

**To: National Grid Gas plc (with respect to its gas distribution network) (NGGD)
Northern Gas Networks Limited (NGN)
Scotland Gas Networks Limited (SCGN)
Southern Gas Networks Limited (SGN)
Wales and West Utilities Limited (WWU)**

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 23(2) of the Gas Act 1986 ("the Act") as follows:

1. The Authority proposes to modify the gas transporter licence held by each of the above licensees that operate a Gas Distribution Network (GDN) (the GDN Licences) and granted or treated as granted under section 7 of the Act by –
 - (a) amending certain existing Special Conditions
 - (b) inserting proposed new Special Conditions
 - (c) deleting certain Special Conditions; and
 - (d) restructuring and renumbering the remaining Special Conditions to improve the clarity and ease of use of the Special Conditions with no changes to the licence obligations or underlying policy objectivesas specified in Schedule 1 to this notice.
2. Subject to paragraph 3 of this notice, the proposed Special Conditions to the gas transporter licence held by the GDN Licensees:
 - (a) incorporating proposed amendments; and
 - (b) reflecting the proposed new structure and numbering of the special conditionsare attached at Schedule 2 to this notice.
3. The RIIO GD1 Price Control Financial Handbook and the GD1 Price Control Financial Model, both of which form part of proposed new Special Condition are attached to this notice as follows:
 - o Supporting Document 1: RIIO GD1 Price Control Financial Handbook
 - o Supporting Document 2: GD1 Price Control Financial Model
4. In summary, the primary reason why the Authority proposes to make these licence modifications is to give effect to the new RIIO (Revenue = Incentives + Innovation = Outputs) regulatory framework.
5. The effect of the proposed modifications is primarily to implement the new RIIO price control model and secondly to update references and improve clarity.
6. Specific details on the reasons and effect of the proposed modifications can be found in Schedule 3 of this notice.
7. Further details and background on these proposed changes are set out in the following documents:
 - a. [RIIO T1 and GD1 – First informal licence drafting consultation](#)
 - b. [RIIO T1 and GD1: Second informal licence drafting consultation](#)

- c. [Disapplication conditions – informal licence drafting consultation](#)
 - d. [RIIO T1 and GD1 – Draft Regulatory Instructions and Guidance](#)
 - e. [RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas](#); and
 - f. [RIIO-GD1: Final Proposals – Overview](#)
8. The following supporting documents which derive from or relate to the proposed Special Conditions have also been published alongside this notice:
- Supporting Document 3: PKF Audit letter on the Price Control Financial Models
 - Supporting Document 4: Gas Network Innovation Competition Governance Document
 - Supporting Document 5: Gas Network Innovation Allowance Governance Document; and
 - Supporting Document 6: Stakeholder Engagement Reward Guidance
9. A copy of the proposed modifications and other documents referred to in this notice are available on the Ofgem website (www.ofgem.gov.uk).
10. Any representations on the proposed licence modifications may be made on or before 22 January 2013 to: Ikbāl Hussain, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to licensing@ofgem.gov.uk
11. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
12. If the Authority decides to proceed with the making of the proposed modifications they will take effect 56 days after the decision is published.

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Hannah Nixon
Senior Partner, Smarter Grids and Governance (Distribution)
Duly authorised on behalf of the
Gas and Electricity Markets Authority

21 December 2012

Schedule 1

Part 1 - Special Conditions to be amended (proposed amendments set out in Schedule 2)

