

# **Proposed Special Conditions to the GDNs' Gas Transporter Licences**

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## **Chapter 1: Distribution Revenue Restriction**

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## **Special Condition 1A. Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions**

### **Introduction**

- 1A.1 This condition sets out most of the defined words and expressions (most of which begin with capital letters) that are used in Special Conditions, and gives their definitions next to them.
- 1A.2 But:
- (a) Some words and expressions which are only used in a particular Special Condition are defined in that condition; and
  - (b) Some words and expressions used in the Special Conditions are defined in Standard Condition 1 of the Standard Conditions or Standard Special Condition A3 of the Standard Special Conditions.
- 1A.3 Where a word or expression is defined both in this condition and in Standard Condition 1 of the Standard Conditions or Standard Special Condition A3 of the Standard Special Conditions, the definition in this condition shall prevail.

### **Definitions in alphabetical order**

- 1A.4 In Part E of the Special Conditions, unless the context otherwise requires:

Above Risk Threshold Tier 2 Mains	means Included Mains where the pipe diameter is greater than 8 inches and less than 18 inches, and which have a Risk Score greater than the Threshold Risk Score;
Above Risk-action Threshold Tier 2 Services	means service pipes connecting to Above Risk Threshold Tier 2 Mains;
Agency Costs	means costs incurred, or expected to be incurred, by the licensee for the relevant Distribution Network for the purposes of meeting its obligations under Standard Special Condition A15 (Agency), as further clarified in the RIGs;
Allowable NIA Expenditure	has the meaning given to that term in either Part B of Special Condition 1H: The Network Innovation Allowance;
Allowed NTS Exit Capacity Cost	means the Allowed NTS Exit Capacity Cost for the relevant Distribution Network as set out in Appendix 1 of Special Condition 1D: NTS Exit Capacity Cost Adjustment;
Authority	means the Gas and Electricity Markets Authority;
Authority's Website	means <a href="http://www.ofgem.gov.uk">www.ofgem.gov.uk</a> ;

Average Specified Rate	means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made;
Bank Holiday	means a Bank Holiday within the meaning of the Banking and Financial Dealings Act 1971;
Base Distribution Network Transportation Activity Revenue	means the Licensee's base revenue for the relevant Distribution Network for carrying out the Network Transportation Activity as derived in accordance with Part C of Special Condition 1B Restriction of revenue in respect of the Distribution Network Transportation Activity;
Broad Measure of Customer Satisfaction	means the composite incentive based upon the Customer Satisfaction Survey, a complaints metric and Stakeholder Engagement Survey;
Buybacks	Exit Constraint Management Actions as defined in accordance with Part B of the Network Code;
Capex Rolling Incentive	means the incentive scheme referred to in paragraphs 6.4 to 6.10 of the Authority's publication 'Gas Distribution Price Control Review Final Proposals' (Reference 285/07) dated 3 December 2007; and for the avoidance of doubt, LTS / Riser over and underspends are subject to the Capex Rolling Incentive in GDPCR1, as they are included in the allowances and actual expenditure in the Capex Rolling Incentive calculation;
Carbon Benefits	means a contribution to the Government's current strategy for reducing greenhouse gas emissions, as set out in the document entitled the "Carbon Plan" published by the Department of Energy and Climate Change;
Complaint	means any expression of dissatisfaction made to a Licensee in respect of the relevant Distribution Network, related to any one or more of its products, its services or the manner in which it has dealt with any such expression of dissatisfaction, where a response is either provided by or on behalf of that Licensee at the point at which contact is made or a response is explicitly or implicitly required or expected to be provided thereafter, as may be further clarified in the RIGs;

Connection Charging Boundary Change Costs	means costs incurred, or expected to be incurred, by the Licensee in respect of the relevant Distribution Network as a consequence of any material change to the charging methodology, as required by Standard Condition 4B (Connection Charging Methodology) in relation to Distributed Entry Connections by persons requiring such connections, as may be further clarified in the RIGs;
Customer Satisfaction Survey	means the survey used to measure the extent to which customers are satisfied with the service provided by the Licensee in respect of the relevant Distribution Network for the purposes of the Broad Measure of Customer Satisfaction;
Day	has the meaning given to that term in the Network Code;
Decommissioning	means, in relation to any main: (a) removing the main from physical operation, or (b) inserting a new polyethylene main for which the existing service acts merely as a guide, or (c) applying an internal lining of sufficient strength and durability to comply with Regulation 5 of the Pipelines Safety Regulations 1996, or (d) any other means of rendering the existing non-polyethylene main safe as agreed with HSE, and “decommissioned” is to be read accordingly;
Directly Attributable Costs	has the meaning given to that term in paragraph 11.14 of Special Condition 11. The Network Innovation Competition;
Disallowed Expenditure	has the meaning given to that term in paragraph 11.12 of Special Condition 11;
Disapplication Request	means a request to disapply the Relevant Special Conditions or Relevant Metering Special Condition (in whole or in part) for the purposes of and in accordance with Special Condition 4A (Disapplication of Relevant Special Conditions);

## Discretionary Reward Scheme

means (as the context requires) either:

- (a) in relation to the calculation of the  $DRSW_t$  term in respect of Formula Years 2011/12 and 2012/13, the scheme of that name under which the Licensee may, at the Authority's discretion, be rewarded by way of a positive revenue adjustment in recognition of its adoption of best practice in reducing the environmental impact of gas distribution, facilitating network extensions, and promoting gas safety; or
- (b) in relation to the calculation of the  $DRSX$  term in respect of a Formula Year, the scheme of that name under which the Licensee may, at the Authority's discretion, be rewarded by way of a positive revenue adjustment in recognition of its performance in delivering additional environmental, safety and social outputs during the relevant Formula Year not funded under the Special Conditions;

Distributed Energy Connections

means a facility which is connected to the network whose purpose is to inject gas onto the network, as may be further clarified in the RIGs;

Distribution Network

means a gas distribution network as defined with reference to the aggregate of its constituent LDZs in accordance with the table set out below:

<b>Distribution Network</b>	<b>LDZ</b>
East of England	East Midlands, Eastern
London	North Thames
North West	North West
West Midlands	West Midlands
Northern	Northern, North East
Scotland	Scotland
Southern	South East, Southern
Wales and West	Wales North, Wales



	South, South West
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Distribution Network Pension Deficit Charge

means payments made by the licensee to meet the charge made by the NTS Operator to the Distribution Network and specified by the NTS Operator, in accordance with the value determined by the Authority, as Distribution Network Deficit Charge payments;

Distribution Network Transportation Activity

means the activities of the Licensee in respect of the relevant Distribution Network connected with the development, administration, maintenance and operation of the Distribution Network and with the Supply of Distribution Network Services;

Distribution Network Transportation Charges

means charges made or levied, or to be made or levied, by the Licensee for the provision of services as part of its Distribution Network Transportation Activity in respect of the relevant Distribution Network, to any person, for the purpose of recovering its Maximum Distribution Network Transportation Activity Revenue;

Distribution Network Transportation Activity Revenue

means the revenue derived by the Licensee in respect of the relevant Distribution Network from the Supply of Distribution Network Services to gas shippers in respect of the Distribution Network Transportation Activity;

DN Operator

means the operator of a Distribution Network;

Eligible NIA Expenditure

means the amount of expenditure spent or accrued by the Licensee in respect of the relevant Distribution Network in respect of Eligible NIA Projects and Eligible NIC Bid Preparation Costs and forms part of Allowable NIA Expenditure as set out in Part B of this condition;

Eligible NIA Internal Expenditure

means the amount of Eligible NIA Expenditure in respect of the relevant Distribution Network spent or accrued on the internal resources of the Licensee;

Eligible NIA Projects

means those projects undertaken by the licensee in respect of the relevant Distribution Network that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition;

Eligible NIC Bid Preparation Costs	means the amount of expenditure spent or accrued by the Licensee in respect of the relevant Distribution Network when preparing submissions for the Network Innovation Competition as defined in Special Condition 11 that satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition;
Eligible NIC Project	means a project undertaken by the Licensee or any other holder of a gas transporter licence that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism;
Enhanced Physical Site Security Costs	means costs incurred, or expected to be incurred, by the Licensee in respect of the relevant Distribution Network for the purposes of: (a) implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee's Distribution Network; or (b) complying with any requirement arising under sections 85 to 90 of the Counter-Terrorism Act 2008 to make payments to the Secretary of State for costs incurred by him in respect of the provision of extra policing services in or around a gas facility, as may be further clarified in the RIGs;
Environmental Emissions Incentive	means incentive payments in order to reflect the Licensee's performance in respect of the relevant Distribution Network in reducing environmental emissions arising from Leakage;
Excluded Services	has the meaning provided in paragraph 4C.2 of Special Condition 4C: Services treated as Excluded Services;
Exit Requirements	has the meaning given in Section J of the Network Code;
Formula Year	means a period of twelve months commencing on 1 April at 06:00 hours, the first such Formula Year (t=1) commencing 1 April 2013;

Fuel Poor Network Extension Scheme	means the scheme of that name that incentivises a DN Operator to extend the relevant Distribution Network to premises not previously connected to that network that are occupied by individuals eligible to receive a fuel poor voucher in accordance with the guidance set out in the connection charging methodology statement issued under Standard Condition 4B, as may be further clarified in the RIGs;
Funding Return	has the meaning given to that term in paragraph 1I.10 of Special Condition 1I.
Funding Return Mechanism	has the meaning given to that term in paragraph 1I.9 of Special Condition 1I.
Gas Distribution Group	means any group of DN Operators in which the licensee and every other DN Operator within the group are Affiliates;
Gas Transporter Licensee	means the holder of a licence granted under section 7 of the Gas Act 1986
GD1 Price Control Financial Handbook	means the document of that name that was published by the Authority under reference number [•]/12 on [•] February 2013 that: (a) includes specific information and advice about the operation of the Annual Iteration Process and the GD1 Price Control Financial Model; and (b) contains, in particular, the GD1 Price Control Financial Methodologies, as modified from time to time, whether under this condition or otherwise;
GD1 Price Control Financial Instruments	comprise the GD1 Price Control Handbook, which contains the GD1 Price Control Financial Methodologies, and the GD1 Price Control Financial Model.
GD1 Price Control Financial Methodologies	means the methodologies that: (a) are named as such in the GD1 Price Control Financial Handbook; and (b) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process, as modified from time to time, whether under this condition or otherwise;

GD1 Price Control Financial Model	means the model of that name (with a Formula Year suffix) that was first published by the Authority on [•] February 2013: (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Formula Year suffix) on the Authority's Website; and (b) that the Authority will use to determine the value of the term MODt through the application of the Annual Iteration Process, as modified from time to time, whether under this condition or otherwise;
GD1 Price Control Financial Model Working Group	means the working group identified in and whose terms of reference are set out in chapter 1 of the GD1 Price Control Financial Handbook;
Gigawatt Hour or GWh	means one million Kilowatt Hours;
Halted Project Revenues	has the meaning given to that term in paragraph 1I.11 of Special Condition 1I;
HSE	means the Health and Safety Executive;
Included Mains	means all mains which prior to Decommissioning were mains that operated at low, medium, or intermediate distribution pressures and consisted of materials other than Standard Mains Materials (and includes all decommissioned, transferred, or replaced services);
Innovation	means any or all of the following: (a) a specific piece of New Network Equipment; (b) a novel arrangement or application of new or existing Network Equipment; (c) a novel operational practice; (d) or a novel commercial arrangement, that is not, or is not within the scope of, an Ordinary Business Arrangement;
Innovation Roll-out Costs	means the proposed cost of Rolling out a Proven Innovation;
Kilowatt Hour or KWh	means 3,600,000 Joules
Large Load Connection Costs	means costs incurred, or expected to be incurred, by the Licensee in connecting new loads in respect of entry or exit from the relevant Distribution Network in order to meet its obligations under the Act to develop and maintain an efficient and economical pipeline system for the conveyance of gas, other than those costs which are recoverable directly from the connecting customer, as may be further clarified in the RIGs;
LDZ	has the meaning given to that term in Section A1.2.2(a) of the Network Code as at 1 January

	2006;
Leakage	means gas lost from the relevant LDZ during transportation which has been released into the atmosphere;
Liquefied Natural Gas Import or Export Facility	has the meaning given to that term in section 48 of the Act;
LNG Storage Business	means the activities of the Licensee in respect of the relevant Distribution Network connected with the development, administration, maintenance and operation of the LNG storage facilities by the Licensee for the storage of gas in Great Britain and with the Supply of LNG Storage Services relating to those facilities;
Mains Risk Prioritisation Score	means the computer system and algorithm used to calculate the risk of an explosion incident due to a live metallic gas pipe;
Methodology for Network Output Measures	means the methodology that was in place under this licence in respect of the relevant Distribution Network under the name of "Network Output Measures methodology" in the form in which this licence was in force at 31 March 2013 or as subsequently amended as provided for in Special Condition 4G (Methodology for Network Output Measures);
National Balancing Point	has the meaning given to that term in the Approved Market Price Report;
National Grid Gas plc	means the company registered in England and Wales under company number 02006000 which had that name on 10 October 2005 and was previously known as "Transco plc";
Network Code	means the document prepared by or on behalf of the Licensee pursuant to paragraph 3 of Standard Special Condition A11 (Network Code and Uniform Network Code), (as that document is modified from time to time pursuant to that condition) and where the context requires, references to network code shall include the uniform network code to the extent that it is incorporated by reference;
Network Equipment	means any asset that for the time being forms part of the licensee's pipeline system and any control centre for use in conjunction therewith;
Network Innovation Allowance (NIA)	has the meaning given to that term in Special Condition 1H;

Network Innovation Competition (NIC)	has the meaning given to that term in Special Condition 1I;
Network Output	means (in respect of the relevant Distribution Network) the Network Assets Condition Measure, the Network Risk Measure, and the Network Capacity Measure, each as defined in paragraph 4G.5 of Special Condition 4G;
Network Outputs	means the asset health and criticality outputs that the Licensee is required to deliver in respect of the relevant Distribution Network on its Distribution Network by 31 March 2021 that has been approved as part of the price control review and funded in its opening base revenues, as measured by the Network Output Measures and defined as the level of risk mitigation between the forecast risk profile at the end of the Price Control Period without intervention and the risk profile with intervention.
New Network Equipment	means in respect of the relevant Distribution Network any new asset that does not yet form part of the Licensee's pipeline system or control centre for use in conjunction therewith;
NIA Governance Document	means the document issued by the Authority under Part D of Special Condition 1H, subject to the requirements of Part E of that condition, relating generally to the establishment and operation of the NIA and including matters relating to the calculation of the Eligible NIA expenditure;
NIA Percentage	means the percentage of allowed revenue in respect of the relevant Distribution Network licensees may use for NIA projects set out in Appendix 1 of Special Condition 1H;
NIC Funding	has the meaning given to that term in paragraph 1I.8 of Special Condition 1I.
NIC Funding Mechanism	has the meaning given to that term in paragraph 1I.7 of Special Condition 1I.
NIC Governance Document	means the document issued by the Authority under Part E of Special Condition 1I, subject to the requirements of Part F of that condition, relating generally to the NIC and including matters relating to the NIC Funding Mechanism;
NOMs Methodology	means the Methodology for Network Output Measures;
NOMs Methodology Objectives	means the objectives listed under part B of Special Condition 4G;

<del>Non-Gas Fuel Poor Network Extension Scheme</del>	<del>means the scheme of that name that incentivises a DN Operator to extend the relevant Distribution Network to premises not previously connected to that network that are occupied by individuals eligible to receive a fuel poor voucher in accordance with the guidance set out in the connection charging methodology statement issued under Standard Condition 4B;</del>
Non-Domestic Premises	means premises at which a supply of gas is taken at a rate which is reasonably expected to exceed 73,200 kilowatt hours a year;
NTS (TO) Exit Capacity Charge	means the charge in p/peak Day kWh/d for NTS exit capacity as set out in the NTS Gas Transportation Statements published pursuant to Standard Special Condition A4 (Charging – General) and Standard Special Condition A5 (Obligations as Regard Charging Methodology) of National Grid Gas plc’s gas transporter licence in respect of the NTS;
NTS Gas Transportation Statement	refers to any of the statements required to be published pursuant to Standard Special Condition A4 (Charging – General) and Standard Special Condition A5 (Obligations as Regard Charging Methodology) of National Grid Gas plc’s gas transporter licence in respect of the NTS;
NTS Offtake (Flat) Capacity	means capacity which causes or permits gas to flow from the NTS at a rate which is even over the course of the Day in accordance with paragraph 1.2.3 (d) (i) of section B of the Network Code having effect on 15 December 2007;
NTS Offtake (Flexibility) Capacity	means capacity which causes or permits gas to flow from the NTS at a rate of offtake or flow which is not even over the course of a Day in accordance with paragraph 1.2.3 (d) (ii) of section B of the Network Code having effect on 15 December 2007;
NTS Transportation Owner Charges	means charges made or levied, or to be made or levied, by National Grid Gas plc for the provision of services as part of its Transportation Business, to any person, for the purpose of recovering its Maximum NTS Transportation Owner Revenue, as both of those terms are defined in the National Grid Gas plc’s gas transporter licence in respect of the NTS;

NTS Operator	has the meaning given to NTS Operator in Standard Special Condition A3: (Definitions and Interpretation);
Ombudsman	means the Energy Ombudsman
Ombudsman Finding Against the Licensee	means an Ombudsman decision where the Licensee is required to make a payment in respect of the relevant Distribution Network over and above that previously offered to the complainant, change its processes beyond what it had previously indicated to the complainant that it would, or both, as described in the RIGs;
Opening Base Revenue Allowance	means the value of base revenue in respect of the relevant Distribution Network determined by the Authority and as set out in Appendix 1 of Special Condition 1B.
Overrun Costs	means costs incurred by the Licensee in respect of the relevant Distribution Network respect of Chargeable NTS Exit (Flat) Overruns as defined in clause 3.13 of Part B of the Network Code;
PCFM Variable Value	means a value held in the PCFM Variable Values Table for the licensee in respect of the relevant Distribution Network contained in the GD1 Price Control Financial Model: (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition ; and (b) whose revision does not constitute a modification of the GD1 Price Control Financial Model for the purposes of Special Condition 2A (Governance of GD1 Price Control Financial Instruments).
Pension Protection Fund	has the meaning given in chapter 3 of the GD1 Price Control Financial Handbook.
Pension Scheme Administration	has the meaning given in chapter 3 of the GD1 Price Control Financial Handbook;
Pension Scheme Established Deficit	has the meaning given in chapter 3 of the GD1 Price Control Financial Handbook;
Price Control Period	means the period of eight Formula Years beginning on 1 April 2013 and ending on 31 March 2021 during which, subject to Special Condition 4A (Disapplication), the Special Conditions will have effect in this licence;
Price Control Review Information	has the meaning given in Standard Special Condition A40 (Price Control Review Information);



Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism;
Proven Innovation	means an Innovation which the DN Operator can demonstrate has been successfully trialled or demonstrated either on the pipe-line system to which this licence relates or elsewhere;
Regulatory Asset Value (RAV)	has the meaning given to that term in the Glossary of the GD1 Price Control Financial Handbook;
Relevant Adjustment	has the meaning given to it in paragraph 3D.9 of Special Condition 3D: The Innovation Roll-Out Mechanism;
Relevant Metering Special Condition	Means Special Condition 4D (Restriction of prices in respect of Tariff Capped Metering Activities);
Relevant Special Conditions	means Special Condition 1B, together with such of the Special Conditions in Part E of Part IV of this Licence as is ancillary to the operation of the provisions of Special Condition 1B to which the Disapplication Request relates;
Repeat Complaints	means a complaint where the customer makes contact to express dissatisfaction with the same or substantially the same matter that was the subject of a previously Resolved Complaint within a 12 month period, and may be further clarified in the RIGs;
Resolved Complaint	means a consumer complaint in respect of which there remains no outstanding action to be taken by the regulated provider, and may be further clarified in the RIGs;
Retail Prices Index	means: a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances.

Retail Prices Index Forecast Growth Rate	means: a) the growth rate (for the avoidance of doubt the growth rate is presented as a percentage) as defined as the “New forecasts (marked *)” in the HM Treasury “Forecasts for the UK Economy” publication, published in November each year; or b) if that growth rate in respect of any year has not been published, such growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that growth rate, such other growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances.
Returned Royalty Income	has the meaning given to that term in paragraph 1I.13 of Special Condition 1I;
RIGs	Regulatory Instructions and Guidance as defined in Standard Condition A40: Regulatory Instructions and Guidance;
RIIO Principles	means the principles for the assessment of business plans set out in the document entitled “Decision on strategy for the next gas distribution price control” (Ref 47/11) published on 31 March 2011.
Risk Score	means the Mains Risk Prioritisation Score (MRPS) as calculated for the mains or services;
Roll-out	means the incorporation of a Proven Innovation into an Ordinary Business Arrangement;
Second Price Control Period	means the gas distribution price control period beginning on 1 April 2021
Shrinkage	means gas which is lost or otherwise not accounted for as off taken from an LDZ, including gas lost or unaccounted for by reason of unidentified theft from the Distribution Network and gas use by the licensee for its own purposes;
Shrinkage and Leakage Smart Metering Report (SLSM Report)	means the single report the Licensee must, in conjunction with other DN Operators, submit to the Authority once in every two Formula Years;
SLM Review	means the annual review by the Licensee of The Shrinkage and Leakage Model in order to assess how it can better achieve the objective set out in paragraph 1F.13 of Special Condition 1F (Revenue adjustments for performance in respect of gas shrinkage and environmental emissions);

Smart Metering Data	means data to which the Licensee is able to have direct or indirect access by virtue of the provision, installation, and operation at premises in Great Britain of any gas meters of a particular kind specified in an order made by the Secretary of State under section 41HA of the Act;
Special Conditions	means the Special Conditions in Part E of Part IV of this Licence;
Stakeholder Engagement Incentive Guidance	means the document of that name published by the Authority on its Website for the purposes of Special condition 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction), as modified from time to time in accordance with that condition;
Standard Mains Materials	means polyethylene or any similar polymer-based material (other than polyvinyl chloride), any fully structural lining solutions or steel that is provided with cathodic rust protection;
Supply of LNG Storage Business	means the undertaking and performance for gain or reward of engagements in connection with the storage of gas in the LNG storage facilities;
Threshold Risk Score	means the threshold Risk Score agreed between the Licensee and the HSE as part of the licensee's approved programme in respect of the relevant Distribution Network under Pipelines Safety Regulation 13;
Time Value of Money Adjustment	has the meaning given to that term in the glossary of the GD1 Price Control Financial Handbook;
Totex	has the meaning given to that term in the methodology in chapter 6 of the GD1 Price Control Financial Handbook;
Totex Capitalisation Rate	has the meaning given to that term in chapter 6 of the GD1 Price Control Financial Handbook;
Totex Incentive Mechanism	has the meaning given to that term in the Glossary to the GD1 Price Control Financial Handbook;
Totex Incentive Mechanism Adjustment	has the meaning given to that term in chapter 6 of the GD1 Price Control Financial Handbook;
Totex Incentive Strength Rate	means the incentive rate for the Licensee set out in Appendix 1 of Special Condition 3F (Arrangements for the Recovery of Uncertain Costs), as may be further clarified in the RIGs;
Unrecoverable Expenditure	means expenditure on a NIA project the Authority has determined does not satisfy the requirements of the NIA Governance Document;

Vanilla Weighted Average Cost of Capital

Workbook

has the meaning given to that term in the glossary of the GD1 Price Control Financial Handbook;

means in respect of the relevant Distribution Network the excel spreadsheet as set out in the Table below for each relevant Distribution Network, as published by the Authority on [ ] February 2013.

<b>Distribution Network</b>	<b>Workbook title</b>
East of England	Schedule_2_Appx_to_SC4H_Spec_of_NOMs_NGGD_EOE
London	Schedule_2_Appx_to_SC4H_Spec_of_NOMs_NGGD_LON
North West	Schedule_2_Appx_to_SC4H_Spec_of_NOMs_NGGD_NW
West Midlands	Schedule_2_Appx_to_SC4H_Spec_of_NOMs_NGGD_WM
Northern	Schedule_2_Appx_to_SC4H_Spec_of_NOMs_NGN
Scotland	Schedule_2_Appx_to_SC4H_Spec_of_NOMs_SGN_SC
Southern	Schedule_2_Appx_to_SC4H_Spec_of_NOMs_SGN_SO
Wales and West	Schedule_2_Appx_to_SC4H_Spec_of_NOMs_WWU

1A.5 References in the Special Conditions to “relevant Distribution Network” are to each of the Licensee’s Distribution Networks.

1A.6 Any values derived by reference to the value of revenues accrued, received or paid by or to the Licensee shall be the actual sum accrued, received or paid by or to the Licensee on the date of such accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.

## **Special Condition 1B. Restriction of revenue in respect of the Distribution Network Transportation Activity**

### **Introduction**

1B.1 The purpose of this condition is as follows:

- (a) to establish the charging restrictions that determine the level of Maximum Distribution Network Transportation Activity Revenue that may be recovered by the Licensee for each relevant Distribution Network through Distribution Network Transportation Charges; and
- (b) to set out the obligations of the Licensee in respect of those restrictions.

### **Part A: Licensee's obligation**

1B.2 The Licensee, in setting Distribution Network Transportation Charges, must use its best endeavours to ensure that, in Formula Year  $t$ , Distribution Network Transportation Activity Revenue ( $R_t$ ) for each relevant Distribution Network does not exceed Maximum Distribution Network Transportation Activity Revenue ( $AR_t$ ) for that Distribution Network.

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

1B.3 In respect of the relevant Distribution Network, Maximum Distribution Network Transportation Activity Revenue, in Formula Year  $t$ , is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$AR_t = BR_t + PT_t + Ex_t + BM_t + SHR_t + EEI_t + (DRS_t/N) + NIA_t - K_t$$

1B.4 In the Principal Formula:

- |        |  |
|--------|--|
| $AR_t$ | means the amount of Maximum Distribution Network Transportation Activity Revenue in Formula Year $t$ for the relevant Distribution Network.  |
| $BR_t$ | means the amount of Base Distribution Network Transportation Activity Revenue in Formula Year $t$ as derived in accordance with the formula set out in Part C of this condition for the relevant Distribution Network.                   |
| $PT_t$ | means the allowed pass-through items revenue adjustment made in Formula Year $t$ as derived in accordance with Special Condition 1C (Distribution Network allowed pass-through items) for the relevant Distribution Network.             |
| $Ex_t$ | means the revenue adjustment made in Formula Year $t$ in respect of NTS Exit Capacity costs and incentives as derived in accordance with Special Condition 1D (NTS Exit Capacity cost adjustment) for the relevant Distribution Network. |

$BM_t$	means the revenue adjustment made in Formula Year t in respect of the Broad Measure of Customer Satisfaction as derived in accordance with Part B of Special Condition 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction) for the relevant Distribution Network.
$SHR_t$	means the Shrinkage Allowance Revenue adjustment made in Formula Year t in respect of the Shrinkage Allowance as derived in accordance with Part A of Special Condition 1F (Revenue adjustment for performance in respect of gas shrinkage and environmental emissions) for the relevant Distribution Network.
$EEl_t$	means the revenue adjustment made in Formula Year t in respect of the Environment Emissions Incentive as derived in accordance with Part C of Special Condition 1F for the relevant Distribution Network.
$DRS_t$	means the revenue adjustment made in Formula Year t in respect of the Licensees' performance under the Discretionary Reward Scheme as derived in accordance with Special Condition 1G (Discretionary Reward Scheme revenue amounts) for the relevant Distribution Network.
$NIA_t$	means the revenue adjustment made in Formula Year t in respect of the Network Innovation Allowance as derived in accordance with Special Condition 1H (The Network Innovation Allowance) for the relevant Distribution Network.
$N$	
$K_t$	means the correction term revenue adjustment in Formula Year t as derived in accordance with the formula set out in Part D of this condition for the relevant Distribution Network.

