that income is collected via SO charges, but then reported as TO income. Following NGGT's response and discussions with them we now consider that the recovery of revenue from providing incremental capacity, for newly triggered investment, on or after 1 April 2013 can be through the TO ie without this use of the SO revenues.

3.49. We propose that permit provisions currently provided for in C8D, 3(g) to (j) and C8E, 5 are also treated under the TO revenue restriction rather than the SO (as at present) and will be part of a separate specific licence condition (GTC131). Our parallel consultation letter also covers implementation issues around the permit arrangements and we have annexed illustrative licence drafting for GTC131 Permit arrangements to manage the time of delivery of incremental capacity (previously Delivery incentive) to this letter rather than including in the consolidated licence pack at this time.

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

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

3.50. There is an equivalent condition in the gas distribution licences.⁵⁶ Please see chapter 5 for further details of proposed changes to this condition.

Special Condition C10: Excluded Services [GTC 31]

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

3.51. This condition is broadly common to GT, ET and GD licences. Please see chapter 7 for further details on the purpose, reasons for introduction and intended effect of this new licence condition.

Special Condition C11: Transmission Planning Code [GTC 37]

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

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

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

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

⁵⁶ SpC E17 of gas distribution licence

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

Summary of responses and way forward

3.56. No material concerns were raised as part of the consultation. Only minor amendments have been made to the version that was part of the First Consultation.

3.57. NGGT commented that for the definition of 'Interested Parties' DN Operators are only relevant to exit capacity and not entry capacity. It suggested this should be carved out of the definition. We do not propose to make any changes to this definition, which is consistent with the existing C11 condition. A function of the TPC is to provide transparency to interested parties across the whole system. Therefore we see no reason to make a distinction between exit and entry capacity in the definition.

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

Drafting status: Proposal to delete.

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

3.59. We have sought evidence from NGGT and we are content that this condition can be removed from the licence because the activity charges do not relate to gas transmission. This removal is part of a package of other licence changes⁵⁷ that seek to remove outdated domestic metering obligations from NGGT's licence.

The reason for our proposed deletion of this condition is to remove domestic metering obligations from NGGT's licence. The effect of this is that the condition would be removed from the licence and no longer apply to NGGT given that there are no domestic meters on the NTS Summary of responses and way forward

3.60. NGGT are content with the approach that all references to metering tariff caps are removed from the NTS licence.

3.61. We remain of the view that this condition can be deleted.

⁵⁷ See Chapter 5: SSCs to be moved from Part A to Part D of Gas Transporter licence.

Special Condition C13: Network Output Measures [GTC 73] (proposed change of name to “Methodology for Network Output Measures”)

Drafting status: Current working draft in Supporting Document 2.

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

3.63. The purpose of this condition⁵⁸ is to ensure that the methodology continues to meet its objectives, and provides for implementation and modification of the methodology.

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

Summary of responses and way forward

3.65. Substantive licence drafting related responses to the First Consultation, and our responses to them, can be found in Supporting Document 5.

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

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

Special Condition C16: NTS Performance Reporting [GTC 74]

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

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

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

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

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

⁵⁸ Similar changes proposed for equivalent electricity transmission condition - SLC B17: Network Output Measures [ETC73]

Special Condition C17: Exit Code Statement [GTC 51]

Drafting status: Proposal to delete.

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

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

Summary of responses and way forward

3.70. No comments have been made in relation to this proposal. We continue to propose to delete this condition.

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

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

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

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

Drafting status: We do not propose any changes as part of RIIO.

3.72. There is an equivalent condition in the gas distribution licences.⁵⁹ Please see chapter 5 for further details.

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

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

3.73. We are not proposing any changes to this SpC as part of RIIO. Further details on our views with respect to this condition⁶⁰ can be found chapter 5.

⁵⁹ SpC E21 of the gas transporter licence

Special condition C24: Licensee's Network Model [GTC 38]

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

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

3.75. As part of RIIO we have:

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

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

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

Summary of responses and way forward

3.78. No material concerns were raised in response to the First Consultation. Only minor amendments have been made to the version that was part of the First Consultation.

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

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

3.79. There is an equivalent condition in the gas distribution licences.⁶¹ Please see chapter 5 for further details of proposed changes to this condition.

Special Condition C27: Balancing Arrangements [GTC 51]

Drafting status: Proposal to delete.

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

⁶⁰ And to the corresponding condition for GDNs: SpC E22.

⁶¹ SpC E23 of gas distribution licence

Executive), a gas linepack product by 1 April 2011 and shall report to the Authority on the conclusions of any such development and consultation by 1 May 2011.⁶²

3.81. NGGT's view is that this licence condition has been met and as there is little or no demand for such a linepack product there is little benefit in further developing this condition. In April 2011 we issued a letter setting out our general view on SpC C27.⁶³

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

Summary of responses and way forward

3.83. No comments have been made in relation to this proposal. We continue to propose to delete this condition.

Proposed new Gas Transmission SpCs

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

Financial conditions

3.85. Further details on the following financial related condition can be found in Chapter 6.

Drafting Status: Current working drafts provided in Supporting Document 2

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

⁶² Paragraph 1(a) of SpC C27.

⁶³ <http://www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Documents1/UNC337D.pdf>

GTC 9: The Innovation Roll-out Mechanism, GTC 10: The Network Innovation Competition, and GTC 11: The Network Innovation Allowance

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

3.86. The above three new innovation related conditions are common to ET, GT and GD licences. Please see chapter 7 for further details on the purpose, our reasons for introduction and intended effect of these new licence conditions.

GTC 21: Calculation of allowed pass-through items

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

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

GTC 24: Stakeholder Satisfaction Output

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

3.88. The purpose of this draft condition is to set out the key components of the stakeholder satisfaction output. This contains two separate components. One is based on performance against a survey of stakeholder and/or customer views of the transmission network company's performance along with supporting information. The other provides for a discretionary reward for effective engagement⁶⁴ where the decision to apply such a reward would be determined by the Authority.

3.89. Parts B and C of the draft licence condition give rise to the stakeholder engagement reward and the Stakeholder Engagement Reward Guidance associated document. The purpose of this associated document is to provide the licensee with information on the application and reward process. The proposed licence drafting establishes this associated document and provides governance arrangements should it need to be changed.

3.90. As part of this Informal Consultation we have included the first draft of the Stakeholder Engagement Reward Guidance. This is essentially the guidance that has been developed for electricity distribution as part of DPCR5. We do not see any reason why the guidance should be markedly different for RIIO-T1 and GD. We would welcome views from stakeholders on whether there are any sector specific reasons why the guidance should differ.

3.91. For RIIO-T1 and GD1, we expect the guidance document to come into force on 1 April 2013. Recognising this is the first time the guidance has been used, we intend to test it in mid-2013, by holding a trial run of the Stakeholder Engagement Reward process.

⁶⁴ The core components of the customer satisfaction output for were agreed as part of the T1 Strategy Document.

3.92. The results of this trial can be used to further develop the Stakeholder Engagement Reward Guidance which can then, if necessary, be modified through the governance arrangements set out in the licence condition.

3.93. Part D of the licence condition relates to the customer or stakeholder survey-based incentive. As we said in our Strategy Decision in this area, it was understood that the workings of this incentive might differ between TOs.

3.94. NGET/NGGT have proposed drafting reflecting its need to include customer feedback and stakeholder feedback. The drafting has been informed by work carried out by the companies in the light of dry run surveys and other research of stakeholder views. The drafting is provided as an Appendix to GTC 24 in Supporting Document 2 and reflects NGET's and NGGT's latest proposals for Part D. At this stage we are still reviewing the drafting proposed and would welcome views.

Summary of responses and way forward

3.95. Comments received in relation to this condition have been noted in Supporting Document 5.

3.96. We will work with companies to further develop part D of the licence, in line with explanation above.

GTC 28: Arrangements for the recovery of uncertain costs and GTC 117: Arrangements for the recovery of SO uncertain costs

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

3.97. The aim of these proposed new conditions is to allow for the recovery, during the price control, of additional costs through allowed revenues. The current licences also include provision to allow such adjustments in both the TO and SO control.⁶⁵

3.98. We have updated the areas of cost covered by these mechanisms from those in the current licence. The details of the cost areas that are included are in the T1 IP Documents for NGGT. We have also updated how adjustments to revenues as a result of the application of this condition will impact allowed revenues, ie the adjustments will now impact revenue through a change in MOD/SOMOD, the output of the annual iteration of the Price Control Financial Model (PCFM).

3.99. Since the First Consultation we have made significant changes to the text of this condition, however the intent remains the same. The effect of this change is to clarify how these conditions interact with the financial modelling approach that will be used.

⁶⁵ Currently SpC C8B paragraph 3 through the income adjustment term (TOIAT) term and the provision to log up costs (LC term), these provisions will no longer exist. Currently SpC C8C paragraph 3 through the income adjustment term (SORA), this provision will no longer exist.

Summary of responses and way forward

3.100. NGGT raised some concerns predominantly related to the definitions of cost areas and the use of the term 'IAE'. The definitions have been updated, but we consider that further changes may be required. We welcome further suggestions from NGGT. This condition now allows for the calculation of a separate term for each uncertain cost area and therefore the 'IAE' term no longer exists.

3.101. We have now included Network Flexibility as an uncertain cost category in this condition. This formed part of T1 IP but had not yet been included in any licence condition.

3.102. NGGT have raised concerns that the current provision for an income adjusting event has been removed; including the provision for third parties to raise the need for an adjustment to take place. We have replaced this current provision with an uncertainty mechanism that is consistent with our Strategy Decision. We note that our proposed condition does still allow for third parties to question whether an adjustment should be made, both through the consultation process we will go through prior to issuing a direction for an adjustment, and through the Authority's ability to propose an adjustment (having been informed of the need for such an adjustment by a third party). This position has already been communicated to NGGT and so we are concerned that, as noted in its response, it has sent a different message to its stakeholders. To further clarify this position we have added in to these conditions that we will consult with "other interested parties" prior to directing an adjustment.

3.103. Concerns were raised on the inclusion of the paragraph that references the RIGs. We consider that this paragraph should remain. The intention is that the RIGs will set out the specifics of the information that will be gathered. It is not the intention that changes to the RIGs would result in changes to the intent of this condition.

3.104. Responses to the First Consultation, and our views on them, can be found in Supporting Document 5.

GTC 120: Entry and exit capacity constraint management

Drafting status: Illustrative licence drafting for a unified constraint management incentive scheme is provided as an annex to our separate consultation letter.

3.105. The purpose of this condition is to provide the arrangements for the incentive scheme(s) related to the costs and revenues associated with entry and exit capacity constraint management activity.

3.106. The T1 IP Documents consulted on two options for constraint management:

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

3.107. Our T1 IP Documents provided our reasoning for these options and the next steps. The initial licence drafting provided alongside the parallel consultation is illustrative only. The draft condition is intended to replace the following buy-back and constraint provisions of the licence:

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

3.108. The effect of this proposed condition is to continue to incentivise NGGT’s performance in relation to its management of constraints on the NTS. The incentive payments from this condition will flow through GTC 7 (Restriction of NTS System Operation Revenue).

Summary of responses and way forward

3.109. Responses were generally opposed to moving to a unified incentive. Some highlighted loss of information but some also felt the rationale for change needed further demonstration. In the light of responses we are consulting on variants of the options considered in the T1 IP Documents.

3.110. Illustrative licence drafting for the option of a unified constraint management scheme is provided as an annex to the parallel consultation letter.⁶⁶ Please note that we have proposed a two-year lag structure to this condition. This is consistent with our recent decision to lag all cost pass-through and incentive mechanisms. The new structure will allow the licensee to recover the expected cost associated with constraint management within year, and the differential (of outturn relative to allowed) with a two-year lag. The intention of this change is to reduce charging volatility.

3.111. We are seeking further views before reaching our Final Proposals.

GTC 121: Entry and Exit Capacity Obligations and Methodology Statements

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

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

⁶⁶ [RIIO-T1 \(Gas\): Further views sought on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives](#)

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

3.113. For clarity, we propose to amend the title from 'Entry and Exit Capacity Methodologies and Statements' to 'Entry and Exit Capacity Obligations and Methodology Statements'

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

- improved the clarity and consistency of the arrangements by amalgamating the following licence conditions:
 - Special Condition C8D, 10, 11, 12
 - Special Condition C8E, 4(b) and 4(c)
- amended the review frequency requirement from annual to every two years, and
- included a requirement for an examination to be undertaken by independent examiner.

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

Summary of responses and way forward

3.116. NGGT provided comments on the proposed changes described above. These comments, and our response, can be found in Supporting Document 5.

3.117. NGGT raised concerns with the introduction of the requirement to undertake an audit. In Particular that, audits are not required due to the infrequency of amendments to these methodology statements and that many auditors will not provide an opinion and therefore it limits the number of auditors that can be used.

3.118. We believe that it is appropriate for Ofgem to seek assurance, via an audit, that the methodology statements that NGGT produce are robust and fit for purpose and that they align with the UNC and all other obligations required of NGGT. We also believe that examinations of methodology statements should produce a statement from an independent examiner which in its opinion explains its main findings and also provides an overview of the work undertaken by the auditors to support their opinion. The requirement for an audit is not a new obligation and the purpose of the new licence text is to provide consistency across the methodology statements.

3.119. We would expect an independent examiner to have a suitable level of expertise and independence to undertake examinations of the methodology statements and to give their opinion as to the extent to which the licensee has developed a methodology that is in line with the licensee's duties under the Act, and the Standard, Standard Special and Special Conditions.

3.120. We would welcome stakeholders' views on placing an obligation upon NGGT to review the methodology statements at a minimum of every 2 years instead of the current annual review. This would not preclude NGGT from being able to review and amend the methodology statements within this period as is currently the case, or for us to direct the licensee to do so.

3.121. We would welcome comments from stakeholders on the prospect of five methodology statements being consulted at the same time. We have some concerns on stakeholders abilities to effectively review and respond to different consultations if they are being carried out at the same time.

3.122. We believe that the net effect of all these changes would reduce the number and frequency of methodology statement consultations that industry needs to respond to on a regular basis.

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

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

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

- develop and, where relevant, modify methodology statements which relate to the principles and methodology for the determination of:
 - the quantity of incremental entry capacity and incremental exit capacity
 - obligated entry capacity and obligated exit capacity release
- release entry and exit capacity
- produce a summary report relating to those obligations.

3.124. As part of RIIO we intend to:

- improve the clarity and consistency of the arrangements by amalgamating the following licence conditions:
 - Special Condition C8D, 7 and 9a – 9e
 - Special Condition C8E, 3, 4(a), 4(e) and Annex A
 - Special Condition C15
 - Special Condition C18
- where possible, ensure that entry and exit arrangements are aligned
- modernised this condition
- amended the review frequency requirement from annual to every two years

- replaced the term “appropriate auditor” with “independent examiner”, to enable NGGT to select an examiner (independent of NG group, but not necessarily the statutory auditor) to undertake an examination of the capacity release methodology statements, and
- extended the time for NGGT to deliver the capacity release methodology statements to Ofgem from 7 days to 14 days.

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

3.126. We would welcome stakeholders’ views on placing an obligation upon NGGT to review the methodology statements at a minimum of every 2 years instead of the current annual review. This would not preclude NGGT from being able to review and amend the methodology statements within this period as is currently the case now, or for us to direct the licensee to do so.

3.127. We believe that the net effect of all these changes would reduce the number and frequency of methodology statement consultations that industry needs to respond to on a regular basis.

Summary of responses and way forward

3.128. Since the First Consultation we have also reinstated the provisions set out in C8D Part C, 9. (e) Obligations to offer capacity for sale in a clearing allocation. We believe that the removal of this licence obligation would signal a shift in policy that has not been previously consulted upon or proposed. Whilst there may be merit in such a proposal, we believe that the removal of this licence obligation should be preceded by significant engagement with industry on such a change so that all relevant arguments have been fully considered. We believe that this is not a price control issue and has been raised before in discussions about charging. It can be progressed outside of the RIIO price control framework.

3.129. NGGT provided comments on the proposed changes described above. These comments, and our response, can be found in Supporting Document 5.

3.130. NGGT raised its concerns with the provision of an auditor’s opinion when carrying out an audit within its response on GTC 121 (Entry and Exit Capacity Methodology Statements). As we have stated previously we believe that examinations of methodology statements should produce a statement from an independent examiner which in its opinion explains its main findings and also provides an overview of the work undertaken by the independent examiner to support their opinion.

3.131. We would welcome stakeholders’ views on placing an obligation upon NGGT to review the methodology statements at a minimum of every 2 years instead of the

current annual review. This would not preclude NGGT from being able to review and amend the methodology statements within this period as is currently the case now, or for us to direct the licensee to do so.

GTC 131: Permit arrangements to manage the time of delivery of incremental capacity (previously Delivery incentive)

Drafting status: Illustrative drafting for GTC 131 is provided as an annex to separate parallel consultation letter

3.132. The purpose of the condition is to provide details for the potential use of permits in relation to the release of incremental entry and/or exit capacity by the licensee. The playing of permits against particular projects allows the licensee to extend delivery beyond the specified lead times.

3.133. We do not propose to make significant changes to the principles of the permit scheme introduced in TPCR4. The introduction of the permits scheme in TPCR4 formalised a process that already existed, whereby NGGT can apply to the Authority on a case by case basis to extend default lead times for releasing incremental capacity. Areas of proposed change and further consideration include:

- Under RIIO we expect to fund permits through the TO rather than the SO, as at present. As such, a new term (PA_t) has been added to GTC 20 to capture this, with this specific condition intended to capture the existing arrangements in C8C, 3(a), C8D, 3(g) to (j) and Special Condition C8E, 5.
- Under our Initial Proposals, an enhanced permits allowance of £19m would be applicable for the year from 1 April 2013 – 31 March 2014. This is reflected in drafting of the licence.

3.134. Illustrative licence drafting for GTC131 is provided as an annex to our separate consultation letter.⁶⁷ on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives where we are seeking further views before reaching our Final Proposals. This annex should be read in tandem with the consultation letter which considers a number of implementation issues.

GTC 132: NTS Transportation Support Services

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

3.135. The purpose of this proposed condition is to capture and combine the costs and revenues associated with Constrained LNG and the long-run contracting incentive currently found in SpC C8E 1(c) and 1(e).