Current Special Condition	To be amended as set out in Schedule 2 and renumbered/renamed as follows
E1: Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions	1A: Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions
E2: Restriction of revenue in respect of the Distribution Network Transportation Activity	1B: Restriction of revenue in respect of the Distribution Network Transportation Activity
E3: Distribution Network allowed pass-through items	1C: Distribution Network allowed pass-through items
E5: Mains and services replacement expenditure adjustment (MSRA)	3E: Mains and Services Replacement Expenditure
E6: Distribution Network Exit Capacity costs and incentive revenue	1D: NTS Exit Capacity Cost Adjustment
E7: Determination of any adjustment factor to be applied to MR	3F: Arrangements for the recovery of uncertain costs
E8: Distribution Network shrinkage allowance (Sht)	1F: Revenue adjustments for performance in respect of gas shrinkage and environmental emissions
E9: Distribution Network environmental emissions incentive revenue (EEt) and compliance with the Leakage Model	
E10: Distribution Network discretionary reward scheme revenue	1G: Discretionary reward scheme revenue amounts
E16: Disapplication of the Distribution Network Transportation Activity Revenue Restriction	4A: Disapplication of Relevant Special Conditions
E17: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network	4B: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network
E18: Excluded Services	4C: Services treated as Excluded Services
E19: Restriction of prices in respect of Tariff Capped Metering Activities	4D: Restriction of prices in respect of Tariff Capped Metering Activities
E22: Separation of NTS and Distribution Network Businesses [NGGD only]	4F: Separation of NTS and Distribution Network Businesses [NGGD only] 4F: Not used [All other GDNs]
E23: Gas Conveyed to Independent Systems	4I: Gas Conveyed to Independent Systems [NGN, SGN and WWU] 4I: Not used [for all other GDNs]

Part 2 – Proposed New Special Conditions to be inserted (draft text set out in Schedule 2)

Proposed new Special Conditions
1E: Incentive adjustment in respect of the Broad Measure of Customer Satisfaction
1H: The Network Innovation Allowance
1I: The Network Innovation Competition
2A: Governance of GD1 Price Control Financial Instruments
2B: Annual iteration process for the GD1 Price Control Financial Model
3A: Legacy price control adjustments
3B: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments
3C: Specified financial adjustments
3D: The Innovation Roll-out Mechanism,
4G: Methodology for Network Output Measures
4H: Specification of Network Outputs

Part 3 –Special Conditions to be deleted

Special Condition
E4: Distribution Network Transportation Activity Revenue adjustment (Kt)
E11: Distribution Network innovation funding incentive for sustainable development scheme (IFISDt)
E12: Distribution Network loss of meter work revenue driver (LMt)
E13:Not Used
E14:Not Used
E15:Not Used
E20: Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue

Part 4 - Special Conditions to be renumbered (changes reflected in Schedule 2)

Current Special Condition number/title		Proposed new number/title	
NGGD	Other GDNs	NGGD	Other GDNs
E21: Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity	E21: Not Used	4E: Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity	4E: Not Used

Schedule 2 – proposed Special Conditions to the GDNs’ gas transporter licences

A copy of the proposed Special Conditions to the GDNs’ gas transporter licences can be found on Ofgem’s website at:

http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/S2_Proposed_special_conditions_GDN_%20gas%20transporter%20licences.pdf

Schedule 3

Reasons and effect of proposed modifications to the Special Conditions in the GDN gas transporter licences

Special Conditions (SpCs) to be amended

Special Condition E1: Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions

Proposal to amend and renumber condition as Special Condition 1A

1.1. The content of this condition has been updated to add new definitions that are needed for RIIO-GD1, remove redundant definitions and, where appropriate, update definitions to correct for out of date legislation and cross references to other licence conditions.

1.2. The effect of the changes are to create an up-to-date list of definitions that are necessary to understand the specials conditions that are to be in-force over the RIIO-GD1 period.

Special Condition E2: Restriction of revenue in respect of the Distribution Network Transportation Activity

Proposal to amend and renumber condition as Special Condition 1B

1.3. 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 term (K) for the treatment of over/under recovered revenue.

1.4. There are no significant changes to the intent of this condition from the equivalent current condition E2. Changes have been made to reflect any new revenue adjustments proposed for RIIO-GD1 and to remove terms for revenue adjustments that are no longer required. The calculation of the price index adjustment term has been updated to reflect our decision of July 2011.¹ We have also incorporated the calculation of the correction term for over/under recovery (previously within Spc E4) and updated its calculation as a result of our decision on measures to mitigate charging volatility.

1.5. The effect of the changes to this condition is to enable the licensee to recover revenue streams that are consistent with the RIIO price control settlement as set out in the Final Proposals.

¹ 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 (Jul 2011): <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=117&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

Special Condition E3: Distribution Network allowed pass-through items

Proposal to amend and renumber condition as Special Condition 1C

1.6. This SpC calculates the pass through costs that the licensee is allowed to recover from customers. Final Proposals set out the areas of cost that will be treated as pass-through.