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

1B.5 For the purposes of the Principal Formula,  $BR_t$  is derived in accordance with the following formula:

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

1B.6 In the above formula for  $BR_t$ :

$PU_t$	means the amount set out against the relevant Distribution Network in Appendix 1 of this condition and represents the Opening Base Revenue Allowance in Formula Year t determined by the Authority in relation to the conveyance of gas to premises.
$MOD_t$	has the value zero in Formula Year 2013/14 and in each subsequent Formula Year is the value of the incremental change for Formula Year t from the relevant Distribution Network's Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).

$TRU_t$  has the value zero in Formula Years 2013/14 and 2014/15 and in each subsequent Formula Year is the revenue adjustment made in Formula Year  $t$  in respect of the actual value of the Retail Prices Index in Formula Year  $t-2$  minus the assumed value of the Retail Prices Index in Formula Year  $t-2$ , as derived in accordance with paragraph 1B.8 of this condition.

$RPIF_t$  is the price index adjustment factor in Formula Year  $t$  as derived in accordance with paragraph 1B.7 of this condition.

1B.7 For the purposes of paragraph 1B.6 of this condition,  $RPIF_t$  is derived in accordance with the following formula:

$$RPIF_t = RPIA_{t-2} \times (1 + GRPIF_{t-1}) \times (1 + GRPIF_t)$$

where:

$RPIA_t$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months ~~from~~ in Formula Year  $t$  divided by the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months 1 April 2009 to 31 March 2010 as derived in accordance with the following formula:

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

where:

$RPI_t$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Formula Year  $t$ .

$RPI_{2009/10}$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2009 to 31 March 2010.

and:

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

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

where:

$GRPIF_c$  means the Retail Prices Index Forecast Growth Rate for calendar year  $c$ , where  $c$  denotes the calendar year in which Formula Year  $t$  begins and the expressions  $c-1$  and  $c+1$  are interpreted accordingly; and in each such case the Retail Prices Index Forecast Growth Rates for calendar year  $c-1$ ,  $c$  and  $c+1$  are taken from the November edition of the HM Treasury publication “Forecasts for the UK Economy”, in Formula Year  $t-1$ , subject to the Authority’s power to determine otherwise.

1B.8 For the purposes of paragraph 1B.6 of this condition,  $TRU_t$  for the relevant Distribution Network is derived in accordance with the following formula:

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

1B.9 In the above formula for  $TRU_t$ :

$REV_{t-2}$  means the amount (in 2009/10 prices), for Formula Year t-2, of the combined value of all revenue adjustments for the relevant Distribution Network provided for in this Part E of the Special Conditions indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 1B.10 of this condition.

$PVF_t$  means the present value adjustment term for Formula Year t and will be calculated as one plus the Vanilla Weighted Average Cost of Capital for the relevant Distribution Network as derived by the Authority in accordance with the Annual Iteration Process, and the expressions  $PVF_{t-1}$  and  $PVF_{t-2}$  will be interpreted accordingly.

1B.10 For the purposes of paragraph 1B.9 of this condition,  $REV_{t-2}$  for the relevant Distribution Network is derived in accordance with the following formula:

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

where:

$BR_{t-2}$  means the amount of Base Distribution Network Transportation Activity Revenue in Formula Year t-2 for the relevant Distribution Network, derived in accordance with the formula set out in paragraph 1B.5 of this condition.

$RB_{t-2}$  means the amount of the business rates adjustment in Formula Year t-2 for the relevant Distribution Network as derived in accordance with Part B of Special Condition 1C.

$LF_{t-2}$  means the amount of the licence fee adjustment in Formula Year t-2 for the relevant Distribution Network as derived in accordance with Part C of Special Condition 1C.

$PD_{t-2}$  means the amount of the pension deficit charge adjustment for the relevant Distribution Network in Formula Year t-2 as derived in accordance with Part D of Special Condition 1C.

$TPWI_{t-2}$  means the amount of the third party damage and water ingress adjustment in Formula Year t-2 ) for the relevant Distribution Network as derived in accordance with Part E of Special Condition 1C.

$Ex_{t-2}$  means the amount of the revenue adjustment made in Formula Year t-2 in respect of NTS Exit Capacity costs and incentives ) for the relevant Distribution Network as derived in accordance with Special Condition 1D.

$SHRA_{t-2}$  means the amount of the shrinkage allowance revenue adjustment made in Formula Year t-2 ) for the relevant Distribution Network as derived in accordance with Part A of Special Condition 1F.

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



1B.11 For the purposes of the Principal Formula, subject to paragraph 1B.12 and 1B.13,  $K_t$  for the relevant Distribution Network is derived in accordance with the following formula:

$$K_t = (R_{t-2} - AR_{t-2}) \times \left(1 + \frac{I_{t-2} + PR_t}{100}\right) \times \left(1 + \frac{I_{t-1} + 1.5}{100}\right)$$

where:

$R_{t-2}$  means the Distribution Network Transportation Activity Revenue) for the relevant Distribution Network as defined in Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions) in respect of Formula Year t-2.

$AR_{t-2}$  means the Maximum Distribution Network Transportation Activity Revenue for the relevant Distribution Network as derived in accordance with Part B of this condition in respect of Formula Year t-2.

$I_t$  means the Average Specified Rate ) for the relevant Distribution Network in Formula Year t.

$PR_t$  means the interest rate adjustment in Formula Year t) for the relevant Distribution Network as derived in accordance with the formula set out in Part E of this condition.

1B.12 For the Formula Year 2013/14,  $K_t$  ) for the relevant Distribution Network is derived in accordance with the following formula:

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

where:

$R_{t-1}$  means the Distribution Network Transportation Activity Revenue in respect of Formula Year commencing 1 April 2012) for the relevant Distribution Network as defined in Special Condition E1 (Revenue restriction definitions in respect of the Distribution Network) of this licence in the form in which it was in force at 31 March 2013.

$AR_{t-1}$  means the Maximum Distribution Network Transportation Activity Revenue in respect of the Formula Year commencing 1 April 2012 ) for the relevant Distribution Network as derived in accordance with paragraph 5 of Special Condition E2 (Restriction of revenue in respect of Distribution Network Transportation Activity) of this licence in the form in which it was in force at 31 March 2013.

$I_t$  means the Average Specified Rate ) for the relevant Distribution Network in Formula Year t.

$PRO_t$  means the interest rate adjustment in Formula Year t for the relevant Distribution Network as derived in accordance with the formula set out in Part E of this condition.

1B.13 In the Formula Year 2014/15  $K_t$  will have the value zero.

#### **Part E: Interest adjustment for over and under recoveries of revenue**

1B.14 For the purposes of Part D of this condition, the value of the interest rate adjustment  $PR_t$  for the relevant Distribution Network is to be treated as follows:

- (a) if, in respect of Formula Year t-2, Distribution Network Transportation Activity Revenue ) for the relevant Distribution Network exceeds 106 per cent of Maximum Distribution Network Transportation Activity Revenue,  $PR_t$  will have the value of 3;
- (b) if, in respect of Formula Year t-2, Distribution Network Transportation Activity Revenue ) for the relevant Distribution Network is less than 94 per cent of Maximum Distribution Network Transportation Activity Revenue,  $PR_t$  will have the value of zero; and
- (c) in all other cases  $PR_t$  will have the value 1.5.

1B.15 For the purposes of Part D of this condition, the value of the interest rate adjustment  ~~$PR_t$~~   $PRO_t$  for the relevant Distribution Network is to be treated as follows:

- (a) if, in respect of Formula Year t-1, Distribution Network Transportation Activity Revenue ) for the relevant Distribution Network exceeds 103 per cent of Maximum Distribution Network Transportation Activity Revenue,  $PRO_t$  will have the value of 3;
- (b) if, in respect of Formula Year t-1, Distribution Network Transportation Activity Revenue ) for the relevant Distribution Network is less than 97 per cent of Maximum Distribution Network Transportation Activity Revenue,  $PRO_t$  will have the value of zero; and
- (c) in all other cases  $PRO_t$  will have the value 1.5.

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

1B.16 Paragraph 1B.17 applies from 1 April 2016.

1B.17 If, in respect of two successive Formula Years t-2 and t-3, the Licensee's Distribution Network Transportation Activity Revenue for the relevant Distribution Network in each of those Formula Years exceeds 112 per cent of Maximum Distribution Network Transportation Activity Revenue for those Formula Years, the Licensee:

- (a) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Formula Year t-1; and
- (b) must not increase its Distribution Network Transportation Charges for the relevant Distribution Network for the Formula Year t except and to the extent that the Authority has consented to such an increase.

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

1B.18 Paragraph 1B.19 applies from 1 April 2016.

1B.19 If, in respect of two successive Formula Years t-2 and t-3, the Licensee's Distribution Network Transportation Activity Revenue ) for the relevant Distribution Network in each of those Formula Years is less than 88 per cent of the Maximum Distribution Network Transportation Activity Revenue ) for the relevant Distribution Network for those Formula Years, the Licensee:

- (a) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Formula Year t-1; and

- (b) must use best endeavours in setting Distribution Network Transportation Charges for the relevant Distribution Network to recover Maximum Distribution Network Transportation Activity Revenue in Formula Year t.

## Appendix 1

### Values for the $PU_t$ term (2009/10 prices) by Distribution Network

(see paragraph 1B.6 of this condition)

	PU <sub>t</sub> value (£m)							
Formula Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	536.9	517.8	521.1	511.6	510.3	509.3	506.4	507.6
NGGD Lon	365.6	358.9	381.0	371.3	366.5	365.5	360.1	359.7
NGGD NW	393.6	376.6	379.5	373.3	375.0	373.5	373.2	372.5
NGGD WM	284.2	278.5	278.5	270.7	273.9	274.2	274.5	272.2
Northern Gas Networks Ltd	340.5	338.6	348.9	340.2	330.8	333.5	336.2	341.0
Scotland Gas Networks plc	256.6	249.5	243.4	256.1	259.6	261.7	257.2	261.8
Southern Gas Networks plc	623.7	603.5	614.4	616.1	620.0	622.9	616.7	620.4
Wales and West Utilities Ltd	348.5	344.2	339.1	340.1	351.4	347.7	347.1	344.9

## Special Condition 1C. Distribution Network allowed pass-through items

### Introduction

- 1C.1 The purpose of this condition is to provide for the calculation of the term  $PT_t$  (the allowed pass-through term) for the relevant Distribution Network for the purposes of Part B of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity).
- 1C.2 The effect of the application of the  $PT_t$  term in Part B of Special Condition 1B is to ensure that the level of the Licensee's Maximum Distribution Network Transportation Activity Revenue ) for the relevant Distribution Network derived in accordance with that condition reflects certain costs that can be passed through to users transportation charges.

### Part A: Formula for Distribution Network allowed pass-through items ( $PT_t$ )

- 1C.3 For the purposes of Part B of Special Condition 1B, the  $PT_t$  term is derived in accordance with the following formula (in this condition, the "Principal Formula"):

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

- 1C.4 In the Principal Formula:

$RB_t$	means the business rates adjustment in Formula Year t for the relevant Distribution Network as derived in accordance with the formula set out in Part B of this condition.
$LF_t$	means the licence fee adjustment in Formula Year t for the relevant Distribution Network as derived in accordance with the formula set out in Part C of this condition.
$PD_t$	means the pension deficit charge adjustment in Formula Year t for the relevant Distribution Network as derived in accordance with the formula set out in Part D of this condition.
$TPWI_t$	means the third party damage and water ingress adjustment in Formula Year t for the relevant Distribution Network as derived in accordance with the formula set out in Part E of this condition, in respect of the Licensee's standard of performance for supply restoration following third party damage and water ingress.
$TG_t$	means the adjustment in Formula Year t equal to any allowance made in respect of the relevant Distribution Network, in total, for reasonable costs incurred by a <u>gas</u> supplier pursuant to Standard Condition 7 (Provision of Information Relating to Gas Illegally Taken).
$MP_t$	means the adjustment in Formula Year t equal to miscellaneous pass-through costs incurred by the Licensee for the relevant Distribution Network and not reflected in any other part of this condition, which the Authority has (following consultation with the Licensee) directed the Licensee to treat as part of $MP_t$ .

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

1C.5 For the purposes of the Principal Formula, subject to paragraph 1C.7 and 1C.8 of this condition,  $RB_t$  is derived in accordance with the following formula:

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

1C.6 In the above formula for  $RB_t$ :

$RBA_{t-2}$  means the amount, in Formula Year t-2, of the charge incurred in respect of the prescribed rates (or any equivalent tax or duty replacing them) levied on the Licensee) for the relevant Distribution Network in respect of the Licensee's Distribution Network Transportation Activity (which is the amount of the separate rating assessment for the Licensee's Distribution Network Transportation Activity including (where relevant) metering).

$RBE_{t-2}$  means the amount of the allowance in respect of the prescribed rates (or any equivalent tax or duty replacing them) in Formula Year t-2, which is represented by the amount set out in Appendix 1 of this condition that applies to the relevant Distribution Network.

$RPIA_{t-2}$  has the value given to it by Part C of Special Condition 1B.

$PVF_t$  has the value given to it by Part C of Special Condition 1B.

$RPIF_t$  has the value given to it by Part C of Special Condition 1B.

1C.7 In the Formula Years 2013/14 and 2014/15  $RB_t$  will have the value zero.

1C.8 In any Formula Year in which a revaluation by The Valuation Office Agency (in England and Wales) or the Scottish Assessors Association (in Scotland) of the assets of the relevant Distribution Network for the purposes of setting prescribed rates comes into effect,  $RB_t$  will have the value of zero in that year and in each subsequent Formula Year, unless the Authority has satisfied itself that the Licensee has used reasonable endeavours to minimise the amount of the prescribed rates; and if the Authority is so satisfied, it will direct that the formula set out in this Part B is to apply for the purposes of calculating the  $RB_t$  term in the specific Formula Year and in each of the subsequent Formula Years.

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

1C.9 For the purposes of the Principal Formula, subject to paragraph 1C.11 of this condition,  $LF_t$  is derived in accordance with the following formula:

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

1C.10 In the above formula for  $LF_t$ :

$LFA_{t-2}$  means the amount of the payments, in Formula Year t-2, made by the Licensee in respect of the relevant Distribution Network in respect of the Distribution Network Transportation Activity under Standard Condition 3 (Payments by the Licensee to the Authority).

$LFE_{t-2}$  means the amount of the licence fee allowance in Formula Year t-2, and is represented by the amount set out in Appendix 2 of this

condition that applies to the relevant Distribution Network.

$RPIA_{t-2}$  has the value given to it by Part C of Special Condition 1B.

$PVF_t$  has the value given to it by Part C of Special Condition 1B.

$RPIF_{t-2}$  has the value given to it by Part C of Special Condition 1B.

1C.11 In the Formula Years 2013/14 and 2014/15  $LF_t$  will have the value zero.

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

1C.12 For the purposes of the Principal Formula, subject to paragraph 1C.14 of this condition,  $PD_t$  is derived in accordance with the following formula:

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

1C.13 In the above formula for  $PD_t$ :

$PDA_{t-2}$  means the amount of the payments, in Formula Year t-2, made by the licensee in respect of the relevant Distribution Network to meet the Distribution Network Pension Deficit Charge levied by the NTS Operator on the Distribution Network.

$PDE_{t-2}$  means the amount of the Distribution Network Pension Deficit Charge allowance in Formula Year t-2, and is represented by the amount set out in Appendix 3 of this condition that applies to the relevant Distribution Network.

$RPIA_{t-2}$  has the value given to it by Part C of Special Condition 1B.

$PVF_t$  has the value given to it by Part C of Special Condition 1B.

$RPIF_t$  has the value given to it by Part C of Special Condition 1B.

1C.14 In the Formula Years 2013/14 and 2014/15  $PD_t$  will have the value zero.

**Part E: Calculation of third party damage and water ingress adjustment term ( $TPWI_t$ )**

1C.15 For the purposes of the Principal Formula, subject to paragraph 1C.17,  $TPWI_t$  is derived in accordance with the following formula:

$$TPWI_t = \max \left[ \left( 0.95 \times \frac{TPWR_{t-2} + TPWU_{t-2}}{RPIA_{t-2}} \right) - (0.015 \times PU_{t-2}), 0 \right] \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

1C.16 In the above formula for  $TPWI_t$ :

$TPWR_{t-2}$  means the amount of the payments in Formula Year t-2 that the Licensee has made to customers in respect of the relevant Distribution Network in respect of failures under regulation 7 of the Gas (Standards of Performance) Regulations 2005 (as amended) to meet

the prescribed standard of performance for restoration of supply following interruptions resulting from third party damage and water ingress.

TPWU<sub>t-2</sub> means the amount of the payments in Formula Year t-2 that the Licensee has made to customers in respect of the relevant Distribution Network in respect of failures under paragraph 3.5 of Section J (Exit Requirements) of the Network Code to make gas available for offtake following third party damage and water ingress.

PU<sub>t-2</sub> means the Opening Base Revenue allowance of the Licensee in Formula Year t-2) for the relevant Distribution Network, and will have the value set out in Appendix 1 of Special Condition 1B, except in the Formula Year commencing 1 April 2014 where it means the base revenue in respect of Formula Year 2014/15 as set out in Annex A of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence in the form in which it was in force at 31 March 2013.

RPIA<sub>t-2</sub> has the value given to it by Part C of Special Condition 1B.

PVF<sub>t</sub> has the value given to it by Part C of Special Condition 1B.

RPIF<sub>t</sub> has the value given to it by Part C of Special Condition 1B.

1C.17 In the Formula Year 2013/14 TPWI<sub>t</sub> will have the value zero.

## **APPENDIX 1: Prescribed rates allowance (£m, 2009/10 prices)**

**(see paragraph 1C.6 of this condition relating to the RBE term)**

Licensee	RBE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	50.647	50.647	50.647	50.647	50.647	50.647	50.647	50.647
NGGD Lon	23.203	23.203	23.203	23.203	23.203	23.203	23.203	23.203
NGGD NW	26.284	26.284	26.284	26.284	26.284	26.284	26.284	26.284
NGGD WM	21.083	21.083	21.083	21.083	21.083	21.083	21.083	21.083
Northern Gas Networks plc	30.064	30.064	30.064	30.064	30.064	30.064	30.064	30.064
Scotland Gas Networks plc	22.155	22.157	22.157	22.157	22.157	22.157	22.157	22.157

Southern Gas Networks plc	51.917	51.917	51.917	51.917	51.917	51.917	51.917	51.917
Wales and West Utilities Ltd	26.707	26.707	26.707	26.707	26.707	26.707	26.707	26.707

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

**(see paragraph 1C.10 of this condition relating to the LFE term)**

Licensee	LFE (£m)							
	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/20	2020/21
NGGD EOE	1.907	1.985	1.999	1.999	1.999	1.999	1.999	1.999
NGGD Lon	1.097	1.142	1.150	1.150	1.150	1.150	1.150	1.150
NGGD NW	1.288	1.340	1.350	1.350	1.350	1.350	1.350	1.350
NGGD WM	0.940	0.978	0.985	0.985	0.985	0.985	0.985	0.985
Northern Gas Networks Ltd plc	1.100	1.100	1.100	1.100	1.100	1.100	1.100	1.100
Scotland Gas Networks plc	0.768	0.768	0.768	0.768	0.768	0.768	0.768	0.768
Southern Gas Networks plc	1.753	1.753	1.753	1.753	1.753	1.753	1.753	1.753
Wales and West Utilities Ltd	0.900	0.900	0.900	0.900	0.900	0.900	0.900	0.900

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

**(£m, 2009/10 prices)**

**(see paragraph 1C.13 of this condition relating to the PDE term)**

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



NGGD EOE	6.471	6.471	6.471	6.471	6.471	6.471	6.471	6.471
NGGD Lon	3.772	3.772	3.772	3.772	3.772	3.772	3.772	3.772
NGGD NW	4.444	4.444	4.444	4.444	4.444	4.444	4.444	4.444
NGGD WM	3.209	3.209	3.209	3.209	3.209	3.209	3.209	3.209
Northern Gas Networks <del>plc</del> <u>Ltd</u>	4.121	4.121	4.121	4.121	4.121	4.121	4.121	4.121
Scotland Gas Networks plc	2.846	2.846	2.846	2.846	2.846	2.846	2.846	2.846
Southern Gas Networks plc	6.592	6.592	6.592	6.592	6.592	6.592	6.592	6.592
Wales and West Utilities Ltd	3.947	3.947	3.947	3.947	3.947	3.947	3.947	3.947

## Special condition 1D. NTS exit capacity cost adjustment

### Introduction

- 1D.1 The purpose of this condition is to provide for the calculation of the term  $Ex_t$  for the relevant Distribution Network representing the NTS Exit Capacity Cost Adjustment for the purposes of Part B of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity); the effect of the application of the  $Ex_t$  term in Part B of Special Condition 1B is to ensure that the level of the Licensee's Maximum Distribution Network Transportation Activity Revenue for the relevant Distribution Network reflects costs incurred with respect to NTS exit capacity.
- 1D.2 This condition also provides a cost-sharing mechanism for the relevant Distribution Network with respect to NTS Exit Capacity costs which is linked to the Totex Incentive Strength Rate.

### Part A: Overall adjustment formula ( $Ex_t$ )

- 1D.3 In the Formula Year 2013/14 and 2014/15 the NTS Exit Capacity Cost Adjustment term ( $Ex_t$ ) will have the value zero. In each subsequent Formula Year  $Ex_t$  will be derived in accordance with the following formula:

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

where:

$ExC_{t-2}$  means, in respect of Formula Year t-2, an amount equal to the payments made by the Licensee in respect of the relevant Distribution Network in respect of NTS Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity in respect of the relevant Distribution Network, derived in accordance with the provisions of Part B of this condition.

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

$AEx_{t-2}$  means the NTS Exit Capacity cost allowance for the relevant Distribution Network as set out in Appendix 1 of this condition.

$RPIA_{t-2}$  has the value given to it by Part C of Special Condition 1B.

$PVF_t$  has the value given to it by Part C of Special Condition 1B.

$RPIF_t$  has the value given to it by Part C of Special Condition 1B.

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

- 1D.4  $ExC_t$  (the NTS exit capacity costs term) is derived in accordance with the following formula:

$$ExC_t = ExCC_t + ExFFC_t$$

where:

ExCC <sub>t</sub>	means, in respect of Formula Year t, the total costs incurred by the Licensee for NTS Offtake (Flat) Capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS Operator by the Licensee in respect of NTS Offtake (Flat) Capacity.
ExFFC <sub>t</sub>	means, in respect of Formula Year t, the total costs incurred by the Licensee for NTS Offtake (Flexibility) Capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS Operator by the Licensee in respect of NTS Offtake (Flexibility) Capacity.

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

1D.5 The Distribution Network exit capacity incentive revenue in Formula Year t (EI<sub>t</sub>) is derived in accordance with the following formula:

$$EI_t = \frac{IQI}{1 - CT} \times [EIT_t - EDC_t]$$

where:

IQI	means the Totex Incentive Strength Rate as set out for the relevant Distribution Network in Appendix 1 of Special Condition 3B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments).
CT	means the corporation tax rate and is equal to 22%
EIT <sub>t</sub>	means the Distribution Network exit incentive target and is defined as the target cost in £ million of the target volume of NTS Offtake (Flat) Capacity in respect of the relevant Distribution Network for Formula Year t, derived in accordance with paragraph 1D.6 of this condition.
EDC <sub>t</sub>	means the Distribution Network exit performance measure and is defined as the Deemed Costs in £ million incurred by the Licensee for NTS Offtake (Flat) Capacity in respect of all NTS offtakes within the relevant Distribution Network for Formula Year t, derived in accordance with paragraph 1D.7 of this condition.

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

1D.6 The value of EIT<sub>t</sub> for the purposes of paragraph 1D.5 of this condition is derived in accordance with the following formula:

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

where:

NTSICHE <sub>v,t,d</sub>	means either
(a)	the relevant indicative NTS (TO) Exit Capacity Charge in p/peak day kWh/d for offtake v within the relevant Distribution Network for each Day d between 1 October and 31 March (inclusive) of Formula Year t as

specified in the latest NTS Gas Transportation Statement as at 1 May in Formula Year t-3; or

- (b) if no such indicative charge is available in that statement, the NTS (TO) Exit Capacity Charge in the same statement for the closest preceding Formula Year to Formula Year t for which indicative NTS (TO) Exit Capacity Charges are provided in the statement;

$NTSTVE_{v,t}$  means the target volume of NTS Offtake (Flat) Capacity in GWh/d for offtake v within the relevant Distribution Network for Formula Year t as set out in Appendix 1 of this condition.

$Y_t$  means the number of Days in Formula Year t.

$P_t$  means the number of Days between 1 October and 31 March inclusive in Formula Year t.

$\sum_{1Oct-31Mar}$  means the sum across all Days between 1 October to 31 March inclusive in Formula Year t.

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

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

1D.7 The value of EDC<sub>t</sub> for the purposes of paragraph 1D.5 of this condition is derived in accordance with the following formula:

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

where:

$NTSMAE_{v,t}$  means the maximum actual allocation of NTS Offtake (Flat) Capacity in GWh/d for offtake v within the relevant Distribution Network for each Day between 1 October and 31 March for Formula Year t.

$NTSBB_t$  means revenues received from the NTS Operator in respect of Buybacks for Formula Year t.

$NTSOC_t$  means the amount of the payments made to the NTS Operator in respect of Overrun Costs for Formula Year t.

all other terms have the respective meanings given in paragraph 1D.6 of this condition.

