

NB all references below link to the numbering in the statutory consultation and are not updated where that numbering is incorrect. Typographical errors are included in the tables below, except for the Special Conditions where they have been marked up in a copy of the licence (which has been included within a separate document to the response)

National Grid Gas Transmission Standard Conditions - comments		
Comment number	Para Ref	Comment
Condition 1 : Definitions and Interpretation		
1.	Throughout	<p>We cannot understand why the Authority is proposing to make modifications to the provisions of Standard Condition 1 as the vast majority of the standard conditions of gas transporter licences are “switched off” in the licences of DN Operators and the NTS Operator.</p> <p>The relevant defined terms for the NTS Operator and DN Operators are set out in Standard Special Condition A3 (Definitions and Interpretation) of the Licences of the NTS Operator and DN Operators.</p> <p>If the changes are implemented, they will have no impact on the conditions in the NTS Operator’s licence or those of DN Operators, since the defined terms in the relevant parts of those licences are governed by the defined terms in Standard Special Condition A3 (Definitions and Interpretation) of those licences.</p> <p>As such, the proposed changes can only have an impact on the licences of IGTs. They are therefore not relevant to RIIO.</p> <p>These changes, if implemented, would not achieve any substantive effect for the NTS Operator licence and those of DN Operators, while potentially making the conditions of IGTs licences in which the relevant amendments would have effect unworkable.</p> <p>In any event, we note that these amendments are not carried in a systematically (for example because, while the proposal suggests that “Holding Company” should become a capitalised definition, it does not seek to use this defined term consistently even within condition 1 (for example where the expression “holding company” appears in the definitions of “Affiliate” and “ultimate controller”).</p>

National Grid Gas Transmission Standard Conditions - comments		
Comment number	Para Ref	Comment
		<p>If Ofgem is to seek to change defined terms to being capitalised, this must be done in a consistent manner that reflects how those defined terms are used. As proposed, the amendments to condition 1 achieve none of these objectives and should not be implemented (and, as pointed out above, may have adverse consequences for the coherence of IGT’s licences.)</p> <p>We therefore suggest that the changes are not directed as proposed as they are likely to have an impact on whether the licence of independent gas transporters remain coherent and workable.</p>
Condition 2 : Application of Section C (Transportation Services Obligations)		
2.	Para 1	Delete additional/unnecessary full stop after sub-paragraph 2(b).
3.	Para 5(b)	For consistency, the expression “Transportation Services Area” should remain lower case as is lower case in the schedule to the licence.
Condition 28 : Termination of Shipping Arrangements		
4.	Throughout	<p>Need to ensure that licence conditions use capitalised definition consistently within different sections of the licence. As drafted, the conditions as modified would use a number of terms that are defined with a lower case in condition 1 incorrectly, because the terms, as defined in condition 1 are lower case, but are used in condition 28 in upper case. This will create the potential for users to become confused as to whether there are separate meanings for the same term when used in lower case in condition 1 and used in upper case in this condition. While we note Ofgem’s policy of seeking to use capital letters for defined terms in Special Conditions, it needs to be remembered that there is the prospect of a general revision of the terms of the gas transporter licences which should be used to ensure the consistent use of defined terms in upper and lower case.</p> <p>As a result, the following terms should remain in lower case in this condition (especially as no proposal has been brought forward to change the capitalisation of these terms in condition 1):</p> <ul style="list-style-type: none"> - “relevant shipper”; - “gas”; - “licensee’s pipeline system”; - “secondary sub-deduct premises”. <p>By contrast, if the authority is to seek to direct a change to capitalise the expression “Old Arrangements” (see paragraph 2(a),</p>

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		<p>then this must be carried forward consistently and the same expression used in upper case wherever it is used in this condition (see paragraph 2(c) where it is used in lower case).</p> <p>We suggest that all defined terms are used in lower case except “Old Arrangements”.</p>

National Grid Gas Transmission Standard Special Conditions - comments		
Comment number	Para Ref	Comment
Standard Special Condition A3: Definitions and Interpretation		
1.	General	<p>Need to ensure that licence conditions use capitalised definition consistently. As drafted, there is no proposal to change the use of defined terms in Standard Special Condition A3 to upper case, but amendments are proposed to capitalise the use of the defined terms where they are used in specific conditions.</p> <p>This approach will lead to internal inconsistency and potentially to confusion. Wherever possible, defined terms should also be used consistently between the standard and standard special conditions (see comments on the standard conditions).</p> <p>The capitalisation of defined terms should be carried forward through by means of the proposed general revision of the terms of the gas transporter licences to ensure consistent use of defined terms in upper case.</p> <p>In particular, the expression “Licensee” should be used in lower case throughout the Standard Special Conditions in Parts A and D.</p>
2.	Throughout	Defined terms use lower case throughout. Defined terms should be used consistently in substantive conditions.
3.	“permitted	Add ‘s’ to ‘paragraph’ in last paragraph of definition

National Grid Gas Transmission Standard Special Conditions - comments		
Comment number	Para Ref	Comment
	purpose”	
Standard Special Condition A8: Emergency Services and Enquiry Service Obligations		
4.	Throughout	The following terms should be used in lower case throughout the revised condition as they are defined in lower case in Standard Special Condition A3 (Definitions and Interpretation) <ul style="list-style-type: none"> - Licensee; - Gas; - Information; - Primary Sub-deduct premises; - Secondary Sub-deduct premises; - Relevant Supplier; - Shipper; - Customer.
5.	Throughout	If the expressions “Relevant Customer” and “Network Emergency Coordinator” are to be capitalised (as they are in, for example, paragraph 16), then their use throughout the condition needs to be in capitals throughout the condition and, in particular, where those terms are defined in paragraph 21.
6.	Para 3(a)	Insert comma after “numbers”
Standard Special Condition A30: Regulatory Accounts		
7.	Throughout	The following terms should be used in lower case throughout the revised condition as they are defined in lower case in Standard Special Condition A3 (Definitions and Interpretation) <ul style="list-style-type: none"> - Licensee; - Financial Year; - Regulatory Accounts; - Transportation Business; - Affiliate; - Related Undertaking; - Ultimate Controller; - Gas; - Appropriate Auditor;

National Grid Gas Transmission Standard Special Conditions - comments		
Comment number	Para Ref	Comment
		<ul style="list-style-type: none"> - Metering Business; - Meter Reading Business; - De Minimis Business; - Subsidiary. <p>“Statutory Accounts” should be lower case as it is not a defined term.</p>
8.	Para 2(f)	<p>Term ‘relevant associate’ has not been defined (it was defined in the old A30). It is also not capitalised.</p> <p>Add a definition to paragraph: Relevant Associate is as defined in paragraph 4 of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing).</p>
9.	Para 3	In last line replace “they” with “it”.
10.	Para 4	“Gas” should not be capitalised in first sentence (two occurrences).
11.	Para 11	“Amount” should not be capitalised in line 3
12.	Para 30(b)	<p>Capitalise reference to “UK corporate governance code” and “Listing Rules and Interpretations” as these are the proper names of these documents: See, for example the code published by the Financial Reporting Council (see: http://frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx)</p>
13.	Para 31	<p>Delete “for the consolidated transmission business”.</p> <p>Inconsistency of language with other references to pre-RIO licence conditions. Should read “in accordance with this licence condition in the form it was in force as at 31 March 2013” [NEW TEXT IN BOLD]</p>
Standard Special Condition A35: Prohibition of Cross-Subsidies		
14.	Throughout	<p>The following terms should be used in lower case throughout the revised condition as they are defined in lower case in Standard Special Condition A3 (Definitions and Interpretation)</p> <ul style="list-style-type: none"> - Licensee; - Transportation Business; - Affiliate; - Related Undertaking; - Relevant Gas Transporter;