⁶⁷ [RIIO-T1 \(Gas\): Further views sought on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives](#)

3.136. To capture this proposed condition we propose to add the term TSS_t to Part E of GTC 7 (Restriction of NTS System Operation Revenue). Didcot A is being removed from the list of sites for the long-run contracting incentive due to its closure before the RIIO-T1 period. The costs and revenues from the condition will expire on 1 October 2018 in line with NGGT's proposal for replacing Avonmouth with pipeline reinforcement as outlined in their business plan.

3.137. The effect of this condition will be to incentivise NGGT to efficiently choose between using either Constrained LNG and/or long-run contracts to fulfil the requirements of its safety case in the South West of the NTS.

3.138. This condition was not included in the First Consultation. Since then we have worked with NGGT to develop this first draft. We have also introduced a two-year lag structure to this condition. This is consistent with our recent decision to lag all cost pass-through and incentive mechanisms. The new structure will allow the licensee to recover the expected cost associated with transmission support services within year, and the differential (of outturn relative to allowed) with a two-year lag. The intention of this change is to reduce charging volatility.

GTC 133: Specification of Network Replacement Outputs

Drafting status: Current draft provided in Supporting Document 2. No previous drafts have been seen by licensees.

3.139. The purpose of this condition is to specify the Network Replacement Outputs the licensee shall deliver during the price control period and the allowed expenditure associated with them.

3.140. The effect of this condition is to record the outputs that the companies are expected to deliver over the RIIO-T1 period. If the outputs need to change (eg because of a change in the NOMs methodology as set out in [ETC/GTC73] Network Output Measures, then a licence modification will be required to modify this table.

GTC 134: Methodology to determine revenue drivers

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

3.141. The purpose of this proposed new condition is to place obligations on the licensee to:

- Produce a methodology to determine any additional revenue allowances relating to the release of incremental obligated entry capacity
- Produce a methodology to determine any additional revenue allowances relating to the release of incremental obligated exit capacity

("generic entry and exit revenue driver methodology statements").

3.142. As part of RIIO we intend to ensure that there is a clear and consistent approach to calculating revenue drivers across different NTS entry and NTS exit points and that the methodology applied is approved by the Authority. This new condition is consistent with the obligations on the licensee to calculate appropriate revenue drivers for both NTS entry points and NTS exit points in a timely manner. We have also included a requirement for an examination to be undertaken by an independent examiner.

3.143. The effect of introducing this licence condition means that NGGT must produce and consult upon methodologies that determine any additional revenue allowances relating to the release of incremental obligated entry and exit capacity. These methodologies must be reviewed, consulted on and audited at a minimum of every 2 years.

3.144. We would welcome stakeholders' views on placing an obligation upon NGG to review the methodology statements at a minimum of every 2 years. This would not preclude NGG from being able to review and amend the methodology statements within this period or for us to direct the licensee to do so.

4. Gas distribution - changes to SSCs (Part D) & SpCs

Chapter Summary

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

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to the SLCs and SpCs in the GD licence. These are outlined in this chapter and the draft licence conditions are in Supporting Document 3.

Question 2: We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

Changes to SLCs and SSCs (part A)

4.1. In addition to the proposed changes set out in this chapter, we are also proposing changes to some SLCs and SSCs that are applicable to the GD and GT sectors. These changes are set out in Chapter 7.

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

4.2. We outline below our proposed changes to SSCs in Part D of the gas transporter licence. We state the reasons why we consider changes are necessary and the intended effect of our proposed changes.

4.3. Changes reflect responses to our First Consultation. These responses, and our views on them, can be found in Supporting Document 5: RIIO Licence Drafting Response Log.

SSC D9: Distribution Network Transportation Activity Incentive Scheme and Performance Reporting [GDC 74]

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

4.4. Our proposed changes to performance reporting are similar across all sectors. We have therefore outlined our proposed changes to these common conditions in chapter 7.

SSC D10 Quality of service standards [GDC 89]

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

4.5. This condition sets out the minimum quality of service standards for a gas distribution licensee. Including these levels of service within the licence enables the Authority to take appropriate enforcement action against the licensee in the event of a failure to meet a prescribed level of performance.

Summary of responses and way forward

4.6. NGGD, in their response to the First Consultation, noted that Ofgem should consider changing the requirements under paragraph 2 (f) of SLC D10. From 2013, each GDN will provide its own general enquiry line and withdraw from the national enquiry line service currently provided by NGGD. In this context, and given the increased focus on delivering customer satisfaction during RIIO-GD1, questions were raised in the Licence Drafting Working Group and Customer and Social Issues Working Group whether GDNs should continue reporting general enquiry performance.

4.7. We propose to modify this condition by removing references to 'dedicated enquiry line'. The effect of the proposed change will remove the licence obligation on the GDN to respond to 90 per cent of the telephone calls to the dedicated enquiry line in 30 seconds.

SSC D11. Charging obligations [GDC 141]

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

4.8. This condition sets out amendments to SSC A4 and SSC A5. These amendments set requirements on when the licensee can change charges and when it can make changes to the charging methodology used to set those charges.

4.9. We did not propose any changes to this condition in the First Consultation. As a result of our decision on how to mitigate network charging volatility, we are now proposing changes to this condition.⁶⁸ The intent of the revised drafting is to implement our decision to limit the ability of the licensee to change use of system charges on a date other than 1 April each year. It also provides for the Authority to direct or consent to changes on a date other than 1 April when it considers it will be in the best interests of consumers.

⁶⁸ For details see page 20: 'Decision on measures to mitigate network charging volatility arising from the price control settlement': <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=404&refer=Networks/Policy>

SSC D20 Distributed Gas: Connection Guide and Information Strategy [GDC 83]

Drafting status: Current working draft provided in Supporting Document 3

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

- makes information available to the public that will assist any person who might wish to enter into arrangements with the licensee relating to the connection of a Distributed Gas plant to the distribution network
- implements a Distributed Gas Information Strategy in respect of information related to Distributed Gas connections.

4.11. In the RIIO-GD1 March 2011 Strategy Document (GD1 Strategy Document) we recognised the importance of potential bio-methane developers being able to understand the costs of and process for connecting to the network. The proposed new condition requires the licensee to provide common, simple, accessible and reliable information to meet the needs of all Distributed Gas customers wanting to connect to the network. This drafting is consistent with a similar condition included in the Electricity Distribution Licence.⁶⁹

4.12. We have provisionally given this condition the number “D20”. We will finalise this condition number in time for the Statutory Consultation in December.

SSCs to be moved into Part D from Part A of the Gas Transporter licence [GTC 32]

Drafting status: Proposal to move the following SSCs into Part D from Part A with no proposed changes to existing drafting and minor changes to existing condition numbers.

4.13. We propose to move the SSCs set out in Table 4.1 that currently reside in Part A of the gas transporter licence into Part D.

⁶⁹ SLC 25A. Distributed Generation: Connections Guide and Information Strategy.

Table 4.1: SSCs to be moved from Part A to Part D

Current Condition	Proposed action
SSC A10: Provision and Return of Meters	Move to Part D and renumber SSC D17
SSC A43: Provision of Metering and Meter Reading Services	Move to Part D and renumber SSC D18
SSC A46: Non-discrimination in the provision of metering activities	Move to Part D and renumber SSC D19

4.14. We have provisionally allocated these conditions the condition numbers shown above. We will finalise this condition numbers in time for the Statutory Consultation in December.

4.15. Further details on the reasons and effect of these proposed changes together with a summary of responses and our proposed way forward can be found in Chapter 5.

GDC 73: Methodology for Network Output Measures

Drafting Status: Current working draft provided in Supporting Document 3

4.16. The purpose of this proposed new condition is to ensure that the licensee develops, implements and maintains a Methodology for Network Output Measures and information gathering plan.

4.17. The reasons and effect of the introduction of this condition is to introduce a standardised reporting framework for Network Output Measures which will inform our assessment of GDNs' output performance over RIIO-GD1..

4.18. We have provisionally given this condition the number "D21". We will finalise this condition number in time for the Statutory Consultation in December.

Overview of proposed changes to gas distribution SpCs

4.19. We have outlined below our proposed changes to the SpCs together with the reasons why we consider the proposed changes, or introduction of new SpCs, to be necessary. We also outline the intended effect of the proposed changes.

4.20. We see no benefit in retaining the current numbering or structure for the SpCs, given the number of changes we are proposing, and therefore intend to restructure and renumber the SpCs. We expect to change most, if not all, of the existing condition numbers for the SpCs.

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

Drafting status: No changes proposed at this time. To be discussed further at Licence Drafting Working Groups.

4.21. This condition sets out definitions for words and expressions that are used in the SpCs. We propose to discuss the issue of how best to accommodate defined terms in the licence drafting with the relevant network companies at the forthcoming Licence Drafting Working Groups. Further details on our approach to defined terms can be found in Chapter 1.

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

Drafting status: Current working draft of GDC 20 provided in Supporting Document 3.

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

4.23. There are no significant changes to the intent of this condition from the equivalent current condition E2. This condition brings together the output of other SpCs that impact on the value of maximum revenue that the licensee can collect through charges to its customers. There may be a need to add /remove terms once other licence conditions are finalised.

4.24. Changes for RIIO- GD1 include:

- an updated methodology for calculating the price index adjustment factor⁷⁰
- amendments/additions to the defined terms used in this condition.

4.25. We have incorporated the calculation of the correction factor (K) into this licence condition. This replaces SpC E2 paragraph 3 and SpC E4 in the current licence. Since the First Consultation, and following our decision in relation to mitigating network charging volatility, we have made changes to how the calculation is made (see parts to D to G of GDC20).

Summary of responses and way forward

4.26. There were no material concerns raised in response to our consultation. Minor amendments have been made to address comments raised in relation to language and consistency.

⁷⁰ This is consistent with our decision of July 2011:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=117&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

4.27. We have added in a 'NICF' term representing the revenue adjustment from the Network Innovation Competition to the formula that calculates maximum distribution network transportation activity revenue. The inclusion of this term, and the licence condition that derives it (GDC 10), are subject to consultation.

4.28. We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

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

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

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

Special Condition E4: Distribution Network Transportation Activity Revenue adjustment (Kt) [GDC 42]

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

4.30. We propose to delete this condition because the provisions it contains, in relation to the calculation of the correction factor (K), are now included in GDC20: Restriction of revenue in respect of the Distribution Network Transportation Activity.

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

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

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

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

4.33. We propose that the revenue driver applies to the entire population of tier 2 mains (and associated services) above the risk threshold. However, in our GD1 IP

Document we consulted on the exact arrangements. We posed the following questions:

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

Summary of responses and way forward

4.34. We are in the process of considering responses to the questions set out above. We will reflect our decision in the final licence condition published as part of Statutory Consultation in December 2012.

Special Condition E6: Distribution Network Exit Capacity costs and incentive revenue, (Ext). [GDC 8]

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

4.35. There is no fundamental policy change relative to GDPCR1. The purpose of this condition is to enable the licensee to recover the costs associated with NTS Exit Capacity. This is an uncertainty mechanism which protects the licensee from (NTS Exit Capacity) price risk, which we consider is outside of its control. The licensee will face the volume risk. That is, we allow the licensee to recover NTS Exit Capacity costs based on actual NTS Exit Capacity charges but target volumes set at the control. We have also updated this condition to reflect the introduction of the Enduring Regime. The new licence condition reflects the change to booking NTS Exit Capacity by off-take as opposed to LDZ.

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

4.37. Since our First Consultation, we have also introduced a two-year lag structure to this condition. This is consistent with our recent decision to lag all cost pass-through mechanisms.⁷¹ The new structure will allow the licensee to recover the expected cost associated with NTS Exit Capacity within year, and the differential (of outturn relative to allowed) with a two-year lag. The intention of this change is to reduce charging volatility.

⁷¹ See: Ofgem (October 2012) Decision on measures to mitigate network charging volatility arising from the price control settlement:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=404&refer=Networks/Policy>

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

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

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

4.39. We have updated the areas of cost covered by this mechanism from those in SpC E7. The details of the cost areas that are included are in the GD1 IP Documents. We have also updated how adjustments to revenues as a result of the application of this condition will impact allowed revenues, ie the adjustments will now impact revenue through a change in MOD, the output of the annual iteration of the Price Control Financial Model (PCFM).

4.40. Since the First Consultation we have made significant changes to the text of this condition, however the intent remains the same. The effect of this change is to clarify how this condition interacts with the financial modelling approach that will be used.

Summary of responses and way forward

4.41. There were a number of comments raised in relation to how this condition interacts with the annual iteration process. We consider that these points have been addressed by the updated structure of the condition.

4.42. Concerns were raised on the inclusion of the paragraph that references the RIGs. We consider that this paragraph should remain. The intention is that the RIGs will set out the specifics of the information that will be gathered. It is not the intention that changes to the RIGs would result in changes to the intent of this condition.

4.43. Some responses queried why this condition should allow for the Authority to propose adjustments. We have retained this provision in the current drafting as it reflects the policy position we set out in our Strategy Decision. It is intended that the uncertain cost condition allow for the Authority to propose adjustments, ie if costs were to fall below those included in base allowances then the Authority could propose a negative adjustment to allowed revenues.

4.44. We have now included definitions for all defined terms. We welcome comments on these as part of this consultation.

4.45. There are some areas of uncertainty consulted on in the GD1 IP Documents which do not yet feature in this condition, or any other licence condition, as we are consulting on final arrangements that will be provided in RIIO-GD1. These are in relation to medium rise multiple occupancy buildings, lane rental costs (currently these costs are covered by the street works reopener) and statutory independent

undertakings. Therefore there may be further changes required to this consultation as a result of GD1 Final Proposals.

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

Drafting status: Proposal to combine and replace with GDC25: Revenue adjustments for performance in respect of shrinkage & environmental emissions. Current working draft provided in Supporting Document 3.

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

4.47. We have combined two previously separate SpCs, on shrinkage and leakage, in recognition of the strong links between the two (leakage represents 95 per cent of shrinkage) and also that they both report using the same shrinkage and leakage model.

4.48. We have also introduced the following new provisions.

- A mechanism to ensure that GDNs propose revised shrinkage as well as leakage volumes whenever they propose a modification to the shrinkage and leakage model. This ensures that there is consistent treatment between the two incentives and that companies do not incur windfall gains or losses under the shrinkage incentive as a result of the modelling change.
 - A provision to enable the Authority to direct changes to the allowed shrinkage and leakage volumes. The Authority will only be able to modify the shrinkage and leakage volumes to the level set out by companies in the leakage model modification report and verified by an independent expert who has reviewed the modification. This removes the need for a licence change in order to amend the shrinkage and leakage volumes and therefore can reduce timescales to implement a change to the shrinkage and leakage model.
 - A reporting requirement on the use of smart metering data (the shrinkage and leakage smart metering report) in Part G. This will require licensees to report on their assessment of the suitability of smart metering data as the basis of reporting shrinkage and leakage performance and the steps they are taking to make this assessment.
 - Requirement to report to the Authority annually on the outcome of the review of the shrinkage and leakage model. This is to ensure that there is a physical output to the annual review and provide evidence to the Authority that it has been undertaken. It also provides an opportunity for shippers and suppliers to provide comments.
 - Introduced a rolling incentive mechanism to ensure that companies receive equal reward for investment (or penalties for lack of it), irrespective of the timing of that investment in the price control period.
-

4.49. Since our First Consultation, we have also introduced a two-year lag structure to this condition. This is consistent with our recent decision to lag all cost pass-through mechanisms and incentive mechanisms. The new structure will allow the licensee to recover the expected cost associated with shrinkage within year, and the differential (of outturn relative to allowed) with a two-year lag. The intention of this change is to reduce charging volatility.

Summary of responses and way forward

4.50. Based on responses to the GD1 IP Documents and the First Consultation, we have further developed the draft licence condition. This is our latest thinking in the area but is not a final policy decision on shrinkage & environmental emissions – which will be set out as part of GD1 Final Proposals.

4.51. We have amended the licence to reflect 'option B' for the rolling incentive. We also provide the algebra to extend the rolling incentive to cover the shrinkage allowance. However, we will set out our decision in relation to the design of the rolling incentive option (A or B) and whether the rolling incentive is applied to the shrinkage allowance at FP.

4.52. We have also amended the drafting in Part D of the condition so that the shrinkage and leakage model will always be common but that individual companies will be able to propose a modification. If the modification to the shrinkage and leakage model is accepted, the revised model will apply to all GDNs. We consider that this will encourage innovation in this area whilst maintaining the benefits of a common shrinkage and leakage model.

Special Condition E10: Distribution Network discretionary reward scheme revenue [GDC 48: Discretionary reward scheme revenue amounts]

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

4.53. The purpose of this condition is to reward (through the discretionary reward scheme (DRS)) those GDNs that can demonstrate that they have delivered additional environmental and social outputs beyond those funded at the start of RIIO-GD1. The procedures, timelines and governance arrangements related to the administration of the scheme are set out in the guidance document published on the Authority's website on an annual basis.

4.54. In the GD1 IP Documents we clarified that the total amount to be recovered through this scheme will be £12 million. This will be recovered in three tranches in year 3,6,9 of the price control (ie the final tranche will be in RIIO-GD2). The condition also allows the charges resulting from the DRS scheme in year 4 and 5 of GDPCR1 to be recovered during the first two years of RIIO-GD1.

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

RIIO-T1 and GD1: Draft licence conditions – second informal licence drafting consultation

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

4.56. The effect of making these changes to the existing licence condition is to improve the clarity of the calculation of any revenue adjustment.

Summary of responses and way forward

4.57. We do not expect to markedly change the existing DRS guidance document for the start of RIIO-GD1 and did not receive any views from stakeholders that this document should be changed. The latest DRS guidance document can found on our website.⁷²

Special Condition E11: Distribution Network innovation funding incentive for sustainable development scheme (IFISDt) [GDC 143]

Drafting status: To be deleted and replaced by GDC11 Network Innovation Allowance (NIA).

4.58. We propose to delete this condition from the licence and replace it with GDC 11: Network Innovation Allowance (NIA). The three proposed new innovation related conditions are common to ET, GT and GD licences and therefore are explained in chapter 7.

Special Condition E12: Distribution Network loss of meter work revenue driver (LMt) [GDC 143]

Drafting status: Propose to delete.

4.59. As set out in our Strategy Decision, for RIIO-GD1 we are proposing to remove the driver mechanism that exists in the current price control. We set out in the GD1 IP Documents that we are proposing an ex ante allowance for costs associated with loss of metering.