## Appendix 1

(see paragraph 1D.3 of this condition)

**NTS exit capacity (AExt) (2009/10 prices)**

Licensee	NTS exit capacity cost allowance (AExt)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EoE	36.1	36.1	36.0	36.0	36.0	36.0	36.0	36.0
NGGD Lon	19.7	19.4	19.1	19.1	19.1	19.1	19.1	19.1
NGGD NW	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2
NGGD WM	29.7	29.7	29.6	29.6	29.6	29.6	29.6	29.6
Northern Gas Networks Ltd	9.7	9.7	9.8	9.8	9.8	9.8	9.8	9.8
Scotland Gas Networks plc	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Southern Gas Networks plc	55.9	58.1	58.1	58.1	58.1	58.1	58.1	58.1
Wales and West Utilities (Ltd)	23.0	23.1	23.1	23.1	23.1	23.1	23.1	23.1

## Appendix 2

(see paragraph 1D.6 of this condition in relation to the NTSTVE<sub>v,t</sub> term)

Licensee	Offtake Node	Exit Zone	Distribution Network target volume of NTS Offtake (Flat) Capacity (GWh/d)							
			NTSTV <sub>gv,t</sub> (GWh/d)							
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EoE	Bacton	EA1	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
	Brisley	EA1	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
	Peterborough Tee	EA1	24.8	24.8	24.7	24.7	24.7	24.7	24.7	24.7
	West Winch	EA1	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6

	Great Wilbraham	EA2	32.1	32.1	32.0	32.0	32.0	32.0	32.0	32.0
	Roudham Heath	EA2	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1
	Yelverton	EA3	58.6	58.5	58.5	58.5	58.5	58.5	58.5	58.5
	Matching Green	EA4	86.2	86.1	86.0	86.0	86.0	86.0	86.0	86.0
	Royston	EA4	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
	Whitwell	EA4	130.7	130.6	130.4	130.4	130.4	130.4	130.4	130.4
	Thornton Curtis	EM1	107.0	106.9	106.7	106.7	106.7	106.7	106.7	106.7
	Walesby	EM2	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
	Blyborough	EM2	74.6	74.5	74.4	74.4	74.4	74.4	74.4	74.4
	Gosberton	EM2	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5
	Kirkstead	EM2	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	Silk Willoughby	EM2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	Sutton Bridge	EM3	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
	Alrewas EM	EM3	116.7	116.6	116.4	116.4	116.4	116.4	116.4	116.4
	Blaby	EM3	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
	Drointon	EM3	85.6	85.5	85.4	85.4	85.4	85.4	85.4	85.4
	Tur Langton	EM4	73.9	73.8	73.7	73.7	73.7	73.7	73.7	73.7
	Caldecott	EM4	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
	Market Harborough	EM4	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
<b>NGGD Lon</b>	Winkfield NT	NT1	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
	Horndon	NT2	34.4	34.4	34.3	34.3	34.3	34.3	34.3	34.3
	Luxborough Lane	NT2	98.6	98.5	98.4	98.4	98.4	98.4	98.4	98.4
	Peters Green	NT3	136.0	135.9	135.7	135.7	135.7	135.7	135.7	135.7
	Peters Green South Mimms	NT3	185.6	185.5	185.2	185.2	185.2	185.2	185.2	185.2
<b>NGGD NW</b>	Blackrod	NW1	147.8	147.7	147.6	147.6	147.6	147.6	147.6	147.6
	Lupton	NW1	20.0	19.9	19.9	19.9	19.9	19.9	19.9	19.9
	Samlesbury	NW1	107.4	107.3	107.2	107.2	107.2	107.2	107.2	107.2
	Audley	NW2	9.9	9.9	9.9	9.9	9.9	9.9	9.9	9.9
	Eccleston	NW2	17.0	16.9	16.9	16.9	16.9	16.9	16.9	16.9
	Holmes Chapel	NW2	21.2	21.2	21.1	21.1	21.1	21.1	21.1	21.1
	Malpas	NW2	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
	Mickle Trafford	NW2	23.3	23.3	23.3	23.3	23.3	23.3	23.3	23.3
	Partington	NW2	62.6	62.5	62.5	62.5	62.5	62.5	62.5	62.5
	Warburton	NW2	113.3	113.2	113.2	113.2	113.2	113.2	113.2	113.2

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	Weston Point	NW2	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
<b>NGGD WM</b>	Aspley	WM1	63.6	62.2	61.0	61.0	61.0	61.0	61.0	61.0
	Audley WM	WM1	15.2	14.8	14.2	14.2	14.2	14.2	14.2	14.2
	Milwich	WM1	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.2
	Alrewas WM	WM2	65.3	62.7	60.8	60.8	60.8	60.8	60.8	60.8
	Austrey	WM2	61.2	61.2	60.9	60.9	60.9	60.9	60.9	60.9
	Shustoke	WM2	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7
	Leamington Spa	WM3	2.6	2.5	2.4	2.4	2.4	2.4	2.4	2.4
	Lower Quinton	WM3	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
	Ross on Wye WM	WM3	9.6	9.5	9.5	9.5	9.5	9.5	9.5	9.5
	Rugby	WM3	60.7	60.1	58.2	58.2	58.2	58.2	58.2	58.2
	Stratford- upon-Avon	WM3	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
<b>Northern Gas Networks Ltd</b>	Bishop Auckland	NO1	60.1	60.1	60.1	60.1	60.1	60.1	60.1	60.1
	Coldstream	NO1	2.3	2.6	2.8	2.8	2.8	2.8	2.8	2.8
	Corbridge	NO1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	Cowpen Bewley Bewley	NO1	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1
	Elton Lton	NO1	59.6	60.2	60.2	60.2	60.2	60.2	60.2	60.2
	Guyzance	NO1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Humbleton	NO1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	Keld	NO2	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
	Little Burdton	NO1	16.6	18.7	20.9	20.9	20.9	20.9	20.9	20.9
	Melkinton	NO2	2.0	2.2	2.4	2.4	2.4	2.4	2.4	2.4
	Little Saltwick H	NO1	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
	Big SaltwickH	NO1	60.1	60.1	60.1	60.1	60.1	60.1	60.1	60.1
	Thrintoft	NO1	5.6	6.2	6.9	6.9	6.9	6.9	6.9	6.9
	Tow Law law	NO2	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
	Weatheral	NO2	28.4	28.7	28.7	28.7	28.7	28.7	28.7	28.7
	Asselby	NE1	4.4	4.4	4.6	4.6	4.6	4.6	4.6	4.6
	Baldersby	NE1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	Burley Bank bank	NE1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
	Ganstead	NE2	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
	Pannal	NE1	139.8	139.8	139.8	139.8	139.8	139.8	139.8	139.8
	Paull	NE2	42.6	44.8	46.9	46.9	46.9	46.9	46.9	46.9
	Pickering	NE2	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
	Rawcliffe	NE1	4.6	4.6	5.0	5.0	5.0	5.0	5.0	5.0

	Totw	on	NE1	69.5	69.5	69.5	69.5	69.5	69.5	69.5
<b>Southern Gas Networks plc</b>	Braishfield A	SO2	85.1	85.1	85.1	85.1	85.1	85.1	85.1	85.1
	Braishfield B	SO2	54.2	57.1	57.1	57.1	57.1	57.1	57.1	57.1
	Hardwick	SO1	105.1	105.1	105.1	105.1	105.1	105.1	105.1	105.1
	Ipsden North	SO2	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1
	Ipsden South	SO2	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
	Mappowder	SO2	42.1	42.1	42.1	42.1	42.1	42.1	42.1	42.1
	Winkfield (SO)	SO2	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3
	Farningham	SE1	55.0	86.6	86.6	86.6	86.6	86.6	86.6	86.6
	Farningham B	SE1	117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9
	Shorne	SE1	47.4	48.3	48.3	48.3	48.3	48.3	48.3	48.3
	Tatsfield	SE1	187.4	192.8	192.8	192.8	192.8	192.8	192.8	192.8
	Winkfield (SE)	SE2	89.7	90.4	90.4	90.4	90.4	90.4	90.4	90.4
<b>Scotland Gas Networks plc</b>	Aberdeen	SC01	23.5	23.5	23.5	23.5	23.5	23.5	23.5	23.5
	Armada	SC02	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
	Balgray	SC01	14.8	15.0	15.0	15.0	15.0	15.0	15.0	15.0
	Bathgate	SC04	20.4	21.1	21.1	21.1	21.1	21.1	21.1	21.1
	Broxburn	SC02	56.3	56.3	56.3	56.3	56.3	56.3	56.3	56.3
	Careston	SC01	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
	Drum	SC04	82.5	82.5	82.5	82.5	82.5	82.5	82.5	82.5
	Glenmavis	SC04	128.3	128.3	128.3	128.3	128.3	128.3	128.3	128.3
	Hume	SC02	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
	Kinknockie	SC01	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
	Langholm	SC04	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	Lockerbie	SC04	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8
	Moss-side	SC01	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
	Nether Howcleugh	SC04	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	Pitcairngreen	SC01	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
	Soutra	SC02	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
	St. Fergus	SC01	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	Stranraer	SC04	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
<b>Wales and West Utilities (Ltd)</b>	Evesham	SW 1	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
	Ross on Wye	SW 1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1



Fiddington	SW 1	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4
Littleton Drew	SW 2	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Cirencester	SW 2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Easton Grey	SW 2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Seabank	SW 2	53.8	53.8	53.8	53.8	53.8	53.8	53.8	53.8
Pucklechurch	SW 2	23.2	23.2	23.2	23.2	23.2	23.2	23.2	23.2
Ilchester	SW 2	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1
Aylesbeare	SW 3	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6
Kenn	SW 3	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2
Coffinswell	SW 3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Choakford	SW 3	41.6	41.6	41.6	41.6	41.6	41.6	41.6	41.6
Gilwern	WA2	80.0	80.1	80.1	80.1	80.1	80.1	80.1	80.1
Dowlais	WA2	102.2	102.3	102.2	102.2	102.2	102.2	102.2	102.2
Dyffryn	WA2	38.7	38.7	38.7	38.7	38.7	38.7	38.7	38.7
Maelor	WA1	47.6	47.7	47.6	47.6	47.6	47.6	47.6	47.6

## Special condition 1E. Incentive adjustment in respect of the Broad Measure of Customer Satisfaction

### Introduction

- 1E.1 The purpose of this condition is to provide for the calculation of the term  $BM_t$ , which reflects the Licensee's performance in respect of the relevant Distribution Network of the Broad Measure of Customer Satisfaction for the purposes of Part B of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity).
- 1E.2 The aim of the Broad Measure of Customer Satisfaction is to incentivise the Licensee to improve its customer service by monitoring its performance in respect of the relevant Distribution Network in relation to customer satisfaction, customer complaints and the extent to which it effectively engages with its stakeholders.

### Part A: Structure of this condition

- 1E.3 This condition is organised as follows:
- (a) Part B provides the formula for the calculation of the Broad Measure of Customer Satisfaction adjustment ( $BM_t$ ) for the relevant Distribution Network;
  - (b) Parts C, D and E provide the formulae for the calculations of the particular contributions made to the formula set out in Part B ) for the relevant Distribution Network in relation to the customer satisfaction survey term ( $CS_t$ ), complaints metric term ( $CM_t$ ) and stakeholder engagement term ( $SE_t$ ) respectively;
  - (c) Part F provides for the Authority, following a review by an Examiner, to give directions in relation to the accuracy of any of the Specified Information supplied by the Licensee for use in any of the formulas contained in this condition; and
  - (d) Appendices 1-4 set out the maximum adjustment for certain parts of the Broad Measure of Customer Satisfaction for the relevant Distribution Network in Formula Year  $t$ ; Appendix 5 outlines the maximum value of the Broad Measure of Customer Satisfaction adjustment ( $BM_t$ ) for the relevant Distribution Network.

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

- 1E.4 For the purposes of Part B of Special Condition 1B, the value of the Broad Measure of Customer Satisfaction adjustment ( $BM_t$ ) is derived in accordance with the following formula and will not exceed the value of  $BM_{MAX_t}$  in Appendix 5

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

where:

$CS_{t-2}$  means the adjustment in respect of the Licensee's overall surveyed customer satisfaction performance in Formula Year  $t-2$  in respect of the relevant Distribution Network, in relation to the target for the customer satisfaction score, and is derived in accordance with the provisions of Part C of this condition.

- $CM_{t-2}$  means the negative adjustment (if any) in respect of the Licensee's performance in Formula Year t-2 in respect of the relevant Distribution Network, in relation to the target for the complaints metric score, and is derived in accordance with the provisions of Part D of this condition.
- $SE_{t-2}$  means the positive adjustment (if any) that may be determined by the Authority pursuant to the provisions in Part E of this condition in recognition of the Licensee's demonstration that its effective stakeholder engagement has led to high quality outcomes for its stakeholders as specified in the Stakeholder Engagement Incentive Guidance in respect of performance in Formula Year t-2 in respect of the relevant Distribution Network, where the maximum value of  $SE_{t-2}$  specified for the relevant Distribution Network will be no greater than the value specified for the relevant Distribution Network in respect of that year as set out in Appendix 4 of this condition.
- $I_t$  means the means the Average Specified Rate in Formula Year t for the relevant Distribution Network.

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

- 1E.5  $CS_t$  refers to the customer satisfaction score for the relevant Distribution Network, and is derived from the following formula:
- $$CS_t = CSA_t + CSB_t + CSC_t$$
- 1E.6 For the purposes of the formula set out in paragraph 1E.5 of this condition,  $CSA_t$  means the adjustment in respect of the Licensee's performance in Formula Year t in respect of the relevant Distribution Network, in relation to the target for the planned supply interruptions element of the customer satisfaction survey, and is derived in accordance with the following formula:
- $$CSA_t = IF[CSAD_t \geq 0, CSAR_t, CSAP_t]$$
- 1E.7 For the purposes of the formula set out in paragraph 1E.6 of this condition,  $CSAD_t$  means the Licensee's performance for the planned supply interruptions element of the customer satisfaction survey for Formula Year t in respect of the relevant Distribution Network, relative to the target score for the planned supply interruptions element of the customer satisfaction survey for Formula Year t and is derived in accordance with the following formula:
- $$CSAD_t = CSAS_t - CSAUQ_t$$
- where:
- $CSAS_t$  means the 's actual performance for the planned supply interruptions element of the customer satisfaction survey in respect of the relevant Distribution Network for Formula Year t.
- $CSAUQ_t$  means the Licensee's target planned supply interruption score, fixed at 8.09.
- 1E.8 For the purposes of the formula set out in paragraph 1E.6 of this condition,  $CSAR_t$  means the positive adjustment (if any) in respect of the Licensee's planned supply

performance in respect of the relevant Distribution Network for Formula Year t, and is derived in accordance with the following formula:

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

where:

CSAMX<sub>t</sub> means the planned supply performance maximum reward score which is fixed as 8.5.

CSOU<sub>t</sub> means the maximum positive adjustment for the Licensee in respect of the relevant Distribution Network in Formula Year t specified in Appendix 1 of this condition.

- 1E.9 For the purposes of the formula set out in paragraph 1E.6 of this condition CSAP<sub>t</sub> means the negative adjustment in respect of the Licensee's planned supply interruption performance in respect of the relevant Distribution Network for Formula Year t, and is derived in accordance with the following formula:

$$CSAP_t = \text{MAX} \left[ \left( \frac{CSAD_t}{CSAMP_t - CSAUQ_t} \right) \times CSOD_t, CSOD_t \right]$$

where:

CSAMP<sub>t</sub> means the planned supply interruptions maximum penalty score which is fixed as 7.5; and

CSOD<sub>t</sub> means the maximum negative adjustment for the Licensee in respect of the relevant Distribution Network in respect of Formula Year t as specified in Appendix 2 of this condition.

- 1E.10 For the purposes of the formula set out in paragraph 1E.5 of this condition CSB<sub>t</sub> means the adjustment in respect of the Licensee's performance in Formula Year in relation to the target for the unplanned supply interruptions element of the customer satisfaction score t in respect of the relevant Distribution Network, and is derived in accordance with the following formula:

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

- 1E.11 For the purposes of the formula set out in paragraph 1E.10 of this condition, CSBD<sub>t</sub> means the Licensee's performance for the unplanned supply interruptions element of the customer satisfaction survey for Formula Year t relative to the target score for the unplanned supply interruptions element of the customer satisfaction survey in respect of the relevant Distribution Network for Formula Year t, and is derived in accordance with the following formula:

$$CSBD_t = CSBS_t - CSBUQ_t$$

where:

CSBS<sub>t</sub> means the Licensee's actual performance for the unplanned supply interruptions element of the customer satisfaction survey in respect

of the relevant Distribution Network for Formula Year t.

CSBUQ<sub>t</sub> means the Licensee's target unplanned supply interruption score, which is fixed as 8.81.

- 1E.12 For the purposes of the formula set out in paragraph 1E.10 of this condition, CSBR<sub>t</sub> means the positive adjustment (if any) in respect of the Licensee's unplanned supply performance in respect of the relevant Distribution Network for Formula Year t and is derived in accordance with the following formula:

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

where:

CSBMX<sub>t</sub> means the unplanned supply performance maximum reward score which is fixed as 9.

CSOU<sub>t</sub> means the maximum positive adjustment for the Licensee in respect of the relevant Distribution Network in Formula Year as specified in Appendix 1 of this condition.

- 1E.13 For the purposes of the formula set out in paragraph 1E.10 of this condition, CSBP<sub>t</sub> means the negative adjustment (if any) in respect of the Licensee's unplanned supply performance in respect of the relevant Distribution Network for Formula Year t and is derived in accordance with the following formula:

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

where:

CSBMP<sub>t</sub> means the unplanned supply interruptions maximum penalty score which is fixed as 8.

CSOD<sub>t</sub> means the maximum negative adjustment for the Licensee in respect of the relevant Distribution Network in Formula Year t as specified in Appendix 2 of this condition.

- 1E.14 For the purposes of the formula set out in paragraph 1E.5 of this condition CSC<sub>t</sub> means the adjustment in respect of the Licensee's performance in respect of the relevant Distribution Network in Formula Year t in relation to the target for the connections element of the customer satisfaction score, derived in accordance with the following formula:

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

- 1E.15 For the purposes of the formula set out in paragraph 1E.14 of this condition, CSCD<sub>t</sub> means the Licensee's performance for the connections element of the customer satisfaction survey in respect of the relevant Distribution Network for Formula Year t relative to the target score for that element for that year, and is derived in accordance with the following formula:

$$CSCD_t = CSCS_t - CSCUQ_t$$

where:

CSCS<sub>t</sub> means the Licensee's actual performance for the connections element of the customer satisfaction survey in respect of the relevant Distribution Network for Formula Year t as calculated for that year.

CSCUQ<sub>t</sub> means the Licensee's target connections score, which will be fixed at 8.04.

- 1E.16 For the purposes of the formula set out in paragraph 1E.14 of this condition CSCR<sub>t</sub> means the positive adjustment (if any) in respect of the Licensee's connections performance in respect of the relevant Distribution Network for Formula Year t, derived in accordance with the following formula:

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

where:

CSCMX<sub>t</sub> means the connections performance maximum reward score which is fixed as 8.4; and

CSOU<sub>t</sub> means the maximum positive adjustment to for the Licensee in respect of the relevant Distribution Network in Formula Year t specified in Appendix 1 of this condition.

- 1E.17 For the purposes of the formula set out in paragraph 1E.14 of this condition CSCP<sub>t</sub> means the negative adjustment in respect of the Licensee's connections performance in respect of the relevant Distribution Network for Formula Year t, derived in accordance with the following formula:

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

where:

CSCMP<sub>t</sub> means the connections maximum penalty score which is fixed as 7.3.

CSOD<sub>t</sub> means the maximum negative adjustment for the Licensee in respect of the relevant Distribution Network in Formula Year t as specified in Appendix 2 of this condition.

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

- 1E.18 CM<sub>t</sub> means the negative adjustment (if any) in respect of the Licensee's performance in respect of the relevant Distribution Network in Formula Year t in relation to the target for the complaints metric score, and is derived in accordance with the following formula:

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

- 1E.19 CMIS<sub>t</sub> means the difference between the Licensee's performance score and the fixed target for complaint handling in respect of the relevant Distribution Network for Formula Year t, and is derived in accordance with the following formula:

$$CMIS_t = UQCM_t - CMP_t$$

- 1E.20 For the purposes of the formula set out in paragraph 1E.19 of this condition UQCM<sub>t</sub> means the target score for the complaints metric, fixed at a value of 11.57.

- 1E.21 For the purposes of the formula set out in paragraph 1E.19 of this condition  $CMP_t$  means the complaints metric performance term in respect of the relevant Distribution Network and is derived in accordance with the following formula:

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

where:

$PCUDPO_t$	means the percentage of Complaints unresolved by the end of the first working day after the day on which the complaint was first received in respect of the relevant Distribution Network for Formula Year t, as reported for that year.
$PCUDPT_t$	means the percentage of Complaints unresolved after the end of 31 working days from the end of the first working day after the day on which the complaint was first received in respect of the relevant Distribution Network for Formula Year t, as reported for that year.
$PRC_t$	means the percentage of Repeat Complaints in respect of the relevant Distribution Network for Formula Year t, as reported for that year.
$POF_t$	means the percentage of total Complaints where the Ombudsman finds against the Licensee in respect of the relevant Distribution Network for Formula Year t, as reported for that year.

- 1E.22 In the formula for  $CM_t$  in paragraph 1E.18 of this condition  $IRCM_t$  means the incentive rate for the complaints metric in respect of the relevant Distribution Network for Formula Year t, and is derived in accordance with the following formula:

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

where

$ARCM_t$	means the maximum negative adjustment in respect of the relevant Distribution Network as specified for Formula Year t in Appendix 3 of this condition; this term is also used to calculate $CM_t$ .
$MLCM_t$	means the score to which the maximum level of penalty will be applied; this is a fixed score 23.23.

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

- 1E.23 The Stakeholder Engagement term ( $SE_t$ ) in respect of the relevant Distribution Network is derived in accordance with the provisions of this Part E.
- 1E.24 The maximum value of  $SE_t$  for each Formula Year that can be determined by the Authority for the relevant Distribution Network is set out in Appendix 4 of this condition.

- 1E.25 The maximum value of  $SE_t$  in respect of the relevant Distribution Network is to be decided by the Authority in accordance with provisions set out in paragraph 1E.4 of this condition.
- 1E.26 The Licensee may apply to be awarded a stakeholder engagement reward in respect of the relevant Distribution Network in respect of Formula Year  $t$  in accordance with such procedures, timescales, and minimum eligibility criteria as may be set out in the Stakeholder Engagement Incentive Guidance published on the Authority's Website (which may be modified from time to time in accordance with the provisions outlined in paragraph 1E.29 of this condition).
- 1E.27 In addition to making provision for the matters mentioned in paragraph 1E.27 of this condition, the Stakeholder Engagement Incentive Guidance may also make provision for:
- (a) the appointment, by the Authority, of persons who will assess the stakeholder submissions and make recommendations based on key areas of assessment;
  - (b) the key areas of assessment to be considered in that year; and
  - (c) the manner and process by which the stakeholder engagement submissions will be assessed against those key areas and by which the Authority will allocate the stakeholder engagement reward.
- 1E.28 Before modifying the Stakeholder Engagement Incentive Guidance the Authority, by notice given to all licensees in whose licence this condition has effect, will:
- (a) state that it proposes to modify the guidance, and specify the date on which it proposes that the provisions of the modified Stakeholder Engagement Incentive Guidance should take effect;
  - (b) set out the text of the modified guidance and the reasons for the Authority's proposed modifications; and
  - (c) specify the time (which may not be less than a period of 28 days from the date of the Notice) within which representations may be made.
- 1E.29 The Authority will consider any representations that are duly made, and the Authority will give reasons for its decision.
- 1E.30 The Authority will modify the Stakeholder Engagement Incentive Guidance by issuing a direction to that effect for the purposes of this condition following the procedure set out in paragraph 1E.29 of this condition.
- 1E.31 Wherever it appears in this condition the term "stakeholder" refers to individuals or organisations that may be impacted by the activities of the relevant Distribution Network; they may have a direct or indirect interest in their business, and their contact with the relevant Distribution Network may be anything from a daily interaction to occasional contact.
- 1E.32 For the purposes of determinations made by the Authority pursuant to the provisions of Part B above, "high quality outcomes" will be defined in the Stakeholder Engagement Incentive Guidance in relation to the key areas of assessment set out in the Guidance for the year in question.



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

- 1E.33 This paragraph applies where the report of an Examiner nominated by the Authority finds that the level of accuracy of any data used for the purposes of any formula in Part C or Part D of this condition is less than the level of accuracy specified for such information in the RIGs.
- 1E.34 If paragraph 1E.34 of this condition applies the Authority may, after consultation with the Licensee in accordance with paragraph 1E.36 of this condition and having due regard to all relevant information and circumstances, and so as to mitigate any distortion to the Licensee's performance in respect of the relevant Distribution Network for the purpose of this condition arising from the inaccuracy referred to in that paragraph, direct which data should be used in substitution for the non-compliant information for the purposes of the formula in question.
- 1E.35 Before issuing a direction under paragraph 1E.35 of this condition the Authority will give Notice to the Licensee of:
- (a) the terms of the proposed direction;
  - (b) the reasons why it proposes to issue the direction; and
  - (c) the period (which will not be less than 14 days from the date of the Notice) within which the Licensee may make representations or objections.
- 1E.36 The Authority will consider any representations or objections duly received under paragraph 1E.36 of this condition, and give reasons for any decision it makes in relation to them.

### Appendix 1: Value of CSOU<sub>t</sub>

Licensee	CSOU <sub>t</sub> (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8
NGGD Lon	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
NGGD NW	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
NGGD WM	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Northern Gas Networks Ltd	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Scotland Gas Networks plc	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

Southern Gas Networks plc	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Wales and West Utilities Ltd	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

## Appendix 2: Value of CSODt

Licensee	CSODt (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8
NGGD Lon	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
NGGD NW	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
NGGD WM	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
<del>Northern Gas Network plc</del> <u>Northern Gas Networks Ltd</u>	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Scotland Gas Networks plc	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Southern Gas Networks plc	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Wales and West Utilities Ltd	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

### Appendix 3: Value of ARCMt

Licensee	ARCMt (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	2.7	2.6	2.6	2.6	2.6	2.5	2.5	2.5
NGGD Lon	1.8	1.8	1.9	1.9	1.8	1.8	1.8	1.8
NGGD NW	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9
NGGD WM	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
<del>Northern Gas Network plc</del> <u>Northern Gas Networks Ltd</u>	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Scotland Gas Networks plc	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Southern Gas Networks plc	3.1	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Wales and West Utilities Ltd	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.7

### Appendix 4: The maximum value of SEt

Licensee	SEt (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	2.7	2.6	2.6	2.6	2.6	2.5	2.5	2.5

NGGD Lon	1.8	1.8	1.9	1.9	1.8	1.8	1.8	1.8
NGGD NW	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9
NGGD WM	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
<del>Northern Gas Network plc</del> <u>Northern Gas Networks Ltd</u>	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Scotland Gas Networks plc	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Southern Gas Networks plc	3.1	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Wales and West Utilities Ltd	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.7

## Appendix 5: The maximum value of the $BM_t$

Licensee	BMt (+/-£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	5.4	5.2	5.2	5.1	5.1	5.1	5.1	5.1
NGGD Lon	3.7	3.6	3.8	3.7	3.7	3.7	3.6	3.6
NGGD NW	3.9	3.8	3.8	3.7	3.8	3.7	3.7	3.7
NGGD WM	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.7
Northern Gas Networks plc <u>Northern Gas Networks Ltd</u>	3.4	3.4	3.5	3.4	3.3	3.3	3.4	3.4
Scotland Gas Networks plc	2.6	2.5	2.4	2.6	2.6	2.6	2.6	2.6
Southern Gas Networks plc	6.2	6.0	6.1	6.2	6.2	6.2	6.2	6.2
Wales and West Utilities Ltd	3.5	3.4	3.4	3.4	3.5	3.5	3.5	3.4

## Special Condition 1F. Revenue adjustments for performance in respect of gas shrinkage and environmental emissions

### Introduction

1F.1 The purpose of this condition is to establish the mechanisms for determining the value of the incentive payments that in Formula Year  $t$  will adjust the Licensee's Shrinkage Allowance Revenue Adjustment for the relevant Distribution Network under Part B of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) in order to reflect:

- (a) the Licensee's efficient cost of procuring gas lost to shrinkage ("Shrinkage Allowance Revenue Adjustment"); and
- (b) the Licensee's performance in reducing environmental emissions arising from gas leakage ("the Environmental Emissions Incentive").