National Grid Gas Transmission		
Standard Special Conditions - comments		
Comment number	Para Ref	Comment
		<ul style="list-style-type: none"> - NTS Operator; - DN Operator.
15.	Para A35.3	The reference is to the DN condition, but this is not relevant for the NTS licence as 1A is the “Definitions” condition in that licence not “Restriction of revenue in respect of the Distribution Network Transportation Activity : Definitions”
Standard Special Condition A36: Restriction on Activity and Financial Ringfence		
16.	Throughout	<p>The following terms should be used in lower case throughout the revised condition as they are defined in lower case in Standard Special Condition A3 (Definitions and Interpretation)</p> <ul style="list-style-type: none"> - Licensee; - Permitted purpose; - Gas; - Subsidiary; - Affiliate; - Related Undertaking; - De Minimis Business; - Metering Business; - Meter Reading Business; - Regulatory Accounts.
Standard Special Condition A40: Regulatory Instructions and Guidance		
17.	Throughout	<p>The following terms should be used in lower case throughout the revised condition as they are defined in lower case in Standard Special Condition A3 (Definitions and Interpretation)</p> <ul style="list-style-type: none"> - Licensee; - Information (except where used as part of the defined term “Specified Information”); - Affiliate; - Related Undertaking; - DN operator.
18.	Throughout	<p>This condition confuses the use of:</p> <ul style="list-style-type: none"> - “Information” (which should be in lower case as it is defined in lower case in Standard Special Condition A3; and - The defined the term “Specified Information” in paragraph 3(a).

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Comment number	Para Ref	Comment
		<p>These terms need to be used consistently.</p> <p>Use “information in lower case except where part of the defined term “Specified Information”.</p> <p>Insert “Specified” before “Information” in paragraphs 3(b) and 4(a).</p>
19.	Para 2	<p>The expression “Special Conditions” is not defined. We suggest that a reference to the “Relevant Special Conditions” as defined in Special Condition 1A of the NTS and DN special conditions be used instead and that Condition A40 refer to that definition.</p> <p>Paragraph 2 should read as follows:</p> <p>...”needs to enable it to administer the Relevant Special Conditions of this license (as that term is defined in Special Condition 1A (Definitions) or Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions), whichever is in force in this licence).”</p>
20.	Para 2	We do not consider that the reference to Final Proposals (which in any event are undefined) is necessary as those proposals are expressed in obligations on the licensee set out in the Special Conditions.
21.	Para 9	Should refer to “this” licence.
22.	Para 16	Correct cross-reference required. Replace reference to Special Condition 1B with reference to”
Standard Special Condition A55: Data Assurance requirements		
23.	Throughout	Capitalise “Data” consistently throughout.
24.	Para 2(a)	Replace ‘and’ with ‘or’
25.	Para 3(a)	The DAG is not incorporated into the licence by licence modification, but rather its obligations are imposed on the licensee by the wording of paragraph 3(a) that “the licensee must ... comply with the provisions of the Data Assurance Guidance (the DAG”) ... the scope and contents of which are set out in Part C of this condition, as if it were a condition of this licence.” As such, the words “being a document that will be incorporated into this licence condition by way of licence modification” should be deleted s they are inaccurate and misleading.

National Grid Gas Transmission Standard Special Conditions - comments		
Comment number	Para Ref	Comment
		We suggest deletion of the following words from paragraph 3(a) “being a document that will be incorporated into this licence condition by way of licence modification”.
26.	Para 12	<p>“Potential errors” are only referred to once and therefore, grammatically, should not take the definite article (which implies that they have previously been referred to or defined).</p> <p>We suggest deletion of “the” before “potential errors” and replace with “any”</p>
27.	Part D	<p>Part D needs to refer to issue or modification of the DAG consistently (in line with the approach in paragraph 15 (a)(ii).</p> <p>We suggest insertion of “issued or” before “modified” in paragraph 14 and “issue or” before “modify” in the first part of paragraph 15(a).</p>
28.	Part F	Delete (“derogation”) as the term is not used – the paragraph refers to “the direction”.

National Grid Gas Transmission Special Conditions - comments		
Comment number	Para Ref	Comment
Special Condition 1A: Definitions		
1.	Para 2A.4	There are a number of instances where the licence conditions refer to the Financial Handbook and these references are not clear. We request that each of the references to the Financial Handbook be checked for accuracy/consistency. In addition, we are suggesting a number of changes to the text of the Financial Handbook to improve the consistency of the Handbook with the licence. We request that these changes to the Financial Handbook be taken forward as part of this process.

National Grid Gas Transmission Special Conditions - comments		
Comment number	Para Ref	Comment
		We request that the licence drafting be checked again to ensure that each of the defined terms in Special Condition 1A are used consistently throughout the substantive conditions and that capitalisation is consistent. Our mark-up has attempted to pick up many of these issues, but we request that Ofgem conduct a double-check to ensure consistency.
2.	Para 2A.4	Customer: Would it be more appropriate to point to NTS System Operation Charges and NTS Transportation Owner Charges rather than 'network charges'
3.	Para 2A.4	The current definitions of Contractual Delivery Date, Entry/Exit Lead Time and Permits are circular. This can be corrected by deleting "ending on the Contractual Delivery Date" from the end of the Lead Time definitions and cross referring Contractual Delivery Date to Part E not Part B of the relevant conditions.
4.	Para 2A.4	Do not believe that the definitions for "Firm Entry Capacity" and "Firm Exit Capacity" are explicit enough to differentiate from the Interruptible products Replace with the suggested drafting that we previously suggested, e.g. "Firm Entry Capacity means Entry Capacity that is not subject to curtailment rights under the UNC" and same changes for Exit definition
5.	Para 2A.4	The definitions for "Funded Incremental Obligated Entry Capacity" and "Funded Incremental Obligated Exit Capacity" do not work as currently drafted Suggest that drafting is replaced with "Funded Incremental Obligated Entry Capacity means Incremental Obligated Entry Capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not previously been provided through Entry Capacity Substitution and for which the Licensee has not received an additional funding allowance through Legacy Incremental Entry Capacity" and same changes for Exit definition. <i>Also, in order to implement 5 year restriction on substitution the substitution definitions also need to be changed as follows "Entry Capacity Substitution means the process by which unsold Non-Incremental Obligated Entry Capacity and unsold Funded Incremental Obligated Entry Capacity is moved from one or more NTS Entry Points (with effect from a day not less than five years from the Contractual Delivery Date applicable to that capacity) to meet the demand for Incremental Obligated Entry Capacity at another NTS Entry Point in accordance with the obligations set out in Special Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements)." And the same changes for the Exit definition.</i>