4.60. This licence condition is therefore no longer required and we propose to remove this condition. The reasons and effect being to remove an obsolete condition from the licence.

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

⁷² [Gas Discretionary Reward Scheme 2011-12: Draft guidance notes.](#)

Drafting status: We are currently consulting separately on proposed changes to this condition. Changes to this condition are to be implemented as part of our package of proposed RIIO related licence changes.

4.61. As stated in the First Consultation, we elected to review the above condition separately to the RIIO process given that it applies across all licence types.

4.62. We are currently consulting separately on our proposed changes to the above condition. Our proposed licence drafting, together with our reasons and the intended effect, can be found in that consultation.⁷³ Further details can also be found in Chapter 7.

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

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

4.63. There is an equivalent condition in NGGT's licences.⁷⁴ Please see chapter 5 for further details of proposed changes to this condition.

Special Condition E18: Excluded Services [GDC 31]

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

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

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

Drafting status: We no longer propose to introduce GDC32: Restriction of charges for Tariff-Capped Metering Activities. We will modernise this condition as part of the review of metering activities (ROMA) project.

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

4.66. We no longer propose to modernise this licence condition as part of RIIO-GD1. This is because we are currently undertaking a review of metering activities (ROMA) project which will consider GDNs obligations and consequential changes to the licence condition. Therefore any modernisation required will take place as part of the ROMA project. We have provided our draft modernised licence condition, and respondents' views to the ROMA project team.

⁷³ [Disapplication conditions - informal licence drafting consultation](#)

⁷⁴ SpC C9 of NGGT's licence

4.67. Although we no longer propose to modernise this condition, we do need to complete a review of the provisions in the current licence condition in relation to “Disapplication of the maximum tariff caps” for consistency with the EU 3rd package provisions. We are consulting separately on our proposed changes to the disapplication provision. Our proposed licence drafting with respect to the disapplication conditions, together with our reasons and the intended effect can be found in that consultation.⁷⁵

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

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

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

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

Drafting status: We do not propose any changes as part of RIIO. These conditions will be reviewed as part of the GTLR.

4.69. There is an equivalent condition in NGGT’s licences.⁷⁶ Please see chapter 5 for further details of the proposals for this condition.

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

Drafting status: We do not propose to make any changes to this condition as part of RIIO.

4.70. There is an equivalent condition in NGGT’s licences.⁷⁷ Please see chapter 5 for further details of proposed changes to this condition.

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

Drafting status: Open - may or may not be removed. To be considered further post consultation

4.71. There is an equivalent condition in NGGT’s licences.⁷⁸ Please see chapter 5 for further details of proposed changes to this condition.

⁷⁵ [Disapplication conditions - informal licence drafting consultation](#)

⁷⁶ SpC C19 of NGGT’s licence

⁷⁷ SpC C20 of NGGT’s licence

GDC 144 : Removal of certain SpCs listed as 'Not Used' in the licence

Drafting status: Proposal to delete

4.72. There are several SpCs currently in licence that are marked as 'Not Used'. These SpCs are set out in the table below.

SpCs in the licence current listed as "Not Used"
Special Condition E13
Special Condition E14
Special Condition E15

4.73. As part of RIIO and in line with the our proposed restructuring and renumbering of the GD Special Conditions set out in Appendix 3 79, we propose that all of these conditions are removed.

4.74. In our view the effect on any interested party, of removing these conditions is nil, as they are obsolete. We would welcome views on whether there are reasons to retain these conditions.

Proposed new gas distribution SpCs

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

Financial conditions

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

4.76. Further details on the following financial related condition can be found in Chapter 6.

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

⁷⁸ SpC C26 of NGGT's licence

⁷⁹ Appendix 3. Proposed structure and numbering for SpCs.

GDC 9: The Innovation Roll-out Mechanism, GDC 10: The Network Innovation Competition, and GDC 11: The Network Innovation Allowance

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

4.77. The above three new innovation related conditions are common to ET, GT and GD licences. Please see chapter 7 for further details on the purpose, our reasons for introduction and intended effect of these new licence conditions.

GDC 24: Incentive adjustment in respect of the Broad Measure of Customer Satisfaction

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

4.78. 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.

4.79. As part of this informal consultation we have included the first draft of the Stakeholder Engagement Reward Guidance⁸⁰. This is essentially the guidance that has been developed for electricity distribution as part of DPCR5. We do not see any reason why the guidance should be markedly different for RIIO-GD1. We would welcome views from stakeholders on whether there are any sector specific reasons why the guidance should differ.

4.80. For RIIO-T1 and GD1, we expect the guidance document to come into force on 1 April 2013. Recognising this is the first time the guidance has been used, we intend to test it in mid-2013, by holding a trial run of the Stakeholder Engagement Reward process.

4.81. The results of this trial can be used to further develop the Stakeholder Engagement Incentive Guidance which can then, if necessary, be modified through the governance arrangements set out in paragraph 28 of GDC 24.

Summary of responses and way forward

4.82. We have provided a second draft of this licence condition. We welcome comments and recognise that further work on the structure and detail of the condition will need to be progressed through the Licence Drafting Working Group.

⁸⁰ [Supporting Document 8: Stakeholder Engagement Reward Draft Guidance](#)

5. Gas transmission and gas distribution – SLCs and SSCs (Part A)

Chapter Summary

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

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to the common SLCs, SSCs and SpCs for the GT and GD licence. These are outlined in this chapter and the draft licence conditions are in Supporting Document 2 (for GT) and 3 (for GD).

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

Overview of proposed changes to common GT and GD SLCs

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

5.3. As such, in addition to the energy network companies operating in the GT and GD sectors, these proposed changes will also apply to all holders of a gas transporter licence⁸¹ with the relevant SLCs in effect in their gas transporter licence.

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

Drafting status: No changes proposed at this time. To be discussed further at Licence Drafting Working Groups.

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

5.5. We propose to discuss the issue of how best to accommodate defined terms in the licence drafting with the relevant network companies at the earliest opportunity in forthcoming Licence Drafting Working Groups.

⁸¹ Including Independent Gas Transporters (IGTs) with the relevant SLCs in effect in their respective gas transporter licence.

5.6. Further details on our approach to defined terms can be found in Chapter 1.

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

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

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

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

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

SLC 3: Payments by the licensee to the Authority [GTC/GDC 81]

Drafting status: We are currently consulting separately on proposed changes to this condition. Changes to this condition to be implemented separately to RIIO

5.10. As stated in the First Consultation we elected to review the above conditions separately to the RIIO process given that it applies⁸² across all licence types. We will conducting an informal consultation on our proposed changes to the above conditions shortly.

5.11. Our proposed licence drafting, together with our reasons and the intended effect are set out in that consultation. Any comments regarding our proposed changes to this condition should be directed as response to that consultation.

5.12. Any changes to this condition are intended to take effect from 1 April 2012.

SLC 7 Provision of Information Relating to Gas illegally taken [GDC 96]

Drafting Status: No proposed changes as part of RIIO.

5.13. We note the comments from NGGD and SGN in response to the First Licence Consultation. Both companies asked that we consider changing this licence condition as part of RIIO-GD1.

5.14. In particular, NGGD and SGN would like SLC 7 to be amended to allow for the recovery of the costs associated with investigating unregistered sites where:

⁸² Corresponding condition contained in other licences

- a) theft will either not have occurred, i.e. the unregistered site is not using gas; or
- b) following action by the GDN, the customer registers with a supplier who then invoices the customer for the gas used back to the meter fit date.

5.15. Currently under SLC 7, the GDN will not be able to recover any investigation and site visit costs in either of these cases.

5.16. Before we consider amending the license to allow GDNs to recover investigation costs we require GDNs to:

- a) introduce measures to stop the root cause of unregistered sites
- b) demonstrate that the benefits of these extra investigations will outweigh the costs of investigation.

5.17. Modification UNC410 (and UNC410A) proposes changes to the meter point registration process that should stop the root cause of unregistered sites.

5.18. We consider that we should change SLC 7 only when the required modifications on unregistered sites have been approved. We would then expect GDNs to present us with full costs and benefits of dealing with existing unregistered sites. Once the modifications have been implemented and we are satisfied with the cost benefit case then we will consider the proposed changes to SLC 7.

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

Drafting status: Proposal to remove by substituting title and entire current text with the words "Not Used" and make a consequential change to SLC1. Definitions and Interpretation.

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

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

5.21. The term "industry framework document" is currently contained within the text of this condition and defined within SLC 1. Definitions and Interpretation, of the gas transporters licence. This defined term will become superfluous as a result of removing this condition and we therefore propose to delete this definition from SLC 1.

Summary of responses and way forward

5.22. Both NGGT and NGGD agree that this condition is redundant and can be removed. SGN noted that it did not think that this condition currently applies to gas distributors.

5.23. We propose to delete this condition and make a consequential change to SLC 1 to remove the defined term “industry framework document”. These proposed changes can be found in Supporting Document 2 and 3.

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

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

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

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

5.26. However, we have noted that in the same paragraph there is a reference to SLC 16 of the gas supplier’s licence.⁸³ In particular with respect to the meaning of ‘a pipe-line system emergency’.

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

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

With

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

⁸³ SLC 16 (Security and emergency arrangements) of gas supplier licence.

Summary of responses and way forward

5.28. No material concerns were raised as part of the consultation. Only minor amendments have been made to the version that was part of the First Consultation.

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

SSC A3: Definitions and Interpretation [GTC/GDC 109 & GTC/GDC 110]

Drafting status: Only consequential changes proposed at this time. See Supporting Document 2 and 3. To be discussed further at Licence Drafting Working Groups.

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

5.30. We propose to discuss the issue of how best to accommodate defined terms in the licence drafting with the relevant network companies at the earliest opportunity in forthcoming Licence Drafting Working Groups.

5.31. We consider it appropriate to propose the following consequential changes to this condition as it is clear that these change are needed as a result of our proposed RIIO licence changes:

- update references in the current definitions of 'Financial Year' and 'Appropriate Auditors' in view of proposed changes to SSC A29 and A30.
- substitute existing definition of "Permitted Purpose" with that currently set out in SSC A32: Definition of Permitted Purpose⁸⁴ in view of proposed removal of this condition.

SSC A8: Emergency Services and the Enquiry Service [GTC/GDC 82]

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

5.32. We noted in the First Consultation that there is a potential minor change required to this condition in relation to the emergency service provision.

5.33. In its response to our consultation, NGGD has proposed the following change to Paragraph 3 (a) of SSC A8 with the addition of text denoted by underscoring below:

⁸⁴ We propose to remove this condition, see SSC A32: Definition of Permitted Purpose [GTC/GDC 94] below for further details.

3. *"The services established by the licensee in accordance with paragraph 1(a) shall –*

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"

5.34. The reason for the proposed change is that under SSC A8 the licensee is required to provide the emergency service line without charge at the point of use. This provision being one that existed before the widespread use of mobile phones and consequently while customers calling the emergency service from a land line are not charged for the call, those that use mobile phones can be charged by their mobile service provider. This creates a potential non-compliance that the licensee cannot control, as charges from mobile operators to their customers are beyond GT's direct influence.

5.35. The effect of the proposed change is to deal with the potential non-compliance issue in relation to non zero rated calls from mobile phones.

5.36. We agree with this proposed change and have included in the draft condition in Supporting documents 2 and 3.

5.37. We also note that Ofcom has recently consulted on the need for calls from mobile phones to 0800 numbers such as the gas emergency line to be zero-rated. One possible outcome is that mobile operators will be required to provide 0800 numbers on a free-phone basis but the consultation process has yet to conclude.

SSC A15: Agency [GTC/GDC 86]

Drafting status: We do not propose any licence changes for the start of RIIO-T1 and GD1.

5.38. The purpose of this condition is set out the requirements and funding arrangements for licensees regarding Xoserve. Currently, we are undertaking a review of the role and funding arrangements for Xoserve. Further information on this review can be found on our website.⁸⁵

5.39. We anticipate that changes will be needed to this licence condition once the Xoserve review has concluded at the end 2013, with the necessary licence modifications occurring during the RIIO-T1 and GD1 price control periods.

⁸⁵ http://www.ofgem.gov.uk/Networks/GasDistr/RIIOGD1/ConRes/Documents1/120116_xoserve_decision_letter.pdf

SSC A29: Change of Financial Year [GTC/GDC 136]

Drafting status: Proposal to remove by substituting title and entire current text with the words "Not Used" and make consequential changes to SSC A3 (Definitions and Interpretation)

5.40. The proposed new condition SSC A30: Regulatory Accounts [GTC71] will include provisions with respect to change of financial year, thereby making this condition obsolete.

5.41. We therefore propose to amend this condition by substituting the title and entire current text with the words "Not Used".

5.42. The effect of this proposed change is to remove provisions that will be addressed elsewhere in the licence and avoid unnecessary duplication.

5.43. We also propose minor consequential changes to SSC A3 to remove reference to this condition in the definition of 'financial year'.

Summary of responses and way forward

5.44. SGN note that this condition is intended to be deleted as it will be incorporated into the Regulatory Accounts condition (GDC 71). However the current drafting of GDC 71 does not include any reference to a change of financial year.

5.45. We note that this condition relates to change of financial year for the licensees 'statutory accounts', not the 'Regulatory Accounts'.⁸⁶

5.46. Licensees may change their accounting reference date under the Companies Act 2006 for their statutory accounts, they cannot however, change it for their Regulatory Accounts.

5.47. It should also be noted we have changed the definition of financial year so that it is defined term covering only the regulatory financial year, commencing on 1 April in any year and ending 12 months later on 31 March of the following year, and not the financial year ending on the company's accounting reference applicable to the statutory accounts prepared under the Companies Act 2006.

5.48. NGGD and NGGT are content with the deletion of this condition and agree that it has been superseded. We propose to continue with the removal of this licence condition and also propose to make consequential changes to the definitions noted above in SSCA3 [GTC/GTC 109 and 110]. These changes can be found in Supporting Document 2 and 3.

⁸⁶Change of Financial year for Regulatory Accounts covered by proposed new SSC A40. Regulatory Accounts [GTC/GDC 71]

SSC A30: Regulatory Accounts [GTC/GDC 71]

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

5.49. Changes are needed in a number of areas in this condition to ensure that it remains up to date and correctly refers to up to date relevant regulations and requirements. As such, changes are proposed to:

- update the structure of the condition and improve clarity regarding the preparation of either group or consolidated regulatory accounts and the content of regulatory accounts
- allow for amendments introduced by the new Statutory Instrument 2012 No.2301.
- update the requirements around internal reporting introduced by the EC Third Package regulations
- delete the requirements for an operating and financial review and replace it with a business review aligned with that required by the Companies Act 2006, and
- clarify that any CA2006 allowed Applicable Accounting Framework may be used provided that the regulatory accounts (whether consolidated or individual accounts) must be in the same format as the recent or concurrent statutory accounts of the licensee
- clarify the requirements for agreed upon procedures for the appropriate auditor, including moving the requirements regarding the obligations in respect of the prohibition of cross-subsidy and discrimination generally into this condition from paragraph 4 and 5 of SSC A35
- removed definitions that now appear in Definitions conditions to avoid duplication
- clarified that the accounts for the financial year commencing on or after 1 April 2012 should be prepared in accordance licence condition in force as at 31 March 2013.

5.50. The reasons and effect of the above proposed changes is to provide greater clarity and ensure that the condition remains up to date and correctly refers to the relevant regulations and requirements.

Summary of responses and way forward

5.51. Responses to the First Consultation, and our views on them, can be found in Supporting Document 5.

SSC A32: Definition of Permitted Purpose [GTC/GDC 94]

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

5.52. This condition provides a definition of "Permitted Purpose". We consider it to be more appropriate for this definition to reside alongside all the other definitions that are set out in SSC A3: Definitions and Interpretation.

5.53. Therefore, whilst we propose to retain the current definition of "Permitted Purpose" as set out in this condition we propose to move this definition across to SSC A3: Definitions and Interpretation where it is better placed.

5.54. This will render SSC A32 obsolete. We therefore propose to amend this condition by substituting the title and entire current text of this SSC with the words "Not Used".

5.55. We also propose to make consequential changes to references to the definition in SSC A36.

SSC A35: Prohibition of Cross-Subsidies [GTC/GDC 138]

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

5.56. As a consequence of proposed changes to SSC A40 above, we propose to remove paragraph 4 and 5 of this condition.

5.57. The effect of this proposed change is to remove provisions that will be addressed elsewhere in the licence and avoid unnecessary duplication.

SSC A36: Restriction on Activity and Financial Ring Fencing [GTC/GDC 142]

Current working drafts provided in Supporting Documents 2 (for GT) & 3 (for GD).

5.58. We propose to make a consequential change to this condition in light of the proposed changes to SSC A30 and proposed removal of SSC A32 above.

5.59. The reasons and effect of the proposed changes is to remove obsolete references to paragraph 3(b) of SSC A30 and to ensure that cross references to the definition of "Permitted Purpose" within this condition correctly refer to SSC A3.

SSC A40: Price Control Review Information [GTC/GDC 74]. (Name to be changed to 'Regulatory Instruction and Guidance')

Drafting status: Proposal to replace with new SSC A40: Regulatory Instructions and Guidance.

5.60. Our proposed changes to the above reporting related condition is in line with our proposed changes to similar provisions for ET. We have therefore outlined our proposed changes to these common conditions in chapter 7.⁸⁷

SSC A55. Data Assurance [GTC/GDC 76]

Drafting status: Current Working drafts provided in Supporting Documents 2 and 3

5.61. We propose to introduce a new SLC relating to Data Assurance across all three sectors. The purpose of this proposed new condition, our reasons for introducing it, together with their intended effect are described further in chapter 7.⁸⁸

5.62. We have provisionally allocated this condition the number "A55". We will finalise this condition number in time for the Statutory Consultation in December.

SSCs to be moved from Part A to Part D of Gas Transporter licence

Drafting status: Proposal to move the following SSCs from Part A to Part D with no proposed changes to existing drafting.