1.7. There are no significant changes to the intent of this condition from the equivalent current conditions (Special Condition E3). Changes have been made to reflect our decision on measures to mitigate charging volatility,² by introducing a two year lag to some of the adjustments. The effect of this change is to reduce charging volatility.

Special Condition E5: Mains and Services Replacement expenditure adjustment (MSRA_t)

Proposal to amend, rename, and renumber condition to Special Condition 3E: Mains and Services Replacement Expenditure

1.8. The purpose of this condition is to allow the licensee to recover efficiently incurred costs in relation to the decommissioning of the mandated replacement of tier 2 iron mains (defined as mains with a diameter between 8 and 18 inches, and above a specified risk threshold agreed with the HSE). This is an uncertainty mechanism which provides volume risk protection for the licensee in relation to replacement volumes.

1.9. This condition replaces an existing condition which provided for a revenue driver for all iron mains. The proposed change to the revenue driver reflects our decision to provide an ex ante allowance for other mains, ie non-tier 2 iron mains.

1.10. We have also introduced a two-year lag structure to this condition. This is consistent with our recent decision to lag all uncertainty mechanisms.³ The reason for this change is to reduce network charging volatility.

1.11. The effect of the condition is therefore to introduce our revised policy set out in Final Proposals to introduce a revenue driver to tier 2 mains above a specified risk threshold, to mitigate charging volatility through the introduction of a lag structure, as well as to modernise the condition.

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

Proposal to amend, rename and renumber condition to Special Condition 1D: NTS Exit Capacity Cost Adjustment.

1.12. The purpose of this condition is to enable the licensee to recover the costs associated with NTS Exit Capacity. The condition is an uncertainty mechanism which

² Decision on measures to mitigate charging volatility arising from the price control settlement (Oct 2012): <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=404&refer=Networks/Policy>

³ 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>

protects the licensee from (NTS Exit Capacity) price risk, as per the current licence condition. We have updated the condition to reflect the introduction of the Enduring Regime. Specifically, the proposed licence condition reflects the change to booking NTS Exit Capacity by off-take as opposed to LDZ.

1.13. 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.⁴ The intention of this change is to reduce charging volatility.

1.14. The effect of the proposed licence condition is therefore to maintain the current policy under GDPCR1 with respect to the treatment of NTS Exit Capacity charges, to reflect changes arising from the Enduring Regime, and to modernise the condition.

Special Condition E7: Determination of any adjustment factor to be applied to MR

Proposal to amend, rename and renumber to Special Condition 3F: Arrangements for the recovery of uncertain costs

1.15. The reason and effect of this condition is to allow for the recovery, during the price control, of additional costs through allowed revenues.

1.16. 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 Final Proposals Document. We have also updated how adjustments to revenues as a result of the application of this condition will impact allowed revenues. Adjustments now impact revenue through a change in MOD, the output of the annual iteration of the Price Control Financial Model (PCFM).

Special Condition E8: Distribution Network shrinkage allowance, and Special Condition E9: Distribution Network environmental emissions incentive revenue (EEt) and compliance with the Leakage Model

Proposal to amend, and combine Special Condition E8 and E9 with proposed new Special Condition 1F: Revenue adjustments for performance in respect of shrinkage & environmental emissions.

1.17. 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.

1.18. We have combined two previously separate SpCs, on shrinkage and leakage (SpC E8 and E9), in recognition of the strong links between the two (leakage accounts for 95 per cent of shrinkage) and also that they both report using the same shrinkage and leakage model. Bringing them under the same condition makes the links between the two incentives more apparent and transparent and provides for common governance arrangements to apply for the reporting of performance under both incentives.

⁴ 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>

1.19. 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.
- A provision to enable the Authority to direct changes to the allowed shrinkage and leakage volumes.
- A reporting requirement on the use of smart metering
- Requirement to report to the Authority annually on the outcome of the review of the shrinkage and leakage model.
- Introduced a rolling incentive mechanism to ensure that companies receive equal reward for investment (or penalties), irrespective of the timing of that investment in the price control period.
- Lagged both incentives by two years in line with our decision on charging volatility

1.20. The effect of these changes is to enhance existing incentives on licensees to address shrinkage and leakage.

Special Condition E10: Distribution Network discretionary reward scheme revenue

Proposal to amend, rename and renumber to Special Condition 1G: Discretionary reward scheme revenue amounts

1.21. 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, social and safety outputs beyond those funded at the start of RIIO-GD1.