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6.	Para 2A.4	The definition of “NTS System Operation Activity” needs to exclude the provision of “Funded Incremental Obligated Entry Capacity” and “Funded Incremental Obligated Exit Capacity” as these are now TO activities Suggest definition should exclude those activities covered by “supply of NTS Services”
7.	Para 2A.4	Industrial Emissions Costs: Needs to include the legislative reference for Industrial Emissions Directive
8.	Para 2A.4	Permit Arrangements: Don’t think the Permit Arrangements, Entry and Exit Lead Time and Contractual Delivery Date definitions work together
9.	Para 2A.4	Constraint Management: Is capitalised but not defined anywhere
Special Condition 2A: Restriction of NTS Transportation Owner Revenue		
10.	Part B	This part of the condition is dependant on the capacity definitions being correct
11.	Para 2A.16 & 2A.17	<i>We need to also include terms in the equation for REV which relate to terms which do not themselves have RPIF applied, but depend on the Base Revenue (which does have RPIF applied). Legacy one needs to include IFI, RIIO one, stakeholder satisfaction, NIC etc.</i>
12.	Para 2A.16	The equation for “REV” refers to “ ISE_{t-2} ”, but this term is not RPIFed – think it should refer to “ACPS” plus “ACPW” terms, but not clear that 2 year lag is applying?
Special Condition 2B: Calculation of allowed pass-through items		
13.	General	The formal proposals in relation to ringfencing states that a mechanism should be included in the price control conditions to allow recovery of costs associated with independent directors. We would expect to see that in this pass through condition but it does not appear to be included. <i>We understand from discussions with Ofgem that this will be logged up and provided for at RIIO-T2 and would welcome confirmation in writing to this effect.</i>
14.	Paras 2B.3 & 2B.15	The equation for “PT” refers to “ISA”, but it probably should be “IS” – but the whole drafting around the SIUs is not clear between this condition and 11F
Special Condition 2C: Stakeholder Satisfaction Output		
15.	Para 2C.12	There needs to be a process as to how the Authority will determine values e.g. timelines and how the decision will be communicated
Special Condition 2D: Permit Arrangements for the provision of incremental capacity		
16.	General	There is no mention of the post 2103/14 arrangements – we were expecting some drafting around the £40.2m to be included.

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		<p><i>We suggest the addition of a new paragraph within the Introduction plus relevant drafting within a new Part E.</i></p> <p><i>Within the Introduction, the inclusion (at paragraph 2D.9) of:</i></p> <p><i>The Authority will consider extending the Permit Arrangements for the second, third and fourth years of the Price Control Period if the Licensee can demonstrate there is a need to continue such arrangements. The process to allow the Licensee to propose the extension of Permit Arrangements is outlined in Part E.</i></p> <p><i>As a new Part E:</i></p> <p><i>Part E: Review of Permit Arrangements to apply beyond 31 March 2014</i></p> <p><i>The Licensee must notify the Authority by 30 September in any Formula Year that it believes the Permit Arrangements need to be extended for a further Formula Year or further Formula Years beyond year one of the Price Control Period. As part of such notification, the Licensee must provide the Authority with such information as the Authority may reasonably request for the purposes of considering the extension of the Permit Arrangements. Following such submission, the Authority will determine appropriate Permit Arrangements to apply for the following Formula Year(s) by 17 December in any Formula Year in which the Licensee has made a submission under this Part E</i></p>
Special Condition 2F: The Network Innovation Competition		
17.	General	Does this condition interact properly with Special Condition 1L of the DN Licence?
Special Condition 3A: Restriction of NTS System Operation Revenue		
18.	Para 3A.12	The equation for "SOREV" includes references to "BaseSOC" and "SOREVIBEC" – the use of these terms is not correct – "BaseSOC" should be outside the bracket as no RPIF has already been applied, plus the reference to SOREVIBEC should be to the whole "ECIIR" which has the RPIF applied to it
Special Condition 3B: Entry Capacity and Exit Capacity Constraint Management		
19.	General	Revised drafting contained in marked up copy of condition to correct inappropriate comparison of CMIR to ANLL and ANLU
20.	Para 3B.19	On reflection we believe the 0.52p/kWh buyback limit for exit capacity should be included to ensure consistency between the

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		licence and UNC. Drafting has been suggested in the accompanying marked up document
21.	Para 3B.25	Believe that “ExBBCNLR” and “RExUNC” are doing the same thing – hence need to remove one of them. Also we are missing a term to capture the daily sales of exit capacity
22.	Para 3B.28	List should include Network Flexibility, as per SpC 5E
23.	Para 3B.36 & 37	Do not understand what these two equations are trying to do – algebra does not seem to work <i>We do not believe that a two-year lag needs to be applied for these revenue terms – especially as the ‘RAREnC’ term feeds into the Performance Measure ‘CMOpPM’ and so to ensure that the correct year’s revenue is being correctly considered, it needs to be the value for Formula Year t.</i>
24.	Part J	<i>As the targets suggested for the Constraint Management scheme did not take into account the release of any incremental capacity (as none had been signalled at the time of the Business Plan submission), should this section also allow the target to be varied following the March 2013 QSEC auction?</i>
25.	Appendix 3	Shouldn’t all the lower limits be negative for this to work?
Special Condition 4A: Governance of GT1 Price Control Financial Instruments		
26.	General	Condition provides for process to be followed where a modification is insignificant. No mention is made of what happens where the modification is significant
Special Condition 5C: Specified Financial Adjustments – NTS Transportation Owner		
27.	Part A	Refers to EDE and APFE values being directed every year but financial handbook provides two windows
Special Condition 5E: Arrangements for the recovery of uncertain costs		
28.	Para 5E.29	Network Flexibility Costs is included here but this has not been reflected in SpC 3B
Special Condition 5F: Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply		
29.	General	We need to have a process for setting revenue drivers in a timely manner in advance of an auction taking place – this is still missing from the drafting. <i>Subsequent discussions with Ofgem have revealed a preference for this to instead be included in the Generic Revenue Driver Methodology and we look forward to working with Ofgem to agree this.</i>
30.	Para 5F.20	<i>We now understand that the intent is for the revenue driver figures to be in 2009/10 prices for RPI, but to also include RPE for 2009/10 to 2010/11 year. If this is the case then these RPE uplift figures are correct to not include the 2009/10 to 2010/11, but if not then they need changing.</i>
Special Condition 5G: Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply		
31.	General	We need to have a process for setting revenue drivers in a timely manner in advance of an auction taking place – this is still

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		missing from the drafting. <i>Subsequent discussions with Ofgem have revealed a preference for this to instead be included in the Generic Revenue Driver Methodology and we look forward to working with Ofgem to agree this.</i>
32.	Para 5G.19	<i>We now understand that the intent is for the revenue driver figures to be in 2009/10 prices for RPI, but to also include RPE for 2009/10 to 2010/11 year. If this is the case then these RPE uplift figures are correct to not include the 2009/10 to 2010/11, but if not then they need changing.</i>
33.	Table 3 & Table 4	<i>These values are calculated from the existing licence – hence are in 2009/10 RPI base, but 2005/6 RPE. We need to uplift these values by 1.116 (as per the current INDEX value in the licence) to enable these to be in 2010/11 year for RPE purposes.</i>
34.	Part G	Licence is missing both the old revenue driver capacity and the substituted capacity, so two new tables need to be included as per the Entry drafting
35.	Table 7	Should remove references to ‘firm’ and ‘interruptible’ in relation to Direct Connects
Special Condition 6C: Specified financial adjustments – NTS System Operator		
36.	Part A	Refers to EDE and APFE values being directed every year but financial handbook provides two windows
Special Condition 6D: Arrangements for the recovery of SO uncertain costs		
Special Condition 7E: Specification of Network Replacement Outputs		
37.	General	<i>We were expecting the high level outputs table, as included in our submission (updated for current position) rather than the excel workbook included with the consultation. Requiring reporting at this level of detail leads to an unnecessarily onerous regulatory burden. We understand from Ofgem that this table will be replaced and look forward to a new table being included in the licence direction.</i>
38.	Table 2	<i>We cannot reconcile the Network Output values included in the table. We understand from Ofgem that these values are incorrect and look forward to them being corrected in the licence direction.</i>
Special Condition 11B: Allocation of revenues and costs for calculations under the price control in respect of the NTS Transportation Owner Activity and NTS System Operation Activity		
39.	Paras 11B.1 & 3	Does this condition also need to refer to the SO information, hence also Chapter 8?
40.	Paras 11B.1 and 11B.2	In the equivalent gas distribution special condition 4B, these are combined as a single paragraph
41.	Para 11B.7	In first sentence, insert “to” after Transportation Business