1F.2 This condition also provides for the Licensee to:

- (a) understand the basis of the revenue adjustment to be made under a rolling incentive mechanism in relation to performance under paragraph 1F.1 of this condition;
- (b) maintain The Shrinkage and Leakage Model in conjunction with other DN Operators;
- (c) report to the Authority on levels of gas shrinkage and gas leakage calculated in accordance with The Shrinkage and Leakage Model;
- (d) propose modifications to The Shrinkage and Leakage Model; and
- (e) report to the Authority on the collection and use of Smart Metering Data for the purposes of assessing whether such data could be used as an alternative to The Shrinkage and Leakage Model.

### Part A: Formula for calculating the Shrinkage Allowance Revenue Adjustment ( $SHR_t$ )

1F.3 In the Formula Year 2013/14 and 2014/15 the Shrinkage Allowance Revenue Adjustment ( $SHR_t$ ) for the relevant Distribution Network will be zero, and in each subsequent Formula Year  $t$   $SHR_t$  for the relevant Distribution Network will, for the purposes of Special Condition 1B, be derived in accordance with the following formula:

$$SHR_t = SHRA_t + SHRR_t$$

where:

$SHR_t$  means the Shrinkage Allowance Revenue Adjustment in respect of the relevant Distribution Network for Formula Year  $t$ ;

$SHRA_t$  means the Distribution Network revenue adjustment in relation to Shrinkage in respect of the relevant Distribution Network for Formula Year  $t$ , as derived in accordance with the formula in paragraph 1F.4 of this condition; and

SHRR<sub>t</sub> means the Distribution Network shrinkage roller allowance in respect of the relevant Distribution Network for Formula Year t, as derived in accordance with the formula in paragraph 1F.5 of this condition.

1F.4 For the purposes of paragraph 1F.3 of this condition, SHRA<sub>t</sub> is derived in accordance with the following formula:

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

where:

I means each LDZ in the relevant Distribution Network;

T means a year within the Price Control Period, where t=1 refers to the Formula Year commencing 1 April 2013;

ASV<sub>t-2,i</sub> means the actual shrinkage volumes in respect of Formula Year t-2 for each LDZ i and derived from the application of The Shrinkage and Leakage Model maintained by the licensee under Part D of this condition;

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

GPRC<sub>t-2</sub> means the gas price reference cost in respect of Formula Year t-2 and is derived in accordance with the provisions in Part B of this condition; and

RPIA<sub>t-2</sub> has the value give to it by Part C of Special Condition 1B;

PVF<sub>t</sub> has the value give to it by Part C of Special Condition 1B; and

RPIF<sub>t</sub> has the value give to it by Part C of Special Condition 1B.

1F.5 For the purposes of paragraph 1F.3 of this condition SHRR<sub>t</sub> is derived in accordance with the following formula:

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

where:

i means each LDZ in the relevant Distribution Network;

t means a year within the Price Control Period, where t=1 refers to the formula year commencing 1 April 2013;

n means an index for t;

IQI means the Totex Incentive Strength Rate as set out for the relevant Distribution Network in Appendix 1 of Special Condition 3B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments);

- CT means corporation tax rate and is set equal to 22%
- GPRC<sub>t-2</sub> means the gas price reference cost in respect of Formula Year t-2 and is derived in accordance with the provisions in Part B of this condition; and
- SIP<sub>t-2,i</sub> means the incremental performance of the relevant Distribution Network in Formula Year t-2, derived in accordance with the following formula:

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

where:

- SOP<sub>t-2,i</sub> means annual shrinkage outperformance of the relevant Distribution Network in respect of Formula Year t-2 and is derived in accordance with the following formula (SOP<sub>t-3,i</sub> is calculated accordingly, except in Formula Year 2015/16 when it will equal zero):

$$SOP_{t-2,i} = SB_{t-2,i} - ASV_{t-2,i}$$

where:

- SB<sub>t-2,i</sub> means the LDZ allowed shrinkage volume in respect of Formula Year t-2 for each LDZ i for the relevant Distribution Network as set out in Appendix 2 of this condition;

- ASV<sub>t-2,i</sub> means the actual shrinkage volumes for the relevant Distribution Network in respect of Formula Year t-2 for each LDZ i and derived from the application of The Shrinkage and Leakage Model maintained by the licensee under Part D of this condition.

1F.6 Following the end of the Formula Year 2020/21, the Authority will make a post period adjustment to the revenue earned under the Shrinkage Allowance Revenue Adjustment during the RII-GD1 period, to take account of non-enduring performance which has not been rewarded or penalised.

1F.7 The post period adjustment (PRGSAS) will be subject to a two year lag and will take effect in Formula Year 2023/24 in accordance with the following formula:

$$PRGSAS = TNEBS \times GPRC_{avg} \times \frac{IQI}{1 - CT}$$

where:

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

- TNEBS means the outperformance of the relevant Distribution Network which has not been sustained throughout the Price Control Period and is derived according to the following formula:

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

where:

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



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

1F.8 For the purposes of the formula for  $SHRR_t$  under Part A of this condition, the gas price reference cost ( $GPRC_{t-2}$ ) in respect of Formula Year t-2 is derived in accordance with the following formula:

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

where:

CF means conversion factor and is used to convert the following term:

$$\sum_{all d} (Wdy + Wed)$$

from pence per therm to pounds sterling per gigawatt hour, and is equal to 341.2;

D means each calendar Day, where d = 1 means 1 April and all other days are numbered consecutively thereafter;

Wdy means the day ahead offer price of gas at the close of business on the Day before the relevant Day d as published in an Approved Market Price Report for delivery at the national balancing point for those Days that are neither a weekend (Saturday and Sunday) nor a prescribed Bank Holiday in England and Wales;

Wed means the day ahead offer price of gas at close of business on the Day before the relevant weekend or Bank Holiday as published in an Approved Market Price Report for delivery at the national balancing point for those days that are a Saturday or Sunday or a prescribed Bank Holiday in England and Wales; and

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

## Part C: Formula for Environmental Emissions Incentive revenue ( $EEI_t$ )

1F.9 In the Formula Years 2013/14 and 2014/15 the Environmental Emissions Incentive revenue ( $EEI_t$ ) for the relevant Distribution Network will be zero, and in each subsequent Formula Year t,  $EEI_t$  for the relevant Distribution Network will for the purposes of Special Condition 1B, be derived in accordance with the following formula:

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

where:

$CC_{t-2}$  means the environmental emissions factor for the relevant Distribution Network as set out in Appendix 4 of this condition; and

$IP_{t-2,i}$  means the incremental performance of the relevant Distribution Network in Formula Year t-2 and is derived in accordance with the following formula:

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

where:

$OP_{t-2,i}$  means annual outperformance of the relevant Distribution Network in respect of Formula Year t-2 and is derived in accordance with the following formula, and  $OP_{t-3,i}$  is calculated accordingly, except in Formula Year 2015/16 when it will be zero:

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

where:

$LB_{t-2,i}$  means the LDZ allowed leakage volume for the relevant Distribution Network in respect of Formula Year t-2 for each LDZ i of the relevant Distribution Network as set out in Appendix 3 of this condition; and

$LV_{t-2,i}$  means the LDZ actual leakage volume for the relevant Distribution Network in respect of Formula Year t-2, and is derived from the application of The Shrinkage and Leakage Model maintained by the Licensee under Part D of this condition.

1F.10 Following the Formula Year 2021/22, the Authority will make a post period adjustment to Environmental Emissions Incentive revenue for the relevant Distribution Network during the RII0-GD1 period, to take account of non enduring performance which has not been rewarded or penalised.

1F.11 The post-period revenue adjustment (PRGAS) will be subject to a two year lag and will take effect in the Formula Year 2023/24 in accordance with the following formula:

$$PRGAS = TNEB \times CC_{avg} \times \frac{IQI}{(1-CT)}$$

where:

$CC_{avg}$  means the average CC from 1 April 2013 to 31 March 2021 (as set out in Appendix 4 of this condition); and

$TNEB$  means the outperformance of the relevant Distribution Network which has not been sustained throughout the Price Control Period, derived according to the following formula:

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

where:

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

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

1F.12 The Licensee (together with all other DN Operators) must maintain a shrinkage and leakage model ("The Shrinkage and Leakage Model") as approved by the Authority and as modified from time to time in accordance with the provisions set out in Part E of this condition.

- 1F.13 The Shrinkage and Leakage model must be designed to facilitate the accurate calculation and reporting of gas shrinkage and gas leakage in or from each of the LDZs operated by the Licensee.
- 1F.14 The Licensee must, by 31 July in each Formula Year, make publicly available and provide to the Authority a report that sets out the actual leakage volume ( $LV_{t,i}$ ) and actual shrinkage volumes ( $ASV_{t,i}$ ) as calculated in accordance with the Shrinkage and Leakage Model for each LDZ which it operates for the preceding Formula Year.
- 1F.15 Subject to the provision of reasonable prior notice by the Authority, the Licensee must allow the Authority, or a duly authorised representative of it, such access to the Licensee's staff, records and facilities as the Authority may reasonably require, for the purpose of enabling it to establish to the Authority's reasonable satisfaction that:
- (a) The Shrinkage and Leakage Model complies with the requirements of this condition (including the provisions of Parts E and F of this condition); and
  - (b) the Licensee is complying with the relevant processes and procedures contained within The Shrinkage and Leakage Model.
- 1F.16 The Licensee must not make any modification to The Shrinkage and Leakage Model except where it is directed to do so by the Authority pursuant to the provisions under Part E of this condition.

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

- 1F.17 The Licensee must review annually The Shrinkage and Leakage Model in order to assess how it can better achieve the objective set out in paragraph 1F.13 of this condition ("the SLM Review").
- 1F.18 The Licensee must consult with other DN Operators, gas shippers and other interested parties on the outcome of the SLM Review and send a copy of this consultation to the Authority by 31 December in each Formula Year.
- 1F.19 Any modification that the Licensee proposes to The Shrinkage and Leakage Model pursuant to the SLM Review must, where appropriate, specify such revised allowed shrinkage and allowed leakage volumes for each LDZ operated by the Licensee, as would maintain the incentive properties of the Shrinkage Allowance Revenue Adjustment and of the Environmental Emissions Incentive, at the same levels as those applicable before the proposed modification.
- 1F.20 Where, following the SLM Review, the Licensee proposes any modifications to The Shrinkage and Leakage Model, the Licensee must:
- (a) consult other DN Operators, gas shippers and other interested parties for their views on whether the allowed shrinkage and allowed leakage volumes should be revised as proposed, allowing them a period of not less than 28 days in which to make representations; and
  - (b) within 28 days after the close of that consultation make publicly available and submit to the Authority a report in accordance with the provisions set out in paragraph 1F.21 of this condition.
- 1F.21 The report referred to in 1F.20 of this condition must set out:
- (a) the modifications originally proposed;

- (b) the revised allowed shrinkage and allowed leakage volumes proposed pursuant to paragraph 1F.19 of this condition;
  - (c) the representations (if any) that were made to the Licensee by other DN Operators, gas shippers or other interested parties and not withdrawn;
  - (d) any changes to the modifications and to the allowed shrinkage and allowed leakage volumes that are proposed as a result of such representations;
  - (e) a copy of the independent expert's report referred to in 1F.24 of this condition;
  - (f) an explanation of how the proposed modifications would better achieve the objective set out in paragraph 1F.13 of this condition; and
  - (g) a timetable, developed in accordance with paragraph 1F.25 of this condition, for implementing the modifications originally proposed or any alternative modifications developed in the light of any representations made by other DN Operators, gas shippers or other interested parties, including the date with effect from which such modifications (if made) would take effect.
- 1F.22 When proposing any modification to The Shrinkage and Leakage Model, the Licensee must, in conjunction with other DN Operators, appoint an independent expert, who will review The Shrinkage and Leakage Model and the proposed allowed shrinkage and allowed leakage volumes for the Licensee and all other DN Operators and provide a report of that review.
- 1F.23 If requested by other DN Operators, the Licensee must provide all the information reasonably required to enable DN Operators to comply with paragraph 1F.22 of this condition, including the proposed allowed shrinkage and allowed leakage volumes for the Licensee which would result from the proposed modification, even if the Licensee does not agree that the modification better meets the objective set out in paragraph 1F.13 condition.
- 1F.24 The report submitted by the Licensee under 1F.20 of this condition must include the independent expert's opinion on the extent to which the proposed modifications to The Shrinkage and Leakage Model would better achieve the objective set out in paragraph 1F.13 and, where applicable, their opinion on the extent to which any proposed changes to the allowed shrinkage and allowed leakage volumes would maintain the incentive properties of the Shrinkage Allowance Revenue Adjustment and the Environmental Emissions Incentive at the same levels as those applicable before such changes.
- 1F.25 The Licensee must determine an appropriate timetable for any modification to The Shrinkage and Leakage Model, which ensures that such modification is able to take effect as soon as practicable after the Authority has directed it to be made and which allows for that timetable to be extended with the consent of, or as required by, the Authority.
- 1F.26 Where the Authority considers that modification set out in such a report or a report submitted by another DN Operator under equivalent provisions in its licence would, as compared with the existing provisions of The Shrinkage and Leakage Model and any alternative modifications set out in the report, better achieve the objective set out in paragraph 1F.13 of this condition, the Authority may issue directions requiring the Licensee, in conjunction with all other DN Operators:

- (a) to revise The Shrinkage and Leakage Model in such manner as is specified in the directions; and
- (b) to revise the allowed shrinkage and allowed leakage volumes set out in Appendices 2 and 3 to this condition, to those set out in the report if these have been agreed by the independent expert appointed under paragraph 1F.22 of this condition.
- (c) to revise the allowance for shrinkage costs set out in appendix 1 to account for any revisions made to shrinkage volumes under part b) above.

1F.27 The Authority may, at any time, direct that either or both of paragraphs 1F.20 and 1F.21 of this condition do not apply, whether in whole or in part, and in that event, the licensee must comply with such other reasonable requirements which are in line with the revised shrinkage baselines included in the modification report submitted under Part E, as may be specified in that direction.

#### **Part F: Review requirements in respect of modifications**

- 1F.28 Except where the Authority otherwise consents, the Licensee must, in conjunction with other DN Operators and by not later than six months after the implementation of a modification to The Shrinkage and Leakage Model pursuant to Part E of this condition, appoint an independent expert to review and report on that implementation.
- 1F.29 The terms of reference of the SLM Review must be submitted to the Authority at least 28 days before its commencement, and the Authority may direct that those terms are to be amended and re-submitted to the Authority for its consideration.
- 1F.30 The Licensee must, in conjunction with other DN Operators, ensure that the independent expert's report prepared under this Part F is publicly available, and that a copy of that report is sent to the Authority.

#### **Part G: Report to the Authority on the use of Smart Metering Data**

- 1F.31 The Licensee must, in conjunction with other DN Operators, ensure that a single report is submitted to the Authority once in every two Formula Years called the Shrinkage and Leakage Smart Metering Report ("the SLSM Report").
- 1F.32 The first SLSM Report must be submitted to the Authority not later than 31 July 2014, and subsequent SLSM Reports must be submitted to the Authority not later than 31 July once every two Formula Years.
- 1F.33 The purposes of the SLSM Report are:
  - (a) to review the collection and use of Smart Metering Data that may be relevant to The Shrinkage and Leakage Model; and
  - (b) to explain the relevance and implications of such data for the construction and operation of The Shrinkage and Leakage Model and for the reporting of information derived from it.
- 1F.34 The SLSM Report must be made publicly available and must include:
  - (a) an update on the current status of the national smart metering implementation programme;

- (b) the DN Operators' assessment of the suitability of the use of Smart Metering Data as an alternative to the use of The Shrinkage and Leakage Model to calculate the levels of gas shrinkage and gas leakage with respect to each LDZ that it operates;
- (c) the steps that DN Operators are taking to ensure that it has appropriate access to Smart Metering Data; and
- (d) how the Licensee intends to use Smart Metering Data to validate The Shrinkage and Leakage Model and the reporting of information under it.

1F.35 Before submitting the SLSM Report to the Authority, the Licensee must, in conjunction with other DN Operators:

- (a) consult on a draft of the report with gas shippers and other interested parties;
- (b) allow all such persons a period of at least 28 days within which to respond to the consultation;
- (c) ensure that all non-confidential responses to the consultation are made publicly available; and
- (d) use best endeavours to ensure that those responses are summarised and taken into account in the final SLSM Report prepared for submission to the Authority.

1F.36 The Licensee must submit the SLSM Report to the Authority in such form and manner as the Authority may direct.

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

<b>Distribution Network</b>	<b>Shrinkage allowance (£m 2009/10 prices)</b>							
	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>	<b>t=6</b>	<b>t=7</b>	<b>t=8</b>
NGGD EoE	11.8	11.7	11.6	11.4	11.2	11.0	10.9	10.7
NGGD Lon	6.1	6.0	5.9	5.8	5.7	5.6	5.4	5.3
NGGD NW	9.0	8.8	8.7	8.5	8.3	8.1	7.9	7.7
NGGD WM	7.0	6.9	6.9	6.7	6.6	6.5	6.4	6.3
<del>Northern Gas Network plc</del> <u>Northern Gas Networks Ltd</u>	10.0	9.7	9.5	9.1	9.0	8.9	8.7	8.5
Scotland Gas Networks plc	5.2	5.1	5.0	4.9	4.8	4.7	4.6	4.5
Southern Gas	13.3	13.1	13.0	12.7	12.5	12.3	12.1	11.6

Networks plc								
Wales and West Utilities Ltd	8.8	8.7	8.7	8.5	8.4	8.3	8.1	7.9

**Appendix 2: LDZ allowed shrinkage volume (the SB term) for the period beginning on 1 April 2013 and ending on 31 March 2021**

Distribution Network	Shrinkage volume (GWh)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NGGD EoE	569	558	547	535	524	513	502	491
NGGD Lon	317	310	302	295	288	281	274	267
NGGD NW	407	397	386	376	366	355	345	335
NGGD WM	335	328	321	315	308	301	295	288
<del>Northern Gas Network plc</del> <u>Northern Gas Networks Ltd</u>	459	449	438	428	418	407	397	386
Scotland Gas Networks plc	247	240	234	226	221	213	208	202
Southern Gas Networks plc	637	622	606	591	575	558	544	527
Wales and West Utilities Ltd	440	433	425	417	409	401	393	385

**Appendix 3: LDZ allowed leakage volume (the LB term) for the period beginning on 1 April 2013 and ending on 31 March 2021**

Distribution Network	Leakage volume (GWh)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NGGD EoE	535	525	514	503	492	481	470	459
NGGD Lon	299	292	285	278	271	264	257	251

NGGD NW	385	375	365	355	344	334	324	314
NGGD WM	320	314	308	301	295	288	282	275
<del>Northern Gas Network plc</del> <u>Northern Gas Networks Ltd</u>	434	424	413	403	392	382	371	361
Scotland Gas Networks plc	231	224	218	211	205	198	192	186
Southern Gas Networks plc	604	589	573	558	542	526	511	495
Wales and West Utilities Ltd	415	407	400	392	384	376	369	361

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

<b>Environmental emissions factor <math>CC_t</math> (£ / MWh pre-tax 2009/10 prices)</b>								
	t=1	t=2	t=3	t=4	t=5	T=6	T=7	T=8
$CC_t$	62.73	63.66	64.59	65.54	66.55	67.50	68.53	69.61



## Special Condition 1G. Discretionary Reward Scheme revenue amounts

### Introduction

1G.1 This condition sets out the calculation of the amount of the incentive that adjusts the Maximum Distribution Network Transportation Activity Revenue under Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) for the purpose of reflecting the Licensee's performance with respect to the Discretionary Reward Scheme ( $DRS_t$ ).

1G.2 This condition determines:

- (a) the discretionary reward amount (as represented by the  $DRSW_t$  term) for each of Formula Years 2013/14 and 2014/15 (see Part B of condition); and
- (b) the discretionary reward amount (as represented by the  $DRSX_t$  term) for each of Formula Years 2016/17 to 2019/20 (see Part A of this condition).

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

1G.3 For the purposes of Part B of Special Condition 1B,  $DRS_t$  is derived in accordance with the following formula:

$$DRS_t = DRSW_t + DRSX_t$$

1G.4 In the above formula for  $DRS_t$ :

$DRS_t$  means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue under Special Condition 1B, as may be determined by the Authority in respect of the Licensee's performance under the Discretionary Reward Scheme in relation to Formula Year  $t$ ;

$DRSW_t$  means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue under Special Condition 1B in respect of the Licensee's performance under the Discretionary Reward Scheme in Formula Years 2011/12 and 2012/13, as may have been determined by the Authority in accordance with the provisions of Part B of this condition;

$DRSX_t$  means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue under Special Condition 1B in respect of the Licensee's performance under the Discretionary Reward Scheme, as may be determined by the Authority:

- (a) by 30 November 2015 (for Formula Year 2016/17) in relation to such performance in each of the Formula Years 2013/14 and 2014/15; and
- (b) by 30 November 2018 (for Formula Year 2019/2020) in relation to such performance in each of Formula Years 2015/16, 2016/17, and 2017/18.

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

1G.5 For the purposes of Part A of this condition,  $DRSW_t$  is derived in accordance with the following formula:

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

1G.6 In the above formula for  $DRSW_t$ :

$DRA_{t-2}$  means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue in respect of the Licensee's performance under the Discretionary Reward Scheme in:

- (a) Formula Year 2011/12, as may be determined by the Authority by 30 November 2012 (for Formula Year 2013/14); and
- (b) Formula Year 2012/13, as may be determined by the Authority by 30 November 2013 (for Formula Year 2014/15) in respect of those years; and

$I_t$  means the Average Specified Rate in Formula Year  $t$ .

## Part C: Definitions

1G.7 For the purposes of this condition:

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

- (a) in relation to the calculation of the  $DRSW_t$  term in respect of Formula Years 2011/12 and 2012/13, the scheme of that name under which the Licensee may, at the Authority's discretion, be rewarded by way of a positive revenue adjustment in recognition of its adoption of best practice in reducing the environmental impact of gas distribution, facilitating network extensions, and promoting gas safety; or
- (b) in relation to the calculation of the  $DRSX$  term in respect of a Formula Year, the scheme of that name under which the Licensee may, at the Authority's discretion, be rewarded by way of a positive revenue adjustment in recognition of its performance in delivering additional environmental, safety and social outputs during the relevant Formula Year not funded under the Special Conditions.

## Special Condition 1H. The Network Innovation Allowance

### Introduction

- 1H.1 This condition establishes arrangements to be known as the Network Innovation Allowance (NIA) for the purpose of calculating the amount of the  $NIA_t$  term that applies for the relevant Distribution Network in Part B of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) with respect to the funding of innovative projects carried out by the Licensee.
- 1H.2 The effect of the application of the NIA term in Part B of Special Condition 1B is to adjust the calculation of the relevant Distribution Network's Maximum Distribution Network Transportation Activity Revenue in order to fund investment in innovation under the NIA, established pursuant to this condition.
- 1H.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the NIA.

### Part A: Calculation of the Network Innovation Allowance ( $NIA_t$ )

- 1H.4 For the purposes of Part B of Special Condition 1B,  $NIA_t$  for the relevant Distribution Network for the Formula Year  $t$  is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$NIA_t = ANIA_t - NIAR_t$$

- 1H.5 For the purposes of the Principal Formula:

$NIA_t$  means the total allowed adjustment for the relevant Distribution Network in Formula Year  $t$ ;

$ANIA_t$  means the total Allowable NIA Expenditure for the relevant Distribution Network in Formula Year  $t$  and is derived in accordance with the appropriate formula set out in Part B of this condition; and

$NIAR_t$  means an amount recovered by the Licensee in respect of the relevant Distribution Network in relation to the Formula Year  $t$  or a previous Formula Year under the NIA which the Authority has determined, in accordance with provisions set out in paragraph 1H.10 of this condition and the NIA Governance Document, to be unrecoverable (see Part C of this condition).

- 1H.6 Expenditure incurred by the Licensee may only be recovered under the NIA if it is Allowable NIA Expenditure.

### Part B: Calculation of Allowable NIA Expenditure ( $ANIA_t$ )

- 1H.7 For the purposes of the Principal Formula,  $ANIA_t$  for the relevant Distribution Network is derived in accordance with the following formula:

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

- 1H.8 In the above formula for  $ANIA_t$ :

$PTR_A$  is the pass-through factor and has the value of 0.9;

ENIA<sub>t</sub> means the Eligible NIA Expenditure for the relevant Distribution Network for Formula Year t incurred by the Licensee in respect of Eligible NIA Projects as calculated by the Licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance);

BPC<sub>t</sub> means the Eligible NIC Bid Preparation Costs for the relevant Distribution Network for the Formula Year t as calculated by the Licensee in accordance with this condition and reported to the Authority in accordance with Standard Special Condition A40 (provided that, where the Licensee is part of a Gas Distribution Group, the amount of such costs recoverable by all of the Licensees in that group cannot be more than £175,000 in total or 5% of the amount applied for by the group under the Network Innovation Competition, as defined in Special Condition 1I (the Network Innovation Competition), whichever is less in the Formula Year t, unless the Authority consents otherwise);

NIAV means the relevant Distribution Network's NIA Percentage, and has the value that is attributed to the Licensee in Appendix 1 of this condition; and

BR<sub>t</sub> means Base Distribution Network Transportation Activity Revenue for the relevant Distribution Network in Formula Year t, and is derived in accordance with Part C of Special Condition 1B.

1H.9 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE<sub>t</sub>) that qualifies as Eligible NIA Expenditure in the Formula Year t will not exceed the amount derived by the following formula:

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

where:

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

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

### **Part C: Treatment of Unrecoverable Expenditure**

1H.10 In any Formula Year t the Authority may set, by direction given to the Licensee, an amount for NIAR<sub>t</sub> that will reduce the Licensee's NIA revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

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

1H.11 The Authority will issue, and may from time to time revise, a document to be known as the NIA Governance Document, for purposes connected with the regulation, governance and administration of the NIA under this condition.

1H.12 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria which projects must meet, which the Licensee confirms projects conform to before Eligible NIA Projects can begin;
- (b) the information that is to be published by the Licensee before Eligible NIA Projects can be started;
- (c) the circumstances in which the Licensee will require permission from the Authority before beginning an Eligible NIA Project;
- (d) the processes and procedures that will be in place for the assessment and approval (where necessary) of such projects described in paragraph 1H.12(c) of this condition;
- (e) arrangements for ensuring that relevant learning from Eligible NIA Projects can be captured and disseminated by the Licensee to Gas Transporter Licensees;
- (f) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);
- (g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and
- (h) any other matters relating to the regulation, governance or administration of the NIA.