The following conditions currently reside in Part A of the gas transporter licence:

- SSC A10: Provision and Return of Meters [GTC 32]
This licence condition places an obligation upon the gas transmission and distribution licensees' to meet any reasonable request by a relevant supplier to provide and install at the premises of a domestic customer a gas meter owned by the licensee and of a type specified by the supplier.
- SSC A43: Provision of Metering and Meter Reading Services [GTC 32]
This licence condition places an obligation upon the licensee to provide a relevant supplier with the terms (ie costs and timelines) for the provision of meters. It requires NGGT to prepare a statement detailing the basis of providing all its services including the daily meter reading service.
- SSC A46: Non-discrimination in the provision of metering activities [GTC 32]
This licence condition places an obligation upon the licensee so that shall not make differing charges for the provision of metering activities unless such differences reasonably reflect differences in the costs associated with such

⁸⁷ Chapter 7: Regulatory Instructions and Guidance [ETC/GTC/GDC 74]

⁸⁹ For National Grid licensees, the terms are TOPU and SOPU

provision. In addition the licence condition stipulates that the licensee must not to any supplier or class or classes of supplier restrict, distort or prevent competition in the supply or conveyance of gas through the setting charges in respect of metering activities.

5.63. As part of the working group process NGGT have made representations that the above conditions are not applicable to its GT licence given their domestic focus. They remain relevant to GD licensees.

5.64. Having considered the matter and taken into account supporting documents provided by NGGT we agree that these conditions should not have effect in NGGT's licence.

5.65. However, the conditions currently reside in Part A of the Gas Transporter licence which is applicable to both GD and GT licensees. We therefore propose to amend these conditions by substituting the title and entire current text with the words "Not Used".

5.66. In order for the relevant provisions to continue to apply to GD licensees, we propose to insert new SSCs into Part D of the gas transporter licence. Part D of the gas transporter licence is applicable to GD licensees only.

5.67. The reasons and effect of these proposed changes is to relieve NGGT of irrelevant obligations and move such obligations to a more appropriate part of the gas transporter licence (Part D). The effect of the proposed change is that the provisions will no longer apply to NGGT but will continue to correctly apply to the GDNs.

5.68. It should be noted that we do not intend to make any changes to existing obligations on GD licenses. However, as a result of moving these SSCs from Part A to Part D, consequential changes may be needed to other conditions to ensure referencing remains appropriate.

Summary of responses and way forward

5.69. NGGT agree with Ofgem's proposals to move all the metering conditions out of the NTS licence and therefore from Part A to Part D and to replace by "not used".

5.70. Please note that the above conditions now appear in Supporting Document 3 to illustrate that we propose to move these into Part D. It should also be noted that the only change to the content of these condition has been to change the licence condition number.

Overview of proposed changes to common GT and GD SpCs

5.71. It should be noted that given the extensive number of proposed changes to the SpCs we see no benefit in retaining the current numbering or structure for the SpCs and intend to completely restructure and renumber the SpCs. Due to this proposed restructuring, we expect to change most, if not all, of the existing condition numbers for the SpCs.

SpC C9: Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity, and

SpC E17: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network– [GTC/GDC 30]

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

5.72. The purpose of this condition is to:

- set out how the licensee must allocate revenues and costs to calculate its revenue restriction conditions, and
- require the licensee to have in place a statement that sets out the methods that the licensee will use in the allocation and attribution of revenues and costs.

5.73. As part of RIIO we have modernised the condition and sought to update the relevant activities that the licensee must allocate or attribute all incurred revenues earned and costs.

5.74. The effect of the proposed changes is to retain the broad purpose of the existing special conditions that it will replace, but ensure the arrangements are consistent with the new structure of the licence conditions necessitated by the RIIO price control changes.

Summary of responses and way forward

5.75. Responses were received from NGGT and NGGD and have been summarised and responded to in Supporting Document 5.

SpC C19 (NGGT) and E21 (GDNS): Undertaking from ultimate controller concerning non-discrimination between the [DN/NTS] transportation activity and the [DN/NTS] transportation activity [GTC/GDC 33]

Drafting status: We do not propose any changes as part of RIIO. These conditions will be reviewed as part of the GTLR.

5.76. These two conditions were highlighted by network companies as potential candidates for modernisation as part of the RIIO licence drafting process in order to:

- improve the clarity of what is required, and
- to consider if changes are needed as part of the Third Package.

5.77. It should be noted that no RIIO related policy changes were highlighted as being needed to these conditions.

5.78. Following discussion with the network companies around our early drafts of the modernised licence conditions for SpC C19 and E21, it has become clear that we need to review the need to retain these conditions. NGGT has highlighted several Standard Special conditions should cover the purpose of SpCs C19 and E21.

5.79. We recognise that there may be scope to remove these licence conditions, but we propose to consider this in more detail as part of the GTLR after RIIO has concluded. As such, we also do not propose to make any changes to SpC C19 and E21 as part of RIIO.

5.80. Summary of responses and way forward

5.81. NGGT queried the rationale for proposing changes to some non-RIIO related licence conditions whilst proposing changes to other non-RIIO related conditions are considered further as part of the GTLR.

5.82. Further details on our views on the rationale for progressing some non-RIIO related licence changes is set out in chapter 1.

5.83. We intend to continue with our proposal not to modify these conditions.

SpCs C20 and E22 - Separation of NTS and Distribution Network Businesses [GTC/GDC 34]

Drafting status: We do not propose any changes as part of RIIO. These conditions will to be reviewed as part of the GTLR.

5.84. These two conditions were highlighted by network companies as potential candidates for modernisation as part of the RIIO licence drafting process in order to:

- take into account that an Independence Statement is now place, and
- improve the clarity of what is required.

5.85. It should be noted that no RIIO related policy changes identified by respondents.

5.86. Following discussion with the network companies around our first draft of modernised licence conditions for SpC C20 and E22, it has become clear that there are several other related conditions that also need to be reviewed.

5.87. In particular, whether any of the related conditions listed below (as well as SpC C20 and E22) can be removed or amalgamated. These related conditions are:

- SSC A6
- SSC A34
- SSC A35
- SSCA39

5.88. We consider that looking at all these conditions as a whole would be a worthwhile exercise. However, since we have no plans to change any of these as part of RIIO we propose to address this as part of the GTLR after RIIO has concluded. As such, we also do not propose to make any changes to SpC C20 and E22 as part of RIIO.

Summary of responses and way forward

5.89. Please see above response with respect to [GTC/GDC 33]

SpCs C26 & E23 - Gas Conveyed to Independent Systems [GTC/GDC 56]

Drafting status: Open - may or may not be removed. To be considered further post consultation

5.90. The purpose of these conditions is to provide for cross-subsidy payments to be made between NGGT, relevant shippers and DN Operators (Scotland Gas Networks & Wales & West Utilities) for the transportation of gas to consumers.

5.91. We are in the process of reviewing consultation responses and will determine the requirement for these conditions at a later stage. We intend to set out our intended approach at a future Licence Drafting Working Group.

6. The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

Chapter Summary

The RIIO-T1/GD1 price controls will include an Annual Iteration Process for the Price Control Financial Model used to set opening base revenues. This will allow base revenues to be updated in light of the performance and output levels achieved by licensees.

Under the Annual Iteration Process, base revenues will be remodelled using a series of Price Control Financial Model (PCFM) Variable Values. The process will calculate an incremental change to base revenue, the 'MOD' term, which the Authority will direct by 30th November preceding each applicable year. The rules for determining revised PCFM Variable Values and for carrying out the Annual Iteration Process are contained in special conditions of the RIIO-T1/GD1 licences and in the Price Control Financial Handbook. The PCFM and Handbook are incorporated into licences and are subject to formal modification procedures.

Adjustments to opening base revenues during RIIO price control periods

6.1. The RIIO-T1/GD1 price controls cover an eight-year period, providing a longer period of settled price control arrangements than the five-year period under the RPI-X price control regimes. The RIIO approach dictates that the licensee's allowed revenues should reflect its performance under incentive schemes, its innovativeness, and the network operation outputs that it achieves. Under RPI-X, base revenue allowances were fixed at the outset of the price control period; for RIIO we need a way to remodel base revenue allowances on an annual basis. The best way to achieve this is through an 'annual iteration process' for the Price Control Financial Model (PCFM) under a governance regime set down in the price control licence conditions and the supporting Price Control Financial Handbook.

6.2. There is a separate PCFM and Price Control Financial Handbook (handbook) for each licence type, reflecting the differing price control elements. The basic features of the annual iteration process and types of financial adjustments are common across licence types, and in the rest of this chapter we refer generically to 'the PCFM' and 'the handbook'. The PCFM contains a separate input sheet for each licensee which contains fixed values as well as the PCFM Variable Values table.

6.3. Opening base revenue levels (PU values⁸⁹) for each licensee (for each year of the RIIO price control period) will be determined using values and parameters contained in the PCFM, consistent with the RIIO-T1/GD1 Final Proposals. They will also be set down in the appendix to the allowed revenue licence special condition for

⁸⁹ For National Grid licensees, the terms are TOPU and SOPU

each licensee. Base revenue is the largest component of the licensee's overall allowed revenue under the price control arrangements - typically over 80 per cent of the total.

6.4. The annual iteration process for the PCFM will generate a value for the term MOD_t^{90} , which serves to adjust the licensee's opening base revenue each year, as illustrated in the simplified formula below:

- Base revenue for year t (BR_t) = opening base revenue for year t (PU_t) + MOD for year t (MOD_t)

6.5. The base revenue term is itself a component in the wider formula for the licensee's allowed revenue⁹¹ which also includes other terms dealing with, for example, incentive scheme and cost pass-through adjustments.

6.6. The PCFM design allows the user to make a selection so that the calculated output (the value of the term MOD_t) for a particular licensee can be obtained. In 2013/14, the first year of the RIIO T1/GD1 price control period, the licence specifies that the value of MOD is zero.

6.7. Opening base revenue figures and values for MOD_t are expressed in 2009-10 prices and the PCFM operates in this price base. Consequently, the base revenue formulae in the different licence types provide for indexation of the MOD_t value ascertained under the simplified formula shown in paragraph 1.4.

The Price Control Financial Instruments

6.8. The handbook and PCFM are collectively referred to as the Price Control Financial Instruments ("the financial instruments"). The financial instruments will be incorporated into the Governance of Price Control Financial Instruments⁹² licence condition of each licence and will be subject to a formal modification process set out in that condition. However, in any case of conflict of meaning the following order of precedence will apply:

- (i). the licence,
- (ii). the handbook and constituent methodologies, and
- (iii). the PCFM.

6.9. The modification process for the financial instruments provides for:

- modifications which are not expected to have a significant impact on stakeholders to be made by the Authority, subject to a 28 day notice period

⁹⁰ For National Grid licensees, there will be two terms, TOMOD and SOMOD

⁹¹ ETC/GTC/GDC 20, GTC 7 (NGGT)(SO) and ETC 12 (NGET)(SO)

⁹² ETC57/GTC57/GDC 57

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- modifications which are expected to have a significant impact on stakeholders to be made in accordance with section 23 of the Gas Act 1986 or section 11 of the Electricity Act 1989 as applicable.

6.10. Licensees will have the right to prevent a modification being made under the 28 day notice process (thereby effectively requiring modifications to be made under the legislative provisions) where they reasonably consider that a modification would have a significant impact on stakeholders.

6.11. We will keep official copies of the financial instruments together with the official copies of licences. Up to date copies of the PCFM and the handbook will be maintained on the Ofgem website, allowing licensees and other interested stakeholders to:

- reproduce the calculation of MOD_t each year using the values directed by the Authority
- use their forecasts of PCFM Variable Value revisions (see next section) to carry out revenue sensitivity analysis.

6.12. The PCFM has been designed to be as user-friendly as possible for these purposes.

6.13. Working drafts of the handbook⁹³ for each licence type are included as part of this consultation.

The Annual Iteration Process for the Price Control Financial Model

6.14. The PCFM is contained in an Excel® workbook which includes a PCFM Variable Values Table on the input sheet, specific to each licensee⁹⁴. The PCFM Variable Values Table is arranged with:

- columns – one for each Relevant/Regulatory year of the RIIO price control period
- rows – one for each type of PCFM Variable Value.

6.15. The annual iteration process involves a re-running of the calculation functions in the PCFM by Ofgem, after a defined range of PCFM Variable Values have been revised in accordance with provisions contained in the licence special conditions and in relevant chapters of the handbook. The basis for determining a PCFM Variable Value revision may be:

⁹³ [RIIO ET1 Price Control Financial Handbook](#)
[RIIO GT1 Price Control Financial Handbook](#)
[RIIO GD1 Price Control Financial Handbook](#)

⁹⁴ For National Grid licensees there will be input sheets/PCFM Variable Values for the TO and SO

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- a formula in a licence condition
- an adjustment under an application/review process set out in a licence condition, or
- a detailed methodology described in the handbook.

6.16. In all cases, however, the name and purpose of a PCFM Variable Value will be specified in the relevant special condition, and a description of its effect under the annual iteration process will be given in the methodology chapters of the handbook.

6.17. The PCFM operates in a constant 2009-10 price base.⁹⁵ This means that all revisions to £m PCFM Variable Values must be input in 2009-10 prices and the relevant licence conditions and handbook methodologies will provide for this.

Types of adjustment under the annual iteration process

6.18. The incorporation of the annual iteration process into the RIIO price controls means that timely adjustments can be made to licensees' base revenue allowances in respect of:

- (i) tax, pensions and cost-of-debt factors (specified financial adjustments)
- (ii) allowed Totex⁹⁶ expenditure for various aspects of network operation
- (iii) actual Totex expenditure, and
- (iv) the close-out of financial adjustments relating to previous price control periods (legacy price control adjustments).

6.19. A key advantage of this approach is that actual (out-turn) Totex expenditure, and changes to allowed Totex expenditure, will be subject to the Totex Incentive Mechanism (TIM) on a prompt basis. The Totex concept underpins the equalised incentives approach (fast and slow money treatment) which should motivate licensees to pursue the best operational or capital expenditure solutions for business needs. The TIM provides for an appropriate sharing of any Totex overspend or underspend between consumers and licensees. Chapter 6 of the Financial handbook provides further information on application of the TIM through the annual iteration process.

6.20. Financial adjustments represented by PCFM Variable Value revisions also interact with other modelling factors under the annual iteration process in a way which is consistent with the modelling of opening base revenue allowances under RIIO-T1/GD1 Final Proposals.

⁹⁵ Except for some internal tax computations which use embedded RPI forecasts to run on a nominal basis

⁹⁶ See [Glossary for all the RIIO-T1 and RIIO-GD1 documents](#)

6.21. PCFM Variable Values can be:

Revenue allowance amounts

This type of PCFM Variable Value relates to pension and tax cost allowances. These amounts are determined 'off-line' under methodologies contained in the handbook.

Allowed expenditure figures

This type of PCFM Variable Value relates to categories of allowed Totex expenditure which can be varied during the price control period. A revised allowed expenditure figure overwrites the existing one for the relevant/regulatory year concerned. These amounts are modelled, subject to the regulatory capitalisation rate and TIM, as:

- fast money – flowing directly to the base revenue figure for the Relevant/Formula year to which the allowed expenditure relates, and
- additions to the licensee's RAV⁹⁷ in the Relevant/Formula year to which the allowed expenditure relates, generating a slow money adjustment to allowed revenues through the cost of capital return and depreciation.

Percentage

This type of PCFM Variable Value relates only to the cost of corporate debt.

True-up revenue allowances

This type of PCFM Variable Value relates to revenue adjustments due from the close out of legacy (pre-RIIO) price control mechanisms.

True-up RAV additions

This type of PCFM Variable Value relates to RAV balance adjustments due from the close out of legacy (pre-RIIO) price control mechanisms.

6.22. Chapter 2 of the handbook includes a table listing each PCFM Variable Value, indicating the licence condition in which it is specified and its type.

Calculation of the value of MOD_t

6.23. Under the annual iteration process, the base revenue figure for each licensee, for each year of the price control period, is remodelled using the latest revised set of PCFM Variable Values. The remodelling includes all of the consequential effects of variable value revisions. For example, PCFM Variable Value revisions reflecting

⁹⁷ Regulatory Asset Value – see Glossary

increased levels of allowed Totex expenditure might trigger a change to the modelled allowance for notional new equity issuance. Consequential adjustments of this kind will be in accordance with the RIIO-T1/GD1 Final Proposals and will feed through into the value of the term MOD_t produced as the output of the annual iteration process.

6.24. The PCFM functionality applies appropriate time value of money adjustments wherever PCFM Variable Values for Relevant/Formula Years before Relevant/Formula Year t are revised. If we only changed the PCFM Variable Values on a single occasion during the price control period, the value of the term MOD for each relevant/regulatory year would be the difference between the originally modelled value of base revenue for that year and the remodelled value. However, each annual iteration process can involve the revision of PCFM Variable Values across a range of Relevant/Formula Years, including values for earlier years, which might have been revised on a previous occasion. The PCFM functionality is designed to deal with this, and takes account of previously directed values of MOD in bringing forward the effects of re-modelling calculations to the extant value of MOD_t (see also the section on timetable for the annual iteration process below). This means that once the value of the MOD term for a particular Relevant/Formula Year has been directed, it is not subsequently changed as a result of later annual iteration processes.

6.25. NGET⁹⁸ and NGGT⁹⁹ have special conditions relating to both Transmission Owner (TO) and System Operator (SO) parts of their transmission businesses and allowed revenues are modelled separately for the TO and SO parts of these businesses. Accordingly, there are separate PCFM Variable Value Tables for the TO and SO parts of the businesses. The annual iteration process will produce an SOMOD value (for its SO business) for these licensees, as well as a MOD value (for its TO business). References in this document to “MOD” should be taken to include SOMOD with respect to these licences.

Timetable for the annual iteration process

6.26. The annual iteration process for the PCFM will take place by 30 November each year. On or before that date or, in exceptional circumstances, as soon as is reasonably practicable thereafter, we will publish a direction to each licensee setting out:

- any revisions to PCFM values for the annual iteration process¹⁰⁰
- a complete, updated copy of the PCFM Variable Values Table for the licensee, and
- the value of the term MOD_t for the licensee.

6.27. The MOD term is used to adjust the opening base revenue figure for each Relevant/Formula Year t during the price control period. References to Relevant/Formula Years in the context of the annual iteration process are made

⁹⁸ National Grid Electricity Transmission plc

⁹⁹ National Grid Gas plc – National Transmission System licensed business

¹⁰⁰ Licensees receive 14 days prior notice of proposed values to make representations/objections

relative to that usage so that, for example, in a context where MOD_t applied in the Formula for base revenue in 2015/16, a reference in the same context to relevant year t-1 would mean 2014/15 and so on.

6.28. Should any change in PCFM functionality be necessary during the course of the RIIO-T1 and GD1 price controls, it will be governed by the formal change control process as set out in the handbook. The cut off date for updating functional changes to the PCFM is expected to be 30 September each year.