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Comment number	Para Ref	Comment
		...by the Transportation Business to the following activities:
42.	Para 11B.15	Conform reference to De Minimis Business ...in the undertaking provision of De Minimis Business Activities under...
Special Condition 11C: Services treated as Excluded Services		
43.	Para 11C.8	Thought we were also including a (d) for “Pipeline diversion costs” which are claimed under Sp C 5E?
Special Condition 11F: Gas conveyed to Independent Systems		
44.	General	Not sure that the condition is clear if a direction is not received from the SoS?
45.	Para 11F.13	This does not tie up with drafting within Sp C 2B

National Grid Gas Transmission GT1 Price Control Financial Handbook – comments		
Comment number	Page/ Paragraph Ref	Comments
1	General	We have also provided a marked up copy of the handbook to address typos etc. Many of the minor comments have not been repeated in this table. However, in some cases the point is repeated in this table so that additional explanation of why the relevant change has been made can be provided.
2	General	The mark up includes a large number of adjustments involving the capitalisation of letters etc. Many of these adjustments relate to defined terms which should be capitalised. For example there are a large number of instances of adding “Adjustment” to “Time Value of Money” because the defined term is “Time Value of Money Adjustment”
3	General	Why has “Price Control Period”, “Special Conditions” and “Handbook” been capitalised in the ET Handbook but not the GT/GD Handbooks? Should this be consistent? This may need to be changed throughout this handbook.
4	Introduction – footnote 1	This should reference the totex definition at 6.20. The current words are incorrect as totex excludes far more than just non-controllable costs.

National Grid Gas Transmission GT1 Price Control Financial Handbook – comments		
Comment number	Page/ Paragraph Ref	Comments
5	Introduction	It is still not clear how the Final proposals fit in with the hierarchy of licence, handbook and PCFM. If the handbook and Final proposals are in conflict which one takes precedence?
6	Chapter 1	<p>The handbook does not contain any instructions and guidance on how to operate the model (other than a few comments within the model itself). It would be helpful to users less familiar with the model (customers and other industry participants) if there were some instructions.</p> <p>As things stand the model gives guidance on how to calculate certain inputs to the model (inputs which other industry participants are unlikely to calculate as they will not have the information to do so) but gives no guidance on how to correctly operate the model for a given set of inputs.</p> <p>Given the limited time available between now and a statutory consultation it may be appropriate to reference a document that will be developed giving the appropriate model guidance.</p>
7	Chapter 1	It would be helpful if this chapter gave further guidance on how the model makes sure that the annual iteration process and changes to the model align. How does the model make sure that if the model is changed, the MOD calculation compares the recalculated base revenue to the iteration last performed in the old model rather than the new one? There is the potential for a problem if the new model would indicate a different value for MOD for a prior year than that actually directed.
8	1.1	<p>Rather than “Transmission Owner”, this should be “Transportation Owner”.</p> <p>The reference to “base revenue”, needs to also reflect SC 3A i.e. SO internal costs. This amendment to base revenue may need to be made throughout this handbook. This has been done in footnote 6 – perhaps the same should be done here.</p> <p>Footnote 2 refers to “Base Revenue”. This should be “Base NTS Transportation Owner Revenue”.</p>

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9	1.16	<p>We need to be careful referring to the model recalculating base revenue. The document states this on a number of occasions. The model does not calculate the licence term for base revenue but a sub set of it relevant to the calculation of MOD (and SOMOD). The document should clarify that the model is designed solely to calculate the MOD (and SOMOD) term and so does not reflect changes in revenue caused by movements in pass through costs or revenues associated with non-totex incentive scheme performance etc. The current language about recalculating Base Revenue is confusing in this regard as it implies that the model calculates an equivalent term to the base revenue in the licence which it does not, it calculates a component part</p> <p>For simplicity this may be best dealt with by a footnote that explains precisely what the model does and does not do (e.g. reference the fact that pass through items are not modified in the calculation).</p>
10	1.17	<p>The text has been amended to read:</p> <p>“The output value of MOD_t for the licensee will reflect the difference between the recalculated base revenue figure for the licensee for Formula Year t and the base revenue (PU term) included in the Final Proposals. It will also reflect the difference between the recalculated base revenue figures held in the PCFM before the Annual Iteration Process and the recalculated base revenue figures for the licensee held in the PCFM after the Annual Iteration Process recalculations for Formula Years t-1 and earlier. The PCFM calculations will apply appropriate time value of money adjustments to the calculation of MOD_t, so that the licensee will be in the same economic position as if adjustments to base revenue for years prior to Formula Year t had been notified to it in the Formula Year concerned”</p> <p>This is to provide additional clarity. The previous text was incorrect in that for years t-1 and prior the MOD term is not equal to the difference between the most recent annual iteration and the previous one. MOD is a difference from the PU term.</p> <p>The inclusion of the word “economic” is because the licensee will not be in the “same” position if it does not receive the revenues in the years that the recalculations suggest they should have been received. It will be in the same economic position though if the time value of money adjustment is performed.</p>
11	1.25	Where will the log of model changes be kept? Will it be stored on the website with the model?

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Comment number	Page/ Paragraph Ref	Comments
12	1.27	The proposed file name is confusing. The model names 2014-15 is the model used to calculate income for 2015-16.
13	2.10 Allowed expenditure (ii)	Part (ii) refers to the totex incentive mechanism and should not. 2.10 is explaining inputs to the PCFM. The TIM calculation is a calculation within the PCFM and does not inform an input to the model. The end of item (ii) should be amended – please see mark up provided.
14	2.10 Percentage	The sentence is overly restrictive. A change in the cost of debt percentage does not only affect calculations of the return on RAV. It also affects the time value of money adjustments etc.
15	2.12	The choice of example (CDE) is poor. It is not clear how this example provides any guidance under a heading of “atypical revisions”.
16	Chapter 3	Many elements of the proposals are affected by the Pensions Deficit Allocation Methodology, which will require further development. Depending on what is agreed and how it is applied we would anticipate that the corresponding text in this document may need to change as a result.
17	Chapter 3	Given the extent of comments which still remain on this section, it is likely to prove very difficult to produce an accurate description which correctly describes the calculations and associated mechanisms in the next iteration, so the opportunity to comment on an improved draft of this section before the “direction” stage is reached would be beneficial for all parties.
18	3.3	The reference to opening revenues is misleading. The chapter does not only cover changes to the opening base revenues. For example, table 3.3 changes the allowances that were previously set out in table 3.2. Table 3.2 changed allowances from those in the opening base revenues. Note that the ET1 handbook already reflects the suggestion in this comment.
19	3.5	The final bullet is inconsistent with the definition of totex in 6.20 and correspondence between National Grid and Ofgem since the Final Proposals. We suggest deleting this bullet to remove any apparent inconsistency.

