

**To: National Grid Gas plc (with respect to its gas distribution business)  
Northern Gas Networks Limited  
Scotland Gas Networks Limited  
Southern Gas Networks Limited  
Wales and West Utilities Limited**

**RIIO-GD1 Modifications of the special conditions of the gas transporter licences held by the Gas Distribution Network (GDN) operators and reasons for decision pursuant to section 23 and 38A of the Gas Act 1986**

**Gas Act 1986  
Section 23(1)(a)**

**MODIFICATION OF THE GAS TRANSPORTER LICENCE HELD BY  
THE GAS DISTRIBUTION NETWORK (GDN) OPERATORS**

Whereas –

1. Each of the companies to whom this document is addressed (the "Licence Holder") operates a gas distribution network (GDN) and is the holder of a gas transporter licence ("the Licences") granted or treated as granted under section 7 of the Gas Act 1986 ("the Act").
2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority ("the Authority") gave notice on 21 December 2012 ("the Notice") that it proposed to make modifications to the Specials Conditions of the Licences by:
  - (a) amending the Special Conditions
  - (b) inserting proposed new Special Conditions
  - (c) deleting the 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 set out in Schedule 1 to the Notice, to implement the Authority's decision on the RIIO-GD1 price control - Final Proposals<sup>1</sup> and by requiring any representations to the modifications to be made on or before 22 January 2013.
3. Prior to the close of the consultation period in respect of the Notice, the Authority received eight responses. All non-confidential responses have been placed on the Ofgem website.
4. In accordance with section 23(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modifications.
5. The Authority has carefully considered in relation to the proposed modifications all representations received. Its response to these is attached at Schedule 2 to this modification.

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<sup>1</sup> [RIIO-GD1: Final Proposals - Overview](#)

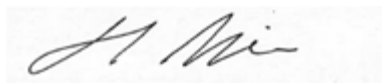
6. The Authority also considers it necessary to make a number of minor changes to the modifications set out in the Notice. These are indicated at Schedule 2 to this modification.
7. In accordance with section 23(7)(d) of the Act, Schedule 2 of this modification also states the reasons for any differences between the proposed modifications set out in the Notice and the modifications set out in attached Schedule 1.
8. In accordance with section 38A of the Act, and in summary, the reason why the Authority is making these licence modifications is to give effect to the new RIIO (Revenue = Incentives + Innovation = Outputs) regulatory framework.
9. Schedule 3 of this modification sets out the reasons and effect of the modifications.
10. Schedule 4 provides a list of relevant licence holders in relation to this modification.

### **Now therefore**

In accordance with the powers contained in section 23(1)(a) of the Act and for the reasons set out in the Notice and Schedule 3 of this modification, the Authority hereby modifies the Special Conditions of the Licences in the manner specified in attached Schedule 1. This decision will take effect on and from 1 April 2013.

This document constitutes notice of the reasons for the decision to modify the Licence as required by section 38A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority  
here affixed is authenticated by the signature of**



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

**1 February 2013**

## **Schedule 1 - Modifications of the Special Conditions of the DN Operators' Gas Transporter Licences**

A copy of the modifications of the Special Conditions of the DN Operators' gas transporter licences can be found on our website:

<http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/GDSpCmods.pdf>

**Schedule 2 – Response to representations and reasons for any differences between the modifications and those set out in the Notice**