1H.13 Where provisions of the NIA Governance Document require the compliance of the Licensee, the Licensee must comply with those provisions as if the NIA Governance Document were part of this condition.

#### **Part E: Procedure for issuing and revising the NIA Governance Document**

1H.14 Before issuing the NIA Governance Document under this condition, the Authority, by notice given to the Licensee and all other gas transporters licensees with a condition of similar effect to this condition in their license, will:

- (a) state that it proposes to issue the NIA Governance Document, and specify the date on which it proposes that this should take effect;
- (b) set out the text of the NIA Governance Document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which will not be less than a period of 28 days from the date of the notice) within which representations or objections with respect to the proposed NIA Governance Document may be made.

1H.15 The Authority will consider any representations or objections that are duly made and not withdrawn.

1H.16 The requirements of paragraphs 1H.14 and 1H.15 of this condition may be satisfied by action taken by the Authority before, as well as by action taken after, the commencement of this condition.

1H.17 In paragraph 1H.14 of this condition, “issuing and revising the NIA Governance Document” includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

#### **Part F: Interpretation**

1H.18 Defined terms used in this condition are to be read and given effect subject to any further clarification that might be set out in the NIA Governance Document in relation to such terms.

#### **APPENDIX 1: NIA Percentage**

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

<b>Licensee</b>	<b>NIA Percentage</b>
NGGD NW	0.7
NGGD EoE	0.7
NGGD WM	0.7
NGGD LON	0.7
Wales and West Utilities Ltd	0.5
Northern Gas Networks Ltd	0.7
Scotland Gas Networks plc	0.5
Southern Gas Networks plc	0.5

## **Special Condition 1I. The Network Innovation Competition**

### **Introduction**

- 1I.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (“NIC”) with respect to the funding of innovative low carbon or environmental projects carried out by the Licensee.
- 1I.2 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

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

- 1I.3 The function of the NIC is to enable the Licensee to fund Eligible NIC Projects by means of payments received from the NTS Operator in accordance with the determination process described in Part B of this condition and as varied, where appropriate, by the Funding Return Mechanism described in Part C of this condition.

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

- 1I.4 The NIC Funding Mechanism is the mechanism by which the Licensee receives the amount of authorised NIC Funding in any Formula Year from the NTS Operator, less any Funding Return as described in Part C of this condition.

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

- 1I.5 The Funding Return Mechanism relates to payments to be made by the Licensee to the NTS Operator, in each case to such extent (if any) as may be relevant, of:
  - (a) Halted Project Revenues;
  - (b) Disallowed Expenditure; and
  - (c) Returned Royalty Income.
- 1I.6 The Funding Return is the total amount, in respect of the Licensee, of any amounts arising under paragraph 1I.5 of this condition.
- 1I.7 Halted Project Revenues are any revenues received by the Licensee from the NTS Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 1I.8 Disallowed Expenditure is any revenue received by the Licensee from the NTS Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 1I.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the Licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.

- 11.10 For the purposes of paragraph 11.9 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the Licensee that have not been otherwise remunerated by Distribution Network Transportation Charges as defined in Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity), Excluded Services, or the NIC Funding Mechanism.
- 11.11 In each Formula Year  $t$ , in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the Licensee, will specify:
- (a) the amount of any Funding Return that the Licensee must pay to the NTS Operator; and
  - (b) the manner in which and the timescale over which that amount is to be so paid.
- 11.12 The Licensee must comply with any direction that is issued by the Authority under paragraph 11.11 of this condition.

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

- 11.13 The NIC term is the net amount of NIC Funding less any Funding Return for the Formula Year  $t$  that is to be paid to the Licensee by the NTS Operator, or vice versa, in compliance with the determination made for that purpose in a direction issued by the Authority pursuant to the provisions of Part D of Special Condition 2F (The Network Innovation Competition) in the gas transporter licence held by the NTS Operator.
- 11.14 The NIC Funding to which paragraph 11.4 of this condition refers is the proportion (if any) of total NIC Funding raised by the NTS Operator from its NTS Transportation Owner Charges in accordance with the NIC Funding Mechanism that the Authority determines is to be allocated to the Licensee in respect of its Eligible NIC Projects, as adjusted by the amount of any Funding Return (as to which, see Part C above.).
- 11.15 In each Formula Year  $t$ , as provided for by the NIC Governance Document and in accordance with the appropriate provisions of the NTS Operator's licence the Authority will calculate and then, by direction given to the Licensee and other Gas Transporter Licensees, will specify, in accordance with the appropriate provisions set out in the NIC Governance Document:
- (a) the net amount of the NIC term;
  - (b) how the amount of that term has been calculated, taking account of any Funding Return; and
  - (c) the manner in which and the timescale over which the NTS Operator is required to transfer that amount to the Licensee or vice versa.

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

- 11.16 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.
- 11.17 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:



- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
- (b) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);
- (c) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
- (d) arrangements to ensure that relevant matters the licensee learned from the implementation of Eligible NIC Projects can be captured and disseminated by the Licensee to other Gas Transporter Licensees;
- (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);
- (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
- (g) any other matters relating to the regulation, governance, or administration of the NIC.

11.18 Where provisions of the NIC Governance Document require the compliance of the Licensee, the Licensee must comply with those provisions as if the NIC Governance Document were part of this condition. .

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

11.19 Before issuing the NIC Governance Document under this condition, the Authority, by notice given to the Licensee and all other Gas Transporter Licensees with a condition of similar effect to this condition in their licence, will:

- (a) state that it proposes to issue the NIC Governance Document, and specify the date on which it proposes that the document should take effect;
- (b) set out the text of the NIC Governance Document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which will not be less than a period of 28 days from the date of the notice) within which representations with respect to the proposed NIC Governance Document may be made.

11.20 The Authority will consider any representations that are duly made and not withdrawn.

11.21 The requirements of paragraphs 11.19 and 11.20 (of this condition) may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

11.22 In paragraph 11.19 of this condition, "issuing and revising the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

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

11.23 For the purposes of this condition:

Disallowed Expenditure	has the meaning given to that term in paragraph 1I.8 of this condition;
Directly Attributable Costs	has the meaning given to that term in paragraph 1I.10 of this condition;
Eligible NIC Project	means a project undertaken by the Licensee or any other Gas Transporter Licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism;
Funding Return	has the meaning given to that term in paragraph 1I.6 of this condition;
Funding Return Mechanism	has the meaning given to that term in paragraph 1I.5 of this condition;
Halted Project Revenues	has the meaning given to that term in paragraph 1I.7 of this condition;
NIC Funding	has the meaning given to that term in paragraph 1I.14 of this condition;
NIC Funding Mechanism	means the arrangements (pursuant to Special Condition 2F of its gas transporter licence) for the recovery by the NTS Operator through its NTS Transportation Owner Charges of the amount of total authorised NIC Funding in any Formula Year and the apportionment of that amount between the NTS Operator, the Licensee, and all other Gas Transporter Licensees;
NTS Transportation Owner Charges	means charges made or levied, or to be levied, by the NTS Operator for the provision of services as part of its transportation business, to any person, for the purpose of recovering its maximum NTS transportation owner revenue;
Returned Royalty Income	has the meaning given to that term in paragraph 1I.9 of this condition;
NIC Governance Document	means the document issued by the Authority under Part E of Special Condition 1I (The Network Innovation Competition), subject to the requirements of Part F of Special Condition 1I, relating generally to the NIC and including matters relating to the operation of the NIC Funding Mechanism;
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC

## Funding Mechanism.

- 11.24 Defined terms in this condition and in Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions) are to be read and given effect subject to any further clarification that might be set out in the NIC Governance Document in relation to such terms.

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## **Chapter 2: Price Control Financial Instruments**

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## **Special Condition 2A. Governance of GD1 Price Control Financial Instruments**

### **Introduction**

- 2A.1 The purpose of this condition is to establish a robust and transparent change control framework for each of the following GD1 Price Control Financial Instruments:
- (a) the GD1 Price Control Financial Handbook, which contains the GD1 Price Control Financial Methodologies; and
  - (b) the GD1 Price Control Financial Model.
- 2A.2 Each of the GD1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 2A.3 of this condition) may only be modified by the Authority in accordance with the provisions of Parts A and B of this condition.
- 2A.3 Parts A and B of this condition are without prejudice to the powers of the Authority to modify any part of this condition (including any GD1 Price Control Financial Instrument) under section 23 of the Act.
- 2A.4 For the purposes of this condition, Formula Year  $t$  means the Formula Year in which the value for the term MOD, for the relevant Distribution Network calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity), and references to Formula Year  $t-1$  are to be construed accordingly.

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

- 2A.5 Before initiating any modification of a GD1 Price Control Financial Instrument, the Authority will assess whether that modification would be likely to have a significant impact on any of the following persons:
- (a) the Licensee;
  - (b) any other Gas Transporter Licensee in whose licence a condition equivalent to this one has effect;
  - (c) any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
  - (d) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.
- 2A.6 In making the assessment required by paragraph 2A.5 of this condition, the Authority will:
- (a) have particular regard to any impact which an intended modification would be likely to have on any component of the Licensee's allowed revenues or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and

- (b) in respect of modifications to the GD1 Price Control Financial Model, have regard to any views expressed by the GD1 Price Control Financial Model Working Group.
- 2A.7 For the purposes of paragraph 2A.5 of this condition, it is to be presumed (subject to paragraph 2A.8 of this condition) that a modification which serves to correct a manifest error contained in a GD1 Price Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.
- 2A.8 The presumption established by paragraph 2A.7 of this condition is without prejudice to the Licensee's right under paragraph 2A.14 of this condition to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 2A.5 or 2A.6(a) of this condition.

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

- 2A.9 If, having carried out the required assessment under Part A of this condition, the Authority considers that an intended modification of a GD1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 2A.5 of this condition, it may modify that instrument in accordance with paragraphs 2A.10 to 2A.13 of this condition.
- 2A.10 Before making any modification of a GD1 Price Control Financial Instrument under this Part B, the Authority will give the Licensee, and all licensees in whose licence a condition equivalent to this one has effect, a Notice that:
  - (a) sets out the proposed modification and the date from which the Authority proposes that it should have effect;
  - (b) explains why in the Authority's opinion the modification is necessary;
  - (c) sets out the Authority's view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 2A.5 of this condition; and
  - (d) specifies a period of at least 28 days from the date of the Notice within which any representations with respect to the proposal may be made.
- 2A.11 The Authority will publish any Notice issued under paragraph 2A.10 of this condition on its website.
- 2A.12 The Authority will consider any representations that are duly made and not withdrawn before deciding whether to proceed with the modification under this Part B.
- 2A.13 Having complied with paragraphs 2A.10 to 2A.12 of this condition, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism by which that date is to be determined).
- 2A.14 If the Licensee demonstrates in representations made under paragraph 2A.10(d) of this condition that it reasonably considers that the proposed modification would be likely to have a significant impact of the type referred to in paragraph 2A.5 or 2A.6(a) of this condition, the Authority may not make the modification under this Part B.

## **Part C: Availability and updating of GD1 Price Control Financial Instruments**

- 2A.15 This Part C has effect in relation to the publication and availability of the GD1 Price Control Financial Handbook, including the constituent GD1 Price Control Financial Methodologies and the GD1 Price Control Financial Model.
- 2A.16 The Authority will ensure that any modifications of the GD1 Price Control Financial Handbook, including the constituent GD1 Price Control Financial Methodologies, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the GD1 Price Control Financial Handbook maintained on the Authority's website.
- 2A.17 The Authority will ensure that any modifications of the GD1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the GD1 Price Control Financial Model maintained on the Authority's website.
- 2A.18 Without limiting the general effect of paragraph 2A.17 of this condition, the Authority will, subject to paragraph 2A.19, by not later than 30 November in each Formula Year  $t-1$ :
- (a) publish on its website, in Microsoft Excel ® format, the version of the GD1 Price Control Financial Model that will be used to determine the value of the term MOD with respect to Formula Year  $t$  for the purposes of Part C of Special Condition 1B;
  - (b) ensure that the electronic name of the file is "GD1 Price Control Financial Model" followed by the Formula Year  $t-1$  expressed in the format 20XX-XX;
  - (c) ensure that the words "GD1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November" followed by the Formula Year  $t-1$  expressed in the format 20XX-XX are included as text within the file itself; and
  - (d) publish an up-to-date schedule of any modifications that have been made to the GD1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.
- 2A.19 The first Formula Year in which the Authority will publish a version of the GD1 Price Control Financial Model on its website for the purposes of paragraph 2A.18 will be Formula Year 2013-14 and the last Formula Year will be 2019-20.

## **Part D: Interpretation**

- 2A.20 This condition should be read and construed in conjunction with Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).
- 2A.21 For the purposes of this condition, GD1 Price Control Financial Model Working Group means the working group identified in and whose terms of reference are set out in chapter 1 of the GD1 Price Control Financial Handbook.

## **Special Condition 2B. Annual Iteration Process for the GD1 Price Control Financial Model**

### **Introduction**

- 2B.1 The purpose of this condition is to set out the steps of the Annual Iteration Process that the Authority will, subject to paragraph 2B.2, carry out in each Formula Year  $t-1$  in relation to the GD1 Price Control Financial Model, in order to determine the values of the term MOD for the relevant Distribution Network for Formula Year  $t$  for the purposes of the formula specified in Special Condition 1B.
- 2B.2 The last Formula Year in which there will be an Annual Iteration Process for the GD1 Price Control Financial Model is Formula Year 2019-20 for the purpose of determining the value of the term MOD for the relevant Distribution Network for Formula Year 2020-21.
- 2B.3 The Annual Iteration Process will consist of, and will be carried out by the Authority in accordance with, the steps set out in Part A of this condition, in a manner that is in accordance with the procedures set out in chapter 1 of the GD1 Price Control Financial Handbook.
- 2B.4 The outcome of the Annual Iteration Process with respect to the value of the term  $MOD_t$  for the relevant Distribution Network will be notified to the Licensee in accordance with Part B of this condition.

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

- 2B.5 The Authority will save a record copy of the GD1 Price Control Financial Model in the form it is in, and with the content it has, before any of the steps of the Annual Iteration Process set out below are commenced.
- 2B.6 Step 1: The Authority will make revisions to PCFM Variable Values for the relevant Distribution Network where and to the extent required in relation to adjustments for the Licensee under:
- (a) Special Condition 3D (The Innovation Roll-out Mechanism);
  - (b) Special Condition 3E (Mains and Services Replacement Expenditure);
  - (c) Special Condition 3C (Specified financial adjustments);
  - (d) Special Condition 3F (Arrangements for the recovery of uncertain costs);
  - (e) Special Condition 3B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments); and
  - (f) Special Condition 3A (Legacy price control adjustments).
- 2B.7 Step 2: The Authority will cause the GD1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the Variable Values Table for the Licensee, where and to the extent required.



- 2B.8 Step 3: The Authority will identify and record the value of the term  $MOD_t$  for the relevant Distribution Network, calculated as a result of Step 2 and shown as an output of the GD1 Price Control Financial Model, including the effects of any revised PCFM Variable Values which, for the avoidance of doubt, will not have any retrospective effect on a previously directed value of the term MOD.
- 2B.9 Step 4: The Authority will give a direction to the Licensee, in accordance with Part B of this condition, setting out the value for the term  $MOD_t$  for the relevant Distribution Network which is to be used in the formula set out in Part C of Special Condition 1B for the purposes of ascertaining the value of the term  $BR_t$ .

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

- 2B.10 Subject to paragraph 2B.2, the value of the term MOD for the relevant Distribution Network for Formula Year  $t$  will be directed by the Authority no later than 30 November in each Formula Year  $t-1$ .
- 2B.11 If, subject to paragraph 2B.2, for any reason, the Authority does not direct a value for  $MOD_t$  by 30 November in any Formula Year  $t-1$ , then the Annual Iteration Process set out in Part A of this condition will not have been completed and the provisions set out in paragraphs 2B.12 and 2B.13 of this condition will apply.
- 2B.12 The Authority will complete the Annual Iteration Process set out in Part A of this condition as soon as is practicable after 30 November in the Formula Year  $t-1$  concerned by directing a value for the relevant Distribution Network for  $MOD_t$ .
- 2B.13 In the intervening period (between the 30 November in the Formula Year  $t-1$  concerned and the making of a direction under paragraph 2B.12 of this condition), the value of  $MOD_t$  for the relevant Distribution Network will be held to be equal to a value ascertained by:
- (a) taking a copy of the GD1 Price Control Financial Model in its state following the last completed Annual Iteration Process which, for the avoidance of doubt, will exclude the effect of any functional modifications under Special Condition 2A (Governance of GD1 Price Control Financial Instruments) made after the completion of that Annual Iteration Process;
  - (b) using the selection facilities on the user interface sheet contained in that copy to select:
    - i. the name of the licensee; and
    - ii. the Formula year equating to Formula Year  $t$ ; and
  - (c) recording the value of the term  $MOD_t$  for the relevant Distribution Network that is shown as an output value.
- 2B.14 For the avoidance of doubt, neither:
- (a) an Annual Iteration Process for the GD1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor
  - (b) a change to the Formula Year included in the name of and text within the GD1 Price Control Financial Model (as referred to at paragraphs 2A.18(b) and

(c)) of Special Condition 2A (Governance of GD1 Price Control Financial Instruments),

will constitute a modification of the GD1 Price Control Financial Model within the meaning of Part B of Special Condition 2A.

2B.15 This condition should be read and construed in conjunction with Special Condition 2A.

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### **Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction**

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## Special Condition 3A. Legacy price control adjustments

### Introduction

- 3A.1 The purpose of this condition is to determine any appropriate revisions to the PCFM Variable Values for the relevant Distribution Network for Formula Year 2013/14, relating to the items specified in Part A of this condition for use in the Annual Iteration Process for the GD1 Price Control Financial Model as described in Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).
- 3A.2 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term MOD for the relevant Distribution Network as calculated for Formula Year  $t$  for the purposes of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) will result in an appropriate adjustment of the relevant Distribution Network's Base Distribution Network Transportation Activity Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the relevant Distribution Network in respect of:
- (a) activities carried out by the Licensee;
  - (b) incentivised performance by the Licensee; and/or
  - (c) costs or expenditure incurred by the Licensee,
- in Formula Years prior to Formula Year 2013/14 in respect of the relevant Distribution Network (the 'legacy period'), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.
- 3A.3 This condition should be read and construed in conjunction with Special Conditions 2A (Governance of GD1 Price Control Financial Instruments ) and 2B.
- 3A.4 There are no provisions to revise PCFM Variable Values relating to legacy price control adjustments for Formula Years other than Formula Year 2013/14 because, under the Annual Iteration Process, all of the calculations necessary to achieve the result referred to in paragraph 3A.2 are made using values for Formula Year 2013/14.

### **Part A: Determination and direction of revised PCFM Variable Values relating to legacy price control adjustments for Formula Year 2013/14**

- 3A.5 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) legacy price control revenue allowance adjustments (LAR values); and
  - (b) legacy price control adjustments to RAV balance additions (LRAV values),
- for the relevant Distribution Network for Formula Year 2013/14.
- 3A.6 The LAR and LRAV for the relevant Distribution Network values for each Formula Year are zero as at 1 April 2013.
- 3A.7 Subject to paragraphs 3A.8 and 3A.9 of this condition, the Authority will, by 30 November in each Formula Year  $t-1$ :

- (a) determine whether any LAR or LRAV values for the relevant Distribution Network for Formula Year 2013/14 should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined.

3A.8 The first Formula Year in which the Authority will make a determination pursuant to paragraph 3A.7 is Formula Year 2013/14 for the Annual Iteration Process that will take place by 30 November 2013.

3A.9 The last Formula Year in which the Authority will make a determination pursuant to paragraph 3A.7 is Formula Year 2019/20 for the Annual Iteration Process that will take place by 30 November 2019.

3A.10 Revisions to the LAR value for Formula Year 2013/14 will be determined in accordance with the following formula:

$$\text{LAR} = \text{PAR} + \text{TAR} + \text{FAR} + \text{CAR} + \text{SAR}$$

where:

PAR means the revenue allowance adjustment in respect of pension scheme expenditure in the legacy period, for the relevant Distribution Network determined in accordance with Part B of this condition;

TAR means the revenue allowance adjustment in respect of the Licensee's gearing levels and corporate debt interest costs in the legacy period for the relevant Distribution Network, determined in accordance with Part B of this condition;

FAR means the revenue allowance adjustment in respect of the Non Gas Fuel Poor Network Extension Scheme activity in the legacy period for the relevant Distribution Network, determined in accordance with Part B of this condition;

CAR means the revenue allowance adjustment in respect of the Capex Rolling Incentive in the legacy period for the relevant Distribution Network, determined in accordance with Part B of this condition; and

SAR means the revenue allowance adjustment in respect of the adjustments for logged up and security costs in the legacy period for the relevant Distribution Network determined in accordance with Part B of this condition.

3A.11 Revisions to the LRAV value for Formula Year 2013/14 will be determined in accordance with the following formula:

$$\text{LRAV} = \text{FRAV} + \text{CRAV} + \text{MRAV} + \text{SRAV}$$

where:

FRAV means the adjustment to the Licensee's RAV balance additions in respect of the Non Gas Fuel Poor Network Extension Scheme activity

in the legacy period for the relevant Distribution Network, determined in accordance with Part B of this condition;

CRAV means the adjustment to the Licensee's RAV balance additions in respect of the Capex Rolling Incentive in the legacy period for the relevant Distribution Network, determined in accordance with Part B of this condition;

MRAV means the adjustment to the Licensee's RAV balance additions in respect of the mains and services replacement expenditure arrangements in the legacy period for the relevant Distribution Network, determined in accordance with Part B of this condition; and

SRAV means the adjustment to the licensee's RAV balance additions in respect of adjustments for logged up and security costs in the legacy period for the relevant Distribution Network, determined in accordance with Part B of this condition.

3A.12 The effects of using revised LAR and LRAV values for Formula Year 2013/14 in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for the relevant Distribution Network for Formula Year  $t$  and, for the avoidance of doubt will not, in respect of any particular Annual Iteration Process, have any retrospective effect on a previously directed value of the term MOD.

#### **Part B: Determination of component term values for the formulas set out in Part A**

3A.13 This Part provides for the determination of component term values for the formulae set out in Part A of this condition, used to determine revisions to LAR and LRAV values for Formula Year 2013-14.

3A.14 Subject to paragraphs 3A.8 and 3A.9 of this condition, the Authority will, by 30 November in each Formula Year  $t-1$ , determine the value of the following component terms:

- (a) PAR, in accordance with the methodology set out in part 1 of chapter 10 of the GD1 Price Control Financial Handbook;
- (b) TAR, in accordance with the methodology set out in part 2 of chapter 10 of the GD1 Price Control Financial Handbook;
- (c) FAR and FRAV, in accordance with the methodology set out in part 3 of chapter 10 of the GD1 Price Control Financial Handbook;
- (d) CAR and CRAV, in accordance with the methodology set out in part 4 of chapter 10 of the GD1 Price Control Financial Handbook;
- (e) MAR and MRAV, in accordance with the methodology set out in part 5 of chapter 10 of the GD1 Price Control Financial Handbook; and
- (f) SAR and SRAV, in accordance with the methodology set out in part 6 of chapter 10 of the GD1 Price Control Financial Handbook.

3A.15 The first Formula Year in which the Authority will make determinations pursuant to paragraph 3A.14 of this condition is Formula Year 2013/14 for the purpose of determining any revisions to LAR and LRAV values for the Annual Iteration Process that will take place by 30 November 2013.

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

3A.16 Subject to paragraphs 3A.8 and 3A.9 of this condition, revised LAR values and LRAV values for Formula Year 2013/14, determined by the Authority in accordance with the provisions of this condition, will be directed by the Authority by 30 November in each Formula Year t-1.

3A.17 Any direction issued under paragraph 3A.16 of this condition will include a statement of the component term values determined under Part B.

3A.18 Before issuing any directions under paragraph 3A.16 of this condition, the Authority will give Notice to the Licensee of all of the values that it proposes to direct.

3A.19 The Notice referred to in paragraph 3A.18 of this condition will:

- (a) state that any revised LAR and LRAV values for Formula Year 2013/14 have been determined in accordance with Parts A and B of this condition; and
- (b) specify the period (which will not be less than 14 days from the date of the Notice) within which the Licensee may make any representations or objections concerning the determination of any revised LAR or LRAV values.

3A.20 The Authority will have due regard to any representations duly received under paragraph 3A.19 of this condition, and give reasons for its decisions in relation to them.

3A.21 If, subject to paragraphs 3A.8 and 3A.9, for any reason in any Formula Year t-1, the Authority does not make a required direction in relation to revised LAR and LRAV values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 2B.12 of Special Condition 2B, and in any case, before directing a value for  $MOD_t$  for the relevant Distribution Network under that paragraph.

**Part D: Interpretation**

3A.22 Expressions used in this condition are to be read and given effect subject to any further explanation or elaboration within the GD1 Price Control Financial Methodologies that may be applicable to them.

## **Special Condition 3B. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments**

### **Introduction**

- 3B.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the relevant Distribution Network's actual Totex expenditure, in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the GD1 Price Control Financial Model in accordance with Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).
- 3B.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:
- (a) the value of the term MOD for the relevant Distribution Network as calculated for Formula Year t for the purposes of Special Condition 1B will result in an adjustment of the Licensee's Base Distribution Network Transportation Activity Revenue; and
  - (b) appropriate adjustments will be made to the relevant Distribution Network's Regulatory Asset Value (RAV) balance,
- that reflect the relevant Distribution Network's performance under the Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the GD1 Price Control Financial Handbook.
- 3B.3 This condition should be read and construed in conjunction with Special Conditions 2A (Governance of GD1 Price Control Financial Instruments) and 2B.

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

- 3B.4 The Totex Incentive Mechanism provides for the relevant Distribution Network to bear an appropriate share of any over spend, or retain an appropriate share of any under spend, represented by a difference, in respect of a given Formula Year, between:
- (a) the relevant Distribution Network's allowed Totex expenditure; and
  - (b) the relevant Distribution Network's actual Totex expenditure.
- 3B.5 The 'appropriate share' referred to in paragraph 3B.4 of this condition is represented by the Totex Incentive Strength Rate, as set down against the relevant Distribution Network in the table at Appendix 1 of this condition.
- 3B.6 Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the GD1 Price Control Financial Model; and calculation of these adjustments uses the Repex and Non-Repex Totex Capitalisation Rates set down against the relevant Distribution Network in the table at Appendix 1 of this condition, which are fixed values contained in the PCFM.
- 3B.7 This condition provides for the determination and direction of revisions to the four PCFM Variable Values that relate to the relevant Distribution Network's actual Totex expenditure. The PCFM Variable Values which relate to the relevant Distribution Network's allowed Totex expenditure are specified in other special conditions of the



licence, and are scheduled in the methodology set out in chapter 6 of the GD1 Price Control Financial Handbook.