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Comment number	Page/ Paragraph Ref	Comments
20	3.7	The second sentence in this paragraph should be deleted, as the reasonableness review referred to here does not determine or inform the proportion of a licensee’s deficit which is attributable to the transportation business. However, if this sentence is retained, the words “acting reasonably, consistently with the price control pension principles, and” should be added after the word “Ofgem” in the final line.
21	3.12	The licence SC 1A states that “Pension Protection Fund” has the meaning given in chapter 3 of the handbook. 3.12 explains that the PPF charge a levy but not define Pension Protection Fund. A definition is required – we suggest a footnote referring to the glossary and the inclusion of an entry in the glossary.
22	3.15	For GT, the preceding price control is TPCR4 and the rollover year, however for ET, the preceding price control is TPCR4 excluding the rollover year. The rollover should be considered consistently over the price controls.
23	3.15	The TPCR4 pensions true-up amount are now based on actuals rather than forecasts, so the second sentence which refers to Special Conditions 6A and 7A and Chapter 11 of this handbook should be deleted. (Chapter 11 no longer makes any reference to pensions.)
24	3.19	This para states values revised on “two occasions”, yet Special Condition 5C.8 contemplates a direction by the Authority in each Formula Year t-1. This does not seem consistent.
25	3.20	This para states values revised on “two occasions”, yet Special Condition 6D.29 contemplates a direction by the Authority in each Relevant Year t-1, which would presume more than two occasions. Please clarify.
26	Table 3.1	It is unclear why a valuation at 31/3/12 is needed as well as a valuation at 31/3/13 (see comments which follow below).
27	Table 3.1	In the second row of dates the APFE and SOAPFE values should be revised to “2014-15 to 2020-21 excluding 2017-18”, to avoid unnecessary complications when the true-up for 2017-18 is calculated (in late 2020).
28	3.23	Standard Special Condition A40 relates to “Price Control Review Information” rather than “Regulatory Instructions and Guidance”. Please clarify.
29	3.24	The final sentence “This includes determining the actual Cut-Off Date Pension Scheme Established Deficit as at 31 March 2012.” should be deleted. It is unclear why this value of the Established Deficit is seen as significant, given that it will change at each valuation and this value should not be used to set allowances (see comment below)

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Comment number	Page/ Paragraph Ref	Comments
30	Table 3.2	<p>This Table calculates updated pension deficit allowances based on the March 2012 valuation, but there seems no justification for using this superseded valuation when the next full triennial valuation as at 31/3/2013 will already be available. The reference to March 2012 in row 1 should be deleted.</p> <p>It looks like there is confusion in this table between the established deficit (which is always as at 31 March 2012 for transmission) and the deficit valuation (which should be the most recent actuarial valuation). Generally speaking our understanding of Ofgem’s policy intent is that up to date valuation data and assumptions will be used and the value of the established deficit “as at” 31 March 2012 will be updated on that basis.</p>
31	Table 3.2 & Table 3.3 Row 7	<p>At the end of Row 7, there needs to be an extra item in the derivation of the parameter “C”. This is to add forecast contingent asset costs, where these have been allowed for the relevant pension scheme.</p> <p>Note: if these contingent asset costs are not added here, they will not be included in the revised EDE values that are calculated in accordance with Table 3.2, and so will be inconsistent with the decisions reached at Final Proposals.</p> <p>This comment also applies to Row 7 of table 3.3</p>
32	Table 3.2	<p>For clarity, the words “including contingent asset costs” need to be added to the first line of row 8 and the third line of point (a) in row 8, so they read “Obtain actual deficit repair payments including contingent asset costs attributable to the licensee:” and “a) Obtain relevant portion (i.e. the portion attributable to the Pension Scheme Established Deficit for the licensee’s transmission business) of actual deficit repair payments including contingent asset costs made by licensee in 2012-13 and 2013-14 (ED);” respectively.</p> <p>This is required to ensure the relevant costs are included in the calculation in line with Final Proposals.</p>

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Comment number	Page/ Paragraph Ref	Comments
33	Table 3.2 and 3.3 Rows 8 & 9	<p>The application of tax to this formula is incorrect because it is inconsistent with the way the financial model treats the EDE and SOEDE term. This tax treatment has been introduced since the previous draft and is incorrect.</p> <p>The financial model takes the EDE / SOEDE and includes it in revenue as a DARTS item. The model also removes this income from the tax allowance (or adds an equivalent cost). This means that the licensee will suffer tax (for which it will not be remunerated) on the value of the EDE /SOEDE term. This means that to achieve the correct post tax position, the EDE value must be pre tax. This is best illustrated by an example.</p> <p>Assuming a tax rate of 21%, if the network efficiently pays £100m more into the scheme than the allowance then the gross cost will be £100m and the net (of tax) cost £79m. This £79m is the net cost that the network needs to be compensated for. The drafting in the handbook would calculate an adjustment to the EDE value of £79m and add that to revenues. The model would then include £79m of income but not increase the tax allowance. When the company subsequently receives £79m of income (with no cost) it will pay tax on that income of £17m leaving it with £62m, i.e. the company will not receive the £79m net amount required. Effectively the company will pay out £100m extra but only get back £83m (being the net of tax revenue of 62 plus the original tax relief on the 100 cost of 21).</p> <p>The simple way to address this issue is to remove the (1-CT) parts of the formula in the handbook. However this is not correct if the tax rate changes.</p> <p>The more correct way to address it would be add a row after row 8 defining a new term (called D1 for this example) where $D1 = D / (1 - CT_t)$. In this case new term CT_t is the tax rate in the year for which the EDE value is being calculated, which in table 3.2 will be 2015/16.</p> <p>This applies to both tables 3.2 and 3.3 and to both rows 8 and 9</p>

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Comment number	Page/ Paragraph Ref	Comments
34	Table 3.2 and 3.3 Row 8 (d)	<p>The text at (d) is unclear. It states that “Where the licensee has taxable profits in the year, deduct the value of corporation tax...”. The way this is written implies that the whole of the licensee’s corporation tax bill is deducted which is not the case.</p> <p>The item above gives two options on how to modify this section to correct a tax error. If the more complex / correct route is chosen the current words should be replaced with</p> <p>“Where the licensee has taxable profits in the year, calculate the post tax cost of the efficient deficit repair payment by multiplying by 1 minus the corporation tax rate.”</p> <p>If the simpler option is taken the tax adjustments can be removed from the drafting</p> <p>This applies to table 3.2 and 3.3</p>
35	Table 3.2 Row 8 (e) and row 9	<p>The WACC uplift is incorrect. The time value of money adjustment from 2012/13 to 2015/16 is not to multiply by $(1 + WACC_{12/13})^3$.</p> <p>Instead it should be to multiply by $(1 + WACC_{12/13}) \times (1 + WACC_{13/14}) \times (1 + WACC_{14/15})$.</p> <p>This change is important because with the move to a cost of debt index the WACC is expected to be different in each year.</p> <p>This applies to rows 8 and 9.</p>
36	Table 3.2 Row 8	<p>In Row 8, the words “in 2009-10 prices” should be deleted from the definition of ED. ED appears at step (a). It is then deflated at step (c). It follows that ED must have been in nominal prices.</p> <p>In addition, in the definition of ED in row 8 of the table, the words “including contingent asset costs” should be added and the word “in” deleted so it reads ““ED” is the licensee portion of established deficit repair payments including contingent asset costs during in the relevant Formula Year”</p>

