

**To: National Grid Gas plc (with respect to its gas distribution networks)**

(Company Number: 02006000)

**Northern Gas Networks Limited**

(Company Number: 05167070)

**Scotland Gas Networks plc**

(Company Number: SC264065)

**Southern Gas Networks plc**

(Company Number: 05167021)

**Wales and West Utilities Limited**

(Company Number: 05046791)

**Modification of the special conditions of the gas transporter licences held by Gas Distribution Network (GDN) operators and reasons for decisions pursuant to sections 23 and 38A of the Gas Act 1986**

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

1. Whereas each of the companies to whom this document is addressed (together "the Licence Holders") operates a gas distribution network and is the holder of a gas transporter licence (together "the Licence") granted or treated as granted under section 7 of the Gas Act 1986 ("the Act").
2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority ("the Authority") gave notice on 24 July 2013 ("the Notice") that it proposed to make modifications to the Special Conditions of the Licence by:
  - (a) amending the following Special Conditions:
    - 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions);
    - 1C (Distribution Network allowed pass-through items);
    - 1D (NTS Exit Capacity Cost Adjustment);
    - 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction);
    - 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions);
    - 1H (The Network Innovation Allowance);
    - 2A (Governance of GD1 Price Control Financial Instruments);
    - 3A (Legacy price control adjustments);
    - 3D (The Innovation Roll-out Mechanism);
    - 3F (Arrangements for the recovery of uncertain costs);
    - 4A (Disapplication of Relevant Special Conditions and Relevant Metering Special Condition);
    - 4G (Methodology for Network Output Measures);
    - 4H (Specification of Network Outputs);

- (b) amending the GD1 Price Control Financial Handbook ("the handbook") that forms part of Special Condition 2A; and
  - (c) amending the GD1 Price Control Financial Model ("the PCFM") that forms part of Special Condition 2A.
- 3. The Notice specified that any representations concerning the proposed modifications were required to be made on or before 30 August 2013.
- 4. In accordance with section 23(4)(b) of the Act, the Authority gave notice that it proposed to make the modifications to the Secretary of State on 24 July 2013 and has not received a direction not to make the modifications.
- 5. Prior to the close of the consultation period in respect of the Notice, the Authority received three responses. All non-confidential responses have been placed on the Ofgem website.
- 6. The Authority has carefully considered all the representations received and, as a result, considers it necessary to make a number of changes to the proposed modifications set out in the Notice for the purpose of correcting minor inaccuracies and improving the clarity of the drafting. The changes referred to in this paragraph have been highlighted in Appendices 2 and 3 of this Modification (see paragraphs 13 and 14 below).
- 7. It was brought to the Authority's attention that the following formulaic terms showing existing licence content and proposed changes were inadvertently omitted from the Notice:
  - (a) the formula set out in paragraph 1E.4 of Special Condition 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction); and
  - (b) some components of the formulae set out in paragraphs 1F.4, 1F.5 and 1F.9 of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions),as shown, within blue borders in Appendix 2 of this Modification.
- 8. In the circumstances, the Authority is excluding modifications to the text and formulae contained within the blue borders, referred to in paragraph 7 from this Modification and will conduct a separate consultation on them.
- 8. The reasons for the modifications to the Special Conditions referred to in paragraph 2(a) and the minor additional modifications referred to in paragraph 6 are:
  - (a) to implement policy decisions in respect of an adjustment mechanism for the NTS Exit Capacity cost allowance that were included in the Authority's Final Proposals for the RIIO-GD1 price control ("RIIO-GD1") that applies to the Licence Holders;
  - (b) to implement policy decisions in respect of an adjustment mechanism for the shrinkage allowance that were included in the Authority's Final Proposals for RIIO-GD1;

- (c) to specify two additional component terms for legacy price control adjustments under RIIO-GD1 to provide for adjustments relating to:
  - (i) income adjusting events that occurred in the price control period that preceded RIIO-GD1 ("GDPCR"); and
  - (ii) an error that subsisted in the Innovation Funding Incentive mechanism that formed part of GDPCR,
 and
- (d) to make additional changes required:
  - (i) as a consequence of the proposed modifications described in sub-paragraphs (a) to (c); and
  - (ii) to correct a number of typographical and cross-referencing errors.