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

- added provisions such that the total amount to be recovered through this scheme will be recovered in three tranches in year 3,6,9 following the start of the RIIO-GD1 price control (ie the final tranche will be in RIIO-GD2)
- 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.

1.23. The effect of making these changes to the existing licence condition is to improve the clarity of the calculation of any revenue adjustment.

Special Condition E16: Disapplication of the Distribution Network Transportation Activity Revenue Restriction

Proposal to amend, rename and renumber to Special Condition 4A: Disapplication of Relevant Special Conditions

1.24. This condition currently expressly refers to references in s24 of the Gas Act 1986 relating to modification references to the Competition Commission (CC). However, the Electricity and Gas (Internal Markets) Regulations 2011 (the Third Package Regulations) introduced a new procedure for making licence modifications.

1.25. In particular, under the new licence modification procedure the Authority is no longer able to make licence condition references to the CC which is a key mechanism in the condition. Instead, the Authority may modify the licence unilaterally, but licensees and certain other specified parties have the right to refer any decision to modify a condition to the CC.

1.26. Accordingly, we have proposed to amend this condition to take account of these changes. We also note that the disapplication provisions are currently set out in more than one licence condition in the above licences. For clarity and ease of reference, we consider it appropriate to use this opportunity to consolidate the disapplication provisions into one single licence condition. We propose to house the disapplication arrangements for Special Condition E19: Restriction of prices in respect of Tariff Capped Metering Activities (to be renumbered SpC 4D) within this condition. See below for further information.

1.27. The effect of our proposed amendments is to ensure that the condition reflects changes brought in by the Third Package Regulations and also to improve the clarity of how the disapplication provisions are set out in the licences by bringing the provisions into a single licence condition.

Special Condition E17: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network

Proposal to amend condition and renumber as Special Condition 4B

1.28. 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.

1.29. 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.

1.30. The effect of the proposed changes is to retain the broad purpose of the existing Special Condition 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.

Special Condition E18: Excluded Services

Proposal to replace with Special Condition 4C: Services treated as Excluded Services

1.31. 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.

1.32. 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.

1.33. The effect of making these proposed changes is to improve clarity regarding licensee requirements and to ensure the condition is applicable to the RIIO-GD1 price control period rather than GDPCR1.

Special Condition E19: Restriction of prices in respect of Tariff Capped Metering Activities

Proposal to amend condition and renumber as Special Condition 4D

1.34. The purpose of this condition is to set out the tariff caps that apply to certain metering activities undertaken by GDNs. We propose minor changes to the cross references in this condition in order to update them for the new structure of the Special Conditions under RIIO.

1.35. We also propose to move the provisions relating to Disapplication of the maximum tariff caps into the proposed Special Condition 4A: Disapplication of Relevant Special Conditions (previously SpC E16). The reasons effects for this specific change are noted above.

Special Condition E22: Separation of NTS and Distribution Network Businesses [NGGD only]

Proposal to renumber condition and amend title to Special Condition 4F: Separation of NTS and Distribution Network Businesses

1.36. Given the re-structuring of the Special Conditions, and changes to specific standard conditions, minor consequential changes are required to cross references in this condition to ensure that its continues to operate during the RIIO period.

Special Condition E23: Gas Conveyed to Independent Systems

Proposal to update and renumber condition as Special Condition 4I

1.37. The purpose of this condition is to put in place a framework that will provide for the continuation of the cross-subsidy arrangements that were in force at 31 March 2013 with respect to Independent Systems in the event that the Secretary of State issues a new direction to that effect.

1.38. Thus, the effect of this condition is to ensure the continuation of the current funding arrangements in the event that DECC issues a direction to that effect, as well as to modernise the condition.

Proposed New Special Conditions

Special Condition 1E: Incentive adjustment in respect of the Broad Measure of Customer Satisfaction

1.39. The purpose 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 in order to meet their requirements.

1.40. As part of this statutory consultation we have included a Stakeholder Engagement Reward Guidance⁵. The guidance document sets out the application process to be followed by the GDNs to be able to qualify for a reward under the stakeholder engagement scheme. It also sets out the assessment process which includes the minimum requirements, details on the evaluation and allocation of the reward and the panel members.