<b>Special Conditions</b>				
<b>Comment From</b>	<b>Para Ref in the statutory consultation</b>	<b>Comment</b>	<b>Ofgem Response and Reasons for Changes from Statutory Consultation Drafting</b>	<b>Change made to licence (Y/N)</b>
<b>General</b>				
WWU	All	Change reference from “Wales + West” to “Wales & West”	“Wales and West” amended to Wales & West	Y
NGN	All	Change reference from “Northern Gas Network plc” to “Northern Gas Networks Ltd”	Amended.	
NGGD	Consents	It holds a number of consents. Look forward to addressing the issue with Ofgem following James Grayburn’s email of 18 January	Noted and being considered under a separate work stream.	N
Ofgem	Throughout Licence in various conditions	Remove the word “objections”	The wording “or objections” should be deleted from conditions setting out consultation processes on various change mechanisms in the licence, as following the third package the Authority cannot take instructions from licensees. Amended accordingly.	Y
Ofgem	Throughout Licence	Minor amendments required to correct typographical and factual errors	Appropriate amendments made	Y
<b>Special Condition 1A. Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions</b>				
Ofgem	Introduction	Requires amendment to acknowledge that defined terms	Amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		in the standard conditions and standard special conditions are not capitalised.		
Ofgem	1A.4	Correct publication dates and effective dates to be inserted into the definitions of GD1 Financial Handbook and GD1 Price Control Financial Model.	Amended accordingly.	Y
Ofgem	1A.4	A number of definitions were left out of this condition either in error, or they were previously included within the Special Condition in which they applied.	<p>These definitions have now been included. The following terms are now defined in this condition:</p> <p>Annual Iteration Process</p> <p>Approved Market Price Report</p> <p>Bulk Supply Point: moved from Special Condition 4I</p> <p>Daily Metered Supply Meter Points</p> <p>Domestic Credit Meter Installation</p> <p>Domestic Sized</p> <p>Equivalent Customers: moved from Special Condition 4I</p> <p>Final Proposals</p> <p>Formula Year t</p> <p>Independent System: moved from Special Condition 4I</p> <p>Liquefied Petroleum Gas: moved from Special Condition 4I</p> <p>Ordinary Business Arrangements</p> <p>Prepayment Meter Installation</p> <p>Relevant Shipper: moved from Special Condition 4I</p> <p>Smart Metering Roll-out Costs</p> <p>Specified Street Works Costs</p> <p>Supply of Distribution Network Services</p>	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
			Tariff Capped Metering Activities	
Ofgem	1A.4	Some definitions have been removed	<p>This is because they are not used in the Special Conditions or are already defined elsewhere in the licence. The following terms are no longer defined in this condition:</p> <p>Above Risk action Threshold Tier 2 Mains  NTS Operator  Relevant Adjustment</p>	Y
Ofgem	1A.4	Changes have been made to some definitions	<p>This is to provide clarity and to ensure consistency with terminology used in the licence. These changes are:</p> <ul style="list-style-type: none"> <li>• Changing of Above Risk Threshold Tier 2 Mains to Above Risk Action Threshold Tier 2 Mains</li> <li>• Changing of Distributed Energy Connections to Distributed Entry Connections</li> <li>• Removal of Fuel Network Extension Scheme. Where this term was used the reference is now to the Non Gas Fuel Network Extension Scheme</li> <li>• Changing of Network Output to Network Output Measure</li> <li>• Changing of NTS Offtake (Flat) Capacity to NTS Exit (Flat) Capacity, and NTS Offtake (Flexibility) Capacity to NTS Exit (Flexibility) Capacity to ensure definitions are consistent with the Network Code as published on 1 January 2013</li> <li>• Change of Supply of LNG Storage Business to Supply of LNG Storage Services</li> <li>• Definition of Allowed NTS Exit Capacity Cost is circular therefore reference to Allowed NTS Exit Capacity Cost in the definition changed to “values”</li> <li>• Reference to stakeholder engagement survey in the definition for</li> </ul>	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
			<p>Broad Measure of Customer Satisfaction changed to stakeholder engagement as the survey is not relevant to GDNs</p> <ul style="list-style-type: none"> <li>• The definition of Network Output Measure did not have a complete list of the relevant measures which has now been rectified</li> <li>• Definitions of Repeat Complaint and Resolved Complaint now the capitalised term Complaint</li> <li>• Change to definitions of Resolved Complaint to include Licensee rather than regulated operator</li> </ul>	
NGGD	1A.4	Customer Satisfaction Survey definition should refer to the RIGs	Disagree	N
NGGD	1A.4	Day definition inconsistent with the convention for days in the RIGs for the purposes of the BMCS	Disagree. The RIGs provision uses the term working day (as defined in SSC3A.	N
NGGD	1A.4	Change definition of Project Direction to: has the meaning given in paragraph 11.23 of Special Condition 11	Disagree.	N
SGN	1A.4	Average Specified rate: we continue to believe that the Sterling 12 month LIBOR is more appropriate	The current licence uses the Barclays Bank base rate which has tended to track the Bank of England base rate and therefore changing the base rate referred to does not introduce any change for the Licensee but will improve transparency as the Bank of England base rate is more widely known and easily accessible.	N
SGN	1A.4	The definitions for Smart Metering Roll-out Costs and Specified Street Works Costs	Disagree. The licence makes clear what types of costs are covered by the definition and we are confident that the drafting is clear. However, experience suggests that queries can arise and the further clarification set out in the RIGs is	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		(provided under separate e-mail from Ofgem) both need 'as further clarified in the RIGs' deleted. There is no further clarification of these definitions required. Indeed a definition should not require further clarification otherwise it is not a definition	designed to address these and provide certainty on the precise meaning of a term in such circumstances. We consider this additional certainty to be helpful to all parties.	
WWU	-	Missing definitions <ol style="list-style-type: none"> <li>1. Domestic Credit Meter Installation</li> <li>2. Domestic Sized</li> <li>3. Pre-payment Meter Installation</li> <li>4. Subscript t</li> <li>5. Supply of Distribution Network Services (or delete reference to this in Special Conditions E and refer to supply of transportation services)</li> <li>6. Supply Point</li> <li>7. Transportation System</li> <li>8. Approved Market Price Report</li> </ol>	See above for further definitions included.  We do not consider that "Subscript t" requires definition.  The term "Supply Point" does not appear in the licence except as part of the term "Bulk Supply Point", which is defined separately. We therefore do not consider that it needs to be defined.  "Transportation System" is defined in SSC A3 therefore we do not need to duplicate in this condition.	Y
WWU	1A.4	There is a new definition of	See above. Supply of Distribution Network Services was left out in error and has	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		<p>Distribution Network Transportation Charges which, in our view, dangerously muddies the waters as to what is formula revenue and what is not. This is despite some detailed notes from WWU legal to the working group on this subject, particularly in relation to excluded services. This is because in Special Condition 1B.2, Ofgem or its drafters seem to think that Distribution Network Transportation Charges from any persons might flow into formula revenue. This, of course, cannot happen as fortunately the definition of Distribution Network Transportation Activity Revenue is still only that derived from the supply of distribution network services to gas shippers. However, the definitions are defective because the definition relating to Supply of Distribution Network Services has been removed. It is essential that that definition is reinstated this could be remedied by referring to the</p>	<p>been reintroduced.</p> <p>The definition of Distribution Network Transportation Charges is required for the operation of the NIC condition and provides clarity in the principal formula.</p>	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		“supply of transportation services” which are defined in SS CA3. The definition Distribution Network Transportation Charges is frankly not necessary		
NGGD		<p>We consider the defined terms that are included in the present defined terms (E2A) must be retained in Special Condition 1A of the Special Conditions as follows:</p> <ol style="list-style-type: none"> <li>1. Approved Market Price Report</li> <li>2. Daily Metered Supply Meter Point</li> <li>3. Domestic Credit Meter Installation</li> <li>4. Domestic Sized</li> <li>5. Exit Zone</li> <li>6. NTS</li> <li>7. National Grid Gas plc (required in case it changes its name again)</li> <li>8. NTS Transportation Statement</li> </ol>	<p>See above for further definitions included.</p> <p>Exit Zone is no longer used in the licence. National Grid Gas plc is already defined, NTS Gas Transportation Statement is already defined, NTS Transportation Statement is not used, the self standing term Services Replacement is no longer used, NTS, Transportation System and Tariff Capped Metering Services are defined in SSC A3</p>	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		9. Prepayment Meter Installation 10. Services Replacement 11. Supply of Distribution Network Services 12. Transportation System 13. Tariff Capped Metering Services  These are all terms which continue to be used in the new price control provisions, so must be re-inserted in order to ensure the proper functioning and interpretation of the price control conditions.		
NGGD		References to the financial handbook should be checked for accuracy and consistency.	Noted	NA
NGGD		The date of the latest “Carbon Plan” published by DECC is December 2011, this date should be noted	Disagree: the definition needs to be capable of moving with amendments to the Carbon Plan from time to time.	N
NGGD		The definitions below are not required as they are irrelevant for GD Liquefied Natural Gas Import or Export Facility	Disagree.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		LNG Storage Business and National Balancing Point Supply of LNG Storage Business		
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 1B. Restriction of revenue in respect of the Distribution Network Transportation Activity</b>				
NGN	1B.1	There is no definition of “Maximum Distribution Network Transportation Activity Revenue”.	Definition not required. The term is defined by reference to the relevant formula.	N
NGN, WWU,NGGD  SGN	1B.4	There is no definition of the factor ‘N’  The Denominator ‘N’ in $DRS_t$ is not required	Agree. Reference to N deleted from condition 1B.4 and Condition 1G amended so that a scaling factor is applied to $DRS_t$ on the basis of the proportion of the Licensee’s meter points in Formula Year t which are located in the relevant Distribution Network in accordance with the policy intent for the apportionment of any such reward between DNs owned by the same Licensee.	Y
NGN	1B.7	In the definition of GRPIFc, what power of the Authority “to determine otherwise” is being referred to?	The definition of the Retail Prices Index Forecast Growth Rate allows the Authority, after consultation with the Licensee, to determine a growth rate in circumstances where the HM Treasury does not publish a rate or there is a material change to the basis of the growth rate. This is what is being referred to.	N
NGGD		Definition of NICF required	Disagree. As discussed at the licence working group, the NTS Operator recovers the total NIC funding each year and this is then transferred to the winning Licensees which could include a GDN. Therefore there is no need for the NICF term to sit in the principle formula of the GDNs.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