9. The reasons for the modifications to the handbook referred to in paragraph 2(b) and the minor additional modifications referred to in paragraph 6 are:

- (a) to insert a new chapter 11, to set out the methodology for determining the PCFM Variable Values associated with the adjustment mechanisms referred to in paragraph 8(a) and (b);
- (b) to insert new parts 7 and 8 into chapter 10 to set out the methodology for determining component term values associated with the legacy price control adjustments referred to in paragraph 8(c);
- (c) to confirm that claw back adjustments to tax liability allowances for the Licence Holders include an iterative ('tax allowance on tax allowance') factor; and
- (d) to make a number of other corrections and clarifications throughout the handbook so that it is fully consistent with the Authority's Final Proposals for RIIO-GD1.

10. The reasons for proposing the modifications to the PCFM referred to in paragraph 2(c) and the minor additional modifications referred to in paragraph 6 are:

- (a) to add two new input rows to the PCFM Variable Values Table for each Distribution Network (as defined in Special Condition 1A of the Licence) relating to the adjustment mechanisms referred to in paragraphs 8(a) and (b) of this Modification;
- (b) to ensure that claw back adjustments to tax liability allowances for the Licence Holders include an iterative ('tax allowance on tax allowance') factor; and
- (c) to make a number of other amendments and corrections to reflect the proposed modifications to the Special Conditions and the handbook,

so that correctly calculated values for the term MOD, as used in the formula for Base Distribution Network Transportation Activity Revenue set out in Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity), and having the meaning given in that condition, are produced for each Distribution Network under the Annual Iteration Process for the PCFM.

11. The effect of the modifications, including the minor additional modifications referred to in paragraph 6, will be to amend the Licence, handbook and PCFM to:
  - (a) introduce adjustment mechanisms and new PCFM Variable Values for the NTS Exit Capacity cost allowance and the shrinkage allowance for RIIO-GD1;
  - (b) provide component terms for two additional legacy price control adjustments as described in paragraph 8(c); and
  - (c) apply a range of corrections, clarifications and consequential changes,so that the Authority's Final Proposals for RIIO-GD1 are properly implemented.
12. Where an application to the Competition Commission under section 23B of the Act for permission to appeal the Authority's decision is made, Rule 5 of the Energy Licence Modification Appeals Rules sets out the requirements relating to notice of appeal, including the matters required in Rule 5.2. For the purposes of Rule 5.7, 'relevant licence holder' has the same meaning as in section 23(10) of the Act. A list of relevant licence holders in relation to this modification decision is set out in Appendix 1 to this Modification.
13. Appendix 2 to this Modification shows the modifications to the Special Conditions referred to in paragraph 2(a) as marked-up text with the minor additional changes referred to in paragraph 6 shown in yellow highlight.
14. Separate Appendix 3 to this Modification shows the modifications to the handbook as marked-up text on a copy of the handbook with the minor additional changes referred to in paragraph 6 shown in yellow highlight.
15. Separate Appendices 4 and 5 to this Modification consist of, respectively:
  - (a) a report setting out setting out the modifications to the PCFM; and
  - (b) a copy of the PCFM incorporating the modifications.
15. Copies of this Modification and other documents referred to in it are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

### **Now therefore**

In accordance with the powers contained in section 23(1)(a) of the Act and for the reasons set out in paragraphs 8, 9 and 10 of this Modification, the Authority hereby modifies:

- (a) the Special conditions referred to in paragraph 2(a) of this Modification in the manner specified in Appendix 2, with additions and deletions shown as marked-up text;
- (b) the GD1 Price Control Financial Handbook in the manner specified in separate Appendix 3, with additions and deletions shown as marked-up text; and

- (c) the GD1 Price Control Financial Model in the manner specified in separate Appendices 4 and 5.