1.41. For RIIIO-T1 and GD1, the guidance document will 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. 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 this condition.

1.42. The effect of the condition is to incentivise the licensees to improve services to customers.

Special Condition 1H: The Network Innovation Allowance

1.43. The purpose of this condition is to establish the Network Innovation Allowance (NIA). The NIA is self governing and will allow licensees to implement smaller scale innovation projects on their own networks.

1.44. The effect of this condition is to establish arrangements, known as the Network Innovation Allowance. The condition sets out the percentage of each licensee's base revenue they can spend on innovative projects that conform to the Network Innovation Allowance Governance Document.⁶ The allowance will be provided on a 'use it or lose it' basis and licensees will self-certify against the criteria that are included in the Network Innovation Allowance Governance Document.

1.45. This condition also sets out the scope and change control processes for the NIA Governance Document. Finally it sets out that only NIA expenditure that conforms to the requirements of the NIA Governance Document will be considered eligible.

⁵ This condition gives effect to the Stakeholder Engagement Reward Guidance which has been published alongside this document as Supporting Document 6

⁶ This condition gives effect to the Gas Network Innovation Allowance Governance Document which has been published alongside this document as Supporting Document 5

Special Condition 1I: The Network Innovation Competition

1.46. In the T1 and GD1 Strategy Documents we outlined the introduction of an innovation stimulus - the Network Innovation Competition (NIC). Under the NIC the licensees can bid for funding through a competitive process for projects which have potential low carbon and/or environmental benefits.

1.47. The effect of the proposed condition is to establish the arrangements for the NIC to enable Licensees to fund eligible NIC projects. This includes:

- a) establishing the NIC Funding and the Funding Return Mechanism which outline the circumstances under the licensee will receive funding and the circumstance under which the licensee must return money
- b) establishing that the regulation, governance and administration of the NIC will be detailed in the NIC Governance Document⁷
- c) establishing that the licensee must comply with the NIC Governance Document as if it forms part of the licence
- d) establishing the procedures for issuing and revising the NIC Governance Document

Special Condition 2A: Governance of GD1 Price Control Financial Instruments

1.48. The reason for introducing this condition is to establish the change control framework for the Price Control Financial Model and the Price Financial Handbook⁸. Each of these form part of this condition and may only be modified by the Authority in accordance with the provisions set out in this condition.

1.49. The effect of introducing this condition is to establish, and provide governance for, two key associated documents that are essential components of the annual iteration of the Price Control Financial Model.

Special Condition 2B: Annual iteration process for the GD1 Price Control Financial Model

1.50. The purpose and effect of this condition is to:

- set out the steps to be taken for the annual iteration process of the Price Control Financial Model; and
- the procedure for directing the value of MODt to the licensee.

1.51. The terms MODt are specified in Special Conditions 2A: Restriction of NTS Transportation Owner Revenue, and form part of the licensee's allowed revenue.

⁷ This condition gives effect to the Gas Network Innovation Competition Governance Document which has been published alongside this document as Supporting Document 5

⁸ This condition gives effect to The GD1 Price Control Financial Model and the GD1 Price Financial Handbook which have been published alongside this document as Supporting Documents 1 and 2 respectively

Special Condition 3A: Legacy price control adjustments

1.52. The reason for introducing this condition to 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.

1.53. These close out adjustments are needed because:

- outturn values for schemes relating to 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

1.54. The effect of introducing this condition is to provide provisions for the adjustment of companies' allowed revenue to close-out schemes that were introduced under the price control prior to RIIO-T1 and GD1.

Special Condition 3B: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments

1.55. The reason for introducing this condition is to provide for the determination and, direction of, revised PCFM Variable Values relating to the licensee's actual levels of Totex expenditure. Under the annual iteration process for the Price Control Financial Model, the licensee's actual level of Totex expenditure is compared to their allowed Totex expenditure levels. Then by applying the Totex Incentive Strength rate for the licensee, and the Totex capitalisation rate, an appropriate adjustment to allowed revenue is calculated to reflect any over spend or under spend.