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

3B.8 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) actual load related capex expenditure (ALC values);
- (b) actual other capex expenditure (AOC values);
- (c) actual controllable opex expenditure (ACO values); and
- (d) actual replacement expenditure (ARE values).

3B.9 Subject to paragraphs 3B.10 and 3B.11 of this condition, the Authority will, by 30 November in each Formula Year t-1:

- (a) determine revised ALC, AOC, ACO and ARE values for the relevant Distribution Network for Formula Year t-2; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Formula Years to which they relate,

in each case in accordance with the methodology contained in chapter 6 of the GD1 Price Control Financial Handbook.

3B.10 The first Formula Year in which the Authority will make a determination pursuant to paragraph 3B.9 of this condition is Formula Year 2015-16.

3B.11 The last Formula Year in which the Authority will make a determination pursuant to paragraph 3B.9 of this condition is Formula Year 2019-20.

3B.12 The Authority may also direct revisions to ALC, AOC, ACO and ARE values for the relevant Distribution Network for Formula Years earlier than Formula Year t-2, where that is necessary to take into account any restatement of, or correction to, Price Control Review Information submitted by the Licensee, under any provision of the licence; any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.

3B.13 Where the Authority directs any revised ALC, AOC, ACO or ARE values for the relevant Distribution Network for Formula Years earlier than Formula Year t-2, the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the relevant Distribution Network for Formula Year t and, for the avoidance of doubt will not have any retrospective effect on a previously directed value of the term MOD.

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

3B.14 Subject to paragraphs 3B.10 and 3B.11 of this condition revised ALC, AOC, ACO and ARE values for the relevant Distribution Network determined by the Authority in

accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

3B.15 Before issuing any directions under paragraph 3B.14 of this condition the Authority will give notice to the Licensee of all of the revised values that it proposes to direct.

3B.16 The notice referred to in paragraph 3B.15 of this condition will:

- (a) state that any revised ALC, AOC, ACO or ARE values have been determined in accordance with Part B of this condition; and
- (b) specify the period (which will not be less than 14 days from the date of the notice) within which the Licensee may make any representations or objections concerning the determination of any revised ALC, AOC, ACO or ARE values.

3B.17 The Authority will have due regard to any representations duly received under paragraph 3B.16 of this condition, and give reasons for its decisions in relation to them.

3B.18 If, subject to paragraphs 3B.10 and 3B.11, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised ALC, AOC, ACO and ARE values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 2B.12 of Special Condition 2B, and in any case, before directing a value for MODt for the relevant Distribution Network under that paragraph.

#### Part D: Interpretation

3B.19 Expressions used in this condition are to be read and given effect subject to any further explanation or elaboration within the GD1 Price Control Financial Methodologies that may be applicable to them.

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

(see Part A of this condition)

Licensee	Totex Incentive Strength Rate (%)	Non-Repex Capitalisation Rate (%)	Repex Capitalisation Rate (%)							
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	63.04	26.63	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
NGGD Lon	63.04	23.47	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
NGGD NW	63.04	26.10	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
NGGD WM	63.04	24.95	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00

Northern Gas Networks Ltd	63.98	34.98	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
Scotland Gas Networks plc	63.73	35.13	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
Southern Gas Networks plc	63.73	32.23	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
Wales and West Utilities Ltd	63.17	35.78	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00

## Special condition 3C. Specified financial adjustments

### Introduction

3C.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values for the relevant Distribution Network relating to the items specified in Parts A to C of this condition; and
- (b) the Formula Years to which the revised values referred to in sub-paragraph (a) relate,

for use in the Annual Iteration Process for the GD1 Price Control Financial Model as described in Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).

3C.2 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Formula Year  $t$  for the purpose of Special Condition 1B will result in an appropriate adjustment to the relevant Distribution Network's Base Distribution Network Transportation Activity Revenue in a manner that appropriately reflects the relevant Distribution Network's:

- (a) revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy;
- (b) revenue allowances for tax liabilities; and
- (c) allowed percentage cost of corporate debt,

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

3C.3 This condition should be read and construed in conjunction with Special Conditions 2A (Governance of GD1 Price Control Financial Instruments) and 2B.

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

3C.4 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) Pension Scheme Established Deficit revenue allowances (EDE values); and
- (b) Pension Scheme Administration and Pension Protection Fund levy revenue allowances (APFE values).

3C.5 Subject to paragraphs 3C.6 and 3C.7 of this condition, the Authority will, by 30 November in each Formula Year  $t-1$ , determine whether any EDE values  $s$  for the relevant Distribution Network should be revised as a result of:

- (a) a valuation of each pension scheme sponsored by the Licensee;
- (b) a review of the valuations referred to in sub-paragraph (a) and of the reasonableness of the Licensee's Pension Scheme Established Deficit funding levels; and

- (c) a review of the level of payments actually made by the Licensee to its pension scheme,

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

- 3C.6 The first Formula Year in which the Authority will make a determination pursuant to paragraph 3C.5 is Formula Year 2014-15.
- 3C.7 No determinations pursuant to paragraph 3C.5 will be made after Formula Year 2019-20.
- 3C.8 Subject to paragraphs 3C.9 and 3C.10, the Authority will, by 30 November in each Formula Year t-1, determine whether any APFE values for the relevant Distribution Network should be revised as a result of a review of the Licensee's reported levels of:
  - (a) Pension Scheme administration costs; and/or
  - (b) Pension Protection Fund levy costs,in each case in accordance with the methodology contained in chapter 3 of the GD1 Price Control Financial Handbook.
- 3C.9 The first Formula Year in which the Authority will make a determination pursuant to paragraph 3C.8 of this condition is Formula Year 2014/15.
- 3C.10 No determinations pursuant to paragraph 3C.8 of this condition will be made after Formula Year 2019-20.
- 3C.11 If the Authority determines under paragraph 3C.5 or 3C.8 of this condition that, in accordance with the methodologies contained in chapter 3 of the GD1 Price Control Financial Handbook, any EDE values or APFE values for the relevant Distribution Network are to be revised, it will by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised EDE values and APFE values that have been determined and the Formula Years to which they relate.
- 3C.12 Where the Authority directs any revised EDE values or APFE values for Formula Years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for the relevant Distribution Network for Formula Year t and, for the avoidance of doubt will not have any retrospective effect on a previously directed value of the term MOD.

## **Part B: Tax liability allowances**

- 3C.13 This Part provides for the determination and direction of revised PCFM Variable Values for the relevant Distribution Network for:
  - (a) tax liability revenue allowance adjustments in respect of tax trigger events ("TTE values"); and
  - (b) tax liability revenue allowance adjustments in respect of the Licensee's gearing levels and corporate debt interest costs ("TGIE values").
- 3C.14 The TTE values and TGIE values for the relevant Distribution Network for each Formula Year are zero as at 1 April 2013.

- 3C.15 Subject to paragraphs 3C.16 and 3C.17 of this condition, the Authority will, by 30 November in each Formula Year t-1, determine whether any TTE values for the relevant Distribution Network should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the GD1 Price Control Financial Handbook.
- 3C.16 The first Formula Year in which the Authority will make a determination of the type referred to in paragraph 3C.15 of this condition is Formula Year 2013/14.
- 3C.17 No determinations pursuant to paragraph 3C.15 of this condition will be made after Formula Year 2019-20.
- 3C.18 Subject to paragraphs 3C.19 and 3C.20 of this condition, the Authority will, by 30 November in each Formula Year t-1, determine whether any TGIE values for the relevant Distribution Network should be revised as a result of a review of:
- (a) the Licensee's actual level of gearing; and
  - (b) the level of debt interest charges actually incurred by the Licensee,
- in each case in accordance with the methodology contained in chapter 4 of the GD1 Price Control Financial Handbook.
- 3C.19 The first Formula Year in which the Authority will make a determination pursuant to paragraph 3C.18 of this condition is Formula Year 2014/15.
- 3C.20 No determinations pursuant to paragraph 3C.18 of this condition will be made after Formula Year 2019-20.
- 3C.21 If the Authority determines under paragraph 3C.15 or 3C.18 of this condition that, in accordance with the methodologies contained in chapter 4 of the GD1 Price Control Financial Handbook, any TTE values or TGIE values are to be revised, it will by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TTE values and TGIE values that have been determined and the Formula Years to which they relate.
- 3C.22 Where the Authority directs any revised TTE values or TGIE values for Formula Years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for the relevant Distribution Network for Formula Year t and, for the avoidance of doubt will not have any retrospective effect on a previously directed value of the term MOD.

### **Part C: Allowed percentage cost of corporate debt**

- 3C.23 This Part provides for the determination and direction of revised PCFM Variable Values for the relevant Distribution Network's allowed percentage cost of corporate debt (CDE values).
- 3C.24 Subject to paragraphs 3C.26 and 3C.27 of this condition, the Authority will by 30 November in each Formula Year t-1:
- (a) determine a revised CDE value for the relevant Distribution Network for Formula Year t and each subsequent Formula Year in accordance with the methodology contained in chapter 5 of the GD1 Price Control Financial Handbook; and

- (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised CDE values that have been determined and the Formula Years to which they relate.
- 3C.25 The Authority may also revise the CDE value for a Formula Year earlier than Formula Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the GD1 Price Control Financial Handbook.
- 3C.26 The first Formula Year in which the Authority will make a determination pursuant to paragraph 3C.24 of this condition is Formula Year 2013/14.
- 3C.27 The last Formula Year in which the Authority will make a determination pursuant to paragraph 3C.24 of this condition is Formula Year 2019/20.
- 3C.28 Where the Authority directs any revised CDE values for Formula Years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for the relevant Distribution Network for Formula Year t and, for the avoidance of doubt, will not have any retrospective effect on a previously directed value of the term MOD.

**Part D: Procedure to be followed for direction of revised PCFM Variable Values relating to specified financial adjustments by the Authority**

- 3C.29 Subject to, and in accordance with, the provisions of Parts A and B of this condition, revised EDE, APFE, TTE, TGIE and CDE values for the relevant Distribution Network determined by the Authority will be directed by the Authority by 30 November in each Formula Year t-1.
- 3C.30 Before issuing any directions under paragraph 3C.29 of this condition, the Authority will give notice to the Licensee of all of the revised values that it proposes to direct.
- 3C.31 The notice referred to in paragraph 3C.30 of this condition will:
- (a) state that any revised EDE and APFE values have been determined in accordance with Part A of this condition;
  - (b) state that any revised TTE and TGIE values have been determined in accordance with Part B of this condition;
  - (c) state that any revised CDE values have been determined in accordance with Part C of this condition; and
  - (d) specify the period (which will not be less than 14 days from the date of the notice) within which the Licensee may make any representations or objections concerning the determination of any revised EDE, APFE, TTE, TGIE or CDE values.
- 3C.32 The Authority will have due regard to any representations duly received under paragraph 3C.31 of this condition, and give reasons for its decisions in relation to them.
- 3C.33 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised EDE, APFE, TTE, TGIE and CDE values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 2B.12 of Special Condition 2B, and in any case, before directing a value for MOD<sub>t</sub> for the relevant Distribution Network under that paragraph.

## **Part E: Interpretation**

3C.34 Expressions used this condition are to be read and given effect subject to any further explanation or elaboration within the GD1 Price Control Financial Methodologies that may be applicable to them.

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## Special Condition 3D. The Innovation Roll-out Mechanism

### Introduction

- 3D.1 The purpose of this condition is to determine any appropriate revisions to PCFM Variable Values for the relevant Distribution Network relating to innovation Roll-out allowed expenditure ('IRM' values) and the Formula Years to which those revisions relate, for use in the Annual Iteration Process for the GD1 Price Control Financial Model, as described in Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).
- 3D.2 The IRM value is set at £0m for all Formula years unless otherwise directed by the Authority.
- 3D.3 The IRM value relating to a particular Formula Year represents the total amount of the relevant Distribution Network's innovation Roll-out allowed expenditure (in 2009/10 prices) for that Formula Year.
- 3D.4 The application of the mechanisms in this condition provides for:
- (a) the Licensee to propose adjustments to its IRM values during either of the two windows specified in Part C of this condition;
  - (b) determinations by the Authority in relation to proposals by the Licensee under sub-paragraph (a) of this paragraph; and
  - (c) the direction, where applicable, of revised IRM values.
- 3D.5 The determination and direction of revised IRM values, where applicable, will as a consequence of the Annual Iteration Process for the GD1 Price Control Financial Model mean that the value of the term MOD for the relevant Distribution Network as derived for Formula Year  $t$  for the purposes of Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) will result in an adjustment of the relevant Distribution Network's Base Distribution Network Transportation Activity Revenue in a manner that:
- (a) takes account of approved changes to IRM values for particular Formula Years; and
  - (b) takes account of approved changes for the purposes of the Totex Incentive Mechanism adjustment as set out in Special Condition 3B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments).

### Part A: Features that qualify an innovation Roll-out for additional funding

- 3D.6 The Roll-out by the Licensee of a Proven Innovation may allow the Licensee to receive additional funding within the Price Control Period only if the Authority is satisfied that this:
- (a) will deliver Carbon Benefits or any other environmental benefits;
  - (b) will provide long-term value for money for gas distribution consumers;
  - (c) will not enable the Licensee to receive commercial benefits from the Roll-out within the remainder of the Price Control Period (for instance, where the Roll-

out of a Proven Innovation will lead to cost savings (including benefits from any incentives) equal to or greater than its implementation costs within the Price Control Period, the Licensee will not be eligible for funding under this condition); and

- (d) will not be used to fund any of the Ordinary Business Arrangements of the Licensee.

### **Part B: Licensee's ability to propose a relevant adjustment**

3D.7 The Licensee may by notice to the Authority, and in accordance with Parts C and D of this condition, propose a relevant adjustment within the meaning of paragraph 3D.9 of this condition to recover Innovation Roll-out Costs where these costs would constitute a material amount within the meaning of paragraph 3D.8 of this condition.

3D.8 A material amount is the amount of the Innovation Roll-out Costs, when multiplied by the relevant Distribution Network's Totex Incentive Strength Rate as set out in Appendix 1 of this condition, that exceeds or is likely to exceed 1 per cent of the relevant Distribution Network's materiality threshold amount, as set out in Appendix 2 of this condition.

3D.9 A relevant adjustment is an adjustment:

- (a) which the Licensee believes will enable it to recover Innovation Roll-out Costs associated with a single Proven Innovation that would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Innovation Roll-out Costs that have not yet been incurred.

### **Part C: Application windows for relevant adjustment proposals**

3D.10 There are two application windows during which a relevant adjustment may be proposed by notice served under Part B of this condition:

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

3D.11 A relevant adjustment may be proposed during either of the application windows provided that in each case the proposal complies with the provisions of paragraphs 3D.8 and 3D.9 of this condition.

### **Part D: Other provisions relating to the Licensee's proposal**

3D.12 A notice served by the Licensee under Part B of this condition will in all cases:

- (a) state any statutory obligations or any requirements of this licence to which the notice relates;
- (b) describe the Proven Innovation that the Licensee proposes to Roll-out;
- (c) propose the amount of the relevant adjustment and set out, by reference to the Innovation Roll-out Costs, the basis on which the Licensee has calculated the relevant adjustment;

- (d) demonstrate that the costs to be recovered by the relevant adjustment will be a material amount for the purposes of paragraph 3D.8 of this condition;
- (e) demonstrate how each of the criteria set out in Part A of this condition will be fulfilled by the additional funding sought;
- (f) propose relevant outputs or other end products against which the Roll-out will be assessed; and
- (g) state the date from which it is proposed that the relevant adjustment will have effect (“the adjustment date”).

3D.13 The adjustment date will not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; and
- (b) 1 April 2019 in the case of a relevant adjustment proposed during the second and final application window.

### **Part E: Authority’s determination of a relevant adjustment**

3D.14 Where the Licensee serves a notice under Part B of this condition the Authority may, within four months of the close of the application window during which the notice was submitted to the Authority, determine whether the proposed relevant adjustment should result in an adjustment to the IRM values for the relevant Distribution Network subject to paragraphs 3D.15 of this condition.

3D.15 In determining any relevant adjustment under this Part E of this condition, the Authority will:

- (a) consult the Licensee;
- (b) have particular regard to the purposes of this condition, and the notice made under Part B of this condition; and
- (c) take no account of the financial performance of the Licensee relative to any of the assumptions, whether expressed or implied, by reference to which the Special Conditions may have been framed.

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

3D.16 This part sets out the basis for determining revisions to the IRM value for use in the Annual Iteration Process for the GD1 Price Control Financial Model.

3D.17 The Authority will, by 30 November in each Formula Year t-1, determine whether the allowed expenditure for any Formula Year is different to the IRM value in the PCFM for the corresponding Formula Year and, in any case where it is different, the Authority will:

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

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

- 3D.18 Any revised IRM values determined by the Authority in accordance with Part F of this condition and Special Condition 3B will be directed by the Authority by 30 November in each Formula Year t-1.
- 3D.19 Before issuing any directions under paragraph 3D.18 of this condition, the Authority will give notice to the Licensee of all of the values that it proposes to direct.
- 3D.20 The notice referred to in paragraph 3D.19 of this condition will:
- (a) state that any revised IRM values have been determined in accordance with Part F of this condition; and
  - (b) specify the period (which will not be less than 14 days from the date of the notice) within which the Licensee may make any representations or objections concerning the determination of any revised IRM values.
- 3D.21 The Authority will have due regard to any representations duly received in response to this notice under paragraph 3D.20 of this condition, and give reasons for its decisions in relation to them.
- 3D.22 Where the Authority directs any revised IRM values relating to Formula Years which are earlier than Formula Year t, the effect of using those revised IRM values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment as set out in Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model) be reflected in the calculation of the term MOD for the relevant Distribution Network for Formula Year t and, for the avoidance of doubt, it will not have any retrospective effect on a previously directed value of the term MOD.
- 3D.23 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised IRM values by 30 November, then no revised IRM values will be used in the Annual Iteration Process that is required by Special Condition 2B to be undertaken by the Authority by 30 November in that same Formula Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised IRM values in respect of the next Annual Iteration Process.

### **APPENDIX 1: Totex Incentive Strength Rate**

<b>Licensee</b>	<b>Totex Incentive Strength Rate (%)</b>
NGGD EOE	63.04%
NGGD Lon	63.04%
NGGD NW	63.04%
NGGD WM	63.04%
<del>Northern Gas Network plc</del> Northern Gas Networks Ltd	63.98%
Scotland Gas Networks plc	63.73%
Southern Gas Networks plc	63.73%

Wales and West Utilities Ltd	63.17%
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## APPENDIX 2: Materiality threshold amount

Licensee	£m
NGGD EOE	515.125
NGGD Lon	366.075
NGGD NW	377.150
NGGD WM	275.838
<del>Northern Gas Network plc</del> <u>Northern Gas Networks Ltd</u>	338.713
Scotland Gas Networks plc	255.738
Southern Gas Networks plc	617.213
Wales and West Utilities Ltd	345.375

## **Special Condition 3E. Mains and Services Replacement Expenditure**

### **Introduction**

3E.1 The purposes of this condition are:

- (a) to specify the basis on which the relevant Distribution Network's levels of allowed expenditure on Above Risk Threshold Tier 2 Mains (together 'Repex T2') are to be determined; and
- (b) to determine any appropriate revisions to PCFM Variable Values for the relevant Distribution Network relating to Repex T2 allowed expenditure ('RE' values) in the Formula Years to which those revised RE values relate for use in the Annual Iteration Process for the GD1 Price Control Financial Model as described in Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).

3E.2 The  $RE_t$  value relating to a particular Formula Year represents the total amount of allowed expenditure (in 2009/10 prices) for all Repex T2 for that Formula Year, and RE values as at 1 April 2013 reflect forecast levels of Repex T2 at the outset of the Price Control Period.

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

3E.3 The application of the mechanisms set out in this condition provides for:

- (a) the determination of allowed expenditure amounts for Repex T2 for particular Formula Years which reflect actual levels of Repex T2 activity in the Formula Years concerned; and
- (b) the determination and direction of revised RE values so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Formula Year  $t$  for the purposes of Special Condition 1B will result in an adjustment of the relevant Distribution Network's base revenue in a manner that:
  - i. reflects allowed expenditure amounts determined under Part B of this condition; and
  - ii. takes account of allowed expenditure for Repex T2 for the purposes of the Totex Incentive Mechanism Adjustment as set out in Special Condition 3B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments) and in accordance with the methodology set out in Chapter 6 of the GD1 Price Control Financial Handbook.

### **Part B: Determination of allowed expenditure for Repex T2 and determination of revisions to RE values**

3E.4 Subject to paragraph 3E.5 of this condition, a revised RE value for the relevant Distribution Network is to be determined for each Formula Year  $t$  in accordance with the

formula given in paragraph 3E.6 of this condition; and in the Formula Year 2013/14 and 2014/15 the value of  $RE_t$  will equal zero.

3E.5 The first Formula Year  $t$  for which a revised RE value is to be determined is Formula Year 2015/16.

3E.6 The formula referred to in paragraph 3E.5 of this condition is:

$$RE_t = \sum_{n=1}^3 (L_{n,t-2} \times U_{n,t-2}) \times 1000$$

where:

$L_{n,t-2}$  means the length of Above Risk Threshold Tier 2 Mains in kilometres decommissioned in respect of diameter band  $n$  and Formula Year  $t-2$  for the relevant Distribution Network, where the diameter bands are defined as set out in the following table, except that any diameter of mains not covered by the table or any mains measured in metric measurement is to be reported in the diameter band corresponding to the nearest imperial equivalent;

Diameter band $n$	Nominal internal diameter of mains decommissioned (inches)
1	>8<10
2	10 <=12
3	>12<18

$U_{n,t-2}$  means the specific matrix costs in respect of diameter band  $n$  and Formula Year  $t-2$  for the relevant Distribution Network as set out in the relevant table in Appendix 1 of this condition;

$\sum_{n=1}^3$  means the sum of the diameter bands  $n$ ;

3E.7 The Authority will, by 30 November in each Formula Year  $t-1$ , issue a direction in accordance with the provisions of Part C of this condition specifying the revised RE value for Formula Year  $t$ .

3E.8 The Authority may also revise the RE value for a Formula Year earlier than Formula Year  $t$  (an “earlier Formula Year”), notwithstanding that the RE value concerned might have been previously revised, provided that:

- the revision is necessary to reflect a review by the Authority of the values of the terms  $L$ , pertaining to the earlier Formula Year or to correct errors in relation to those values;
- the revised RE value for the earlier Formula Year is calculated in accordance with the formula set out in paragraph 7 of this condition, but substituting the earlier Formula Year for each year designation ‘ $t-2$ ’ in the formula; and
- the revised RE value for the earlier Formula Year is specified in a direction issued in accordance with the provisions of Part C of this condition.

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

- 3E.9 Any revised RE values determined by the Authority in accordance with Part B of this condition will be directed by the Authority by 30 November in each Formula Year  $t-1$ , or, in respect of any direction under paragraph 9 in Part B of this condition, by 30 November of the Formula Year in which the direction is to be made.
- 3E.10 Before issuing any directions under paragraph 3E.9 of this condition the Authority will give Notice to the Licensee of all of the values that it proposes to direct.
- 3E.11 The Notice referred to in paragraph 3E.10 will:
- (a) state that any revised RE values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which will not be less than 14 days from the date of the Notice) within which the Licensee may make any representations or objections concerning the determination of any revised RE values.
- 3E.12 The Authority will have due regard to any representations duly received under paragraph 12 of this condition, and give reasons for its decisions in relation to them.
- 3E.13 Where the Authority directs any revised RE values for earlier Formula Years under paragraph 3E.8 in Part B of this condition, the effect of using those revised RE values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for the relevant Distribution Network for Formula Year  $t$  and, for the avoidance of doubt, it will not have any retrospective effect on a previously directed value of the term MOD.
- 3E.14 If, for any reason in any Formula Year  $t-1$ , the Authority does not make a direction under paragraph 3E.7 in part B of this condition in relation to revised RE values by 30 November, then no revised RE values will be used in the Annual Iteration Process that is required by Special Condition 2B to be undertaken by the Authority by 30 November in that same Formula Year  $t-1$ ; and in those circumstances, the Authority will take full account of the position when determining and directing any revised RE values in respect of the next Annual Iteration Process.

## **Appendix 1**

### **Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network: NGGD EOE**

	Specific matrix costs (£ per metre)							
<b>Diameter band n</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>	<b>t=6</b>	<b>t=7</b>	<b>t=8</b>
1	174	174	174	174	174	174	174	174
2	340	340	340	340	340	340	340	340
3	569	569	569	569	569	569	569	569



**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network: NGGD LON**

	Specific matrix costs (£ per metre)							
Diameter band n	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
1	244	244	244	244	244	244	244	244
2	473	473	473	473	473	473	473	473
3	788	788	788	788	788	788	788	788

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network: NGGD NW**

	Specific matrix costs (£ per metre)							
Diameter band n	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
1	161	161	161	161	161	161	161	161
2	312	312	312	312	312	312	312	312
3	520	520	520	520	520	520	520	520

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network: NGGD WM**

	Specific matrix costs (£ per metre)							
Diameter band n	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
1	170	170	170	170	170	170	170	170
2	329	329	329	329	329	329	329	329
3	548	548	548	548	548	548	548	548

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network: Northern Gas Networks Plc Ltd**

	Specific matrix costs (£ per metre)							
Diameter band n	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8

1	143	143	143	143	143	143	143	143
2	259	259	259	259	259	259	259	259
3	419	419	419	419	419	419	419	419

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network:**

**Scotland Gas Networks plc**

	Specific matrix costs (£ per metre)							
Diameter band n	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
1	202	202	202	202	202	202	202	202
2	374	374	374	374	374	374	374	374
3	608	608	608	608	608	608	608	608

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network:**

**Southern Gas Networks plc**

	Specific matrix costs (£ per metre)							
Diameter band n	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
1	204	204	204	204	204	204	204	204
2	389	389	389	389	389	389	389	389
3	636	636	636	636	636	636	636	636

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network:**

**Wales and West Utilities Ltd**

	Specific matrix costs (£ per metre)							
Diameter band n	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
1	164	164	164	164	164	164	164	164
2	306	306	306	306	306	306	306	306
3	501	501	501	501	501	501	501	501

## **Special Condition 3F. Arrangements for the recovery of uncertain costs**

### **Introduction**

3F.1 The purposes of this condition are:

- (a) to allow the Licensee or the Authority to propose, and the Authority to determine, adjustments to the relevant Distribution Network's levels of allowed expenditure ("relevant adjustments") in relation to the categories of costs set out in paragraph 3F.3 of this condition (each "an uncertain cost category");
- (b) to allow the Authority to review Agency Costs (as set out in Part B of this condition), and determine relevant adjustments to the relevant Distribution Network's level of allowed expenditure in relation to Agency Costs;
- (c) to allow the Authority to review the Fuel Poor Network Extension Scheme (as set out in Part C of this condition), and determine relevant adjustments to the relevant Distribution Network's level of allowed expenditure in relation to the Fuel Poor Network Extension Scheme; and
- (d) to determine any appropriate revisions to PCFM Variable Values for the relevant Distribution Network necessary to implement relevant adjustments and to determine the Formula Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the GD1 Price Control Financial Model, as described in Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).