The modifications will take effect on and from 27 November 2013.

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



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**Paul Branston**  
**Associate Partner, Costs and Outputs**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**



**27 September 2013**

**Appendix 1 to the Authority's Direction dated 27 September 2013 –  
Relevant licence holders**

<b>Special Conditions subject to modification</b>	<b>Relevant licence holders (in respect of the modification of each of the Special Conditions in their particular licence)</b>
1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions)	<p>National Grid Gas plc (with respect to its gas distribution networks)</p> <p>Northern Gas Networks Limited</p> <p>Scotland Gas Networks plc</p> <p>Southern Gas Networks plc</p> <p>Wales and West Utilities Limited</p>
1C (Distribution Network allowed pass-through items)	
1D (NTS Exit Capacity Cost Adjustment)	
1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction)	
1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions)	
1H (The Network Innovation Allowance)	
2A (Governance of GD1 Price Control Financial Instruments)	
3A (Legacy price control adjustments)	
3D (The Innovation Roll-out Mechanism)	
3F (Arrangements for the recovery of uncertain costs)	
4A (Disapplication of Relevant Special Conditions and Relevant Metering Special Condition)	
4G (Methodology for Network Output Measures)	
4H (Specification of Network Outputs)	

## **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 (Definitions and Interpretation) of the Standard Conditions or Standard Special Condition A3 (Definitions and Interpretation) of the Standard Special Conditions (although capital letters are not used in those conditions to denote defined terms).
- 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:

*[after]*

Daily Metered Supply Meter Points	means a supply meter point which is read on a daily basis in accordance with paragraph 1.3.1 of section M (supply Point Metering) or paragraphs 1.5.1(b) or 1.5.3 of section G (Supply Points) of the Network Code having effect on 1 April 2002;
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*[insert]*

Daily NTS Exit (Flat) Capacity	means NTS Exit (Flat) Capacity which is applied for and registered for a particular Day only in accordance with paragraph 3.1.5 (b) of section B of the Network Code having effect on 1 January 2013;
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*[and make the further changes shown below]*

Distribution Network Pension Deficit Charge	means payments made by the <del>L</del> Licensee to meet the charge made by the NTS Operator to the Distribution Network and specified by the NTS
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	Operator, in accordance with the value determined by the Authority, as Distribution Network Pension Deficit Charge payments;
GD1 Price Control Financial Model	<p>means the model of that name (with a suffix referring to <del>to</del> the month of November in Formula Year t-1 as that term is defined for the purposes of Special Condition 2A) that was first published by the Authority on 1 February 2013 and which came into effect on 1 April 2013:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) that the Authority will use to determine the value of the term <math>MOD_t</math> through the application of the Annual Iteration Process</li> </ul> <p>as modified from time to time in accordance with the provisions of Special Condition 2A;</p>
NTS (TO) Exit Capacity Charge	<p>means the charge in p/peak <del>D</del>ay 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;</p>
Relevant Shipper	<p>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 <del>L</del>icensee in pursuance of which Liquefied Petroleum Gas is transported to those premises;</p>
Retail Prices Index	<p>means:</p> <ul style="list-style-type: none"> <li>(a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or</li> <li>(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 <del>L</del>icensee, determine to be appropriate in the circumstances; or</li> <li>(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;</li> </ul>



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 **L**icensee, 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;

Unrecoverable Expenditure

means expenditure on a NIA project **which** the Authority has determined does not satisfy the requirements of the NIA Governance Document;

## 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 customers.

### 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 gas 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<sub>t</sub>)

1C.5 For the purposes of the Principal Formula, subject to paragraph 1C.7 and 1C.8 of this condition, RB<sub>t</sub> 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<sub>t</sub>:

RBA<sub>t-2</sub> 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<sub>t-2</sub> 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<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.7 In the Formula Years 2013/14 and 2014/15 RB<sub>t</sub> will have the value zero.