1.56. The effect of introducing this condition is to enable an adjustment to be made to licensee's allowed revenue based on any over or spend when compared against their allowed Totex expenditure levels.

Special Condition 3C: Specified financial adjustments

1.57. The reason for, and effect of, introducing this condition is to 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 licensees' gearing levels and corporate debt interest costs; and
- the licensees' allowed percentage cost of corporate debt.

Special Condition 3D: The Innovation Roll-out Mechanism

1.58. The purpose of this condition is to establish the Innovation Roll-out Mechanism. This implements our policy set out in the T1 and GD1 Strategy Documents that licensees would be able to apply for funding for the rollout of proven innovative solutions with low carbon and/or environmental customer benefits where the licensee cannot fund the roll out under the existing price control settlement.

1.59. The effect 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. The condition also sets out the process the Authority must follow when reaching its decision regarding a notice that has been made and sets out what would be considered a relevant adjustment.

Special Condition 4G: Methodology for Network Output Measures

1.60. We propose to introduce a new condition to ensure that a licensee develops, implements and maintains a Methodology for Network Output Measures and information gathering plan.

1.61. The effect of this proposed new condition is to introduce a standardised reporting framework for Network Output Measures which will inform our assessment of GDNs' output performance over RIIO-GD1.

1.62. It should be noted that in the second licence drafting consultation⁹ we proposed to insert this condition as a Standard Special Condition. We now consider it more appropriate for this to be inserted as a Special Condition.

Special Condition 4H: Specification of Network Outputs

1.63. The purpose of this proposed new SpC is to specify the Network Outputs the licensee shall deliver during the price control period and the treatment of any material over-delivery or under-delivery.

1.64. The effect of this condition is to provide incentives for networks to deliver the level of outputs prescribed and funded as part of the RIIO-GD1 price control.

⁹ RIIO-T1 and GD1: Draft licence conditions – Second informal licence drafting consultation

Special Conditions to be deleted

Special Condition E4: Distribution Network Transportation Activity Revenue adjustment (Kt)

Proposal to delete and merge into Special Condition 1B: Restriction of revenue in respect of the Distribution Network Transportation Activity.

1.65. 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 the proposed Special Condition 1B: Restriction of revenue in respect of the Distribution Network Transportation Activity.

1.66. The effect of the proposed deletion is to remove provisions that are covered elsewhere in the licence

Special Condition E11: Distribution Network innovation funding incentive for sustainable development scheme (IFISDt)

Proposal to delete and replace by Special Condition 1H: Network Innovation Allowance (NIA).

1.67. Under RIIO the innovation funding incentive has been replaced by the Network Innovation Allowance (NIA). See Special Condition 1H: Network Innovation Allowance (NIA).

1.68. The effect of this proposed deletion is to remove provisions that are covered elsewhere in the licence.

Special Condition E12: Distribution Network loss of meter work revenue driver (LMt)

Propose to delete.

1.69. As set out in Final Proposals we expect companies to manage the risk in relation to the level of metering work that they undertake during the price control. We no longer propose an uncertainty mechanism. As a consequence, the uncertainty mechanism set out in the current price control is no longer needed.

1.70. The effect of this is to remove a redundant mechanism from the licence.

Special Condition E13

Special Condition E14

Special Condition E15

1.71. The above three SpCs are currently in the licence that are titled 'Not Used'. As part of RIIO and in line with our proposed restructuring and renumbering of the GD Special Conditions we propose that all of these conditions are removed.. The effect being to remove redundant licence conditions from the licence.

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

Proposal to delete and consolidate reporting requirements into the provisions of the Regulatory Instructions and Guidance created by Standard Special Condition A40: Regulatory Instructions and Guidance, of the gas transporter licence.

1.72. 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 Standard Special Condition A40: :Regulatory Instructions and Guidance (RIGs) ('the RIGs Licence Condition').

1.73. 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).

1.74. The proposed new RIGs Licence Condition sets out the purpose, key elements, and governance arrangements (eg change control process) for the RIGs.

1.75. As part of RIIO we propose to consolidate the governance and instructions for the reporting of regulatory information into the new RIGs Licence Condition. Accordingly, we propose to delete the above conditions and replace with new SSC A40 Regulatory Instructions and Guidance

1.76. 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.