NGGD	1B.19 (b)	Shows us as using best endeavours rather than reasonable endeavours, is this correct?	We consider “best endeavours” is consistent with the current requirements placed on the licensee to set charges that recover allowed revenue. It is also consistent with the requirement in para 1B.2.	N
British Gas	1B, Part D	They understood from previous communications that the under/over recovery from 2012/13 would not impact on charges until 2014/15 due to the introduction of a two year lag (part of volatility decision). They are disappointed that the decision has been reversed and consider it preferable to keep with the policy decision published in October 2012.	We published our decision on charging volatility in October 2012 and informally consulted on the changes required to the licence to implement our decision later the same month. Responses to this consultation from a number of network companies raised concerns that the proposed lagging of the K factor for 2012/13 resulted in a change to arrangements expected under the current price control. After consideration of these responses we proposed an amendment in the statutory consultation to ensure that the treatment of any over/under recovery in 2012/13 is consistent with the current price control. The over/under recovery from 2013/14 will be treated as per our decision on charging volatility, ie with a two year lag.	N
Ofgem	PU values	Changes for some Distribution Networks.	We have revised for NGGD and SGN to take account of changes in the NTS Exit capacity cost allowance and for WWU to take account of a change in the prescribed rates allowance.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 1C. Distribution Network allowed pass-through items</b>				
WWU, NGN	1C.2	WWU: The paragraph refers to “users”. This term is not used	Agree. Changed to customers as proposed by WWU.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		elsewhere. We should replace with consumers or customers NGN: Propose change from users to “transportation charges”		
NGGD	1C.8	First reference to Formula Year should be to Formula Year t-2 and second should be to Formula Year.	Agree. Amended the paragraph to reflect the comment as it ensures the drafting reflects the intent of the paragraph.	Y
NGGD	Definition of PD	How is this applied for each DN? Presumably this is based on a pre-agreed allocation method (supply point basis, as per Licence Fee?)	$PD_t$ is set by reference to each DN already, with appropriate allowances set as per the appendices. No change is required.	N
Ofgem	Prescribed rates allowances	Correction of allowance for WWU.	Since publication of the Statutory Consultation we have identified an error in the prescribed rates allowance provided to WWU. With its agreement we have decided to amend the amount of the allowance. As this is a pass through cost allowance any over or under-recovery against costs would be temporary but in the interests of reducing volatility we are making the change at this time.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 1D. NTS Exit Capacity Cost Adjustment</b>				
Ofgem	Appendix 1: Table of AEx values	Revision of exit cost allowances	We have revised cost allowances for NGGD and SGN as described and for the reasons in an open letter sent by Ofgem to GDNs on 25 January 2013: <a href="http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Letter_revenue_c">http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Letter_revenue_c</a>	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
			<a href="#">hanges_GD.pdf&amp;refer=Networks/GasDistr/RIIO-GD1/ConRes</a>	
Ofgem	Appendix 1 and 2	Correction of labelling errors	<p>There were some typographical errors in Appendix 1 and 2 that have been corrected:</p> <ul style="list-style-type: none"> <li>• Labelling error result in London and WM cost allowances being assigned to the wrong Distribution Network.</li> <li>• NGN's was incorrectly inputted and therefore did not match the values set out in FP and used to calculate the Opening Base Revenue Allowance</li> <li>• Incorrect labelling of exit zone for Walesby, Sutton Bridge, Tur Langton.</li> <li>• Spelling errors in the naming of offtakes in NGN's area.</li> </ul>	Y
SGN	1D.3	It has been inferred that the AEXt NTS Exit Capacity Allowances in Appendix 1 would be reviewed in 15/16 and 18/19 to ensure that the allowances reflect a more current view of costs as we move through the price control period, this is not stated in the licence.	We have made a commitment to that effect in Final Proposals, which we consider to be sufficient at this stage.	N
SGN	Appendix 2	The NTS bookings for Scotland are missing the Avonmouth booking: this booking is 1.03M GWh pa - value £55k pa (NTS 13/14 cost).	This offtake was not included in SGN's business plan. Following further discussion with SGN we consider no change is required to the licence.	N
Ofgem	1D.5	Corporation tax rate value (CT)	Amended, for a fixed value of 22%, to allow for value to change if the corporation tax rate changes.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined	Amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		terms.		
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special condition 1E. Incentive adjustment in respect of the Broad Measure of Customer Satisfaction</b>				
NGN, NGGD	General	The values contained in Appendices 1 to 5 are fixed values when the policy is for the incentives to be a percentage of the allowed revenue. It also appears the values do not adjust to money of the day. The impact of these two factors is to significantly reduce the scale of the incentive over time. We do not believe this is intended policy as reflected in FP.	<p>Agree. This was not intended. We have amended the condition by removing the appendices and amending the condition in the following ways so that it reflects the position set out in Final Proposals:</p> <ul style="list-style-type: none"> <li>Paragraph 1E.4: replacing the reference to the relevant appendix with a statement that the value shall not exceed/go below of one per cent of <math>BR_t</math>.</li> <li>Paragraphs 1E.8, 1E.9, 1E.12, 1E.13, 1E.16 and 1E.17: replacing the reference to the relevant appendix with a statement that the value shall not exceed 0.17 per cent of <math>BR_t</math>.</li> <li>Paragraphs 1E.22 and 1E.24: replacing the reference to the relevant appendix with a statement that the value shall not exceed 0.5 per cent of <math>BR_t</math>.</li> </ul>	Y
Ofgem	1E.3	Replace Specified Information with data	Amended accordingly.	Y
SGN	1E.4	The formula for $BM_t$ needs to be inflated by $RPIAt-2$	Disagree. Due to the changes made to ensure maximum/minimum values reference $BR_t$ , the impact of inflation will be now captured in the calculation of $BM_t$ .	N
NGN WWU	1E.21	In the definitions of PCUDPO, PCUDPT, PRC and POF, definitions are by reference to a percentage of repeat complaints	Disagree. The definition of “Complaints” makes clear that these terms are calculated by reference to the total number of complaints made to the Licensee about its conduct in the relevant year.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		or total complaints etc. as the case may be, but it does not say, in each case, particularly in relation to Ombudsman findings, what the percentage is measured against; ie, is it in the case of the Ombudsman, the total number of Ombudsman cases against all licensees, or measured against complaints we have generally. Drafting needs to reflect the FP wording as it does not make sense as is.		
NGGD	1E.25	Para 1E.4 refers to Part E which is a circular reference. The definition of the SEt term under 1E.4 should describe what it is. The process for determination should be set out in Part E and only referred back to 1E.4 for clarity as to the specific term being referred to.	Agree. Paragraph 1E.25 has been deleted to remove the circularity.	Y
NGGD	1E.33	Examiners power - This power is referred to in Standard Special Condition A40 (RIGS), so para 1E.33 should reference this The correct reference is A40,	Disagree. The power to appoint the examiner is contained in this paragraph.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		paragraph Part B 5(i)		
SGN	Appendices	The values are in 2009/10 prices and this needs to be clearly stated in the title. Should appendix 2 values be negative? Appendix 5: the maximum value erroneously excludes the interest values and the RPIAt-2 in the formula BMt	Due to the removal of the appendices and changes made to ensure maximum/minimum values reference BR <sub>t</sub> these comments are no longer applicable.	N
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 1F. Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions</b>				
NGGD	Whole Condition	Refers erroneously to LDZs rather than Distribution Networks	Agree. Amended accordingly.	Y
SGN	1F.4/1F.9	SHRR <sub>t</sub> and EEL <sub>t</sub> need to be adjusted for RPI & the time value of money in a similar manner to SHRA <sub>t</sub> to compensate for the two-year lag	Disagree. Under the rolling incentive, cash flows are affectively brought forward since GDNs receive eight years worth of benefits within the price control period. It is therefore inappropriate to apply an additional adjustment for the two year lag.	N
WWU, NGGD	1F.5	The definition of N states “means an index for t” Please state what index?	Disagree. However, for ease of reference we have provided an examples to the definition to clarify, whereby n=1 in respect of t1, n=2 in respect of t2 etc.	Y
Ofgem	1F.5	Corporation tax rate value (CT)	Amended, for a fixed value of 22%, to allow for value to change if the	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
			corporation tax rate changes.	
Ofgem	1F.10	Reference to 2021/22 should be to 2020/21	Amended accordingly.	Y
NGGD	Definition of SLM Review in 1A	The Licence drafting refers to the SLM Review in two different contexts and so needs changing	Agree. Amended to make clearer to which report the relevant provisions apply.	Y
SGN	Appendix 1	It has been inferred that the LDZ allowance in respect of shrinkage costs would be reviewed in 15/16 and 18/19 to ensure that the allowances reflect a more current view of costs as we move through the PCR, this is not reflected in the licence	Disagree. We have made a commitment to that effect in Final Proposals, which we believe to be sufficient at this stage.	N
SGN	Appendix 1	The Shrinkage allowance must be expressed in £ (rather than £m) to ensure the $SHRA_t$ formula at 1F.4 works correctly	Disagree. The drafting already works correctly.	N
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 1G. Discretionary Reward Scheme revenue amounts</b>				
SGN	1G.3	$DRSX_t$ needs to be adjusted for two years of interest	Disagree. This is a discretionary reward, not a cost recovery mechanism.	N
NGGD	Definition	In this para Ofgem has newly	Disagree. This has always been part of the scope of the DRS.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
	(now in 1A)	inserted the word “safety” i.e. delivering additional environmental, “safety” and social outputs. Para 2.10 of FP (Outputs, Incentives & Innovation) does not include “safety”, only environmental or social (FP should say AND not OR).		
NGGD	General	Ofgem were going to consider whether NGGDs licence should specify that the reward is allocated on Distribution Network customer numbers – this action is still outstanding	The Condition has been amended to reflect the fact that the award is allocated to Distribution Networks based on their proportion of the Licensee’s total number of meter points in each Distribution Network for the Formula Year t.	Y
NGGD	General	This condition should refer to how DRS will be treated in financial years 2018/19 to 2020/21 as there is no reference to these years within the FP documents either	Disagree.	N
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 1H. The Network Innovation Allowance</b>				