3F.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term  $MOD_t$  for the relevant Distribution Network as calculated for Formula Year  $t$  for the purposes of Part C of Special Condition 1B will result in an appropriate adjustment to the relevant Distribution Network's Base Distribution Network Transportation Activity Revenue in a manner that takes account of:

- (a) the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph 3F.3 of this condition, determined under Part A of this condition;
- (b) allowed expenditure levels in relation to Agency Costs, determined under Part B of this condition; and
- (c) allowed expenditure levels in relation to the Fuel Poor Network Extension Scheme determined under Part C of this condition
- (d) for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapter 6 and 7 of the GD1 Price Control Financial Handbook.

3F.3 The uncertain cost categories referred to in paragraph 3F.1 of this condition are:

- (a) Connection Charging Boundary Change Costs;
- (b) Enhanced Physical Site Security Costs;
- (c) Large Load Connection Costs;

- (d) Specified Street Works Costs; and
- (e) Smart Metering Roll-out Costs.

3F.4 This condition should be read and construed in conjunction with Special Condition 2A and Special Condition 2B.

### **Part A: Proposal and determination of relevant adjustments**

3F.5 This Part provides for:

- (a) the proposal of relevant adjustments by the Licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

### **Proposal of relevant adjustments**

3F.6 Subject to paragraph 3F.10 of this condition, the Licensee may by notice to the Authority, and the Authority may by notice to the Licensee, propose a relevant adjustment in relation to any uncertain cost category for any Formula Year or Formula Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:

- (a) is based on information about actual or forecast levels of efficient expenditure requirements for an uncertain cost category that was not available when the relevant Distribution Network's Opening Base Revenue Allowance was derived;
- (b) takes account of any relevant adjustments previously determined under this condition;
- (c) in aggregate constitutes a material amount within the meaning of paragraph 3F.7 and 3F.8 of this condition;
- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.

3F.7 A material amount is:

- (a) in relation to each uncertain cost category set out in paragraph 3F.3 of this condition, an amount of change to allowed expenditure which, when multiplied by the relevant Distribution Network's Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed one per cent of the relevant Distribution Network's materiality threshold amount set out in Appendix 2 of this condition; or
- (b) in relation to the uncertain cost categories set out in paragraph 3F.3 sub-paragraphs (a) to (d) and subject to paragraph 3F.8 of this condition, the amount of change to allowed expenditure aggregated across those four categories which, when multiplied by the relevant Distribution Network's Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed three per cent of the relevant Distribution Network's materiality threshold amount as set out in Appendix 2 of this condition.

3F.8 The amount of change for a particular uncertain cost category set out in paragraph 3F.3 sub-paragraphs (a) to (d) may not be taken into account in calculating whether an

amount is material for the purposes of paragraph 3F.7 sub-paragraph (b) of this condition unless, when multiplied by the relevant Distribution Network's Totex Incentive Strength Rate set out in Appendix 1 of this condition, it exceeds or is likely to exceed 0.5 per cent of the relevant Distribution Network's materiality threshold amount set out in Appendix 2 of this condition.

- 3F.9 A proposal made under paragraph 3F.6 of this condition must include statements setting out:
- (a) the uncertain cost category to which the proposal relates;
  - (b) the changes to the relevant Distribution Network's allowed expenditure levels that are proposed and the Formula Years to which those changes relate; and
  - (c) the basis of calculation for the changes to the relevant Distribution Network's allowed expenditure levels referred to in sub-paragraph (b) of this paragraph.

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

- 3F.10 In relation to the uncertain cost categories set out in paragraph 3F.3 sub-paragraphs (a) to (d) of this condition, the Licensee and the Authority may only propose relevant adjustments during the following application windows:
- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
  - (b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.
- 3F.11 Relevant adjustments relating to an uncertain cost category set out in paragraph 3F.3 sub-paragraphs (a) to (d) of this condition may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 3F.6 to 3F.9 of this condition.
- 3F.12 Relevant adjustment proposals, in relation to an uncertain cost category set out in paragraph 3F.3 sub-paragraphs (a) to (d) of this condition, made outside the application windows set out in paragraph 3F.10 of this condition will not be determined by the Authority under the provisions of this condition.
- 3F.13 Relevant adjustment proposals, in relation to Smart Metering Roll-out Costs may be proposed, by the Licensee or the Authority at any time.

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

- 3F.14 Where a proposal has been duly made under paragraph 3F.6 of this condition, the Authority may, within four months after the close of the relevant application window (or in relation to Smart Metering Roll-out Costs within four months of the receipt of a relevant adjustment proposal), determine any relevant adjustments that are to be made to the relevant Distribution Network's allowed expenditure levels and the Formula Years to which those changes relate, in such manner as it considers appropriate.
- 3F.15 In determining any relevant adjustment under paragraph 3F.14 of this condition, the Authority will:
- (a) consult with the Licensee and other interested parties;
  - (b) have particular regard to the purposes of this condition; and

- (c) take no account of the general financial performance of the Licensee under the price control arrangements set out in the Special Conditions of this licence.
- 3F.16 A determination under paragraph 3F.14 of this condition may confirm, reject, or amend the proposed relevant adjustment.
- 3F.17 Where a determination is made in relation to Connection Charging Boundary Change Costs and Smart Metering Roll-out Costs, the Authority may proceed to determine and direct a relevant adjustment in the licence held by each DN Operator, subject to consultation with the Licensee and other DN operators before it makes that determination
- 3F.18 Without limiting the general effect of paragraph 3F.16 of this condition, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the relevant Distribution Network in relation to an uncertain cost category for any Formula Year from 2013/14 to 2020/21.
- 3F.19 The Authority will notify the Licensee of any determination made under paragraph 3F.14 of this condition within 14 days of making the determination concerned.
- 3F.20 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the Licensee under paragraph 3F.6 of this condition within four months after the close of the relevant application window (or in relation to Smart Metering Roll-out Costs within four months of the receipt of a relevant adjustment proposal), and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the Licensee for the Formula Years specified in the proposal, will be deemed to have been made.

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

- 3F.21 The Authority may, at any time after 1 April 2013, review the costs (“the Agency Costs”) incurred by the Licensee in fulfilling its obligations under Standard Special Condition A15 (Agency). The purpose of the review will be to establish the efficient level of Agency Costs in the event that Standard Special Condition A15 is amended or deleted.
- 3F.22 In conducting the review set out in paragraph 3F.21 of this condition the Authority will consult:
  - (a) the Licensee and other Gas Transporters; and
  - (b) such other persons as it considers appropriate.
- 3F.23 The Licensee must supply the Authority with any information that it reasonably requests for the purposes of its review under paragraph 3F.21 of this condition.
- 3F.24 Following a review in accordance with paragraph 3F.21 of this condition, the Authority may decide that the efficient level of Agency Costs:
  - (a) should continue without modification; or
  - (b) should be modified.
- 3F.25 Where the Authority decides that the efficient level of Agency Costs should be modified, it may direct that an adjustment be made to the PCFM Variable Value for the relevant Distribution Network, to reflect the effect of its decision in relation to the allowed expenditure levels that would otherwise continue to be recoverable by the Licensee

under the Special Conditions for the purpose of fulfilling its obligations under Standard Special Condition A15.

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

- 3F.26 The Authority may, at any time after 1 April 2013, but only once during the Price Control Period, review the Licensee's operation of the Fuel Poor Network Extensions Scheme in respect of the relevant Distribution Network ("the Scheme"), with a view to ensuring that it remains efficient and cost-effective for its stated purposes.
- 3F.27 In conducting a review of the kind described in paragraph 3F.26 of this condition the Authority will consult:
- (a) the Licensee and other gas DN Operators; and
  - (b) such other persons as it considers appropriate.
- 3F.28 The Licensee must supply the Authority with any information that it reasonably requests for the purposes of its review under paragraph 3F.26 of this condition including, in particular, calculations in accordance with a methodology prescribed by the Authority that will enable the Authority to assess the overall net reductions in emissions of carbon dioxide (or other greenhouse gases) achieved by the Scheme.
- 3F.29 Following a review under paragraph 3F.26 of this condition, the Authority may decide that the Scheme:
- (a) should continue without modification;
  - (b) should continue with modifications; or
  - (c) should cease.
- 3F.30 Where the Authority decides that the Scheme:
- (a) should be modified; or
  - (b) should cease,
- it may direct that an adjustment be made to the PCFM Variable Value for the relevant Distribution Network to reflect the effect of its decision in relation to the allowed expenditure levels that would otherwise continue to be recoverable by the Licensee under the Special Conditions for the purpose of operating the scheme.
- 3F.31 A decision under paragraph 3F.29 of this condition may not be given later than six months before the beginning of the next Formula Year.

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

- 3F.32 This Part provides for the determination and direction of revised PCFM Variable Values for the relevant Distribution Network by the Authority for:
- (a) Connection Charging Boundary Change Costs (IAECCB values);
  - (b) Enhanced Physical Site Security Costs (IAEPPS values);
  - (c) Large Load Connection Costs (IAELLC values);
  - (d) Specified Street Works Costs (IAESW values);
  - (e) Smart Metering Roll-out Costs (IAESM values);

- (f) Agency Costs (IAECA values); and
  - (g) Fuel Poor Network Extension Scheme (IAEFP).
- 3F.33 The Authority will determine whether any PCFM Variable Values should be revised for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A, B and C of this condition.
- 3F.34 Determinations under paragraph 3F.33 of this condition are to be made in accordance with the methodology contained in chapter 7 of the GD1 Price Control Financial Handbook.
- 3F.35 Where the Authority directs any revised PCFM Variable Values for Formula Years earlier than Formula Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term  $MOD_t$  for the relevant Distribution Network for Formula Year  $t$  and, for the avoidance of doubt, will not have any retrospective effect on a previously directed value of the term  $MOD_t$ .

**Part E: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs**

- 3F.36 Subject to paragraph 3F.40 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part D of this condition in relation to PCFM Variable Values set out in paragraph 3F.32 sub-paragraphs (a) to (d) of this condition will be directed by the Authority by:
- (a) 30 November 2015 (or as soon as reasonable practicable thereafter), following the first application window; and
  - (b) 30 November 2018 (or as soon as reasonable practicable thereafter), following the second application window.
- 3F.37 Subject to paragraph 3F.40 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part D of this condition in relation to Smart Metering Roll-out Costs, Agency Costs and the Fuel Poor Network Extension Scheme will be directed by the Authority by 30 November following the end of the assessment period or review.
- 3F.38 Before issuing any directions under paragraphs 3F.36 and 3F.37 of this condition, the Authority will give notice to the Licensee of all of the revised values that it proposes to direct.
- 3F.39 The notice referred to in paragraph 3F.38 of this condition will:
- (a) state that any revised PCFM Variable Values have been determined in accordance with Part D of this condition; and
  - (b) specify the period (which will not be less than 14 days from the date of the notice) within which the Licensee may make any representations or objections concerning the determination of any revised PCFM Variable Values.
- 3F.40 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 3F.39 of this condition, and give reasons for its decisions in relation to them.



3F.41 If, for any reason, the Authority does not make a direction required under paragraphs 3F.36 and 3F.37 of this condition by the date specified in those paragraphs, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraph 2B.10 of Special Condition 2B and, in any case, before directing a value for MOD<sub>t</sub> for the relevant Distribution Network under those paragraphs.

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

**(see paragraph 3F.7 of this condition)**

<b>Licensee</b>	<b>Totex Incentive Strength Rate (%)</b>
NGGD EOE	63.04%
NGGD Lon	63.04%
NGGD NW	63.04%
NGGD WM	63.04%
<del>Northern Gas Network</del> <u>plcNorthern Gas Networks Ltd</u>	63.98%
Scotland Gas Networks plc	63.73%
Southern Gas Networks plc	63.73%
Wales and West Utilities Ltd	63.17%

## **APPENDIX 2: MATERIALITY THRESHOLD AMOUNT**

**(see paragraph 3F.7 of this condition)**

<b>Licensee</b>	<b>£m (2009/10) prices</b>
NGGD EOE	515.125
NGGD Lon	366.075
NGGD NW	377.150
NGGD WM	275.838
<del>Northern Gas Network</del> <u>plcNorthern Gas Networks Ltd</u>	338.713
Scotland Gas Networks plc	255.738
Southern Gas Networks plc	617.213
Wales and West Utilities Ltd	345.375

## **Chapter 4: Other Revenue Restriction related conditions**

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## **Special Condition 4A. Disapplication of Relevant Special Conditions and Relevant Metering Special Conditions**

### **Introduction**

- 4A.1. The purpose of this condition is to enable the Licensee to make a formal request for the disapplication of the Relevant Special Conditions or Relevant Metering Special Condition (in whole or in part) and for such provisions to be disappplied following such a request in the circumstances specified below.

### **Part A: Conditions are to continue subject to disapplication**

- 4A.2. The Relevant Special Conditions or Relevant Metering Special Condition apply for as long as this licence continues in force, but will cease to have effect (in whole or in part, as the case may be) if the Licensee serves a Disapplication Request on the Authority in accordance with the provisions of Parts B and C below and:
- (a) the Authority agrees in writing to the Disapplication Request; or
  - (b) the application of the Relevant Special Conditions or Relevant Metering Condition (in whole or in part) is terminated by notice given by the Licensee in accordance with the provisions of Part D below.

### **Part B: Procedure for making a Disapplication Request**

- 4A.3. The Licensee may ask the Authority to consent to the disapplication of the Relevant Special Conditions or Relevant Metering Condition (in whole or in part) by serving a Disapplication Request on the Authority under this condition.
- 4A.4. A Disapplication Request must:
- (a) be in writing and addressed to the Authority;
  - (b) specify to which of the Relevant Special Conditions or Relevant Metering Special Condition (or any part or parts of them) the request relates;
  - (c) provide a full statement of the Licensee's reasons for making the request;
  - (d) contain such other information or analysis as the Licensee considers sufficient to enable the Authority to fully assess the Disapplication Request;
  - (e) state the date that is proposed by the Licensee (which must not be earlier than the appropriate date that is mentioned in Part C below) on and after which the specified Relevant Special Conditions or Relevant Metering Condition (or part or parts of them) would cease to have effect (the "Disapplication Date"); and
  - (f) specify the Network (or any part or parts of it) to which the request relates.
- 4A.5. A Disapplication Request served under this condition may be served in respect of a specified geographical area.

- 4A.6. If, within 28 days of receipt of a Disapplication Request, the Authority gives notice to the Licensee
- (a) specifying further information or analysis that it reasonably considers is required in order to fully assess the Disapplication Request, and
  - (b) requests the Licensee to provide that information or analysis,
- the Disapplication Request shall be treated for the purposes of this condition as not served on the Authority until that further information or analysis has been provided to the Authority and, if in consequence the Disapplication Date set out in the Disapplication Request no longer complies with paragraph 4A.8 below, the Disapplication Date shall be treated as being the earliest date that would comply with that paragraph.
- 4A.7. The Licensee may withdraw a Disapplication Request at any time.

### **Part C: Date from which a disapplication may take effect**

- 4A.8. Except where the Authority otherwise consents, a disapplication following the delivery of a Disapplication Request may not have effect until a date that is no earlier than 18 months after receipt by the Authority of the Disapplication Request.

### **Part D: Licensee's right to terminate under a Disapplication Request**

- 4A.9. If the Licensee has served on the Authority a Disapplication Request that complies with the requirements of Parts B and C of this condition, it may subsequently give the Authority a notice (a "Disapplication Notice") that terminates the application of some or all of the provisions of this Licence specified in that request:
- (a) in the circumstance described in Part E; or
  - (b) in the circumstance described in Part F,
- but in either case the Disapplication Notice may not take effect before the Disapplication Date or such earlier date to which the Authority may have consented under Part C.

### **Part E: Termination without involvement of the Competition Commission**

- 4A.10. The circumstance referred to in paragraph 4A.9(a) above is that by the beginning of the period of six months that would end on the Disapplication Date, the Authority has not in response to the Disapplication Request published a decision under section 23(7) of the Act to modify:
- (a) the Relevant Special Conditions or Relevant Metering Special Condition (or any part or parts of them) to which the Disapplication Request applies; or
  - (b) this Condition so as to remove the Licensee's right to give the Authority a Notice under paragraph 4A.9 in respect of the relevant Disapplication Request.

## **Part F: Termination after involvement of the Competition Commission**

4A.11. The circumstance referred to in paragraph 4A.9(b) above is that the Authority has published a decision as described in paragraph 4A.10(a) or 4A.10(b) above and:

- (a) the Licensee has exercised its right to appeal to the Competition Commission against that decision of the Authority as provided for by section 23B of the Act;
- (b) the Competition Commission, acting under section 23F of the Act, has, in respect of the provision to which the Disapplication Notice relates: (i) quashed the Authority's decision, and (ii) neither remitted the matter back to the Authority under section 23F(2)(b) of the Act nor substituted its own decision for that of the Authority's under section 23F(2)(c) of the Act; and
- (c) no more than 30 days have elapsed since the date on which the Competition Commission quashes the decision in the circumstances described in paragraph 4A.11(b) above.

## **Special Condition 4B. Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network**

### **Introduction**

4B.1 This condition sets out how the Licensee must allocate revenues and costs for the purposes of calculating its Maximum Distribution Network Transportation Activity Revenue in respect of each relevant Distribution Network in accordance with the provisions set out in Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity). The condition also requires the Licensee to:

- (a) have in place a methods statement that sets out the methods that the Licensee will use in the allocation and attribution of revenues and costs; and
- (b) prepare and submit to the Authority a methods report, which describes the manner in which, and the extent to which the Licensee has complied with the provisions of the methods statement.

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

4B.2 Unless the Authority otherwise directs in writing, any allocation or attribution of revenues, costs, assets, and liabilities performed by the Licensee in order to calculate any of the values referred to in the Maximum Distribution Network Transportation Activity Revenue in Special Condition 1B and must conform to the principles set out in paragraphs 4B.4, 4B.5 and 4B.6 of this condition.

4B.3 Principle 1 is that the Licensee must, so far as is reasonably practicable, allocate or attribute revenues, costs, assets, and liabilities in accordance with the activities which cause the revenues to be earned, the costs to be incurred, the assets to be acquired, or the liabilities to be incurred.

4B.4 Principle 2 is that the Licensee must perform its allocations and attributions on an objective basis and in a manner calculated not to unduly benefit:

- (a) itself;
- (b) any other business carried on by the Licensee or by any Affiliate or Related Undertaking of the Licensee under a separate licence (whether or not that licence is held within the same legal entity that holds this licence);
- (c) the business of any individual Distribution Network; or
- (d) any other company or organisation.

4B.5 Principle 3 is that, wherever practicable, the Licensee must perform all allocations and attributions on a consistent basis from one Formula Year to the next.

## **Part B: Allocation and attribution as between principal activities**

4B.6 To the extent relevant to its activities, the Licensee must in so far as is reasonably practicable allocate or attribute all revenues earned and costs incurred by the Transportation Business and Metering Business to the following activities:

- (a) the Distribution Network Transportation Activity (as defined in Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions));
- (b) Liquefied Natural Gas import or export facility activity;
- (c) The Metering Business and Meter Reading Business;
- (d) the Metering Business and Meter Reading Business (as defined in Special Condition 1A); and
- (e) any Excluded Services provided in accordance with the principles set out in Special Condition 4C (Services treated as Excluded Services).

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

- 4B.7 Unless the Authority otherwise directs, the Licensee must, by not later than 31 July in each Formula Year, prepare and submit to the Authority a statement (“the methods statement”) in a form approved by the Authority that sets out the methods that the Licensee intends to use in the allocation and attribution of revenues and costs.
- 4B.8 The methods statement must, as a minimum, clearly distinguish between the allocation or attribution of revenues, costs, assets, and liabilities to each of the activities specified in Part B of this condition.
- 4B.9 Where the basis of such allocations or attributions has changed from one year to the next, the methods statement must also indicate and explain how and why that basis has been changed.
- 4B.10 The Licensee must use reasonable endeavours to comply with the methods statement for the time being in force under this condition.

## **Part D: Power of the Authority to direct re-allocation and re-attribution**

- 4B.11 The Licensee must re-allocate revenues earned by each relevant Distribution Network or re-attribute costs incurred by each relevant Distribution Network to the activities specified in Part B of this condition in accordance with any direction made by the Authority in writing within three months after its receipt of the methods statement, so that the licensee’s allocations or attributions (as the case may be) comply with the principles set out in Part A of this condition.

## **Part E: Preparation and submission of the methods report**

- 4B.12 Unless the Authority otherwise consents, the Licensee must, by not later than four months after the end of each Formula Year, prepare and submit to the Authority a report (“the methods report”) that:
- (a) describes the manner in which and the extent to which the Licensee complied with the provisions of the methods statement and any direction made by the Authority under Part D of this condition in respect of that year; and

- (b) states whether any modification should be made to the methods statement to reflect more closely the practice of the Licensee.

4B.13 The methods report must be accompanied by a report from an Appropriate Auditor that:

- (a) sets out the procedures (which must have been approved by the Authority) that they have carried out for the purposes of demonstrating the extent to which the Licensee has properly prepared the methods report in accordance with the methods statement and any direction made under Part D of this condition; and
- (b) gives the opinion as to the extent to which the Licensee has properly prepared the methods report.

4B.14 To the extent that the Licensee earns revenues or incurs costs in the provision of de minimis activities under Standard Special Condition A36 (Restriction on Activity and Financial Ring-Fencing), the Licensee must report on those revenues and costs in accordance with this condition.



## **Special Condition 4C. Services treated as Excluded Services**

### **Introduction**

- 4C.1 The purpose of this condition is to set out the basis on which certain services provided by the Licensee may be treated as Excluded Services under the Special Conditions.
- 4C.2 Excluded Services are services that conform with the General Principle set out at Part B of this condition and that include, without limitation, those services listed at paragraph 4C.10 of this condition.
- 4C.3 Excluded Services are services provided by the Licensee for which revenue is derived but for which such revenue is excluded from the Maximum Distribution Network Transportation Activity Revenue as defined in Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity).

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

- 4C.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the Licensee are to be treated as Excluded Services.
- 4C.5 Part D of this condition provides for the Authority to give directions in respect of services provided by the Licensee that are to be treated as Excluded Services, and provides for the Authority to direct that any service provided by the Licensee should not be treated as Excluded Services.
- 4C.6 Part C of this condition sets out, without limitation, certain categories of services provided by the Licensee that are to be treated as Excluded Services.

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

- 4C.7 The General Principle is that a service provided by the Licensee as part of its Distribution Network Transportation Activity is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 4C.8 of this condition.
- 4C.8 The charges referred to in paragraph 4C.7 of this condition are:
- (a) Distribution Network Transportation Charges in accordance with Special Condition 1B; and
  - (b) an activity carried out under any provision of Special Condition 1I (The Network Innovation Competition) which results in Returned Royalty Income as defined in Special Condition 1I.

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

- 4C.9 The descriptions of categories of Excluded Services set out at paragraph 4C.10 of this condition are to be read and given effect subject to any further clarification of any of those descriptions that might be set out in the RIGS.
- 4C.10 Subject to Part D of this condition, Excluded Services will include, but not be limited to, the following services:

- (a) ES1. Connection services: this category consists of the carrying out of entry and exit connection works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain gas pipes, plant, meters or other equipment necessary to provide any new connection or modify any existing connection to the pipeline system to which this licence relates (but only to the extent that the service is not already remunerated under one of the charges mentioned in paragraph 4C.8 of this condition;
- (b) ES2. Diversionary works under an obligation: this category consists of the relocating of any gas pipes or plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the Licensee under section 9 (Powers and duties of gas transporters) of the Act.
- (c) ES3. Works required by any alteration of premises: this category consists of the moving of any gas pipes or plant that form part of the pipeline system to which this licence relates to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected;
- (d) ES4. Emergency services: this category consists of the provision of emergency services under contracts entered into pursuant to the provisions of Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter) of the licence;
- (e) ES5. User pays agency services: this category consists of the provision of ‘user pays’ services or systems as set out in the Network Code, by the agency referred to in Standard Special Condition A15 (Agency) of the licence;
- (f) ES6. Independent system operation: this category consists of the operation of Independent Systems, within the meaning of Special Condition 4I (Gas Conveyed to Independent Systems), of the licence applicable to the NTS Operator, on behalf of the NTS Operator; and
- (g) ES7. Miscellaneous: this category consists of the provision of any other service (including the provision of gas pipes or plant) that:
  - (i) is for the specific benefit of any third party who requests it;
  - (ii) is not made available by the Licensee as a normal part of the activities of its Distribution Network Transportation Activity and Metering Business.
- (h) ES8: Payments made by the System Operator to the licensee in respect of NIC Funding in accordance with Special Condition 1I.

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

4C.11 Where the Authority (having regard to the General Principle) is satisfied:

- (a) that any service treated by the Licensee as an Excluded Service should not be so treated; or
- (b) that any service not treated by the Licensee as an Excluded Service should be so treated,

it may issue to the Licensee a direction to that effect.

4C.12 Where a direction is given under paragraph 4C.11 of this condition, the Licensee must, in accordance with the direction, either:

- (a) stop treating the service or services specified in the direction as Excluded Services; or
- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

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## Special Condition ~~E19.~~ **4D. Restriction of prices in respect of Tariff Capped Metering Activities**

1. The purpose of this condition is to set out the tariff caps on certain metering activities.

### Principal restriction.

2. The licensee in setting its charges for each of its tariff-capped metering activities in any Formula Year shall not exceed the maximum tariff cap  $M_t^A$  in respect of that metering activity in respect of that Formula Year  $t$ .

### Maximum tariff caps ( $M_t^A$ )

3. For the purposes of paragraph 2 of this condition the maximum tariff cap for each tariff-capped metering activity in respect of Formula Year  $t$  ( $M_t^A$ ) shall be derived in the following manner:

- (a) In respect of the Formula Year commencing on 1 April 2008 ( $t=1$ ), the maximum tariff caps shall have the values set out in the following table:

Activity	Description	Maximum tariff caps( $M_t^A$ )
1	Annual charge for providing and maintaining the assets that form a Domestic Credit Meter Installation, per meter per annum	£14.10
2	Annual charge for providing and maintaining the assets that form a Prepayment Meter Installation, per meter per annum	£32.92
3	Annual charge for providing a daily meter reading for Daily Metered Supply Meter Points, per supply meter point per annum	£426.58
4	Carrying out work to replace a Domestic Credit Meter with a Prepayment Meter , per	£57.72

job undertaken

(b) For subsequent Formula Years:

$$M_t^A = M_{t-1}^A \times RPI_t \text{ (rounded up or down to the nearest penny)}$$

where:

$RPI_t$  means, for the purposes of this condition only, the RPI adjustment and shall be calculated as the arithmetic average of the retail price index numbers published or determined with respect to each of the six months from June to November in year t-1 divided by the arithmetic average of the retail price index numbers published or determined with respect to the period from June to November t-2, where t-1 is one year immediately prior to the Formula Year  $t$  and shall be calculated in accordance with paragraph 3 of Standard Condition 27 (Adjustment of Amounts by Reference to the Retail Price Index) of this licence except for t=1 where the  $RPI_t$  adjustment will not apply.