1C.8 In respect of any Formula Year t-2 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 came into effect, any positive value of RB<sub>t</sub> will ~~have the value of~~ be set to zero in Formula Year t 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<sub>t</sub> term in the specific Formula Year and in each of the subsequent Formula Years.

## Part C: Calculation of the licence fee adjustment term (LF<sub>t</sub>)

1C.9 For the purposes of the Principal Formula, subject to paragraph 1C.11 of this condition, LF<sub>t</sub> 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<sub>t</sub>:

LFA <sub>t-2</sub>	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 <sub>t-2</sub>	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 <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-2</sub>	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<sub>t</sub> will have the value zero.

#### **Part D: Calculation of the pension deficit charge adjustment term (PD<sub>t</sub>)**

1C.12 For the purposes of the Principal Formula, subject to paragraph 1C.14 of this condition, PD<sub>t</sub> 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<sub>t</sub>:

PDA <sub>t-2</sub>	means the amount of the payments, in Formula Year t-2, made by the <b>L</b> icensee 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 <sub>t-2</sub>	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 <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.14 In the Formula Years 2013/14 and 2014/15 PD<sub>t</sub> will have the value zero.

#### **Part E: Calculation of third party damage and water ingress adjustment term (TPWI<sub>t</sub>)**

1C.15 For the purposes of the Principal Formula, subject to paragraph 1C.17, TPWI<sub>t</sub> 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.
- $TPWU_{t-2}$  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 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.
- $PU_{t-2}$  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 2014/15 where it means the base revenue in respect of the Formula Year commencing 1 April 2012 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.
- $RPIA_{t-2}$  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.17 In the Formula Year 2013/14  $TPWI_t$  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)**

<b>Licensee Distribution Network</b>	<b>RBE (£m)</b>							
	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
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 Ltd	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 & West Utilities Ltd	22.607	22.607	22.607	22.607	22.607	22.607	22.607	22.607

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

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

<b>Licensee Distribution Network</b>	<b>LFE (£m)</b>							
	<b>2013/ 14</b>	<b>2014/ 15</b>	<b>2015/ 16</b>	<b>2016/ 17</b>	<b>2017/ 18</b>	<b>2018/ 19</b>	<b>2019/20</b>	<b>2020/21</b>
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	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 & 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)

<b>Licensee Distribution Network</b>	<b>PDE (£m)</b>							
	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
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 Ltd	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 & 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 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 Exit (Flat) Capacity and NTS Exit (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~~ means the NTS Exit Capacity cost allowance in respect of the relevant Distribution Network for Formula Year t-2 and is derived in accordance with Part D 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:

$ExCC_t$  means, in respect of Formula Year t, the total costs incurred by the Licensee for NTS Exit (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 Exit (Flat) Capacity.

$ExFFC_t$  means, in respect of Formula Year t, the total costs incurred by the Licensee for NTS Exit(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 Exit (Flexibility) Capacity.

### **Part C: Distribution Network exit capacity incentive revenue ( $EI_t$ )**

1D.5 The Distribution Network exit capacity incentive revenue in Formula Year t ( $EI_t$ ) is derived in accordance with the following formula:

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

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).

$CT_t$  means the corporation tax rate for Formula Year t.

$EIT_t$  means the Distribution Network exit incentive target and is defined as the target cost in £ million of the target volume of NTS Exit (Flat) Capacity in respect of the relevant Distribution Network for Formula Year t, derived in accordance with paragraph 1D.6 of this condition.