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
SPTL (also relevant to DN Operators)	1H.7	As commented previously, placing of 0.9 pass through factor limit has the effect of reducing the overall cap. Please put PTRAs inside brackets to avoid this unintended consequence.	The customer only funds 90% of NIA expenditure. The remaining 10% is funded by the company. The pass through factor currently applies to both parts of the formula the effect of the proposed change would mean it only applies to the first part of the formula which would not deliver the intended policy intent.	N  N
NGGD	1H.12(a)	“can begin” should read “can be started” to maintain consistency with the NTS licence	Agree. Amended accordingly.	Y
NGGD	1H.12(e)	“learning” should be replaced with “matters the Licensee has learned” to maintain consistency with the NTS licence.	Agree. Amended accordingly.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 1I. The Network Innovation Competition</b>				
NGN/WWU	General	Please clarify the treatment of Royalties and how this interacts with the excluded services condition. If any such income is not treated as excluded then the amount will be included in Distribution Network Transportation Activity Revenue	Disagree. The current drafting of the excluded services conditions states that NIC royalties are not classified as excluded services. This means is that it is treated as a separate item that is reported separately. It does not make a statement about how those revenues are recovered and would not result in funding being repaid twice. Returned Royalty income is not an excluded service. It is treated separately. Any royalty income generated through the NIC should be recorded in the RIGs. Then each year, when the funding direction is issued the returned royalty	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		and effectively be paid back twice.	income will be paid back through the funding return mechanism and will be set out in the Funding Direction issued for the following year.	
WWU	General	There is nothing to say that the NIC governance documents would not contain matters more than are necessary for the reasonable operation of the NIC. Insert Paragraph into NIC special conditions along the line of the - NIC governance documents will not contain matters more than are necessary for the reasonable operation of the NIC.	Disagree. We don't consider this is necessary as the licence condition already defines the appropriate scope of the governance document in Part E.	N
Ofgem	1I.10	Distribution Network Transportation Charges are defined in SC 1A, not 1B.	Erroneous reference to SC 1B deleted.	Y
Ofgem	1I.23	Definitions should be in SC 1A	Definitions moved to SC1A	Y
Ofgem	1I.24	Condition should be amended to reflect the fact that definitions have been moved to SC 1A	Amended accordingly.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 2A. Governance of GD1 Price Control Financial Instruments</b>				
SGN	General	We are disappointed that none	Noted. Whilst we agree that all comments were relevant, we do not agree that	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		of our comments made at the second informal licence drafting consultation have been taken onboard. We continue to believe that all of our comments are relevant and should be incorporated in the licence condition	they warranted any change to the drafting for the reasons we have previously given.	
Ofgem	2A.3	This provision is no longer needed as the text has been incorporated into SC 1A	Amended accordingly.	Y
NGGD	2A.4	It is important that any modification proposed to the PCFM/Financial Handbook by either the Authority, Licensee or any other party is discussed or shared with the Finance Working Group.	Disagree. The modification procedure gives notice to the Licensee. It is open to the Licensee to request that a meeting of the working group be convened. In practice modifications are likely to be generated through the working group process.	N
NGGD	2A.4	As to the use of 'significant impact', we have previously suggested that criteria be inserted as to what would constitute a significant impact.	Disagree. As we have previously indicated we do not consider it would be helpful to attempt to define this term e.g. the Utilities Act does not seek to define significant impact in relation to assessments.	N
NGGD	2A.4	Is the intention that significant impact be assessed against the impact on revenues? This would imply a threshold for any impact	In relation to a price control instrument, an impact on allowed revenues is the most likely category – but the drafting is not limited to that – for example if it was likely to be an impact on charge volatility this could also be relevant. We consider that the provision at 2A.13 provides a sufficient safeguard in respect of	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		to be deemed significant. However if paragraph 2A.5 is amended so that all the Licensee has to do is state that it reasonably considers the impact to be significant, significant is largely determined by the Licensee, not the Authority. Can the Authority please clarify this point?	a difference of view between the Authority and one or more Licensees.	
NGGD	2A.5c	Some of the items listed are not relevant to GD	The drafting deliberately provides for consideration of industry-wide impacts, not least because of the generic nature of the price control financial instruments.	N
NGGD	2A.6	Remit of the working group should include reviewing the ongoing effectiveness of the Financial Handbook as well as the PCFM, especially given that the Financial model takes precedence over the Handbook.	Disagree. The PCFM working group is an expert group, because of the specialised skills pertinent to modelling and the technical detail involved. The handbook is drafted to be understandable by any competent reviewer and so an expert group is not called for.	N
NGGD	2A.7	Can 'manifest error' be defined?	We do not believe that this term requires a definition. It takes the ordinary dictionary meaning: <i>Readily perceived by the eye or the understanding; evident; obvious; apparent.</i>	N
NGGD	2A.14	What if the Licensee/ENA members of the Finance Working Group do not agree with a proposed modification? What is	If the Authority considers, or the Licensee can demonstrate, that a modification would have a significant impact, then the statutory consultation process is invoked. If the Authority made a decision that the impact would not be significant and a Licensee disagreed, the JR route exists. The same would apply	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		the dispute/right of appeal procedure if an error in the PCFM is not corrected or fully corrected?	if the Authority decided not to make a modification considered necessary by a Licensee. This is consistent with the requirements of the Third Package. No amendment is therefore required.	
NGGD	2A.14	Can Licensees demonstrate 'significant impact' if this is not defined.	Yes, and we would not wish to limit the scope of matters which Licensees might wish to be considered as having a significant impact by providing a (necessarily) more restrictive definition.	N
NGGD	2A.14	If a modification cannot be made under Part B of this condition, what are the alternatives for the Authority? Does this mean the modification may still be made under the rules of another Condition? What if all Licensees agree that an error with a likely significant impact should be amended, but the Authority cannot change due to the provisions in this Condition?	Para 2A.3 is key - the Authority can modify the condition under the statutory route in any event, therefore the potential inhibition suggested would not arise. The "in-licence" provision set out in this condition is there to provide a simpler and quicker alternative to deal with low-impact amendments.	N
NGGD	2A.16	Use the word 'revised', instead of 'consolidated'.	Disagree. The word consolidated (as used in reference to consolidated licence conditions) means that the version incorporates all revisions to date.	N
NGGD	2A.18	What about modifications to the GD1 Financial Handbook, a track changed version should be made available where modifications are made. Specific guidance on the procedure for revisions to the	The notice referred to at 2A.9 will set out any proposed modifications. Under the statutory route, the proposal/modification notice will set out the changes. Therefore, there will always be a record of the changes made. No change is required to the drafting.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		Handbook should be stated in this Licence Condition. It is important that Licence Conditions, the GD1 Financial Handbook and the PCFM are consistent with each other, especially following modifications to the PCFM. A process should therefore be in place to consider the impact of changes to the PCFM on the Financial Handbook/Licence Conditions and visa versa.		
NGGD	2A.21	Definition in 1A so is this needed?	Agree. Deleted.	Y
WWU	2A.20	Replace “This condition should be read and construed in conjunction with Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).” with “This condition must be read and construed in conjunction with Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).”	Agree. Amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
NGGD	2A.18 b and c	Seem to be administration points so are not required in the Licence	Disagree. We consider this provides helpful clarity on the face of the licence as to the key steps which the Authority will take.	N
<b>Special Condition 2B. Annual Iteration Process for the GD1 Price Control Financial Model</b>				
NGGD	Whole condition	It may be more appropriate to include this in Chapter 3 as this relates to adjustments to Revenue.	Disagree.	N
SGN	General	We are disappointed that none of our comments made at the second informal licence drafting consultation have been taken onboard. We continue to believe that all of our comments are relevant and should be incorporated in the licence condition	Noted. Whilst we agree that all comments were relevant, we do not agree that they warranted any change to the drafting for the reasons we have previously given.	N
NGGD	2B.5	Worth stating that this record copy will include any functional modifications made since the last annual iteration where applicable	Disagree. The drafting already makes this clear.	N
NGGD	2B.13	If the annual iteration process is not completed and the assumed	The provision makes clear that the previous year's $MOD_t$ will prevail unless and until the Authority directs the enduring value of $MOD_t$ , which it is required to	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		MOD <sub>t</sub> as per the guidance in this paragraph is used (i.e. using the last published PCFM and updating the year to formula year t), will the Authority formally direct this value as an 'interim' MOD <sub>t</sub> , or will no such direction be made i.e. only the final MOD <sub>t</sub> will be directed?	do as soon as practicable after 30 November if it has not managed to meet that deadline. No change required.	
NGGD	2B.13	References to sheets and figures in the model in parts (b) and (c) should include a cell or row reference where possible.	Whilst this may be an aspiration, we do not agree that it should be reflected in the licence drafting.	N
SGN, NGGD	2B.13	If there a very significant error when calculating the previous MOD <sub>t</sub> this will be replicated in the next year's MOD <sub>t</sub> calculation. It is unclear why any functional modification will not be taken in to account.	Disagree. This provision provides for a holding value of MOD <sub>t</sub> until the final version of MOD <sub>t</sub> is directed. The modification suggested would add unnecessary complexity, particularly for third parties, to what is only intended as an emergency interim position.	N
NGGD	2B.13	Para is inconsistent with the FP document, para 7.58 p 62 i.e. Para 2B.13 states a copy of last year's PCFM will be used whereas FPs says that the Licensees PCFM will prevail	Disagree. The drafting correctly reflects the intended policy.	N
WWU	2B.15	Replace "This condition should	Agree. Amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		be read and construed in conjunction with Special Condition 2A.” with “This condition must be read and construed in conjunction with Special Condition 2A.”		
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 3A. Legacy price control adjustments</b>				
NGGD	Whole condition	Adjustments should only be made at the end of Formula Year 2013/14	Disagree. The Condition is drafted to enable legacy price control adjustments in respect of the Formula Year 2013/14 to be made throughout the period of the control.	N
SSE (also applicable to DN Operators)	3A.9	Paragraph could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.	Agree. Paragraph removed and consequential paragraph reference changes made.	Y
SGN NGGD	3A.14 (e)	MAR has been correctly deleted from the formula at 3A.10 so it is unclear why it is noted here. It is not referenced in the Financial Handbook	Agree. Amended accordingly.	Y
NGGD	3A.20	Paragraph should have same level of explanation as paragraph	Disagree. This would be confusing and is also unnecessary.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		2B.13, in the event that the annual iteration is not completed and MOD <sub>t</sub> is not formally directed by 30 <sup>th</sup> November.		
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
NGGD	3A.21	Should refer to the methodologies contained in the GD1 Price Control Financial Handbook rather than the 'GD1 Price Control Financial Methodologies'	Disagree. The correct term is used.	N
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special Condition 3B. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments</b>				
SSE (also applicable to DN Operators) WWU	3B.11	<p>SSE: Paragraph could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.</p> <p>WWU: Why no adjustments post the 2019/20 year? We think this is a drafting error and propose correct drafting</p> <p>3B.11 The last Formula Year in</p>	Agree. Paragraph removed and consequential paragraph reference changes made, which remedies both issues.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		which the Authority will make a determination pursuant to paragraph 3B.9 of this condition is Formula Year 2020/21.		
SGN, NGGD	Appendix 1	The non-repex capitalisation rates are in line with the FP Financial Model and the PCFM but are not in line with the Opex and Capex split based on the Totex in the 'Cost Efficiency' FP doc. It is essential that this mismatch is corrected using the FP Totex values. The correct values are 33.69% for Scotland Gas Networks & 28.94% for Southern Gas Networks	Disagree. The appendix states the correct values for this purpose. The opex/capex split for cost efficiency purposes is set in a different way to that for the Financial Model for the calculation of non-repex capitalisation rates.	N
WWU	3B.3	Replace "This condition should be read and construed in conjunction with Special Conditions 2A (Governance of GD1 Price Control Financial Instruments) and 2B" with "This condition must be read and construed in conjunction with Special Conditions 2A (Governance of GD1 Price Control Financial Instruments)	Agreed. Amended.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		and 2B.”		
WWU	3B.8	Has load related capex been defined anywhere? If “Actual Load Related Capex” is being carved out, then needs careful definition Define Load related Capex	The Condition is to be read and understood in conjunction with the handbook and the RIGs, which provide detailed definitions. No change is required to the condition.	N
NGGD	3C.15	The reference in (a) should be to the Distribution Network, not Licensee.	Agreed. Amended accordingly.	Y
NGGD	3B.18	Paragraph should have same level of explanation as paragraph 2B.13, in the event that the annual iteration is not completed and MOD <sub>t</sub> is not formally directed by 30 <sup>th</sup> November.	Disagree. This would be confusing and is also unnecessary.	N
NGGD	3B.19	Should refer to the methodologies contained in the GD1 Price Control Financial Handbook rather than the ‘GD1 Price Control Financial Methodologies’	Disagree. The correct term is used.	N
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
<b>Special condition 3C. Specified financial adjustments</b>				
SSE (also applicable to DN Operators), WWU	3C.7 3C.10 3C.17 3C.20 3C.27	<p>SSE: Paragraph could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.</p> <p>WWU: Why no adjustment after formula year 2019/20? Subsequent adjustment may require an adjustment to allowances for the whole of RIIO GD1? 20/21 is the last year of the control. We think this is a drafting error Please explain or correct drafting to refer to 2020/21 as the last year and not 2019/20</p>	Agree. Paragraph removed and consequential paragraph reference changes made, which remedies both issues.	Y
Ofgem	Throughout condition	Reference to adjustment should be to revision.	Amended accordingly.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special condition 3D. The Innovation Roll-out Mechanism</b>				