6.29. The annual iteration process takes place in Relevant/Formula Year t-1 (relative to Relevant/Formula Year t in respect of which a value for MOD_t is being calculated). The summary timeline for the annual iteration process is:

- (i) 31 July – deadline for submission of price control data by licensees
- (ii) 30 September – cut off for functional modifications to the PCFM
- (iii) 31 October – cut off date for establishing data needed to determine PCFM Variable Values
- (iv) By 15 November – notify licensees of proposed PCFM Variable Values;
- (v) By 30 November –
 - o direct PCFM Variable Values
 - o complete annual iteration process and direct values for MOD_t .

6.30. This timeline is driven by two constraining factors. Firstly, the process must begin late enough so that price control data for Relevant/Formula Year t-2 (relative to the Relevant/Formula Year for which MOD_t is being determined) can be obtained and validated. Secondly, the annual iteration process must be completed early enough so that licensees can prepare indicative use of system charging statements for publication by 31 December (in Relevant/Formula Year t-1). We will, however, strive to complete each stage of the annual iteration process as early as possible each year.

6.31. The drafting of the licence conditions and methodologies in the handbook set out the Relevant/Formula Years (columns on the PCFM Variable Values Table) in respect of which each type of PCFM Variable Value will normally be revised. However, they also provide for PCFM Variable Values to be revised for other years (columns) when necessary. This provides the flexibility needed to deal with data errors or omissions. The annual iteration process for the PCFM will appropriately bring forward the effect of any such revisions in the calculation of the latest value for the MOD term.

6.32. Further information on financial allowances and the rationale for calculations and adjustments under the RIIO price control approach can be found in the Supplementary Annex on Financial Issues in our decision on strategy paper.¹⁰¹ An

¹⁰¹ [Decision on strategy for the next transmission and gas distribution price controls - RIIO-T1 and GD1 Financial issues](#)

early draft copy of the handbook has been issued as part of this informal proposed licence modifications consultation, and an early working draft copy of the PCFM has been provided to licensees.

Special Conditions relevant to the Annual Iteration Process

6.33. The following are price control licence conditions associated with the Annual Iteration Process of the PCFM (the Financial Conditions). They are marked in the licence drafting Supporting Documents as Special Conditions: Financial Conditions

[ETC/GTC/GDC 57]: Governance of [ET1/GT1/GD1] Price Control Financial Instruments

6.34. The purpose and effect of these conditions is to incorporate the financial instruments into the licence and to set out the modification process for them.

[ETC /GTC/GDC 26]: Annual Iteration Process for the [ET1/GT1/GD1] Price Control Financial Model

6.35. The purpose and effect of these conditions is to set out the steps to be taken for the annual iteration process for the PCFM and the procedure for directing the value of MOD_t to the licensee.

[ETC /GTC 27]: Specified financial adjustments – Transmission Owner [GDC 27]: Specified financial adjustments

6.36. The above conditions provide for the determination and direction of revised PCFM Variables Values relating to:

- revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration Costs and Pension Protection Fund levy costs;
 - revenue allowance changes driven by tax trigger events and the licensee's gearing levels and corporate debt interest costs; and
 - the licensee's allowed percentage cost of corporate debt.
-
-

[ETC/GTC 47]: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner

[ETC/GTC 66]: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator [NGET and NGGT only]

[GDC 47]: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments

6.37. The above conditions provide for the determination and direction of revised PCFM Variable Values relating to the licensee's actual, levels of Totex expenditure, divided into sub-categories to provide for appropriate tax modelling treatment.

6.38. Under the annual iteration process for the PCFM, this information is compared to the licensee's allowed Totex expenditure levels and, applying the Totex Incentive Strength rate for the licensee, and the Totex capitalisation rate, an appropriate amount of any over spend or under spend is factored into the Totex total which is subject to the fast/slow money treatment referred to in paragraph 17.

[ETC 64]: Legacy price control adjustments – Transmission Owner

[ETC/GTC 64]: Legacy price control adjustments – Transmission Owner

[ETC 67/GTC 67]: Legacy price control adjustments – System Operator [NGET and NGGT only]

[GDC 64]: Legacy price control adjustments

6.39. The above conditions provide for the determination of PCFM Variable Values necessary to update revenues allowances and RAV balance additions as a result of the close out of legacy (pre-RIIO) price control mechanisms.

6.40. These close out adjustments are needed because:

- outturn values for schemes relating to relevant/regulatory year 2012/13 (the last pre-RIIO year) may not be reported by licensees until 31 July 2013 (by which time the RIIO-T1 and GD1 price controls will be underway)
- cost totals for items subject to true-up or logging-up may not be reported by licensees until 31 July 2013, and
- the RIIO special conditions may exceptionally provide for pre-RIIO allowances to be adjusted (for example in relation to Transmission Investment Incentive projects).

6.41. The PCFM Variable Value for net revenue allowance adjustments and the PCFM Variable Value for net RAV additions are determined as the sum of component terms, with each component terms relating to a legacy mechanism. Legacy adjustments in relation to pension costs and tax trigger issues are common to each licence type, but other component terms vary, and some apply to the System Operator side of the NGET and NGGT businesses.

Allowed Totex expenditure adjustments through PCFM Variable Values

6.42. The conditions shown below in Tables 6.1–6.3, provide for the determination and direction of revised PCFM Variable Values representing revised levels of allowed Totex expenditure under various headings.¹⁰²

6.43. Revised PCFM Variable Values may reflect adjustments determined in accordance with a 'driver' formula specified in the condition (for example Mains and Services Replacement Expenditure under condition GDC 22) or an application and review regime (for example Baseline and strategic wider works under condition ETC 39).

6.44. Under the annual iteration process for the PCFM, revised values flow into the calculation of fast and slow money adjustments to base revenue through the Totex Incentive Mechanism (see paragraphs 17 and 36). They are also reflected in consequential adjustments under the modelling approach that will be set out in Final Proposals. All of the adjustments flow into the values for the MOD term.

Table 6.1: Electricity Transmission

Condition name	RIIO tracking number
The Innovation Roll-out Mechanism	ETC 9
Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty	ETC 18
Arrangements for the recovery of uncertain costs	ETC 28
Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure	ETC 39
Allowed expenditure for Incremental Wider Works [NGET only]	ETC 41
Baseline generation connection outputs and generation connections volume driver	ETC 55
Arrangements for the recovery of SO uncertain costs	ETC 117
Allowed expenditure for Underground Cabling and volume driver [NGET only]	ETC 122
Baseline demand related infrastructure outputs and volume driver [NGET only]	ETC 123

¹⁰² These can be found in the Special Conditions: Price Control Financial Model (PCFM) Variables section in Supporting Documents 1, 2 and 3.

Table 6.2: Gas Transmission

Condition name	RIIO tracking number
Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply	GTC 3
Determination of incremental obligated exit capacity volumes and the appropriate revenue drivers to apply	GTC 4
The Innovation Roll-out Mechanism	GTC 9
Arrangements for the recovery of uncertain costs	GTC 28
Arrangements for the recovery of SO uncertain costs	GTC 117

Table 6.3: Gas Distribution

Condition name	RIIO tracking number
The Innovation Roll-out Mechanism	GDC 9
Mains and Services Replacement Expenditure	GDC 22
Arrangements for the recovery of uncertain costs	GDC 28

Summary of responses and way forward

6.45. In response to the First Consultation we received comments on various aspects of the drafting of Special Conditions relevant to the Annual Iteration Process. We also received feedback on the early drafts of the handbook.

6.46. We have made a number of specific changes to drafting in light of the responses received and other points have been noted for ongoing drafting development. The handbook chapters now contain additional explanatory material about aspects of the annual iteration process and this should help to address queries and concerns that have been raised in relation to this novel aspect of price control implementation.

6.47. Comments in relation to the First Consultation, and our response, have been summarised in Supporting Document 9: RIIO Licence Drafting Response Log - Financial Conditions.

6.48. This handbook and the constituent methodologies are development drafts and are subject to further change to improve content and clarity and to reflect evolving policy positions. Consequently, reliance should not be placed upon them as statements of decided policy or approaches to price control implementation.

7. Proposed changes to common licence conditions

Chapter Summary

We have developed certain licence conditions, such that they are broadly common across the ET, GT and GD energy sectors. This chapter provides the reasons we are proposing to introduce these conditions and their effect.

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to, or introduction of new, common licence conditions. These are outlined in this chapter and the draft licence conditions are in the three Supporting Documents.

Common licence conditions

7.1. There is considerable overlap between the licences of the energy network companies. Certain licence conditions are common across the ET, GT and GD sectors. For example, under the RIIO model, licensees in all three sectors will have similar licence obligations with respect to regulatory reporting, data assurance, and the finance conditions.

7.2. However, it should be noted that whilst these common licence conditions are substantively similar in terms of structure, aim and intended effect across the three licence types, they are not identical. Certain aspects will ultimately differ according to sector and/or licensee.

7.3. For ease of reference and to avoid unnecessary duplication of narrative in this consultation document, our proposed changes to common licence conditions are presented together.

7.4. It should also be noted that, depending on the sector, the relevant common condition may be an SLC, SSC or SpC. The relevant licence and condition types together with the proposed condition name and number is clearly indicated for each proposed change to a common licence condition.

Overview of proposed changes to common licence conditions

7.5. This section outlines our proposed changes to licence conditions that apply across ET, GT and GD licensees. It also sets out the reasons why we consider the proposed changes to existing conditions or introduction of new common conditions necessary and their intended effect.

[GDC/ETC/GTC 21]: Calculation of allowed pass through items

Drafting status: Working drafts provided in Supporting Documents 1, 2 and 3.

Table 7.1: Current conditions relating to pass-through items

Licence type	Current condition number	RIIO Tracking number
Electricity Transmission	Special Condition D4 (J4 for SPTL and SHETL): Pass Through Items	ETC 21
Gas Transmission	C8B: NTS transportation owner activity revenue restriction	GTC 21
Gas Distribution	Special Condition E3: Distribution Network allowed pass-through items	GDC 21

7.6. The purpose of these conditions is to allow for certain non-controllable costs to be passed through to consumers, through network charges. The T1 and GD1 IP Documents, and the FP Documents for SHETL and SPTL, set out the proposed areas of cost that will be treated as pass-through.

7.7. There have been no significant changes to the intent of these conditions and we have not altered the broad purpose of the existing conditions.

7.8. Since our First Consultation, we have also introduced a two-year lag structure to this condition. This is consistent with our recent decision to lag all cost pass-through mechanisms.¹⁰³ The new structure will allow the licensee to recover the expected cost associated with pass-through items within year, and the differential (of outturn relative to allowed) with a two-year lag. The intention of this change is to reduce charging volatility.

Summary of responses and way forward

7.9. There were no material concerns raised in response to our consultation. Minor amendments have been made to address comments raised in relation to drafting and consistency.

7.10. SHETL noted that a further term may be required in relation to the compensatory payments adjustment in ETC 2 (Reliability incentive adjustment in respect of energy not supplied). We note that we have amended ETC 20 to include the output of this condition rather than making changes to ETC 21.

¹⁰³ [Decision on measures to mitigate network charging volatility arising from the price control settlement' \(Oct 2012\)](#)

7.11. There are still outstanding issues in relation to payments from the GDNs to NGGT which may impact on the areas of cost included in the conditions for these two sectors. This relates to the payment of pension costs and costs related to the conveyance of gas to independent systems. We intend to update our position on this prior to the Statutory Consultation.

7.12. As stated above, we have also incorporated a lag structure into the calculations in this condition. We welcome comments on the additional drafting included to introduce a lag to the pass-through terms in these conditions.

7.13. Responses to the First Consultation, and our views on them, can be found in Supporting Documents 5.

[ETC/GTC/GDC 81]: Payments by the Licensee to the Authority

Drafting status: We are currently consulting separately on proposed changes to these conditions.

Table 7.2: Current conditions relating to payments to the Authority

Licence type	Current condition number	RIIO Tracking number
Electricity Transmission	SLC A4	ETC81
Gas Transmission	SLC 3	GTC81
Gas Distribution	SLC 3	GDC81

7.14. As stated in the First Consultation we elected to review the above conditions separate to the RIIO process given that they apply across all licence types.

7.15. We have now concluded this review and are currently consulting separately on our proposed changes to the above conditions. We will be conducting an informal consultation on our proposed changes to the above conditions shortly.

7.16. Any comments regarding our proposed changes to these conditions should be directed as a response to that consultation.

[ETC/GTC/GDC 29]: Disapplication of Relevant Special Conditions

Drafting status: We are currently consulting separately on proposed changes to this condition. Changes to these conditions to be implemented as part of our package of proposed RIIO related licence changes.

7.17. As stated in the First Consultation we elected to review the conditions shown in table 7.3 below separate to the RIIO process given that they apply across all licence types.

7.18. We are currently consulting separately on our proposed changes to the above condition. Our proposed licence drafting, together with our reasons and the intended effect can be found in that consultation.¹⁰⁴

7.19. Any comments regarding our proposed changes to this condition should be directed as response to that consultation.

7.20. For transmission and gas distribution, it should be noted that given the interaction of the proposed licence changes set out in the above disapplication consultation with those set out in this document. We consider it appropriate for our proposed changes to these disapplication conditions to be included in the Statutory Consultation to be issued as part of RIIO-T1 and GD1 licence changes. For electricity distribution we will issue a separate Statutory Consultation on relevant disapplication conditions at around the same time.

7.21. Any changes to these conditions are intended to take effect from 1 April 2012 and expected to impact the following current licence conditions.

Table 7.3: Current disapplication conditions

Network type	Current condition number	RIIO Tracking number
ET(SO) (NGET)	AA5E: Duration of the Balancing Services Activity Revenue Restriction	ETC 29
ET (TO)	D8 (NGET) and J9 (SPTL and SHETL): Duration of the Transmission Network Revenue Restriction	ETC 29
GT (TO)	C8B(4) - NTS transportation owner activity revenue restriction	GTC 29
GT (SO)	C8C(4) - NTS System Operation Activity Revenue Restriction	GTC 29
GD	E16 – Disapplication of the Distribution Network Transportation Activity Revenue Restriction	GDC 29

¹⁰⁴ [Disapplication conditions - informal licence drafting consultation](#)

	SC E19 - Restriction of prices in respect of Tariff Capped Metering Activities (Specifically, Disapplication of the maximum tariff caps)	GDC 32
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[ETC/GTC/GDC 74]: Regulatory Instructions and Guidance

Drafting status: Current working drafts provided in Supporting Documents 1, 2 and 3

Table 7.4: Current reporting conditions and our proposed changes

Licence type	Current condition number	RIIO Tracking number	Proposed change
ET	SLC B15	ETC 74	Change condition name to 'Regulatory Instructions and Guidance' and substitute entire current text with text of proposed new SLC B15
	SLC B16	ETC 74	Retain number but substitute entire current text with the words "Not Used"
	SLC B17	ETC 74	Retain number but substitute entire current text with the words "Not Used"
GT	SSC A40	GTC 74	Change name to 'Regulatory Instructions and Guidance' and substitute entire current text with text of proposed new SSC A40
	SpC C14		Delete
	SpC C14B		Delete
	SpC C16		Delete
GD	SSC A40	GDC 74	Same as GT
	D9		Delete
	E20		Delete

7.22. We need to collect price control review information from the energy network companies on revenue, expenditure and costs, and outputs. This information is used to monitor network company performance and, where appropriate, make adjustments to revenue allowances, eg through financial incentives that are part of the price control.

7.23. Reporting requirements for the energy network companies are currently set out in a number of different licence conditions. Under our proposed revisions to the

reporting licence conditions, the information needed to do this will be consolidated through the new licence condition [ETC/GTC/GDC74]: Regulatory Instructions and Guidance (RIGs) ('the RIGs Licence Condition').¹⁰⁵

7.24. We propose to amend the existing reporting related licence conditions across ET, GT and GD as shown in the above table.

7.25. The RIGs is the collective term for a group of documents that includes instructions and guidance on what data the NWOs must report and how, and the templates they must complete. The RIGs are an "associated document" to the licence and specify what data is to be collected. Elements of the RIGs have historically sometimes been referred to as the Regulatory Reporting Packs (RRPs).

7.26. As part of RIIO we propose to consolidate the governance and instructions for the reporting of regulatory information into the new RIGs Licence Condition for ET, GT and GD.

7.27. For further information on the RIGs associated document, please see the parallel consultation - RIIO-T1 and GD1: Draft Regulatory Instructions and Guidance.¹⁰⁶ This provides details on RIGs themselves, including:

- Timetable for drafting RIGs
- Structure of RIGs documents, and
- Principles governing data collection

7.28. This consultation closes on 14 December and will feed into the development of the RIGs that will be in place for 1 April 2013.

7.29. The proposed new RIGs Licence Condition sets out the purpose, key elements, and governance arrangements (eg change control process) for the RIGs.

7.30. The effect of introducing the proposed new RIGs Licence Condition is to remove the need for other reporting related provisions within other licence conditions. Having a single licence condition has not altered the broad types of information that the energy network companies will need to provide.

7.31. We recognise that there is a need to review all existing and proposed new licence conditions to remove reporting related provisions from the face of the licence. We expect to be able to outline the consequential changes that are needed to other SLCs, SSCs and SpCs in March 2013. Further details on the timetable and process for RIGs development and review of data requirements is set out in the parallel consultation.

¹⁰⁵ Proposed new SSC A40 for GT and GD and SLC B15 for ET.

¹⁰⁶ [RIIO-T1 and GD1: Draft Regulatory Instructions and Guidance](#)

7.32. We consider that by ensuring that all reporting requirements are in one place (the RIGs) it will make it easier to gain a complete view of what is being requested, and also to ensure a consistent approach to reporting requirements.

Summary of responses and way forward

7.33. We received comments on the draft of the RIGs licence condition from all of the network companies. In Supporting Document 5, we have consolidated these comments, provided responses and, where appropriate, updated the licence condition.

7.34. Several respondents commented that they found it difficult to comment on the draft licence condition without visibility of the proposed RIGs documents. We have therefore published a parallel consultation setting out further information on the draft RIGs.

[ETC/GTC/GDC 76]: Data Assurance

Drafting status: Current working drafts provided in Supporting Documents 1, 2 and 3.