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Comment number	Page/ Paragraph Ref	Comments
37	3.26 and 3.29	<p>The drafting in this para is incorrect. Even adopting Ofgem’s policy position it is not true to state that if there is a surplus on the scheme for the date used to set the established ‘deficit’ then EDE and SOEDE should be set to zero. This is best illustrated by an example.</p> <p>It is entirely possible for a scheme to have a surplus of £1 as a result of paying £100m more into the scheme than allowances. Following the logic of table 3.2 the annuitized cost of the deficit (‘C’ in table 3.2) would be zero but item ‘G’ would have a positive value due to the need to refund the overpayments (which are assumed to be efficient (other than £1 perhaps)). The EDE value of ‘C’ + ‘G’ would be a positive value.</p> <p>Making this change means that para 3.26 should either be deleted or the first sentence should be removed leaving just the sentence referring to the March 11 strategy document. Row 7 of table 3.2 already states that ‘C’ is zero if there is a surplus.</p>
38	Table 3.3	<p>For clarity, the words “including contingent asset costs” need to be added to the first line of row 8 and then the third line of the following paragraph in row 8, so they read “Obtain actual deficit repair payments including contingent asset costs attributable to the licensee:” and “a) Obtain relevant portion (i.e. the portion attributable to the licensee’s transmission business) of actual deficit repair payments including contingent asset costs made by licensee during 2014-15 and 2015-16 and 2016-17 (ED);” respectively.</p>
39	Table 3.3 Row 8	<p>This row is broken into sub-paras in Table 3.2 – suggest this is done here also.</p>
40	Table 3.3 Row 8	<p>In Row 8, the words “in 2009-10 prices” should be deleted from the definition of ED. ED appears at step (a). It is then deflated at step (c). It follows that ED must have been in nominal prices.</p> <p>In addition, in the definition of ED in row 8 of the table, the words “including contingent asset costs” should be added and the word “in” deleted so it reads ““ED” is the licensee portion of established deficit repair payments including contingent asset costs during in the relevant Formula Year”</p>

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Comment number	Page/ Paragraph Ref	Comments
41	Table 3.3 Rows 8 & 9	<p>There are a number (at least 4) of references to WACC in row 8 of this Table. Given that WACC will change from year to year in RIIO-T1 (with changes in the cost of debt) the formula that is used to apply WACC (and indeed the definition of WACC) are incorrect. Rather than applying the formula $(1+WACC)^n$, the correct formula would, as an example, be of the form</p> $(1+WACC_{2014-15}) * (1+WACC_{2015-16}) * (1+WACC_{2016-17}) * (1+WACC_{2017-18})$ <p>Even using the incorrect formula that is currently adopted, the first reference “$(1+WACC)^n$” at point (e) is incorrect and should say “$(1+WACC)^n$”, and in the second reference there is a missing opening parenthesis</p>
42	Table 3.3 Row 9	<p>In row 9 the words “before any true-up adjustment is included” should be inserted in the opening line so it reads “Obtain pre-existing EDE allowances before any true-up adjustment is included for comparison to licensee’s actual deficit repair payment”</p> <p>Similarly, in row 9 at point (a) the words “before any true-up adjustment” should be inserted so it reads “a) Obtain pre-existing EDE allowances before any true-up adjustment (“C” in Table 3.2)</p> <p>These additional words are required to avoid comparing a current year cost to an allowance that reflects a combination of cost and catch up element.</p>
43	Table 3.3 Row 12 (big issue)	<p>In row 12, the formula for revised EDE values should not just be “C” + “G”, but should consist of 3 elements, i.e.</p> <p>“C” + “G” + “G from Table 3.2 above”.</p> <p>This is because the value of G calculated in table 3.2 assumes that this true-up (whether positive or negative) will be added to/subtracted from allowances for 12 years, but only 3 of these years will have elapsed by the second reset that is carried out in 2017 according to the process in Table 3.3. Thus the values of “G” from the Table 3.2 need to be added to “C” and “G” as calculated in the rest of table 3.3 in order for the correct EDE (and SOEDE) values to be calculated.</p>

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Comment number	Page/ Paragraph Ref	Comments
44	3.32	In the section on “Values to be directed by 30 November 2017”, the text at point (iii) should refer to the updated allowances for Pension Scheme Administration and PPF Levy expenditure as reset in 2014 rather than the original values as set out in RIIO-T1 Final Proposals, or alternatively the words “as updated at step (vii) above by 30 November 2014” could be inserted so it reads “The aggregate price control allowance for Pension Scheme Administration and PPF levy expenditure for that year set out in the Final Proposals as updated at step (vii) above by 30 November 2014 is obtained, to which is added the annual adjustment threshold amount of £1m.”.
45	Section 4	A large number of edits have been made to the mark up copy to achieve consistency between the ET1 and GT1 handbooks
46	4.10	The current drafting for regulatory tax losses confuses gross tax losses and net tax allowances. Please see the mark up for a suggested alternative.

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Comment number	Page/ Paragraph Ref	Comments
47	4.29	<p>The para states that tax increases will not be made NPV neutral but is silent on tax reductions. The implication (but it is not clear) is that increases and reductions are treated differently.</p> <p>This is inappropriate on at least three grounds:</p> <ul style="list-style-type: none"> • First, type B items are by definition exogenous to the licensee so they cannot control them and should not suffer as a result of them • Second, a HRMC interpretation may only become known to a licensee after 30 September of t-1. The cut off date for notifying Ofgem of a trigger event is 2 and a half years before the computation for a given year is due to be submitted to HRMC and 2 and a half years is a long time in which type B events could occur. Computations are then typically agreed (or HMRC interpretations given) some time after the computation has been submitted. • Third, the para closes by saying each event will be dealt with on its merits on a case by case basis. How can you do this if you have already stated that NPV adjustments will not be made? If, on the other hand the case by case point is specific to whether a licence breach has occurred this is unclear with the current drafting. <p>Ofgem’s policy intent is understood but it cannot be appropriate to state that NPV adjustments will not be made for changes that are not known about by the cut off date. Please see the mark up provided for a suggestion which retains the case by case consideration of licence breach but addresses the points highlighted above.</p>
48	4.29	<p>The document states that licence breach would be considered on a case by case basis. Additional clarity is required on what would be considered in such a case by case review.</p> <p>For example, we can see how not informing Ofgem of a change which you use in your own tax computation could be considered a potential breach since you should have known to inform Ofgem but if your tax computation does not reflect the change does this imply it as reasonable not to have known about the tax trigger event?</p>

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Comment number	Page/ Paragraph Ref	Comments
49	4.39 (x)	<p>Delete the words at the end “which is also calculated under the macro calculation”</p> <p>The deadband is not calculated by the macro – it is supposed to be a set percentage of base revenues from Final Proposals (PU term).</p>
50	Part 3 – tax trigger	<p>There is a fundamental flaw in the logic of the tax trigger gearing and interest tests. The test compares actual gearing to the notional rate and then applies an interest cost test.</p> <p>If you consider an overspend, the modelled interest will be based on the modelled gearing for t-2 after including actual costs in the model. The model will apply the totex incentive mechanism and assume additional income is received in t-2. This income partly or fully offsets against any additional costs (over and above allowances) that may have been incurred and so will understate the gearing actually expected.</p> <p>In reality the company will not receive the additional income until year t so you would logically expect gearing to exceed the modelled rate and so for the tax trigger to be activated.</p> <p>To address this the model would need additional functionality to reflect a debt balance based on the actual timing of cash flows rather than the notional flows modelled.</p>