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
SPTL (also applicable to DN Operators)	3D.9	Current wording would disallow any expenditure before time of adjustment. As previously commented, please qualify by inserting cut off date of 1/4/13.	This has been the case throughout the development of the IRM. This mechanism is only intended to fund activity that takes place after the Authority has given permission, not before.	N
Ofgem	Appendix 2	Change to the values for the materiality threshold amount	The values for the materiality threshold amount have been changed to reflect the change in the Opening Base Revenue Allowance. The materiality threshold amount is calculated as the average annual Opening Base Revenue Allowance,	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special condition 3E. Mains and Services Replacement Expenditure</b>				
SGN	General	We have commented previously on our concern over the use of a number of definitions and terms with regards to Mains and Services Replacement Expenditure. We remain concerned with the inconsistency between Ofgem & HSE definitions and continue to believe that our comments in the covering letter of our response to the second informal licence drafting consultation remain valid.	We have amended the definition of Above Risk Threshold Tier 2 Mains to Above Risk Action Threshold Tier 2 Mains. Otherwise we consider the terminology to be appropriate.	Y
Ofgem	3E.3(b)	Reference to base revenue should be to Base Distribution	Amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		Network Transportation Activity Revenue.		
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special condition 3F. Arrangements for the recovery of uncertain costs</b>				
NGN	3F.28	Delete. The purpose of the fuel poor network scheme is the removal of fuel poverty not carbon reduction.	We do not agree that this paragraph requires a change. It describes information that the Authority may request in order to carry out an assessment of the Scheme, but does not restrict the Authority to only assessing the Scheme for its carbon benefits.	N
NGGD	Appendix 2	There needs to be a policy decision made on whether the table should be indexed. In addition, there is no mention of the mid period review and the adjustments for Asset Health and / or HSE iron mains replacement.	As set out in FPs the materiality threshold is based on the value of the opening base revenue allowance and is not indexed. The reference to 2009/10 prices has been deleted to avoid confusion.  Matters relating to the mid period review are covered in the Final Proposals Document rather than the licence.	Y
Ofgem	Appendix 2	Change to the values for the materiality threshold amount	The values for the materiality threshold amount have been changed to reflect the change in the Opening Base Revenue Allowance. The materiality threshold amount is calculated as the average annual Opening Base Revenue Allowance,	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special condition 4A. Disapplication of Relevant Special Conditions and Relevant Metering Special Condition</b>				
NGN	4A.6	There is a technical issue with the drafting of the condition in that it	Agree. Amendment made to paragraph 4A.8 to make clear that this provision relates to the timing of any subsequent disapplication.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		seems to suggest that if Ofgem serves an information request then the disapplication request we have submitted is treated as not having been served which cannot be correct as it surely not the intent to cancel a request once served, or the operation of the 18 month period.		
WWU	4A.6	The disapplication process still does not work, although it is better than what was previously drafted. The paragraph at the bottom of the clause is inconsistent because the first part of the clause says that if Ofgem serves a request for further information, the disapplication request is treated as not having been served. It therefore does not exist. The second half of the sentence says that, if, as a result of the request for information, by the time the information is provided there is then less than 18 months between the date that the	See above amendment.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		<p>further information is provided and the original disapplication date, the original disapplication date will be extended by a corresponding period, so that there is always an 18 month period from the receipt of full information to potential disapplication. This however assumes that therefore the original notice is valid because that is the only date which starts off the original 18 months. It is utterly essential that a valid notice can be served and remain in force. The first part of the phrase therefore needs to change so that the disapplication request remains valid albeit its operation is deferred as provided for in the second part of the Condition.</p> <p>The first part of the phrase therefore needs to change so that the disapplication request remains valid albeit its operation is deferred as provided for in the second part of the Condition.</p>		