7.35. This proposed new licence condition requires ET, GT and GD licensees to undertake data assurance processes and activities for the purpose of reducing the risk, and subsequent impact and consequences, of any inaccurate reporting, incomplete reporting or misreporting of data to the Authority.

7.36. The scope, contents, and governance arrangements for data assurance will be set out in the Data Assurance Guidance (DAG), as an associated document to the licence condition to be incorporated into the licence by way of licence modification. For further information on this please see Chapter 8 of this consultation.

7.37. We expect to introduce the new high level Data Assurance condition as part of the Statutory Consultation at the end of this year, with the provision that it will not be switched on until 1 April 2015 (or such earlier date as the Authority may specify by direction) to allow for a trial period when RIIO begins.

7.38. Until the new Data Assurance licence condition is switched on, the data assurance requirements will remain as they are set out under the individual licence conditions.

Summary of responses and way forward

7.39. During working group discussions with licensees and based on responses to the first Consultation, four key points arose:

- the view that licensees will be signing up to the condition before the DAG is developed
-

- the view that licensees will be subjected to two sets of data assurance requirements during the trial period
- the requirement in the condition to conduct an independent review of data assurance functions
- the requirement to provide accurate and complete data.¹⁰⁷

7.40. Regarding the first point, we have listened to licensees' concerns about signing up to a condition before being fully aware of the contents of the DAG. The condition will be at a high level and the detail will be in the DAG. The DAG will only be incorporated into the licence by way of licence modification giving the licensees the right of appeal. As such, licensees will have full sight of the DAG (developed during the trial) before signing up to it.

7.41. Regarding the second point, it is important to understand the role and purpose of the trial. During the trial licensees must comply with the existing data assurance requirements. The trial does not introduce new or additional data assurance requirements; rather the trial will involve working groups that requires licensees to:

- develop a common approach to data assurance including:
 - a risk assessment framework that incorporates both impact risk and process/likelihood risk
 - a common a set of defined data assurance activities
 - a common set of report formats (eg the looking ahead and looking back report).
- provide "looking ahead reports" in 2013, 2014 and 2015. This report should set out what the licensee plans to do in terms of data assurance in the year ahead.
- provide "looking back reports" in 2013 and 2014. This report should detail the data and data assurance issues uncovered in the previous year and the licensee's action plan on how to tackle these issues.

7.42. All of this will be used to inform the content of the DAG.

7.43. The trial does not hold the licensee to two different data assurance requirements (ie those in the trial and those under the licence as it currently stands). The trial is there to develop the processes only.

7.44. Regarding the third point, we propose that a review of a licensee's data assurance processes and activities will only be required if directed by the Authority. The Authority seeks to obtain the reasonable power to ask the licensee to procure a review where the licensee has consistently submitted data that is inaccurate, incomplete or late or where the licensee has made an error that has had a significant

¹⁰⁷ Under paragraph 76.3(b) of this condition.

impact. We propose that the detail of what should be covered in the review will be set out in the DAG following further consultation with industry (ie during the trial).

7.45. Regarding the final point, we have noted industry concerns that the word “accuracy” under this condition may imply a greater level of accuracy than envisaged under the RIGs.

7.46. We have therefore amended the condition to make it clear that the term “accuracy” in this condition must be read in light of the requirements under the relevant licence condition (eg the RIGs).

7.47. Furthermore, there is no overarching obligation on licensees to provide accurate and complete data and we consider that such an obligation is appropriate. While the obligation can sit under this condition or under the RIGs, we consider paragraph 76.3(b) to be necessary.

7.48. Other points made by stakeholders in response to the First Consultation together with our response is provided in Supporting Document 5.

7.49. In moving this process forward and on the basis that the DAG will now only be introduced following a licence modification process it is our intention to:

- begin working groups with both ET, GT and GD companies in January 2013 to work through the trial and develop the contents of the DAG,
- introduce a draft working version of the DAG by 1 July 2013. The elements outlined above will be used in the trial,
- develop and refine the DAG during the trial before the licence condition is switched on (on or before 1 April 2015).

7.50. As such, by 1 April 2013 NWOs can expect a high level licence condition on Data Assurance with the provision that it will not be switched on until 1 April 2015 (or such earlier date as the Authority may specify by direction) to allow for a trial period to develop the DAG when RIIO begins. The DAG will only be incorporated into the high level licence condition following a full licence modification process, thus giving the licensees the full right of appeal.

[ETC/GTC/GDC 31]: Excluded Services

Drafting status: Proposal to delete the current conditions and replace these with ETC/GTC/GDC 31. We have provided current working drafts in Supporting Documents 1, 2 and 3.

7.51. The purpose of this proposed new condition is to set out the basis on which services provided by the licensee may be treated as Excluded Services.

7.52. We proposed changes to this condition as part of RIIO to align the Transmission and Gas Distribution Licences with the equivalent modernised licence condition in the Electricity Distribution Licence.

7.53. The effect of making these proposed changes to the existing licence condition shown in Table 8 is to improve clarity regarding licensee requirements and to ensure the condition is applicable to the RIIO-T1/GD1 price control period rather than TPCR4/GDPCR1. It should be noted that we do not intend to alter the broad purpose of the existing conditions.

Table 7.5: Current Excluded Services related conditions

Licence type	Current condition number	RIIO Tracking number
Electricity Transmission	SpC D10 (NGET)	ETC 31
	Schedule A: Supplementary Provisions of the Charge Restriction Conditions (Part A) - (SPTL and SHETL)	
Gas Transmission	SpC C10: Excluded Services	GTC 31
Gas Distribution	SpC E18: Excluded Services	GDC 31

7.54. We propose to delete the existing special conditions shown in Table 7.4 above and replace these with the proposed new condition provided in Supporting Documents 1 to 3.

Summary of responses and way forward

7.55. Comments in relation the First Consultation, and our response, have been summarised in Supporting Document 5. Please note, there is one Response log for GDNs and a shared Response Log for Electricity and Gas Transmission.

7.56. Specifically for gas distribution licences, as part of our July consultation we invited views on a suggestion from a licensee that we do not need to set out the list of excluded services under Part C as the excluded service examples are by definition excluded services for gas distribution, and thus superfluous to licence condition. NGGD proposed that we retain the examples, as it considered that the list of examples provided clarity. No other GDN commented on this issue. In the draft, we therefore retain the list of Excluded Services.

7.57. NG, in their comments in both GD1 and T1, considered that the General Principle (as set out in Part B) was unnecessary given the list of Excluded Services. It also considered that the General Principle, which defines Excluded Services as those excluded from the Revenue Restriction, is circular, as a service has to be defined as an Excluded Service to be excluded from network revenue. We have retained the

General Principle as part of this consultation but intend to consider this issue further with licensees.

7.58. We also note that while we have documented the responses raised in relation to the condition for RIIO-T1, we have not fully considered them yet.

7.59. We would welcome any further views from respondents in relation to these conditions.

Innovation

[ETC/GTC/GDC 9]: The Innovation Rollout Mechanism (IRM)

Drafting status: Current working drafts provided in Supporting Document 1, 2 and 3.

7.60. In the T1 and GD1 Strategy Documents we set out that licensees would be able to apply for funding for the rollout of proven innovative solutions with low carbon or environmental customer benefits where the licensee cannot fund the roll out under the existing price control settlement. Funding would be provided through a licensee's allowed revenue using the standard capitalisation ratio. All projects would need to demonstrate they represent value for money to consumers in the long term.

7.61. The purpose of this condition is to set out the criteria licensees must address when making a Notice to the Authority if they are seeking an adjustment to their allowed revenue to fund the costs of rolling out a proven innovation.

7.62. A key change to the draft of this licence condition since it was discussed with network licensees is the introduction of provisions that make the allowed IRM expenditure (as determined by this condition) a PCFM Variable Value (IRM) that will impact allowed revenue through the annual iteration of the PCFM. The main reason for doing this is to ensure that any IRM funding will be treated in the same way as any other totex component of the price control, eg subject to the Totex Incentive Mechanism.

7.63. In addition, we have also reverted to the original materiality threshold, ie an amount that when multiplied by the licensee's Efficiency Incentive Rate exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period. We have also reduced the number of application windows to two: one in 2015 and one in 2018. These changes have been made to ensure consistency with other the application windows introduced as part of RIIO. In particular the application window for uncertain costs.

Summary of responses and way forward

7.64. Comments in relation the First Consultation, and our response, have been summarised in Supporting Document 5.

[ETC/GTC/GDC 10]: The Network Innovation Competition (NIC)

Drafting status: We have provided a current working draft of this condition in Supporting Documents 12 and 3.

7.65. In the T1 and GD1 Strategy Documents we set out that licensees can bid for funding through a competitive process for projects which have potential low carbon and/or environmental benefits. This differs from the IRM which exists to fund the rollout of a proven innovation where the licensee is unable to complete rollout under the existing price control settlement.

7.66. As such, the purpose of this condition is to set out the mechanism by which the licensee can recover the amount of Authorised NIC funding each year. It also sets out the scope and change control processes for the NIC Governance Document, which sets out the regulation, governance and administration of the NIC.

7.67. We are drafting the NIC Governance document in conjunction with the Innovation Working Group. We are currently consulting on it and it will, subject to Statutory Consultation, come into force at the same time as the RIIO licence conditions.

Electricity specific NIC conditions

7.68. Following recent discussions with the network licensees about funding arrangements for the NIC, we now have two draft versions of the licence condition:

- one for NGET, and
- one for SPTL and SHETL.

7.69. The key difference is that NGET's condition contains provisions that allow it to collect, and transfer, the total NIC funding on behalf of all the electricity transmission licensees. There is a term (NICF) to do this in NGET's main allowed revenue formula. To avoid double counting there is no NIC term in SPTL or SHETL's main allowed revenue formula. Funding is transferred to them by NGET through a direction that is to be issued by the Authority.

Gas specific NIC conditions

7.70. As noted in our T1 and GD1 IP Documents, an issue relating to the transfer of funds between Gas Transporters under the Gas Act 1986 needs to be resolved before the Gas NIC and the necessary licence conditions can be fully implemented. As such, in Initial Proposals we set out two options for the competition - either delay for one year (until the Gas Act 1986 transfer issue has been resolved) or run the competition using a non-socialised funding mechanism. We expect to publish our decision on the preferred way forward at FP.

7.71. In the meantime, in Supporting Documents 2 and 3, we have provided a working draft of a gas NIC licence condition that reflects both the socialised and non-socialised funding mechanisms..

Summary of responses and way forward

7.72. Responses to the First Consultation, and our views on them, can be found in Supporting Document 5.

7.73. Since the First Consultation we have updated the NIC condition to take on board some of the comments raised, and made some limited changes to ensure consistency with the NIA condition.

7.74. We are currently consulting on the NIC Governance Document¹⁰⁸ referred to in this condition. This consultation closes on 21 November and should be reviewed alongside this condition.

7.75. We intend to publish our decision on the implementation of the gas NIC in Final Proposals.

[ETC/GTC/GDC11]: The Network Innovation Allowance (NIA)

Drafting status: Current working draft provided in Supporting Documents 1, 2 and 3.

7.76. In the T1 and GD1 Strategy Document we set out that as part of the RIIO Innovation Stimulus we would establish a limited Innovation Allowance of between 0.5-1 per cent of base revenue for each licensee. The proposed NIA is self governing and would allow licensees to implement smaller scale innovation projects on their own networks.

7.77. We propose to set out the specific percentage in licensees' Final Proposals. The allowance would be provided on a 'use it or lose it' basis and licensees would self-certify against the criteria that would be included in the Network Innovation Allowance Governance Document.

7.78. In line with Final Proposals for SHETL, we have developed specific licence drafting in part C so that SHETL's total NIA will be divided evenly across the eight years of the RIIO-T1 period. SHETL have proposed an alternative whereby any over spend in the period is returned to consumers in the next price control period. However, we consider the drafting we are consulting on best implements the policy set out in their Final Proposals.

¹⁰⁸ [Non-Statutory Consultation on the draft Network Innovation Competition \(NIC\) and Network Innovation Allowance \(NIA\) governance documents](#)

7.79. The purpose of this condition is to set out the amounts licensees can recover through their NIA. It also sets out the scope and change control processes for the NIA Governance Document.

Summary of responses and way forward

7.80. Responses to the First Consultation, and our views on them, can be found in Supporting Document 5.

7.81. Since the First Consultation we have split the Electricity Transmission NIA condition for SHETL so that it is clear how the treatment described in paragraph [x.3] works. We have built protection into the licence drafting to deal with the possibility that actual revenues are lower than that forecast at the start of the Price Control.

7.82. We are currently consulting on the NIA Governance Document 109 referred to in this condition. This consultation closes on 21 November and should be reviewed alongside this condition.

[ETC/GTC/GDC 139] Changes to RPI inflation methodology

Drafting Status: Currently no condition included as part of this consultation.

7.83. We have published a parallel consultation that sets out how we propose to deal with any changes arising from the ONS review of its RPI methodology for respondents' views.¹¹⁰ If required, we will develop the licence drafts in consultation with the Licence Drafting Working Group prior to our Statutory Consultation.

¹⁰⁹ [Non-Statutory Consultation on the draft Network Innovation Competition \(NIC\) and Network Innovation Allowance \(NIA\) governance documents](#)

¹¹⁰ [RIIO-T1/GD1: ONS review of RPI methodology](#)

8. Associated RIIO documents

Chapter Summary

This chapter outlines the purpose and content of the Data Assurance Guidance (DAG) and provides links to further details concerning other associated draft RIIO documents.

Question 1: We invite stakeholders to comment on the associated documents that we propose to create and their content

Data Assurance Guidance (DAG)

Purpose of document

8.1. The draft licence condition to which the Data Assurance Guidance (DAG) relates is ETC/GTC/GDC 76: Data Assurance requirements. The purposes of the DAG are to establish a process under which the licensee must carry out a risk assessment of data submitted to the Authority, report to the Authority and, if required, procure an independent review of its data assurance processes and activities under this condition.

Key contents of document

8.2. We propose that a draft working version of the DAG will be developed with the NWOs for RIIO-T1 and GD1 from January 2013 to June 2013, which will be used from 1 July 2013 for the remainder of trial of the Data Assurance condition. A final version will be developed before the licence condition is switched on (on 1 April 2015 or such earlier date as the Authority may specify by direction). The issues we envisage the DAG addressing include:

- the data to which the risk assessment will apply
 - the development of a common risk assessment framework
 - the frequency with which and the timescales within which the risk assessment is required to be carried out
 - the form of the independent review that may be required of the licensee's data assurance process and activities and the associated reporting requirements
 - the frequency with which and the timescales within which the licensee should report on its data assurance programme to the Authority
 - the format (form, layout, scope and content) of the reporting requirements for:
 - the results of the licensee's risk assessment
 - the "looking ahead" report – a description of the data assurance activities that the licensee intends to undertake during the coming year to mitigate the risks identified in that assessment
-

- the “looking back” report – a description of the data assurance activities undertaken by the licensee during the preceding year, any data assurance issues uncovered and the licensee’s action plan on how to tackle these issues
- the details and results of the independent review procured by the licensee of its data assurance processes and activities (if required).

Interaction with other associated documents

8.3. We propose that the RIGs set out the majority of data that the NWOs are required to report, including the level of accuracy (although some data requirements may be within licence conditions). The DAG that is described above would set out the processes and activities that the NWOs should undertake in order to assure the quality, completeness and timeliness of the data that they have reported. We propose that the DAG, and the licence condition to which it relates, will not come into effect until 1 April 2015. Until then the data assurance standards will be set out in the RIGs and other licence conditions.

Other draft associated RIIO Documents

8.4. In addition to the associated documents of the Financial handbooks and the DAG guidance set out below. As part of RIIO we are also creating a number of new associated documents relating to certain licence conditions. These are outlined below.

Table 8.1: Other draft associated RIIO documents

Associated Document	Interaction with	Further details
Environmental Discretionary Reward (EDR) Scheme Guidance	ETC 17: Environmental Discretionary Reward Scheme	Supporting Document 6: Environmental Discretionary Reward Scheme: Guidance Document
Network Innovation Competition (NIC) Guidance Document	ETC/GTC/GDC10: The Network Innovation Competition.	Non-Statutory Consultation on the draft Network Innovation Competition (NIC) and Network Innovation Allowance (NIA) governance documents
Network Innovation Allowance (NIA) Guidance Document	ETC/GTC/GDC11: Network Innovation Allowance (NIA)	Non-Statutory Consultation on the draft Network Innovation Competition (NIC) and Network Innovation Allowance (NIA) governance documents
Gas Discretionary Reward Scheme (DRS) – Guidance Document	GDC 48: Discretionary reward scheme revenue amounts.	Gas Discretionary Reward Scheme 2011-12: Draft guidance notes
Regulatory Instructions and Guidance	ETC/GTC/GDC74: Regulatory Instructions and Guidance	RIIO-T1 and GD1: Draft Regulatory Instructions and Guidance
Stakeholder Engagement Reward Guidance.	ETC/GTC 24 - Incentive adjustments relating to the licensee’s Stakeholder Satisfaction Output, and GDC 24 - Incentive adjustment in respect of the Broad Measure of Customer Satisfaction.	Supporting Document 8: Stakeholder Engagement Reward Draft Guidance

Appendices

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Appendix 1 – Responses to First Consultation

List of non-confidential respondees We received responses¹¹¹ from the following companies:

For RIIO-T1
National Grid Electricity Transmission (NGET)
National Grid Gas Transmission (NGGT)
Scottish Hydro Electric Transmission Limited (SHETL)
Scottish Power Transmission Limited (SPTL)
For RIIO-GD1
National Grid Gas Distribution (NGGD)
Northern Gas Networks (NGN)
Scotia Gas Networks (SGN)
Wales and West Utilities Limited (WWU)

Summary responses have been provided after each relevant condition in this consultation.

A log of material licence drafting related responses received in response to the First Consultation together with our response is provided in Supporting Document 5: RIIO Licence Drafting Response Log.

¹¹¹<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=225&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES>

Appendix 2 - Indicative tables showing proposed changes to the price control related licence conditions within the GT licence

The aim of the tables below are to map the existing SpC C8 conditions to the new proposed licence conditions (where these new proposed conditions are updating or replacing existing arrangements under the current licence). These tables do not include new proposed draft RIIO GT Special conditions that do not replace existing terms or provisions within Special Condition C8. We set out a list of the additional Special Conditions not included in these tables for ease of reference.