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51	4.58	<p>The text refers to the rate of corporation tax hard coded into the model. Should this be the hard coded tax rate or the rate implicitly applied in the model which will be:</p> <ul style="list-style-type: none"> i) The initial hard coded rate if no tax trigger event has occurred; or ii) The corporation tax rate used by virtue of the tax trigger if an event has occurred? <p>It would seem appropriate for the calculation to be performed using the tax rate that has been applied in the PCFM (whether directly or via the tax trigger)</p> <p>The GT handbook uses different text to the ET handbook and is preferable to the text in the ET version but does not address the issue of a tax trigger resulting in a different rate being applied in practice.</p>
52	4.60	<p>This paragraph is not clear. What is the “pre tax TGIE/SOTGIE”? The amount referred to at 4.58 was not pre tax as the benefit figure = interest difference x tax rate. What exactly would be added to the tax losses?</p>
53	4.65 to 4.68	<p>This section seems to confuse net tax costs with gross tax allowances. The model correctly grosses up the modelled tax charge by $(1 - \text{tax rate})$ to derive a tax allowance. With a 23% tax rate the multiplier is 30%, i.e. $1/(1-0.23) = 1.30$</p> <p>To take an example. Additional tax costs (pre grossing up) of 100 require a tax allowance of 130 (where $130 \times (1 - 23\%) = 100.$) 4.65 states that if there are unutilised tax losses these will abate the increase. Losses would abate some of the 100, the unabated value would then be grossed up by $(1-\text{tax rate})$</p> <p>The model appears to work correctly. It is the drafting that is unclear.</p>

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Comment number	Page/ Paragraph Ref	Comments
54	4.67	<p>This para is incorrect and should be removed. An incremental change in TGIE can be positive, but the total value of TGIE can only be negative or zero.</p> <p>To take an example, TGIE may be calculated at -10. The next year it is calculated at -2. The absolute level of TGIE is negative but the incremental change is positive, i.e. +8.</p> <p>An alternative to deleting the para is to change the words to state “TGIE / SOTGIE can only be a negative value or zero (....”</p>
55	4.68	<p>For the same reasons as the item above, the start of this sentence should be changed to remove the ‘incremental’ references. Suggest changing the text to “A negative TGIE/SOTGIE value will decrease....”</p>
56	6.10	<p>This brief paragraph seems to be all there is about the split capitalisation rates. The handbook should provide additional guidance on the two rates. Examples of information that would provide useful guidance to users include:</p> <ul style="list-style-type: none"> • Why are two rates used? • Explain that the rates and costs both have the same fixed rate applied throughout the price control etc. • What are the different capitalisation rates? • Precisely which categories have spend at each rate? • How will costs be split between the two rates? <p>In the GT handbook a heading and several paragraphs on this material would be useful for users.</p>
57	6.20	<p>The licence (SC 1A) refers to the handbook chapter 6 for a definition of TO totex and SO Totex. Chapter 6 does not currently define TO Totex and SO Totex. In this context this para not only needs to say that this is a definition of TO Totex and SO Totex but it also has to be the definition that matters.</p> <p>In this context this para should not then say that the full definition is provided elsewhere (the RIGS). If the intention is to define it elsewhere the licence should not direct users to this chapter.</p>

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Comment number	Page/ Paragraph Ref	Comments
58	6.20	The definition needs to be something which can be clearly followed. “costs associated with specific incentive schemes (e.g. TPCR4 revenue driver schemes)” is too vague. How do we know which incentive schemes are excluded? If it is only TPCR4 revenue driver schemes then the definition should explicitly refer just to these and not use them as an example. Presumably constraint management costs should be excluded?
59	Table 6.2	This table is incomplete. It is missing all of the actual costs relating to the uncertainty mechanisms, i.e. the ALU, ARU, ACU, and AOU terms.
60	Chapters 7 to 10	It is not clear what the purpose of these chapters is. Generally speaking they do not provide any guidance over and above that which is already provided in the licence. Most of the words simply summarise the licence but, as is made clear in the introduction of the handbook, the licence takes precedence so users are best advised to simply read the relevant licence conditions. The examples are the most useful part. Is the intention to eventually provide additional guidance in these chapters, i.e. to further develop these chapters over time?
61	7.1	This para refers to “opening base revenues”, however as NGG also has an SO role, should this reflect SO internal costs? We would suggest that this para refers to “Base NTS Transportation Owner Revenue/Base NTS System Operation Revenue”, as those terms are defined in SC2A and SC3A.
62	7.7 to 7.16 (Chapter 7 generally)	Can further information be provided about these uncertain cost categories? The document currently provides just a definition of each cost type but those definitions are actually different to and shorter than the definitions provided in the licence (e.g. quarry and loss development claims.) A key element of these costs is the materiality threshold yet the chapter doesn’t seem to mention it. It would be useful to explain how the materiality threshold works, i.e. cumulative efficient spend is compared to average annual revenues and a percentage threshold etc
63	7.24	The 4 month period appears to relate to all adjustments bar Agency Costs. This would accord with para 7.27 which suggests that the determination of Agency Costs would be made after the conclusion of the review. Suggest para 7.24 expressly refer to para 7.27 in relation to the time to make a determination for Agency Costs.
64	7.25	Depending on the answer to the comment above on Agency Costs under para 7.24, Agency Costs may need to be carved out of this para as the 4 month period may not apply.

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65	7.27	In relation to “Network Flex”, this para states, “following the receipt of a proposed adjustment and the conclusion of the assessment process”. But, para 7.24 only refers to “receipt of a proposal”. Does the 4 month period in para 7.24 begin on receipt of the proposal or on receipt of the proposal and the conclusion of the assessment process? This should be consistent. Would suggest the deletion in para 7.27 of “and the conclusion of the assessment process”. Is it correct to assume there is no timeframe on the time for the Authority to carry out the review of agency costs?
66	7.35	This para states “As set out in para 7.27”, however what is said in para 7.27 is different to what is said in para 7.35. Para 7.35 provides that no determination will be made in years in which no proposal has been made by the licensee or the Authority. However, para 7.27 states that the Authority will only make a determination in the year in which an application window arises subject to exceptions for Network Flex and Agency Costs. This is not consistent.
67	8.3	Where is it explained where allowances for type (b) are directed? This could be done by footnote.
68	8.9	This illustrative example states that a revenue driver is calculated when a signal is received. This is incorrect and the revenue driver must have been calculated in advance as per our comments on SpC 5G.
69	9.3	Where is it explained where allowances for type (b) are directed? This could be done by footnote.
70	9.9	This illustrative example states that a revenue driver is calculated when a signal is received. This is incorrect and the revenue driver must have been calculated in advance as per our comments on SpC 5F
71	11.12	Para 11.12 is a short version of para 11.11 and so is effectively a duplicate. We would suggest either deleting 11.12 or (to prevent referencing problems) have a new para 11.12 which takes the text from para 11.11 which starts with the sentence “In either of those...”.
72	11.17 to 11.20	Given their potential to change revenues a para is required on the governance of these spreadsheets. Either there should be a statement that no changes will be made (could be unwise) or the governance should be set out. As a minimum we would recommend that any changes have to be agreed by the relevant PCFM Working Group.