<b>Special Conditions</b>				
<b>Comment From</b>	<b>Para Ref in the statutory consultation</b>	<b>Comment</b>	<b>Ofgem Response and Reasons for Changes from Statutory Consultation Drafting</b>	<b>Change made to licence (Y/N)</b>
WWU	4A.8	The drafting is better than it was but still contains an 18 month period. In effect, when combined with 4A.10 means that Ofgem has 12 months from receipt of all the information it requires under a disapplication request to consider its position. This seems inordinately long given that the purpose of Condition is to deal with dire financial circumstances. We recommend changing the 18 month period to a 12 month period	Disagree. This is consistent with the previous policy.	N
NGGD	4A.11	Incorrect statutory references.	Agree. Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
<b>Special condition 4B. Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network</b>				
WWU	4b1.(b)	This is new, what do Ofgem see as an example “methods report” here?	The form of the report is to be agreed with the Authority and so the licensee will be given guidance on its preparation.	N
WWU	4b.6 (c) & (d)	The definitions of “metering business” and “meter reading business” need to be included in	Reference changed to SSC A3 where the definitions are included.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		special condition 1A as stated. They are currently not there		
NGGD	4B.6	Delete item (b) LNG import or export facilities, as not relevant to a DN licence.	Disagree. Although not relevant now they may be in the future.	N
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
<b>Special condition 4C. Services treated as Excluded Services</b>				
NGN	4C.2	This does not appear correct as Returned Royalty Income will already be netted off any payment received from the NTS under the NIC or paid to the NTS as set out in Special Condition 1I. If any such income is not treated as excluded then the amount will be included in Distribution Network Transportation Activity Revenue and effectively be paid back twice.	Disagree. It does not follow that if Returned Royalty Income is not an Excluded Service it must be Distribution Network Transportation Activity Revenue. The licence makes clear that it is neither. No change is required.	N
Ofgem	4C.6	Formatting change required.	Amended accordingly.	N
<b>Special condition 4D. Restriction of prices in respect of Tariff Capped Metering Activities</b>				
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout	Cross references require	Amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
	condition	correction		
Special condition 4E. No comments or changes to consultation draft				
Special condition 4F. No comments or changes to consultation draft				
Special condition 4G. Methodology for Network Output Measures				
NGN, SGN, WWU, NGGD	4G.2	<p>We believe the proposed date of 31st March 2013 for a Methodology for Network Output Measures common to all DN operators for each asset group is not achievable and should be replaced by 31st March 2014. There is willingness and commitment from GDNs to achieve the goal of comparable health and risk assessment but work to date has identified differences in approach that will require significant time to resolve. These differences are across a number of key areas</p> <ul style="list-style-type: none"> <li>•Factors used to determine health</li> <li>•Mechanism and weightings to convert these factors into a health score</li> <li>•Approach to deterioration, both rate and what the impact on</li> </ul>	<p>Given that this condition cannot properly operate without a NOMs Methodology, we continue to believe that this should be finalised as soon as possible, and that 31 March 2013 remains an appropriate date to aim for. There is a facility for the Authority to grant an extension in the future if that is appropriate, but we do not consider such an extension appropriate at present.</p>	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		<p>health would be, given many assets have never operated in that regime before.</p> <ul style="list-style-type: none"> <li>•Factors used in assessing criticality</li> <li>•Likelihood of a failure resulting in the criticality being realised</li> <li>•‘Scoring’ of criticality factors and mechanism to map from multiple criticality factors to a single rating</li> <li>•Data in terms of both quality and quantity</li> </ul> <p>For some asset groups the differences are relatively minor and consistency is achievable in the short term. However, for others there will be considerable research and data gathering to achieve meaningful and comparable assessment.</p>		
NGN	4G.8 (a) (i) & (ii)	We believe 12 rather than 24 months would give a clearer picture to inform any mid-period review whilst at the same time give a sufficient period for the impact to be assessed.	We disagree. Two years is required to conduct the necessary review, and the Authority can request updated information in any event.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
SGN	4G.2	Delete the square brackets around 1 April 2013. Note however that (i) As the licence doesn't come into effect until 1 April 2013, this date cannot be used (usual convention is 'within X days of this licence condition coming into effect; and more importantly (ii) our general concerns noted above and in our separate paper	Square brackets removed. Disagree with additional comment.	N
NGGD	4G.3	Condition should make clear that the obligation to maintain the Methodology should only bite after the Authority has approved the initial Methodology.	Agree. Amended accordingly.	Y
NGGD	Throughout condition	Minor changes required to reflect the fact that special conditions are individual to each Licensee.	Agree. Amended accordingly.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
Ofgem	Throughout condition	The Methodology should also make provision for the recording and measurement of "Network	Amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		Outputs” required under SC 4H		
<b>Special condition 4H. Specification of Network Outputs</b>				
NGET	Table 1	The costs of under and over delivery should not be net of the efficiency incentive rate.	Agree. We have removed reference to the efficiency incentive rate. Applying the efficiency incentive rate would result in a change to revenues in future price control which would not be commensurate with costs incurred/saved.	Y
NGGD	Table 1	Cost of over delivery criteria is in unjustified column when it should be in justified	Agree. Provision amended.	Y
NGN	4H.2	Subject to the requirements of 4H.3 as drafted a network which failed to deliver any of the very granular outputs contained in the workbook would potentially be in breach of licence. We do not believe this is the intent as the incentive mechanisms set out in tables 1 & 2 are the penalty that would apply to any unjustified material under-delivery not any action for licence beach. This could potentially be remedied by adding “For the avoidance of doubt failure to deliver any individual Network Output would not constitute a breach of licence.”	Disagree. It is important that the NOMs are licence obligations. The penalty mechanism sets out the penalties Licensees would incur under the price control and such penalties would be taken into account if the Authority sought also to enforce the licence.	N
WWU	4H.2	If Networks fail to deliver	As above.	N