Special Condition C8B: NTS transportation owner activity revenue restriction

We propose to replace most of Special Condition C8B with GTC 20 (Restriction of NTS Transportation Owner Activity Revenue). However, some sections of this condition are expected to be moved to other licence conditions. These are mapped below.

Paragraph of the existing licence condition within Special Condition C8B		RIIO Tracking number of the new licence conditions proposed					
		GTC 20	GTC 21	GTC 28	GTC 9 & 11	GTC 16	GTC 29
1. (Principal restriction)		✓	-	-	-	-	-
2. (NTS transportation owner revenue (TOR))		✓	-	-	-	-	-
3. (Maximum NTS transportation owner revenue (TOMR))	(a) Principal formula	✓	-	-	-	-	-
	(b) (NTS transportation owner cost pass-through adjustment term TOF)	✓ (term in Principal formula)	✓	-	-	-	-
	(c) (NTS transportation owner incentive revenue adjustment TOG)	✓ (term in Principal formula)	-	-	✓ (replacement for IFI)	-	-
	(d) (NTS transportation owner revenue adjustment TOK)	✓	-	-	-	-	-
	(e) (NTS transportation owner income adjustment TOIAT)	-	-	✓	-	-	-
4. (Disapplication of the NTS transportation owner activity revenue restriction)		-	-	-	-	-	✓
5. (Capital Expenditure Safety Net)		Not retained under RIIO-T1					

Special Condition C8C: NTS System Operation Activity Revenue Restriction

We propose to replace most of Special Condition C8C with GTC 7 (Restriction of NTS System Operation Activity Charges). However, some sections of this condition are expected to be moved to other licence conditions. These are mapped below.

Paragraph of the existing licence condition within Special Condition C8C	RIIO Tracking number of the new licence conditions proposed					
	GTC 7	GTC 117	GTC 20	GTC 29	GTC 131	
1. (Principal restriction)	✓	-	-	-	-	
2. (NTS system operation revenue (SOR))	✓	-	-	-	-	
3. (Maximum NTS system operation revenue (SOMR))	(a) Principal formula	✓	-	-	-	
	(a) DELINC	-	-	✓ (Propose that permits move from SO to TO)	-	✓
	(b) (Determination of any adjustment factor to be applied to maximum NTS system operation revenue SORA)	-	✓	-	-	-
	(c) (NTS SO revenue adjustment SOK)	✓	-	-	-	-
	(d) (Associated SO charges SOROC)	✓ (part of SOR)	-	-	-	-
4. (Disapplication of the NTS SO activity revenue restriction)	-	-	-	✓	-	

Special Condition C8D: NTS gas entry incentives, costs and revenues

We propose to replace Special Condition C8D with a number of conditions. These are mapped below.

Paragraph of the existing licence condition within Special Condition C8D		RIIO Tracking number of the new licence conditions proposed							
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 3	GTC 126	GTC 131
Part A – The Gas Entry Revenue Restriction Calculations	1. Principal formula	No longer applicable, in separate conditions							
	2. Maximum revenue entitlement allowed in respect of the release of incremental obligated entry capacity	✓ for TPCR3 & TPCR4 triggered capacity	-	✓ (Part of TOMOD term)	-	-	✓ (for RIIO-T1 triggered capacity)	-	-
	3.(a) Entry capacity operational buy-back incentive revenue	✓ (term in main allowed revenue formula)	-	-	✓	-	-	-	-
	3.(b) Entry capacity operational buy-back performance measure	✓ (term in main allowed revenue formula)	-	-	✓	-	-	-	-
	3.(c)-(e) Entry capacity constraint management costs	✓ (term in main allowed revenue formula)	-	-	✓	-	-	-	-
	3.(f) Accelerated release of incremental obligated entry capacity				✓				
	3.(g)- (j) Incremental capacity delivery incentive payments	-	-	✓ (term in allowed revenue formula)	-	-	-	-	✓
	3.(k)-(n) Review of entry capacity operational buy-back scheme	Provisions retained, but potentially covered by Disapplication condition GTC 29							

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Paragraph of the existing licence condition within Special Condition C8D		RIIO Tracking number of the new licence conditions proposed							
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 3	GTC 126	GTC 131
	3.(o) Buy-back cost allocation rules	Further consideration is required. If there is one constraint management scheme under GTC120, then there is no need to retain these provisions. If separate constraint management schemes then this part of C8 will need to be retained.							
	4. Milford Haven entry capacity specific incentive	Propose to remove – no longer needed							
	5. Entry capacity incremental buy-back costs and incentive revenue	✓ (term in allowed revenue formula)	-	-	✓	-	-	-	-
Part B – Revenue calculations	6. Attributing revenues from the sale of entry capacity to TOR and SOR	✓	-	✓	-	-	-	-	-
	7. Entry capacity and revenue allocations	-	-	-	-	-	-	✓(covered by statement produced by this condition)	-
	8. Annual Revenues from entry capacity sales	Propose to remove – covered by terms in GTC 7 and GTC 20							
Part C – Capacity release obligations	9. (a)-(d) Obligations to release capacity	-	-	-	-	-	-	✓	-
	9. (e) Obligations to offer capacity for sale in a clearing allocation	-	-	-	-	-	-	✓	-
	9. (f)-(p) Determination of incremental obligated entry capacity	-	-	-	-	-	✓	-	-
	10. Entry capacity substitution obligation	-	-	-	-	✓	-	-	-

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Paragraph of the existing licence condition within Special Condition C8D		RIIO Tracking number of the new licence conditions proposed							
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 3	GTC 126	GTC 131
	11. Entry capacity transfer obligation	-	-	-	-	✓	-	-	-
	12. Entry capacity trade obligation	-	-	-	-	✓	-	-	-
Part D – Entry capacity constraint management cost allocation	13. Statement of entry capacity constraint management cost allocation rules	Further consideration is required. If there is one constraint management scheme under GTC120, then there is no need to retain these provisions. If separate constraint management schemes then this part of C8 will need to be retained.							
Annex A to Special Condition C8D (drafting from TPCR3 licence relating to entry capacity revenue drivers, plus Part D – Schedule A)	✓Baseline and terminal values for TPCR3 & TPCR4 triggered capacity part of this condition.	-	-	-	-	-	-	-	-

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Paragraph of the existing licence condition within Special Condition C8E		RIIO Tracking number of the new licence conditions proposed								
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 4	GTC 126	GTC 131	GTC 132
	(f) Incentive revenue from sale of NTS non-obligated exit capacity (ExNO CIR)	✓ (term in allowed revenue formula)	-	-	✓	-	-	-	-	-
	(g) Cap on incremental investment buy-back exposure (ExXSIBBC)	✓ (term in allowed revenue formula)	-	-	✓ (Final two paras no longer needed)	-	-	-	-	-
	(h) Charges foregone (ExNTSSIC)		Propose to remove – no longer applicable (related to interim and transitional periods only)							
	(i) Buy back cost allocation rules		Further consideration is required. If there is one constraint management scheme under GTC120, then there is no need to retain these provisions. If separate constraint management schemes then this part of C8 will need to be retained.							
2. NTS gas exit revenues (TOExR)	(a) NTS transportation owner revenues	-	-	✓	-	-	✓	-	-	-
	(b) NTS system operation revenues	✓	-	-	-	-	-	-	-	-
3. Capacity release obligation	(a)-(d) Obligations to release capacity	-	-	-	-	-	-	✓	-	-

RIIO-T1 and GD1: Draft licence conditions – second informal licence drafting consultation

Paragraph of the existing licence condition within Special Condition C8E		RIIO Tracking number of the new licence conditions proposed								
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 4	GTC 126	GTC 131	GTC 132
4. Statements required from the licensee	(a) NTS exit capacity baseline statement	-	-	-	-	-	-	✓	-	-
	(b) NTS exit capacity substitution statement	-	-	-	-	✓	-	-	-	-
	(c) NTS exit revision methodology statement	-	-	-	-	✓	-	-	-	-
	(d) Report on incremental investment in the transitional period	Propose to remove – no longer applicable (related to transitional period only)								
	(e) Statement of obligated incremental exit capacity in the enduring period	-	-	-	-	-	-	✓	-	-
5. Project permits	-	-	✓	-	-	-	-	-	✓	-
Annex A to Special Condition C8E (Table 1 and Table 2)	-	-	-	-	-	-	-	✓	-	-

Appendix 3 – Proposed structure and numbering of SpCs

Gas Transmission: Proposed structure of Special Conditions and licence condition numbers

GAS TRANSMISSION SPECIAL CONDITIONS (SECTION C)	Current Condition	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number
Chapter 1: Definitions				
Definitions	C8A	Yes	GTC19	C1
Amendments to Standard Special Conditions relating to LNG	C1	No	GTC125	C1A
NTS definition of supply of transportation services	C1A	No	GTC125	C1B
Charging obligations	C7	No	GTC49	C1C
Chapter 2: Transportation Business Allowed Revenues				
Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity	C9	Yes	GTC30	C3
<i>NTS Transportation Owner - Revenue Restriction</i>				
Restriction of NTS Transportation Owner Revenue	C8B	Yes	GTC20	C4
Calculation of allowed pass-through items	NEW	Yes	GTC21	C4A
Stakeholder Satisfaction Output	NEW	Yes	GTC24	C4B
Permit arrangements to manage the time of delivery of	NEW	Yes	GTC131	C4C

GAS TRANSMISSION SPECIAL CONDITIONS (SECTION C)	Current Condition	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number
incremental capacity				
The Network Innovation Allowance	NEW	Yes	GTC11	C4D
The Network Innovation Competition	NEW	Yes	GTC10	C4E
NTS System Operator - Revenue Restriction				
Restriction of NTS System Operation Revenue	C8C	Yes	GTC7	C5
Entry and exit capacity constraint management	NEW	Yes	GTC120	C5A
NTS Transportation Support Services	NEW	Yes	GTC132	C5B
NTS System Operator external incentives, costs and revenues	C8F	No	GTC5 (SO 2013)	C5C
<i>Spaces for any new conditions created as part of SO2013</i>	NEW	No	GTC5 (SO 2013)	C5D onwards...
Chapter 3: Price Control Financial Instruments				
Governance of GT1 Price Control Financial Instruments	NEW	Yes	GTC57	C6
Annual Iteration Process for the GT1 Price Control Financial Model	NEW	Yes	GTC26	C6A
Chapter 4: Annual Iteration Process - Financial Adjustments				
Legacy price control adjustments – Transmission Owner	NEW	Yes	GTC64	C7
Legacy price control adjustments – System Operator	NEW	Yes	GTC67	C7A
Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments - Transmission Owner	NEW	Yes	GTC47	C7B
Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator	NEW	Yes	GTC66	C7C
Specified financial adjustments – Transmission Owner	NEW	Yes	GTC27	C7D

GAS TRANSMISSION SPECIAL CONDITIONS (SECTION C)	Current Condition	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number
Specified financial adjustments – System Operator	NEW	Yes	GTC65	C7E
Chapter 5: Annual Iteration Process - Other Revenue Restriction Adjustments				
The Innovation Roll-out Mechanism	NEW	Yes	GTC9	C8
Arrangements for the recovery of uncertain costs	NEW	Yes	GTC28	C8A
Arrangements for the recovery of SO uncertain costs	NEW	Yes	GTC117	C8B
Determination of incremental obligated entry capacity volumes and the appropriate revenue drivers to apply	C8D	Yes	GTC3	C8C
Determination of incremental obligated exit capacity volumes and the appropriate revenue drivers to apply	C8E	Yes	GTC4	C8D
Chapter 6: Planning and Development of Pipeline System				
Long Term Development Statement	C2	No	GTC35	C9
Transmission Planning Code	C11	Yes	GTC37	C10
Licensee's Network Model	C24	Yes	GTC38	C11
Methodology for Network Output Measures	C13	Yes	GTC73	C12
Specification of Network Replacement Outputs	NEW	Yes	GTC133	C13
Chapter 7: Development of System Operator Services				
Promoting competition in the provision to the licensee of operating margins services	C25	No	GTC51	C14
Requirement to develop and undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases	C28	No		C15

GAS TRANSMISSION SPECIAL CONDITIONS (SECTION C)	Current Condition	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number
Requirement to undertake UAG Projects to investigate the causes of Unaccounted for Gas (UAG)	C29	No		C16
System Management Services	C5	No	GTC36 (SO 2013)	C17
Independent market for balancing	C6	No		C18
Chapter 8: Capacity Methodologies and Statements				
Entry and Exit Capacity Obligations and Methodology Statements	NEW	Yes	GTC121	C19
Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes	C15	Yes	GTC126	C20
Methodology to determine revenue drivers	NEW	Yes	GTC134	C21
Chapter 9: Compliance Activities				
Undertaking from ultimate controller concerning non-discrimination between the NTS transportation activity and the Distribution Network transportation activity	C19	Yes	GTC33	C22
Separation of NTS and Distribution Network Businesses	C20	No	GTC34	C23
Appointment and duties of the business separation compliance officer	C21	No		C24
Prohibited Procurement Activities	C4	No		C25
Chapter 10: Other conditions				
Disapplication of Relevant Special Conditions	NEW	Yes	GTC29	C26
Services treated as Excluded Services	C10	Yes	GTC31	C27

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GAS TRANSMISSION SPECIAL CONDITIONS (SECTION C)	Current Condition	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number
Energy Administration: NTS Shortfall Contribution Obligations	C22	No		C28
Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services	C3	No	GTC5	C29
Gas Conveyed to Independent Systems	C26	Yes	GTC56	C30
Chapter 11: Schedules				
Specified Area	Schedule 1	No		Schedule 1
Revocation of Licence	Schedule 2	No		Schedule 2
Transportation Services Area	Schedule 3	No		Schedule 3
Conditions to be removed				
Amendments to Standard Special Conditions A37 (Availability of Resources) and A40 (Price Control Review Information)	C1B	Yes - removal	GTC135	NA
NTS System Operator internal incentives, costs and revenues	C8G	Yes - removal	GTC6	NA
Restriction of prices in respect of tariff capped metering activities	C12	Yes - removal	GTC32	NA
Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS transportation owner activity and NTS system operation activity	C14	Yes - removal	GTC74	NA
Price Control Revenue Reporting and Associated Information	C14B	Yes - removal	GTC74	NA
NTS performance reporting	C16	Yes - removal	GTC74	NA
Exit Code Statement	C17	Yes - removal	GTC51	NA

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GAS TRANSMISSION SPECIAL CONDITIONS (SECTION C)	Current Condition	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number
Balancing Arrangements	C27	Yes - removal	GTC51	NA
licensee's methodology for determining the release of NTS exit capacity volumes	C18	Yes - removal	GTC126	NA
NTS output measures for the price control	Schedule A	Yes - removal	GTC7	NA

Electricity Transmission: Proposed structure of Special Conditions and licence condition numbers

ELECTRICITY TRANSMISSION SPECIAL CONDITIONS	Current condition (NGET)	Current condition (SPT & SHETL)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGET)	Proposed new licence condition number (SPTL & SHETL)
Chapter 1 - Definitions and Compliance						
Definitions and interpretation	A	A	No	ETC129	A	A
Transmission area	AA	AA	No		AA	AA
Amended standard conditions	H	F	Yes	ETC 43 (Part of F only)	AAA	AAA
Activities restrictions	B	B	No		B	B
Restriction on the use of certain information	M	C	No		C	C
Prohibited Activities and Conduct of the Transmission Business	C1	NA	No		C1	NA
Separation of National Grid Electricity Transmission plc and Relevant Offshore Transmission Interests	C2	N/A	No		C2	NA
Appointment and duties of the business separation compliance officer	C3	N/A	No		C3	NA
Role in respect of the national electricity transmission system operator area located in offshore waters	C4	N/A	No		C4	NA

RIIO-T1 and GD1: Draft licence conditions – second informal licence drafting consultation

ELECTRICITY TRANSMISSION SPECIAL CONDITIONS	Current condition (NGET)	Current condition (SPT & SHETL)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGET)	Proposed new licence condition number (SPTL & SHETL)
Prohibition on engaging in preferential or discriminatory behaviour	G	N/A	No		C5	NA
Appointment of compliance officer	N	E	No		C6	C6
Independence of and appointment of managing director of the transmission business	NA	D	No		NA	C7
Chapter 2: Transmission - Revenue Restriction						
Transmission Network Revenue Restriction: Definitions	D1	J1	Yes	ETC19	D1	D1
Restriction of Transmission Network Revenue	D2	J2	Yes	ETC20	D2	D2
Transmission Investment for Renewable Generation	D3	J3	Yes	ETC15	D3	D3
Supplementary Provisions	D3 (Annex)	Schedule C	Yes	ETC15	D3 (Annex)	Schedule C
Calculation of Allowed Pass-Through Items	D4	J4	Yes	ETC21	D3	D3
Reliability Incentive Adjustment in Respect of Energy Not Supplied	NEW	NEW	Yes	ETC2	D4A	D4A
Stakeholder Satisfaction Output	NEW	NEW	Yes	ETC24	D4B	D4B
Incentive in Respect of Sulphur Hexafluoride (SF6)	NEW	NEW	Yes	ETC25	D4C	D4C
Adjustment in Respect of the Environmental Discretionary Reward Scheme	NEW	NEW	Yes	ETC17	D4D	D4D

ELECTRICITY TRANSMISSION SPECIAL CONDITIONS	Current condition (NGET)	Current condition (SPT & SHTL)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGET)	Proposed new licence condition number (SPTL & SHTL)
Financial Incentive for Timely Connections Output (SPTL and SHTL)	NEW	NEW	Yes	ETC1	D4E (not used)	D4E
The Network Innovation Competition	NEW	NEW	Yes	ETC10	D5	D5
The Network Innovation Allowance	NEW	NEW	Yes	ETC11	D6	D6
Allowances in respect of a Security Period	D7	J11	Yes	ETC128	D7	D7
Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period	D11	J12	Yes	ETC52	D8	D8
Pre-construction Engineering deliverable outputs for Strategic Wider Works Outputs	NEW	NEW	Yes	ETC62	D9	D9
Chapter 3: System Operator - Revenue Restriction						
Revenue Restriction Conditions: Definitions	AA5	N/A	Yes	ETC130 (led by SO 2013 review)	E1	E1 (Not used)
Restriction of System Operator Internal Revenue	AA5A (part 2(ii))	N/A	Yes	ETC12	E2	E2 (not used)
Restriction on System Operator External Costs	AA5A (Part 2(i), Part 2(iii), Part 2(iv))	N/A	No	ETC127 (led by SO 2013 review)	E3	E3 (not used)