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73	11.33 / 11.34	<p>The handbook describes an adjustment which is entirely inconsistent with the RIIO-T1 approach (and the legacy calculations spreadsheet)</p> <p>The text compares actual gearing to “the nominal projected closing gearing in the TPCR4 Price Control model”. This is not what the legacy calculations workbook appears to do. The adjustment proposed in the text for TAR is inconsistent with the approach adopted during the RIIO-T1 period. During the RIIO-T1 period the tax claw back adjustment compares actual gearing to the notional rate (i.e. 62.5% for NGGT during RIIO-T1 and 60% for 2012/13).</p> <p>However, we do not think any TAR adjustment should be performed at all – please see our comments on the equivalent paragraph in the ET1 handbook.</p> <p>The legacy spreadsheet performs the calculation consistently with that adopted throughout the RIIO-T1 period, i.e. it compares actual gearing to the notional rate (60% for 2012/13, 62.5% for RIIO-T1). If a calculation should be performed we believe the workbook is the more appropriate approach. Please see the mark up for drafting changes that reflect the current legacy calculations workbook and our understanding of Ofgem’s policy intent.</p>

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Comment number	Page/ Paragraph Ref	Comments
74	11.34 (big)	<p>This paragraph does not work as originally drafted.</p> <p>First, 11.33 (a) and (b) have been expressed as negatives, e.g. if gearing is lower then the adjustment is zero. This means that rather than “both” circumstances applying, the TAR term only takes a value if “neither” 11.33 (a) or (b) apply, i.e. TAR only takes a value if the gearing test and the interest cost test is met.</p> <p>Second, the value of the adjustment is not as described in this text. The adjustment is equal to the excess interest costs multiplied by the tax rate (x -1).</p> <p>Note - The current text says “multiply the forecast legacy gearing level and interest cost adjustment used in setting the licensee’s opening base revenues (expressed as a negative figure) by -1 to give the incremental adjustment”. It is not clear what the interest cost adjustment is as there was no “adjustment” in base revenues. If this means the cost of debt allowance then as currently described the text would remove 100% of the interest costs (x tax rate) which is clearly inappropriate.</p> <p>Please see the mark up for alternative text which is both clearer and more consistent with the policy intent</p>
75	11.49	The description of the adjustment does not mention the 25% sharing factor and so is misleading. The income adjustment needs to reflect both the 25% factor and the fact that the licensee will have already benefitted from / suffered foregone return on the RAV differential.
76	11.53	The text says SOCAR is only calculated if required. SOCRAV calculates a RAV adjustment. By definition if SOCRAV identifies that the RAV should have been different then SOCAR will be required because the return on RAV element of income (and potentially depreciation) will have been changed. SOCAR should therefore be added to the legacy calculations workbook and the text amended.
77	11.54	<p>This paragraph either needs deleting or significantly expanding upon. SOOIR and IOIRC are not in the legacy calculations workbook, nor are they variable values for the model so it is not clear why this paragraph is in the handbook or what Ofgem intends to do to calculate the value.</p> <p>Should this be in the legacy calculations workbook?</p>

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78	11.57	<p>Insert the correct title of SC C8B i.e. NTS transportation owner activity revenue restriction.</p> <p>Should we refer to the licence being in the form as at 31 March 2013?</p> <p>The meaning of “LCt”, as set out in para 3(c) of SC C8B is not accurately reflected in this para 11.57 i.e. where is the reference to “1 April 2012” in the licence. Please revise or provide additional clarification.</p>
79	11.58	<p>This para then again seems to try and set out the meaning of “LCt” from SC C8B, para 3C. However it has been incorrectly drafted. Rather than 1 April 2012, this should be 1 April 2013. Further, only mention is made of quarry and loss development claims, with no mention of economic costs to enhance physical security of the site.</p> <p>Both paras 11.57 and 11.58 should be reconsidered together.</p> <p>Also rather than using SC, this should be Special Condition.</p>
80	11.61	<p>“Where these costs are of opex in nature they will be funded as revenue in RIIO-T1.”</p> <p>What does this statement mean? Both opex and capex costs will be funded in revenue, not just opex. Capex costs go into the SRAV term. Both opex and capex go into the SAR term (via depreciation and return for capex)</p>
81	Glossary	<p>The definition for capitalisation rate is not clear. It would be clearer and more informative to include 3 definitions in the glossary. A generic capitalisation rate which is the rate at which totex goes into the RAV but then refer to there being two rates in Gas Transmission. Two additional definitions should then be given for the capitalisation rate (baseline) and capitalisation rate (uncertain) giving details of the type of spend those two rates are applied to.</p>
82	Glossary	<p>Suggest adding a definition for ‘Incentive Strength’</p>

National Grid Gas Transmission GT1 Price Control Financial Handbook – comments		
Comment number	Page/ Paragraph Ref	Comments
83	Glossary	Time value of money adjustment This definition works as a ‘basic terms’ explanation but when this basic term is applied to multiple years you get the wrong result (see pensions WACC item above). It would be better either to leave the definition as (1+x) without the n or to show an example of two years showing $(1 + X_{(\text{year 1 WACC})}) \times (1 + X_{(\text{year 2 WACC})})$
84	Glossary	The licence SC 1A refers to a definition of “Vanilla Weighted Average Cost of Capital”. Separately, chapter 11 (should) refer to the pre-tax WACC. Suggest having several WACC related entries in the glossary such as “Vanilla Weighted Average Cost of Capital” (the one referred to be SC1A), “Pre-tax WACC”, and a generic one for “WACC”.

National Grid Gas Transmission Gas Network Innovation Competition Governance Document - comments		
Comment number	Para Ref	Comment
1.	Para 5.21	In relation to Direct Benefits, we would welcome clarification on how this will work. Refer to comment on table 3.1 in NIA
2.	Para 5.41	Change first occurrence of ‘from’ to ‘for’

National Grid Gas Transmission Gas Network Innovation Allowance Governance Document - comments		
Comment number	Para Ref	Comment
1.	Para 1.18	Change ‘intent’ to ‘intend’
2.	Para 2.4	‘Network Licensees must work collaboratively with each other , the DNOs, the Electricity TOs and each other
3.	Para 3.6	Second bullet change ‘electricity’ to ‘gas’

National Grid Gas Transmission Gas Network Innovation Allowance Governance Document - comments		
Comment number	Para Ref	Comment
4.	Para 3.9 ii)	Delete 'that'
5.	Para 3.19	First bullet change 'Electricity' to 'Gas'
6.	Para 4.4	Final bullet point does not apply to Gas Transmission
7.	Para 4.13	Change 'Electricity' to 'Gas'
8.	Para 6.2	Cross reference should be to 6.7 not 6.10
9.	Definitions	In the definition of 'Energy Supplier', 'licence' is spelt incorrectly

National Grid Gas Transmission Stakeholder Engagement Guidance Document - comments		
Comment number	Para Ref	Comment
1.	Page 1	"Initiatives that best serve specific interests of challenging groups of customers/communities /future stakeholders and resulted in measurable benefits"
2.	Page 1	Initiatives that reflect innovative thinking in responding to the needs of stakeholders
3.	Page 2	"Initiatives which are part of an holistic approach embedded in the business"
4.	Page 4	The company has used a variety....
5.	Page 4	...Ofgem will collate all submissions and send them to the Independent Panel prior....