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
		<p>Outputs, this paragraph as drafted would mean networks would be in breach of Licence. Our understanding is that Output delivery is incentivised with appropriate funding incentives included in the drafting.(4h.4)</p> <p>We do not believe the intent is to put a network in breach of Licence. We suggest removal of this paragraph as it is not needed</p> <p>Remove Sc4h.2 “Subject to paragraphs 4H.3 of this condition, by the end of the First Price Control Period the Licensee must deliver the Network Outputs in accordance with the specifications set out in the Workbook.</p>		
NGGD	4H.3	What does “equivalent specification of risk mitigation” mean?	Self explanatory.	N
NGGD	4H.3	What does “higher specification of risk mitigation” mean?	Self explanatory.	N
NGGD	4H.5	What does any trade-offs between asset categories mean?	It means any trade-offs between asset categories the Licensee has made in its decision making relation to the delivery of its Network Outputs. Condition amended accordingly.	Y

Special Conditions				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to licence (Y/N)
NGGD	4H.5	What does “the difference between the risk profile of the relevant assets with and without intervention” mean?	Self explanatory.	N
NGGD	4H.6	What does “Network Capacity Measure” mean?	Self explanatory.	N
NGGD	Throughout Condition	Price control periods should be correctly defined.	Agree. Amended accordingly.	Y
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y
<b>Special condition 4I. Gas conveyed to Independent Systems</b>				
NGN	All	This condition should not be applied to NGN’s licence as there are no independent systems connected to NGN’s network.	Agree that this should not apply to NGN.	Y
SGN	4I.3	Delete this paragraph. We believe it is a ‘cut and paste’ from the amended NGGT C26 special condition (now 11F) but it is not relevant to SGN or WWU, neither GDN recovers amounts from gas shippers nor pays them to DN Operators or Relevant Shippers. The purpose of special condition	Agree. Amended accordingly.	Y

<b>Special Conditions</b>				
<b>Comment From</b>	<b>Para Ref in the statutory consultation</b>	<b>Comment</b>	<b>Ofgem Response and Reasons for Changes from Statutory Consultation Drafting</b>	<b>Change made to licence (Y/N)</b>
		4I is to ensure (a) that these two GDNs use reasonable endeavours for the transportation of LPG (and to provide the NTS operator with relevant information) and (b) that customers on the Independent Systems are not charged more than Equivalent Customers		
Ofgem	Throughout condition	Minor amendments required to correct references to defined terms.	Amended accordingly.	Y
Ofgem	Throughout condition	Cross references require correction	Amended accordingly.	Y

<b>Comment From</b>	<b>Reference</b>	<b>Comment</b>	<b>Ofgem Response</b>	<b>Change made to licence (Y/N)</b>
<b>GD1 Price Control Financial Handbook</b>				
Ofgem	Throughout handbook	Amendments consequential to changes made to the licence condition since the statutory consultation.	Amended accordingly.	Y
Ofgem	Throughout handbook	Amendments made to improve the clarity of the drafting, correct	Amended accordingly.	Y

		cross referencing and typographical errors, correct discrepancies between Final Proposals, the handbook and the licence conditions		
NGGD	1.31	Wording in 1.31 refers to one representative per Licensee. NGGD would like to clarify if that means four for them.	We have clarified the text to say a quorum is obtained if the meeting is attended by Ofgem and two Licensees, from more than one ownership group.	Y
Ofgem	1.35	Amendment to reflect the policy intent that there should be only one representative per ownership group, not one per Distribution Network.	Appropriate amendments made.	Y
From the Working Group Meeting	2.2	It would be helpful to explain exactly where in the PCFM the Variable Values are to be input as part of the Annual Iteration Process	Changes have been made to provide clarity.	Y
NGGD	3.22	Extra item needs to be added at the end of row 7 in table 3.2. (derivation of parameter C) "Add forecast contingent asset costs where these have been allowed for the relevant pension scheme". Also suggested for table 3.3	No contingent asset funding was provided for any GDNs and hence we have not made any adjustment.	N
NGGD	4.6	Confusion between gross tax losses and tax impacted value in 4.58	Changes have been made to provide clarity.	Y
SGN	Chapter 10 Part 4	Clarification needed over CAR and CRAV as to which costs are included in capex and opex and also to be clear where allowances	Changes have been made to provide clarity.	Y

		are restated for reopeners		
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Comment From	Reference	Comment	Ofgem Response	Change made to licence (Y/N)
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### GD1 Price Control Financial Model

Ofgem		Changes to the inputs to reflect changes in the allowances provided in the licence	Changes to the NTS Exit Capacity Cost Allowance, for NGGD and SGN and a change to the prescribed rates allowance for WWU incorporated into the model.	Y
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Comment From	Reference	Comment	Ofgem Response	Change made to licence (Y/N)
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### Associated document –Network Innovation Governance Document