**Departure from published statements of charges in respect of tariff-capped metering activities**

4. Where the licensee wishes to depart from its published statement of charges prepared in accordance with Standard Special Condition A43 D18 (Provision of Metering and Metering Reading Services) in respect of the provision of Tariff Capped Metering Activities by increasing its charges to a supplier to a level which would in any given Formula Year result in a breach of its obligations under paragraph 2 of this condition:

- (a) in consequence of that supplier having wholly or partly disposed of its meters; or
- (b) where it reasonably considers that the departure is necessary to comply with its duty in paragraph 1A of Standard Special Condition A43 D18 ~~(Provision of Metering and Meter Reading Services)~~,

the licensee shall make a written application to the Authority specifying why the change is requested, providing specification of the metering activities to be provided to that supplier, the proposed level of charge broken down between the different types of

metering activities to be provided to that supplier together with such other information to support its application as the Authority may reasonably specify in writing.

5. The licensee may, with effect from the date of the application, levy the charges specified in that application in respect of that supplier if:
  - (a) the Authority confirms in writing that it consents to such charges with or without amendment and to such extent and on the basis of such terms and conditions as the Authority may specify; or
  - (b) if the Authority has not issued a direction to the licensee requiring the licensee not to exceed the maximum tariff cap within 90 Days after receipt of the application.

#### **Disapplication of the maximum tariff caps**

- ~~6. The maximum tariff caps shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 7 to 13 of this condition.~~
- ~~7. The maximum tariff caps shall cease to have effect (in whole or in part as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 8 of this condition and notice is given to the Authority by the licensee in accordance with either paragraph 11 or paragraph 12 of this condition.~~
8. A disapplication request shall:
  - (a) be in writing addressed to the Authority;
  - (b) specify the maximum tariff cap or caps to which the request relates; and
  - (c) state the date (being not earlier than the date referred to in paragraph 10 of this condition) from which the licensee wishes the Authority to agree that the maximum tariff cap or caps shall cease to have effect.
- ~~9. The licensee may withdraw a disapplication request at any time.~~
- ~~10. Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to paragraph 7 of this condition shall have effect until a date being not less than 18 months after delivery of the disapplication request ("the disapplication date").~~

- ~~11. If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of the maximum tariff cap or caps specified in the disapplication request before the beginning of the period of 6 months which will end with the disapplication date and the licensee has not withdrawn the disapplication request, the licensee may deliver written notice to the Authority terminating the application of the maximum tariff cap or caps as specified in the disapplication request with effect from the disapplication date or a later date.~~
- ~~12. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the maximum tariff cap or caps specified in the disapplication request and such report does not include a conclusion that the cessation of such maximum tariff caps, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 Days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of the maximum tariff cap or caps specified in the disapplication request with effect from the disapplication date or later.~~
- ~~13. A disapplication request or notice served under this condition may be served in respect of a specified geographic area.~~

Special Condition ~~E21.4E~~. Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity [NGGD only]

[Text of condition to remain unchanged]

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## **Special Condition ~~E22~~ 4F. Separation of NTS and Distribution Network Businesses [ NGGD only]**

1. The licensee shall use its best endeavours to ensure compliance with the terms of the statement prepared in accordance with paragraph 2 of Special Condition ~~E20~~ 10B (Separation of NTS and Distribution Network Businesses) of the licence which the holder of this licence holds, in the same legal entity, in respect of its operation of the NTS as from time to time revised and approved by the Authority. In particular, the licensee shall ensure that no associated gas transporter business solicits any action from the NTS Operator which would constitute a breach of Standard Special Condition A6 (Conduct of the Transportation Business) and Standard Special Condition A35 (Prohibition of Cross-Subsidies). To the extent required, the statement referred to above shall also be construed appropriately in respect of the licensee's role as a DN Operator.
2. The managerial and operational independence of the associated gas transporter business from any NTS Operator which is required to be demonstrated by the statement referred to in paragraph 1 above shall include the establishment of separate managerial boards for each of:
  - (a) the associated gas transporter businesses, taken as a whole, as defined in this condition; and
  - (b) the transportation business in respect of the NTS, and

such managerial boards shall include at least two members, two of which shall be directors of National Grid Gas plc. These managerial boards shall be responsible for directing the affairs of, and taking all substantial decisions relating to, the business in respect of which they have been established. Each member of those managerial boards who is also a director of National Grid Gas plc shall fulfil their role in relation to the taking of such decisions as if he or she were a director of a legally incorporated company whose sole business is the business in respect of which the managerial board he or she is a member of has been established.

3. The licensee shall appoint a business separation compliance officer for the purposes of facilitating compliance with this condition on the same terms and with the same duties as the holder of this licence is required to appoint a compliance officer in respect of Special Condition ~~E21~~ 10C (Appointment and duties of the business separation compliance officer) of any licence held with respect to an NTS Operator.
4. The licensee shall establish a compliance committee (being a sub-committee of the board of directors of the licensee) for the purpose of overseeing and ensuring the performance of the duties and tasks of the compliance officer set out in paragraph 3 and the compliance of the licensee with its duties under paragraph 1. The compliance committee shall have the same duties in respect of this licence as the compliance committee established in respect of the NTS (as set out in Special Condition ~~E21~~ 10C (~~Appointment and duties of the business separation compliance officer~~)) of the licence which the holder

of this licence holds in respect of its operation of the NTS). Such compliance committee shall include among its members such person in the licensee's business as is responsible for the management of regulatory issues relating to the licensee.

5. In this condition "associated gas transporter business" means an affiliate, related undertaking, or business unit of the licensee which is a DN Operator.

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## **Special Condition 4G. Methodology for Network Output Measures**

### **Introduction**

4G.1 The purpose of this condition is to ensure that the licensee develops, implements and maintains a Methodology for Network Output Measures and information gathering plan that achieves the objectives set out in Part B of this Condition.

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

4G.2 The licensee must, together with all other DN Operators, before [1 April 2013] (or such later date to which the Authority may consent in writing) submit a Methodology for Network Output Measures common to all DN Operators ("the NOMs Methodology") for approval by the Authority in accordance with part D. The NOMs Methodology must:

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

4G.3 The licensee, together with all other DN Operators, must at all times have in place and maintain the NOMs Methodology in accordance with paragraphs 4G.2(a) to 4G.2(d).

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

4G.4 The NOMs Methodology Objectives as referred to in paragraph 4G.2(a) are as follows :

- (a) the comparative analysis of performance over time between geographic areas of, and network assets within, the pipe-line system to which this licence relates; and
- (b) the communication of relevant information regarding the pipe-line system to which this licence relates between the licensee, the Authority and, as appropriate, other interested parties in a transparent manner.

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

4G.5 The NOMs Methodology must be designed to enable the evaluation of:

- (a) the Network Assets Health Measure, which relates to the current condition of the licensee's Network Assets, and the predicted rate of deterioration in the condition of the licensee's Network Assets, which is relevant to assessing the present and future ability of the Network Assets to perform their function and the probability of failure of the Network Assets;

- (b) the Network Criticality Measure, which reflects the safety impact, environmental impact, network (or system) reliability impact or financial implications and other consequences that the licensee may reasonably deem to be relevant to asset, network (or system) failure.
- (c) the Network Risk Measure, which relates to the overall level of risk to the reliability of the pipe-line system to which this licence relates that results from the Network Assets Health measure, the probability of failure, the Network Criticality Measure and the interdependence between the Network Assets; and
- (d) the Network Capacity Measure, which relates to the level of the capacity and utilisation of the pipe-line system to which this licence relates at GDN entry points and utilisation factors;

Collectively the “Network Output Measures” to which paragraph 4G.2(b) refers.

4G.6 For the purposes of this condition, “Network Assets” means the assets that collectively form the pipe-line system to which this licence relates, and includes the principal components of those assets.

4G.7 The licensee must together with all other DN Operators, set out in their NOMs Methodology the categories of data that are to be used and the methodology that is to be applied to such data to derive each of the Network Output Measures.

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

4G.8 Save where the Authority otherwise consents in writing, when submitting its NOMs Methodology for approval in accordance with paragraph 4G.2, the licensee must also provide the Authority with:

- (a) a plan setting out how it will gather and record information required for the application of their NOMs Methodology (“the information gathering plan), including the scope of data it will collect, the form of data it will collect and frequency of data it will collect, so that it will have sufficient information available in an appropriate form in sufficient time to be able to report accurately on its NOMs at two milestones;
  - (i) [24 months] in advance of the mid-period of RIIO-GD1 (1 April 2015) (or such alternative date as the Authority may direct) to facilitate a mid-period review, and
  - (ii) [24 months] in advance of the end of RIIO-GD1 (1 April 2019) (or such alternative date as the Authority may direct) to facilitate the subsequent price control review
- (b) analysis and reports, including supporting data and models, explaining how the NOMs Methodology has and will continue to be developed in order to continue to facilitate the achievement of the NOMS Methodology Objectives;
- (c) a description of the data and treatment applied to that data in the NOMs Methodology; and

- (d) historical data which was used in the NOMs Methodology. Historical data should be provided for the maximum period available.

4G.9 The Authority will review the proposed NOMs Methodology and the information gathering plan submitted to it under paragraphs 4G.2 and 4G.8 and will consult with the DN Operators to which this condition applies and, where it considers appropriate, other interested parties.

4G.10 If the Authority is satisfied that the NOMs Methodology and/or the information gathering plan proposed by the licensee in accordance with paragraphs 2 and 8 would facilitate the achievement of the NOMs Methodology Objectives, the Authority will approve such NOMs Methodology and/or the information plan.

4G.11 If the Authority is not satisfied that the NOMs Methodology and/or the information provision plan proposed by the licensee in accordance with paragraphs 4G.2 and 4G.8 facilitates the achievement of the NOMs Methodology Objectives, the Authority shall issue a notice of disapproval of such proposed NOMs Methodology and/or the information gathering plan; the Authority shall, after consulting with the DN Operators to which this condition applies and other interested parties, direct the areas in which the licensee(s) shall make improvements to the NOMs Methodology and/or the information gathering plan and the date by which the licensee(s) shall submit to the Authority for approval such a revised NOMs Methodology and/or revised information provision plan.

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

4G.12 Except where the Authority otherwise consents, the licensee must:

- (a) from 1 April 2013, or such later date as the Authority may direct, record the data required for the application of the NOMs Methodology together with the NOMs derived pursuant to it, in accordance with the information gathering plan set out in paragraph 4G.8.8(a);
- (b) in respect of the formula year commencing on 1 April 2013, or such later date as the Authority may direct, and each subsequent Formula Year, submit a report on the NOMs to the Authority by 31 July (or such later date as the Authority may direct) in the year immediately following the end of the Formula Year to which the NOMs relate; the Authority will propose any corresponding specific reporting arrangements applicable to the NOMs in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance);
- (c) submit such information (whether historical, current, or forward-looking) about the Network Output Measures; and
- (d) submit such relevant other data and such examples of network modelling,

as may be specified for the purposes of this condition in any RIGs that have been issued by the Authority in accordance with the provisions of Standard Special Condition A40.

4G.13 The information and other matters mentioned in paragraph 4G.12 must be provided in such manner, in respect of such periods, and within such timeframes as may be specified in the RIGs to which that paragraph refers.

4G.14 Where the NOMs Methodology has been approved by the Authority under paragraph 10 the licensee must also provide the Authority as soon as is reasonably practicable with the relevant data specified in paragraph 4G.8(d) reflecting the amendments to the proposed NOMs Methodology directed by the Authority.

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

4G.15 The licensee must at all times keep the NOMs Methodology under review and monitor the progress of information capture under paragraph 4G.8(a) to ensure that they facilitate the achievement of the NOMs Methodology Objectives.

4G.16 The NOMs Methodology and information gathering plan may be modified from time to time for the purpose of enabling the methodology to better facilitate the achievement of the NOMs Methodology Objectives.

4G.17 The licensees may make a modification to the NOMs Methodology, subject to paragraph 4G.19, after:

- (a) consulting with the licensees to which this condition applies and other interested parties, allowing them a period of at least 28 days within which to make written representations with respect to the licensee's modification proposal; and
- (b) submitting to the Authority a report that contains all of the matters that are listed in paragraph 4G.18.

4G.18 The matters to which paragraph 4G.17(b) refers are these:

- (a) a statement of the proposed modification to the NOMs Methodology and/or the information gathering plan;
- (b) a full and fair summary of any representations that were made to the licensee pursuant to paragraph 4G.17(a) and were not withdrawn;
- (c) an explanation of any changes that the licensee has made to its modification proposal as a consequence of such representations;
- (d) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NOMs Methodology Objectives;
- (e) a presentation of the data and other relevant information (including historical data) that the licensee has used for the purpose of developing the proposed modification; and
- (f) a timetable for the implementation of the proposed modification, including an implementation date.

4G.19 Where the licensee has complied with the requirements of paragraphs 4G.17 and 4G.18, the licensee may implement the proposed modification to the NOMs Methodology and/or information gathering plan unless the Authority, within 28 days after receiving the

report submitted to it under paragraph 4G.17(b), issues a direction to the licensee requiring it not to implement the proposed modification.

4G.20 The Authority, after consulting with the licensee and any other interested parties, may direct the licensee to modify the NOMs Methodology and/or the information gathering plan in such manner, to such extent, and with effect from such time as may be specified in the direction (which must be no earlier than 3 months after the date of the Direction).

4G.21 The licensee must comply with the requirements of any direction given to it under paragraph 4G.20.

#### **Part F: Interpretation**

4G.22 For the purposes of this condition only **Network Assets** has the meaning given to that term in paragraph 4G.6.

## Special Condition 4H. Specification of Network Outputs

### Introduction

- 4H.1 The purpose of this condition is to specify the Network Outputs the Licensee must deliver during the Price Control Period and the incentive reward or penalty associated with material over or under-deliveries against those outputs. .

### Part A: Obligation to deliver Network Outputs in respect of the Network Asset, Criticality and Risk Measures

- 4H.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. .
- 4H.3 The Licensee shall also be deemed to have delivered a particular Network Output for the purposes of paragraph 4H.2 of this condition, notwithstanding a failure to meet the relevant specifications in the Workbook, if by the end of the Price Control Period:
- (a) it delivers an output or outputs which delivers an equivalent specification of risk mitigation to the Network Outputs specified in the Workbook (a “Materially Equivalent Outputs”); or
  - (b) it delivers the Network Outputs or Materially Equivalent Outputs to a higher specification of risk mitigation than that set out in the Workbook, but that over delivery is justified in accordance with the RIIO Principles (a “Justified Material Over delivery”); or
  - (c) it delivers the Network Output or a Materially Equivalent Output to a lower specification of risk mitigation than that set out in the Workbook, or delivers neither the Network Output or a Materially Equivalent Output, but that under delivery is justified in accordance with the RIIO Principles (a “Justified Material Under delivery”).
- 4H.4 The Authority will assess the Licensee’s performance under paragraphs 4H.2 and 4H.3 of this condition in accordance with the process set out in Part C for the purposes of determining whether adjustments should be made to the Licensee’s allowed revenue for the Distribution Network Transportation Activity in the Second Price Control Period accordance with the principles set out in Table 2 in Part D of this condition.
- 4H.5 In assessing whether the Licensee should be deemed to have delivered a particular Network Outputs under paragraph 4H.3 of this condition the Authority will, amongst other things, take account of:
- (a) any trade-offs between asset categories which the Licensee is able to demonstrate has or are likely to deliver an equivalent or better set of Network Outputs to those specified in the Workbook; and
  - (b) the difference between the risk profile of the relevant assets with and without intervention.

### Part B: Network Outputs relating to the Network Capacity Measure

- 4H.6 The Authority will assess the Licensee’s performance in delivering its Network Outputs in relation to the Network Capacity Measure as specified in the Workbook in accordance



with the process set out in Part C of this condition for the purposes of determining whether adjustments should be made to the Licensee's allowed revenue for the Distribution Network Transportation Activity in the Second Price Control Period in accordance with the principles set out in Table 2 in Part D of this condition.

### **Part C: Procedure for assessing Network Outputs and associated Price Control Allowed Expenditure Adjustments**

- 4H.7 By 31 July 2021 the Licensee must provide a report to the Authority (the "Performance Report") setting out the extent to which it has complied with paragraph 4H.2 of this condition and its performance under Part B of this condition.
- 4H.8 In relation to its performance under paragraph 4H.2 of this condition, the Performance Report shall include (as relevant) detailed explanations together with supporting evidence as to why the Licensee reasonably considers that it has delivered:
- (a) a Network Output in accordance with the relevant specifications set out in the Workbook;
  - (b) any Materially Equivalent Outputs;
  - (c) any Justified Material Over delivery; or
  - (d) any Justified Material Under delivery.
- 4H.9 In relation to its performance under Part B of this condition, the Performance Report shall set out in detail, together with supporting evidence, whether, in the Licensee's reasonable opinion:
- (a) Outturn demand over the Price Control Period has been higher, lower or the same as that to forecast in the Workbook; and
  - (b) Asset utilisation has been higher, lower or the same as that forecast in the Workbook.
- 4H.10 The Licensee shall provide such further analysis or information, and in accordance with such timescales, as the Authority considers are reasonably necessary to enable it to undertake its assessment for the purposes of its determinations under paragraph 4H.4 and 4H.6 of this condition.
- 4H.11 A determination by Authority under Part C of this condition will be of no effect unless the Authority has first:
- (a) given notice to the Licensee and to any other interested parties that it proposes to make the determination:
    - (i) stating the reasons for and the effects of its proposed determination; and
    - (iii) specifying the time (which must not be less than a period of 56 days) within which representations concerning the proposed determination may be made; and
  - (b) considered any representations in response to the notice that are duly made and not withdrawn.

### **Part D: Principles for determining adjustments to allowed expenditure**

- 4H.12 The Authority shall determine whether adjustments should be made to allowed revenue in the Second Price Control Period accordance with the principles set out in Tables 1 and 2 below:

**Table 1: Treatment of under- and over-delivery of Network Outputs relating to the Network Asset, Criticality and Risk Measures**

Incentives	Justified	Unjustified
Material over-delivery	<p>Cost of over- delivery (net of the efficiency incentive rate) shall be included in future Price Control Period allowances</p> <p>The financing cost incurred by the Licensee in advancing investment shall be reimbursed</p> <p>Reward of 2.5 per cent of the additional costs associated with the material over-delivery</p>	<p>Cost of over-delivery (net of the efficiency incentive rate) shall be included in future Price Control Period allowances when this work is justified as being required</p> <p>The Licensee shall incur the financing cost of earlier investment</p>
Material under-delivery	<p>Cost of under-delivery (net of the efficiency incentive rate) shall be excluded from future Price Control Period allowances</p> <p>The Licensee shall benefit from the financing cost of delayed investment</p>	<p>Cost of under-delivery (net of the efficiency incentive rate) shall be excluded from future Price Control Period allowances</p> <p>The benefit arising to the Licensee from the financing cost of delayed investment shall be clawed back</p> <p>Penalty of 2.5 per cent of the avoided costs associated with the material under-delivery</p>

**Table 2: Treatment of under or over-delivery of Network Outputs relating to the Network Capacity Measure**

Asset utilisation compared to target in Workbook	Outturn demand compared to forecast at RIIO-GD1 in Workbook		
	<i>Materially lower</i>	<i>Same or not materially different</i>	<i>Materially higher</i>
<p><i>Materially higher (catch-up)</i></p> <p>(That is, GDN has not delivered primary output/secondary deliverable)</p>	<p>Catch-up to output level required at RIIO-GD2 (but no additional funding)</p> <p>Recovery of financing cost benefit of allowances already received.</p> <p>Incentive penalty = 2.5 per cent of avoided costs</p>	<p>Catch-up to output level required at RIIO-GD2 (but no additional funding)</p> <p>Recovery of financing cost benefit of allowances already received.</p> <p>Incentive penalty = 2.5 per cent of avoided costs</p>	<p><b>Where DN has delivered less than business plan Incremental capacity</b></p> <p>Catch-up (=incremental capacity funded – delivered)</p> <p>Recovery of financing cost benefit of allowances already received.</p> <p>Incentive penalty = 2.5 per cent of avoided costs</p> <p><b>Where DN has delivered same as business plan incremental capacity</b></p> <p>No action.</p> <p><b>Where DN has delivered more than business plan incremental capacity</b></p> <p>Carry- forward of the difference in costs between the incremental capacity delivered and that funded including financing cost.</p>
<i>Same or not materially different</i>	No action. (GDN benefits from lower outturn demand)	No action	Carry- forward of the difference in costs between the incremental capacity delivered and that funded including financing cost.
<p><i>Materially lower (carry-forward)</i></p> <p>(That is, GDN has delivered primary output/secondary</p>	<p><b>Where DN has delivered less than business plan incremental capacity</b></p> <p>For incremental capacity installed less forecast, GDN retains benefit.</p>	Carry- forward of the difference in costs between the incremental capacity delivered and that funded including financing cost.	Carry- forward of the difference in costs between the incremental capacity delivered and that funded including financing cost.

deliverable)	<p>Carry-forward = 0.</p> <p><b>Where DN has delivered same as business plan incremental capacity</b></p> <p>Carry-forward = 0.</p> <p><b>Where DN has delivered more than business plan incremental capacity</b></p> <p>Carry- forward of the difference in costs between the incremental capacity delivered and that funded including financing cost.</p>		
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## Part E: Rebasing

4H.13 The Licensee must develop and submit for approval to the Authority by 1 April 2013 a revised set of Network Outputs (“Rebased Network Outputs”) which:

- (a) are consistent with the NOMs Methodology;
- (b) Conform to the principles set out in 4H.14 below; and
- (c) are in the same format as the Workbook.

4H.14 The principles referred to in paragraph 4H.13 are that the NOMs Methodology must:

- (a) be consistent with the Gas and Electricity Market Authority’s assumption for asset integrity and replacement expenditure set out in Final Proposals; and
- (b) be developed so as to ensure that the Network Outputs remain equally challenging as those set out in the Workbook.

4H.15 If the Authority is satisfied that the Rebased Network Outputs comply with paragraph 4H.13 above it will direct that the Rebased Network Outputs and its associated workbook will apply for the purposes of assessing its compliance with paragraph 4H.2 of this condition and its performance under Part B of this condition.

4H.16 A direction by Authority under Part C of this condition will be of no effect unless the Authority has first:

- (a) given notice to the Licensee and to any other interested parties that it proposes to make the determination:
  - (i) stating the reasons for and the effects of its proposed determination; and

- (iii) specifying the time (which must not be less than a period of 56 days) within which representations concerning the proposed determination may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

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## **Special Condition E23. 4I. Gas Conveyed to Independent Systems –** **[Relevant to SGN's, WWU's and NGN's licences only]**

### **Introduction**

- 4I.1 This condition comes into force and has effect in this Licence in accordance with the provisions of Part A below.
- 4I.2 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 under this Licence at 31 March 2013 (“the arrangements”) with respect to Independent Systems in the event that the Secretary of State issues a new direction to that effect.
- 4I.3 The framework requires the Licensee to recover amounts from gas shippers and then pay those amounts to DN Operators and Relevant Shippers in order to facilitate the continuation of the arrangements.

### **Part A: Relevant directions with respect to this condition**

- 4I.4 The framework mentioned above applies with respect to the Licensee from the date on which the Secretary of State has issued a direction requiring the Licensee to do all such things under this condition as are necessary to secure the continuation of the arrangements.
- 4I.5 On or at any time after the date of any direction under paragraph 4I.4 of this condition, the Authority may bring this condition into force in this Licence by issuing a direction for that purpose to the Licensee.
- 4I.6 A direction under paragraph 4I.5 of this condition may give effect to different parts of this condition in such manner as is specified in the direction and at such different times as may be so specified or are to be determined in accordance with its provisions.

### **Part B: Requirements relating to the Bulk Price Differential**

~~1. Pursuant to the direction given by the Secretary of State on 19 March 2008, regarding the Continuation of the Cross Subsidy Arrangements for Independent Systems (the “Direction”) the licensee is required, until 31 March 2013, to comply with this licence condition.~~

- 4I.7 This condition shall apply to the conveyance of gas to Relevant premises covered by the Direction (the “relevant premises”) provided that the Independent System to which those relevant premises are connected remains an Independent System.

- 4L.8 The licensee shall not, in respect of any Independent System to which this licence relates, change the fuel type conveyed to such Independent System from methane to propane or butane or a combustible mixture of propane and butane with air.

### **Part C: Liquefied Petroleum Gas Systems**

- 4L.8 The licensee shall use reasonable endeavours to enter into appropriate terms with a Relevant Shipper by 1 April 2008 for the transportation of Liquefied Petroleum Gas from any Bulk Supply Point (notified to the Authority and approved by it) to the relevant premises connected to an Independent System to which this licence relates.
- 4L.9 The licensee shall provide to the NTS Operator such information as the NTS Operator may reasonably require regarding the gas conveyed in respect of any Independent System to which this licence relates to enable the NTS Operator to calculate the bulk price differential payments made pursuant to ~~Special Condition €26 11F~~ (Gas Conveyed to Independent Systems) of the NTS Operator's gas transporter licence.

### **Part D: Local DN Operator charge**

- 4L.10 The licensee shall, in respect of each Independent System to which this licence relates, -set its gas transportation charges so that they are consistent with the direction under paragraph 4L.4 of this condition ~~Direction~~ having regard to the need to ensure that such charges to customers connected to the Independent System do not exceed the charges to Equivalent Customers.

- 4L.11 In this condition:

“Bulk Supply Point”	means any of the bulk supply points at the places specified in the Approval given on 1 March 1996 by the Director General of Gas Supply, or such other point at such place as may be notified to the Authority from time to time by the licensee;
“Equivalent Customers”	means customers connected to the licensee's network other than customers whose premises are connected to an Independent System;
“Independent System”	has the meaning given to the term “independent system” in Standard Special Condition A3 (Definitions and Interpretations);

“Liquefied Petroleum Gas”	means a mix of hydrocarbon gases including propane and butane in accordance with BS EN 589:2004;
“NTS Operator”	has the meaning given in Standard Special Condition A3 (Definitions and Interpretation); and
“Relevant Shipper”	for the purposes of this condition only, means in relation to any premises connected to an Independent System to which this licence relates, a gas shipper which has made arrangements with the licensee in pursuance of which Liquefied Petroleum Gas is transported to those premises.

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## Chapter 5: Schedules

### Schedule A

[No change to title or condition text that this currently in force for each licensee]

### Schedule 1: Specified Area

Field Cod

[No change to title or condition text that this currently in force for each licensee]

### Schedule 2: Revocation Of Licence

Field Cod

[No change to title or condition text that this currently in force for each licensee]

### Schedule 3: Transportation Services Area

Field Cod

[No change to title or condition text that this currently in force for each licensee]

## Conditions to be removed

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

**Special Condition E9. Distribution Network environmental  
emissions incentive revenue (EEt) and compliance with the  
Leakage Model**

Field Cod

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

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

**Special Condition E13. Not used**

**Special Condition E14. Not used**

**Special Condition E15. Not used**

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