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ELECTRICITY TRANSMISSION SPECIAL CONDITIONS	Current condition (NGET)	Current condition (SPT & SHETL)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGET)	Proposed new licence condition number (SPTL & SHETL)
Spaces for any new conditions created as part of SO2013	NEW	N/A	No	(led by SO 2013 review)	E3a, E3b....	E3a, E3b....(not used)
Review of methodology and requirement to develop a balancing services activity revenue restriction on external costs covering two or more relevant years	AA5I	N/A	No	(led by SO 2013 review)	E4	E5 (not used)
Chapter 4: Price Control Financial Instruments						
Governance of Price Control Financial Instruments	NEW	NEW	Yes	ETC57	F1	F1
Annual Iteration Process for the ET1 Price Control Financial Model	NEW	NEW	Yes	ETC26	F2	F2
Chapter 5: Annual Iteration Process - Financial Adjustments						
Legacy price control adjustments – Transmission Owner	NEW	NEW	Yes	GTC64	G1	G1
Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments - Transmission Owner	NEW	NEW	Yes	GTC47	G2	G2
Specified financial adjustments – Transmission Owner	NEW	NEW	Yes	GTC27	G3	G3
Legacy price control adjustments – System Operator	NEW	NEW	Yes	GTC67	G4	G4

ELECTRICITY TRANSMISSION SPECIAL CONDITIONS	Current condition (NGET)	Current condition (SPT & SHETL)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGET)	Proposed new licence condition number (SPTL & SHETL)
Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator	NEW	NEW	Yes	GTC66	G5	G5
Specified financial adjustments – System Operator	NEW	NEW	Yes	GTC65	G6	G6
Chapter 6: Annual Iteration Process - Other Revenue Restriction Adjustments						
The Innovation roll-out mechanism (IRM)	NEW	NEW	Yes	ETC9	H1	H1
Baseline generation connection outputs and generation connections volume driver	NEW	NEW	Yes	ETC55	H2	H2
Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty	NEW	NEW	Yes	ETC18	H3	H3
Arrangements for the Recovery of Uncertain Costs	NEW	NEW	Yes	ETC28	H4	H4
Specification of Baseline and Strategic Wider Works outputs and Assessment of Allowed Expenditure	NEW	NEW	Yes	ETC39	H5	H5
Allowed expenditure for Incremental Wider Works (NGET only)	NEW	NEW	Yes	ETC41	H6	H6
Allowed expenditure for Underground Cabling and volume driver (NGET only)	NEW	NEW	Yes	ETC122	H7	H7

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ELECTRICITY TRANSMISSION SPECIAL CONDITIONS	Current condition (NGET)	Current condition (SPT & SHETL)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGET)	Proposed new licence condition number (SPTL & SHETL)
Baseline demand related infrastructure outputs and volume driver (NGET only)	NEW	NEW	Yes	ETC123	H8	H8
Arrangements for the Recovery of Uncertain SO External Costs (NGET)	NEW	NEW	Yes	ETC117	H9	H9
Chapter 7: Other Revenue Restriction related conditions						
Disapplication of Relevant Special Conditions	D8	J9	Yes	ETC29	I	I
Duration of the Balancing Services Activity Revenue Restriction	AA5E	N/A	Yes - removal	ETC13 (merged with ETC29)	NA	NA
Services Treated as Excluded Services	D10	Part A of Schedule A	Yes	ETC31	J	J
Basis of transmission owner charges	NA	J10	No		K	K
Chapter 8: Methodologies, Statements and Reports						
Network Access Policy	NEW	NEW	Yes	ETC53	L1	L1
Electricity transmission losses reporting	AA5C	L2	Yes	ETC45	L2	L2
Provision of Information to the System Operator	NA	J8	No		L3	L3

RIIO-T1 and GD1: Draft licence conditions – second informal licence drafting consultation

ELECTRICITY TRANSMISSION SPECIAL CONDITIONS	Current condition (NGET)	Current condition (SPT & SHETL)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGET)	Proposed new licence condition number (SPTL & SHETL)
Chapter 9: Schedules						
Specified area	Schedule 1	N/A	No		Schedule 1	N/A
Supplementary Provisions of the Charge Restriction Conditions	Schedule A	Schedule A	No		Schedule A	Schedule A
Not used	Schedule B	N/A	No		Schedule B	N/A
Revocation	Schedule 2	Schedule 2	No		Schedule 2	Schedule 2
Conditions to be removed						
Incentive Payments	D5	J5	Yes - removal	ETC23	NA	NA
Adjustments to Transmission Network Revenue	D6	J6	Yes - removal	ETC42	NA	NA
Capital Expenditure Incentive and Safety Net	D9	J7	Yes - removal	ETC70	NA	NA
(Capital Expenditure Incentive and Safety Net): Definition of zones	D9 (Annex A)	N/A	Yes - removal	ETC70	NA	NA
(Capital Expenditure Incentive and Safety Net): Parameters	D9 (Annex B)	N/A	Yes - removal	ETC70	NA	NA
Requests for transit	K	G	Yes - removal	ETC44	NA	NA
Not used	I	N/A	Yes - removal	ETC137	NA	NA

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ELECTRICITY TRANSMISSION SPECIAL CONDITIONS	Current condition (NGET)	Current condition (SPT & SHETL)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGET)	Proposed new licence condition number (SPTL & SHETL)
Not used	L	N/A	Yes - removal	ETC137	NA	NA
Not used	AA5D	N/A	Yes - removal	ETC137	NA	NA
Not used	AA5F	N/A	Yes - removal	ETC137	NA	NA
Not used	AA5G	N/A	Yes - removal	ETC137	NA	NA
Not used	AA5H	N/A	Yes - removal	ETC137	NA	NA

Gas Distribution: Proposed structure of Special Conditions and licence condition numbers

GAS DISTRIBUTION SPECIAL CONDITIONS (E)	Current condition (NGGD)	Current condition (OTHER GDNs)	Possible change being made by RIIO	RIIO tracking number	Proposed new licence condition number (NGGD)	Proposed new licence condition number (OTHER GDNs)
Chapter 1: Distribution - Revenue Restriction						
Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions	E1	E1	Yes	GDC 19	E1	E1
Restriction of revenue in respect of the Distribution Network Transportation Activity	E2	E2	Yes	GDC 20	E2	E2
Distribution Network allowed pass-through items	E3	E3	Yes	GDC 21	E2a	E2a
NTS Exit Capacity Cost Adjustment	E6	E6	Yes	GDC 8	E2b	E2b
Incentive adjustment in respect of the Broad Measure of Customer Satisfaction	NEW	NEW	Yes	GDC24	E2c	E2c
Revenue adjustments for performance in respect of gas shrinkage and environmental emissions	E8	E8	Yes	GDC 25	E2d	E2d
Discretionary reward scheme revenue amounts	E10	E10	Yes	GDC 48	E2e	E2e
The Network Innovation Allowance	NEW	NEW	Yes	GDC 11	E2f	E2f
The Network Innovation Competition	NEW	NEW	Yes	GDC 10	E2g	E2g

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Chapter 2: Price Control Financial Instruments						
Governance of GD1 Price Control Financial Instruments	NEW	NEW	Yes	GDC57	E3a	E3a
Annual Iteration Process for the GD1 Price Control Financial Model	NEW	NEW	Yes	GDC26	E3b	E3b
Chapter 3: Annual Iteration Process - Financial Adjustments						
Legacy price control adjustments	NEW	NEW	Yes	GDC64	E4a	E4a
Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments - Transmission Owner	NEW	NEW	Yes	GDC47	E4b	E4b
Specified financial adjustments	NEW	NEW	Yes	GDC27	E4c	E4c
Chapter 4: Annual Iteration Process - Other Revenue Restriction Adjustments						
The Innovation roll-out mechanism (IRM)	NEW	NEW	Yes	GDC 9	E5a	E5a
Mains and Services Replacement Expenditure	E5	E5	Yes	GDC 22	E5b	E5b
Arrangements for the recovery of uncertain costs	E7	E7	Yes	GDC 28	E5c	E5c
Chapter 5: Other Revenue Restriction related conditions						
Disapplication of Relevant Special Conditions	E16	E16	Yes	GDC 29	E6	E6
Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network	E17	E17	Yes	GDC 30	E7	E7
Services treated as Excluded Services	E18	E18	Yes	GDC 31	E8	E8
Restriction of prices in respect of Tariff Capped Metering Activities	E19	E19	No	GDC 32	E9	E9

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Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity	E21	Not used	No	GDC 33	E10	NA
Separation of NTS and Distribution Network Businesses	E22	Not used	No	GDC 34	E11	NA
Gas Conveyed to Independent Systems	NA	E23	Yes	GDC 56	NA	E12
Chapter 6: Schedules						
Schedule A	Not used	Not used SGN, NGN, WWU, Southern	No		Schedule A	Schedule A
Schedule 1: Specified Area			No		Schedule 1: Specified Area	Schedule 1: Specified Area
Schedule 2: Revocation Of Licence			No		Schedule 2: Revocation Of Licence	Schedule 2: Revocation Of Licence
Schedule 3: Transportation Services Area			No		Schedule 3: Transportati on Services Area	Schedule 3: Transportation Services Area
Conditions to be removed						
Distribution Network Transportation Activity Revenue adjustment (Kt)	E4	E4	Yes - removal	GDC 42	NA	NA
Distribution Network environmental emissions incentive revenue (EEt) and compliance with the Leakage Model	E9	E9	Yes - removal	GDC 25	NA	NA

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Distribution Network innovation funding incentive for sustainable development scheme (IFISDt)	E11	E11	Yes - removal	GDC 143	NA	NA
Distribution Network loss of meter work revenue driver (LMT)	E12	E12	Yes - removal	GDC 143	NA	NA
Not used	E13	E13 (not used any GDN)	Yes - removal	GDC 144	NA	NA
Not used	E14	E14 (not used any GDN)	Yes - removal	GDC 144	NA	NA
Not used	E15	E15 (not used any GDN)	Yes - removal	GDC 144	NA	NA
Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue	E20	E20	Yes - removal	GDC 74	NA	NA

Appendix 4 - Stakeholder Satisfaction Incentive for Scottish TO's – Draft guidance notes

1.1. This appendix is a draft guidance note provided by SPTL and SHETL to be read alongside their proposed drafting for Part's D, E, F and G of ETC24 (included within the licence pack). It provides background explanation to aspects of this proposed text. This proposed drafting and issues set out in the note are still subject to further policy discussions and at this stage this should be read as the companies' proposals still subject to review and consideration by Ofgem.

ETC 24: Stakeholder Satisfaction Incentive for Scottish TO's – Draft guidance notes

Following Ofgem's proposals for a Stakeholder Satisfaction incentive of +/- 1% to apply to transmission owners ('TO's) as part of the RIIO T1 framework, a working group involving Ofgem, National Grid (NGET), SP Transmission Ltd (SPT) and Scottish Hydro Electric Transmission Ltd (SHETL) have been considering the structure and licence implications involved in realising this proposal. Two significant issues were identified:

1. Under the British Electricity Trading Transmission Arrangements ('BETTA') established in 2005, the System Operator (NGET) is normally responsible for dealing with customers and users, while the two Scottish TOs interface with the System Operator. The processes involved form part of the System Operator Transmission Owner Code (STC). This constrains the extent of customer engagement on the part of the Scottish TOs.
2. In electricity transmission, stakeholder numbers at transmission in Scotland are significantly less than the volume seen in England & Wales or electricity distribution in Scotland; hundred's rather than thousands. It is therefore more difficult to establish a statistically relevant mechanism for measuring performance. An incentive that is based entirely on a satisfaction survey runs the risk of volatile year-on-year performance.

To manage these issues it is proposed that each of the Scottish TO's will develop their own stakeholder survey, develop a set of stakeholder key performance indicators (KPI's) and establish an external assurance review of stakeholder engagement activities to provide 'limited' assurance to the overall stakeholder engagement process.

Stakeholder Survey

It intended that the Scottish TO's implement an annual stakeholder survey in addition to the customer survey historically conducted by NGET acting as the system operator (SO). Baseline stakeholder surveys were conducted by the Scottish TO's in August 2012 and used appropriate question sets to reflect their particular relationships with stakeholders. These questions are necessarily different from the NGET Customer Survey which is appropriate for their customers connected to or seeking connection in the Scottish TO's licence areas. Having different surveys will allow appropriate behaviours compliant with STC requirements to be developed by the TO's in response to the surveys aimed at improving their performance leading to higher stakeholder satisfaction. This stakeholder survey should be undertaken by an independent accredited research company and as such would not require to be included in the assurance review process referred to above although the activity and follow up would form part of the overall stakeholder strategy assessment.

Stakeholder Key Performance Indicators

By establishing a set of KPI's the Scottish TO's will have a performance measure that can effectively reinforce the requirements of the STC and provide a focus for measures to improve stakeholder satisfaction. SPT and SHETL are looking at different approaches to developing these, reflecting the feedback provided by their respective stakeholders. It is envisaged that each licensee will adopt an individual approach but ongoing discussions mean that elements may be adopted from each other's proposals.

SPT are considering KPI's that reflect touch points between the TO and the SO. Examples of potential KPI's are:

1. Quality of Transmission owner Commercial agreement (TOCA): Timeliness, final sums, TORI's (Transmission Owner Reinforcement Instruction), Derogations, data (% accepted by SO)
2. Updates/Revisions (TO driven) to Transmission Construction Offers (% against target over a year)
3. Year ahead Outage Plan(% completion against target)

SHETL has recently published its Summer Consultation which includes its draft Customer Charter¹¹². In this, SHETL propose seven high level commitments and is working to develop 3 or 4 KPIs that will allow customers and stakeholders to assess performance against these commitments. An indicative example to illustrate the approach is shown below but this will be reviewed in light of feedback provided to SHETL as part of its consultation.

¹¹² This can be found at <http://www.ssepd.co.uk/Transmission/TransmissionPriceControlReview/>

High level commitment:

We will develop, maintain and operate our networks safely at all times.

Supporting KPIs:

1. Number of safety incidents in year. (Lower the number, the better the performance);
2. Energy Not Supplied. (Lower the number, the better the performance);
3. Additional transmission capacity installed (MW); and
4. Transmission network outage days (actual versus planned).

It may be that one or more of the identified KPIs overlap with other incentives in the price control (such as Energy Not Supplied in the above example). If this is the most appropriate measure to reflect performance, SHETL propose to include the KPI in its reporting to customers and stakeholders but to exclude the KPI from performance against this component of the price control to prevent double-counting.

Both SPT and SHETL will consult their stakeholders on their proposed approach prior to implementation.

Stakeholder External Engagement Assurance

In addition to the stakeholder survey and KPI's, Scottish TO's should conduct an external assurance review of stakeholder engagement activity which would attract a further portion of the 1% incentive. This was modelled by SHETL in the approach they took to their RIIO-T1 stakeholder engagement.

The annual assurance review will be carried out by an external company to determine if the TO has an effective stakeholder engagement strategy in place and to what extent it is being implemented. The scope of the assurance review is envisaged to include assessment of the processes to deliver the stakeholder strategy, the effectiveness of the strategy, and how reflective the survey and KPI's are of performance against the strategy. It should investigate how stakeholder feedback is captured, reviewed, acted upon and incorporated into business plans and processes.

The criteria for assessment will be against three bands:

- Non-compliance with, or ineffective Stakeholder Engagement Strategy
- Compliance with an Effective Stakeholder Engagement strategy
- Exceeding and Improving on actions/measures set out in a Stakeholder Engagement Strategy

The details of the survey, KPI's and external assurance will be informed by stakeholder consultation and are subject to final approval by Ofgem. Changes to these performance measures may be implemented throughout the price control period to improve their effectiveness subject to the review and consultation process defined in this licence condition.

Appendix 5 - Consultation Response and Questions

1.2. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would like to hear from consumers, gas and electricity transmission and distribution companies and any other interested parties.

1.3. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter and which are replicated below.

1.4. Responses should be received by 27 November 2012 and should be sent to:

- RIIO.T1@ofgem.gov.uk

1.5. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.6. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.7. Any questions on this document should, in the first instance, be directed to:

Tom Mackenzie
RIIO-T1
9 Millbank, London, SW1P 3GE
0207 901 7406
thomas.mackenzie@ofgem.gov.uk

CHAPTER: Two

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to the SLCs and SpCs in the ET licence. These are outlined in this chapter and the draft licence conditions are in Supporting Document 1.

Question 2: We welcome views on our proposed deletion of the NGET specific SpCs listed in Table 2.3.

Question 3: We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

CHAPTER: Three

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to the SpCs in NGGT's licence. These are outlined in this chapter and the draft licence conditions are in Supporting Document 2.

Question 2: We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

Question 3: As part of the proposed changes to GTC 121 (Entry and Exit Capacity Obligations and Methodology Statements), do you agree with our proposal to amend the frequency of the review from annual to every two years?

Question 4: As part of the proposed changes to GTC 126 (Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes), do you agree with our proposal to amend the frequency of the review from annual to every two years?

Question 5: Do you agree with our proposal to establish the review frequency requirement as every two years as part of the introduction of GTC 134 (Methodology to determine revenue drivers)?

Question 6: We would welcome comments on the prospect of five methodology statements being consulted at the same time as indicated in GTC 121. If you do not agree with this proposal please indicate why and propose your views on alternative solutions.

CHAPTER: Four

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to the SLCs and SpCs in the GD licence. These are outlined in this chapter and the draft licence conditions are in Supporting Document 3.

Question 2: We welcome comments on the calculation of the correction factor (K). We are particularly seeking views on the calculation of the penalty rate, eg do you

agree with the parameters set out for when different penalty rates will apply? If you do not agree please indicate why and propose alternative parameters.

CHAPTER: Five

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to the common SLCs, SSCs and SpCs for the GT and GD licence. These are outlined in this chapter and the draft licence conditions are in Supporting Document 2 (for GT) and 3 (for GD).

CHAPTER: Seven

Question 1: We invite stakeholders to comment, using the Response Template, on the proposed changes to, or introduction of new, common licence conditions. These are outlined in this chapter and the draft licence conditions are in the three Supporting Documents.

CHAPTER: Eight

Question 1: We invite stakeholders to comment on the draft associated documents that we propose to create and their content

Appendix 6 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul

Consultation Co-ordinator

Ofgem

9 Millbank

London

SW1P 3GE

andrew.macfaul@ofgem.gov.uk