Transmission Investment LLP (TCP)		<p>Respondent would like certainty over the level of risk when bidding for NIC funding. In particular:</p> <ul style="list-style-type: none"> <li>The maximum amount of NIC funding that could be refunded</li> <li>The time-limits within which any refunding direction must be made by Ofgem</li> </ul>	<p>The maximum that would be refunded is the total amount received from the NIC.</p> <p>The expected last point for a funding return direction will be the December following the approval of the project close down report in the governance document.</p>	N
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SGN	Overview	Respondent concerned that it is not always clear what is intended as an absolute obligation and what is intended as guidance only e.g. it uses language such as 'expect' and urge greater clarity. They ask that this is considered when regulating Licensees under the NIC and when conducting the planned review.	<p>Following comments to the informal consultation we added text to the front of the document prior to the Statutory Consultation to clarify that section A provides guidance for the competition and section B the requirements for the Licensee to follow once funding has been awarded.</p> <p>We note there has been no issue with the LCN fund to date, which has been running for the last 3 years and is set-up in a similar way. The review provides an opportunity to consider any changes to the governance if necessary.</p>	N
SGN	General	Respondent concerned that a substantial number of comments submitted in response to the previous consultation remain and have not been taken in to consideration.	We spent time considering all the comments we received prior to the statutory consultation and made revisions where appropriate. The two year review remains available to consider any changes to the arrangements following experience from running the competition and we may consider any lessons learnt from running the first competition in 2013 if necessary.	Y
SGN	2.10	Licensees must ensure Project details published on the Learning Portal are up to date at all times. As project details are continuously developing throughout the life of a Project please clarify this means the most recent Project Progress Reports rather than continuously updated as the Project moves on.	The intention of this paragraph is that the licensee ensures that relevant information is up to date. This means the most recent reports that have been published. To aid clarity we have made a minor alteration to the text in paragraph 2.10, to refer to the latest project progress reports.	Y
SGN	3.3	Greater clarity regarding intended dates would be helpful as two Calendar Months notice is extremely tight for Projects of this size and complexity.	We provided clarity following comments from the informal consultation. Please see paragraph 3.3 where we state "we expect the ISP deadline to be in April each year and the full submission deadline to be in August each year".	N
SGN	ISP Criteria – Page 18	Respondent concerned that the Licensee must be able to set out quite detailed and specific information to 'demonstrate' how the Project can accelerate development of low carbon and environmental benefits and the	<p>We appreciate that innovative projects by their nature have a degree of uncertainty involved.</p> <p>To understand the level of detail that will be required, an example ISP submission for the LCN Fund is here:  <a href="http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/year3/arc/Document%20s1/SPD_2003_ISP-ARC.pdf">http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/year3/arc/Document s1/SPD_2003_ISP-ARC.pdf</a>. This is similar level of detail to what will be required for</p>	N

		potential to deliver value for money for customers across GB. Given the nature of such Projects, the risk and uncertainty, the difficulty associated with demonstrating the elements outlined should not be underestimated.	the NIC and all past LCN Fund ISPs can be found on our website.	
SGN	Evaluation Criteria – Page 32	The difficulties and uncertainty associated with the demonstrating a Project meets the criteria should not be underestimated. Details can be extremely uncertain and difficult to quantify e.g. potential to deliver net financial benefits, potential to release capacity and potential to replicate across GB.	<p>We appreciate that innovative projects by their nature have a degree of uncertainty involved.</p> <p>Any example full submission for a project is found here:  <a href="http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/year3/arc/Document s1/ARC_resubmission_combined.pdf">http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/year3/arc/Document s1/ARC_resubmission_combined.pdf</a> The projects are assessed as a whole against all of the criteria – it is likely that projects will perform differently against each of the individual criteria, but it is the combined performance that is important. All past LCN Fund Full Submissions can be found on our website (both those that were awarded funding and those that were not).</p>	N
SGN	IPR - 9.4	It is not clear what is meant by 'material'. This needs to be clearer, particularly if this is intended to be more than guidance.	The use of material is a common phrase and we do not consider it needs further definition. It may vary on a project by project basis.	N
SGN	9.5	We suggest "(as appropriate)" be inserted after the word "shared" on the penultimate line.	We do not consider this is necessary and believe the current drafting is clear as it stands.	N
SGN	9.12	We recommend use of the words "new and distinct" in relation to the definition of Foreground IPR. .	The definition of Foreground IPR is linked to IPR that is generated through the project. We do consider it is appropriate to include "new and distinct".	N
SGN	Throughout	The term Participant is used throughout this section but only Project Participant is defined (and used elsewhere in the document).	Where we refer to participant this has been updated to the defined term "Project Participant"	Y
Ofgem		The terms GBSO and GB Transmission System were amended in the transmission licence in 2009, with the introduction of the offshore	We have made changes to refer to the GBSO as NETSO and GB transmission system as National Electricity Transmission System to account for the changes and ensure the inclusion of offshore	Y

		regime. The GBSO is now the NETSO or National Electricity Transmission System Operator. The GB Transmission System is defined to exclude the offshore transmission system so the correct term should be National Electricity Transmission System or NETS.		
Ofgem		The current drafting of network licensee group requires clarification where a licensee is owned by more than one ultimate controller.	We have made minor changes to the definition of a network licensee group to account for when a licensee is owned by more than one ultimate controller.	Y

Comment From	Reference	Comment	Ofgem Response	Change made to licence (Y/N)
<b>Associated document – Network Innovation Allowance Governance Document</b>				
Ofgem	Throughout	Minor amendments required to correct typographical errors	Appropriate amendments made.	Y

Comment From	Reference	Comment	Ofgem Response	Change made to licence (Y/N)
<b>Associated document – Stakeholder Engagement Incentive Scheme Guidance</b>				
Ofgem	Throughout	Minor amendments required to correct typographical errors	Appropriate amendments made.	Y
Ofgem	Para. 1	Change to the ‘Evaluation and Reward Allocation’ section to	Appropriate amendments made.	Y

		provide clarity on the implications of passing the part 1 submission on the overall eligibility for the reward.		
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## **Schedule 3 – Reasons and effects for the 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**

Amended and renumbered 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**

Amended and renumbered 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.<sup>2</sup> 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.

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<sup>2</sup> 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/Trains/PriceControls/RIIO-T1/ConRes>

### **Special Condition E3: Distribution Network allowed pass-through items**

Amended and renumbered 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,<sup>3</sup> 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 (MSRAt)**

Amended, renumbered and renamed as 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.<sup>4</sup> 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).**

Amended, renumbered and renamed as Special Condition 1D: NTS Exit Capacity Cost Adjustment.

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<sup>3</sup> 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>

<sup>4</sup> 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>

1.12. 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 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.<sup>5</sup> 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**

Amended, renumbered and renamed as 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**

Special Conditions E8 and E9 replaced with 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

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<sup>5</sup> 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>

two incentives more apparent and transparent and provides for common governance arrangements to apply for the reporting of performance under both incentives.

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**

Amended, renumbered and renamed as 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**

Amended, renumbered and renamed as 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**

Amended, renumbered and renamed 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**

Replace with new 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**

Amend 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]**

Renumber 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**

Amend and renumber 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.

## **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 Guidance<sup>6</sup>. 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 RIIO-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.<sup>7</sup> 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.

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

<sup>7</sup> 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 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 Document<sup>8</sup>
- 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 Handbook<sup>9</sup>. 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.

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<sup>8</sup> This condition gives effect to the Gas Network Innovation Competition Governance Document which has been published alongside this document as Supporting Document 5

<sup>9</sup> 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. The new condition has been introduced 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 consultation<sup>10</sup> 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 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.

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<sup>10</sup> [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)**

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

1.65. This condition is deleted because the provisions it contains, in relation to the calculation of the correction factor (K), are now included in the Special Condition 1B: Restriction of revenue in respect of the Distribution Network Transportation Activity.

1.66. The effect of the 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)**

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 deletion is to remove provisions that are covered elsewhere in the licence.

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

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. 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 restructuring and renumbering of the GD Special Conditions 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**

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 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 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 the governance and instructions for the reporting of regulatory information are consolidated into the new RIGs Licence Condition. Accordingly, we have deleted the above conditions and replace with new SSC A40 Regulatory Instructions and Guidance

1.76. The effect of introducing the 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.

#### **Schedule 4 – List of relevant licence holders**

National Grid Gas Plc	1-3 Strand, London, WC2N 5EH, Great Britain
Northern Gas Networks Limited	1100 Century Way, Thorpe Park Business Park, Colton, Leeds, LS15 8TU, Great Britain
Scotland Gas Networks Plc	Axis House, 5 Lonehead Drive, Newbridge, Edinburgh, EH28 8TG, Great Britain
Southern Gas Networks Plc	St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ, Great Britain
Wales & West Utilities Limited	Wales and West House, Spooner Close, Coedkernew, Newport, South Wales, NP10 8FZ, Great Britain