$EDC_t$  means the Distribution Network exit performance measure and is defined as the deemed costs in £ million incurred by the Licensee for NTS Exit (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 ( $EIT_t$ )**

1D.6 The value of  $EIT_t$  for the purposes of paragraph 1D.5 of this condition is derived in accordance with the following formula:

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

where:

NTSICH<sub>E<sub>v,t,d</sub></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<sub>v,t</sub> means the target volume of NTS Exit(Flat) Capacity in GWh/d for offtake v within the relevant Distribution Network for Formula Year t as set out in Appendix 2 of this condition.

Y<sub>t</sub> means the number of Days in Formula Year t.

P<sub>t</sub> 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.

$\sum_{all\ v}$  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:

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

where:

NTSM AE<sub>v,t</sub> means the maximum actual allocation of NTS Exit(Flat) Capacity, **excluding Daily NTS Exit (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<sub>t</sub> means revenues received from the NTS Operator in respect of Buybacks for Formula Year t.

NTSOC<sub>t</sub> 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.

#### **Part D: Revisions to the NTS Exit Capacity cost allowance (AEx)**

- 1D.8 The NTS Exit Capacity cost allowance included in the Opening Base Revenue Allowance for each year of the Price Control Period is set out in Appendix 1 of this condition. This value may be revised during the Price Control Period.
- 1D.9 The Licensee may, by notice to the Authority, propose a revision to the NTS Exit Capacity cost allowance for any Formula Year or Formula Years from 2015/16 to 2020/21. In any Formula Year t, when a revision of the NTS Exit Capacity cost allowance is to take effect, the Licensee must have provided such notice in Formula Year t-2.
- 1D.10 A notice provided under paragraph 1D.9 of this condition must:
- (a) be provided by 31 July in any Formula Year;
  - (b) state the revised NTS Exit Capacity cost allowance for the relevant Distribution Network that is proposed and the Formula Years to which the revision relates; and
  - (c) subject to paragraph 1D.11, provide the basis of calculation for the revised NTS Exit Capacity cost allowance.
- 1D.11 The revised NTS Exit Capacity cost allowance must be calculated by multiplying:
- (a) the target volume of NTS Exit (Flat) Capacity at each offtake for the relevant Formula Years, as set out in Appendix 2 of this condition; and
  - (b) the latest publicly available forecast of the NTS (TO) Exit Capacity Charge at each offtake for the relevant Formula Years, as set out in an NTS Gas Transportation Statement.

#### **Part E: Determination and direction of revisions to the PCFM Variable Value**

- 1D.12 This Part provides for the determination and direction of a revised PCFM Variable Value for the relevant Distribution Network by the Authority for NTS Exit Capacity cost allowance (AEx values).
- 1D.13 The Authority will determine whether the PCFM Variable Value should be revised for the purposes of updating the forecast of NTS Exit Capacity costs under the provisions of Part D of this condition.
- 1D.14 Determinations under paragraph 1D.13 of this condition are to be made in accordance with the methodology contained in chapter 11 of the GD1 Price Control Financial Handbook.
- 1D.15 Subject to paragraph 1D.18 of this condition, a revised PCFM Variable Value determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November following receipt of the notice provided by the Licensee under paragraph 1D.9 of this condition (or as soon as reasonably

practicable thereafter). Any direction to revise AEx values for Formula Year t will be made in Formula Year t-2 (or as soon as reasonably practicable thereafter).

1D.16 Before issuing any directions under paragraph 1D.15 of this condition, the Authority will give notice to the Licensee of the revised values that it proposes to direct.

1D.17 The notice referred to in paragraph 1D.16 of this condition will:

- (a) state that the revised PCFM Variable Value has been determined in accordance with 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 concerning the determination of any revised PCFM Variable Values.

1D.18 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 1D.17 of this condition, and give reasons for its decisions in relation to them.

1D.19 If, for any reason, the Authority does not make a direction required under paragraph 1D.15 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraph 2B.12 of Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model) and, in any case, before directing a value for  $MOD_t$  for the relevant Distribution Network under that paragraph.

1D.20 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  $MOD_t$  as calculated for Formula Year t for the purpose of Special Condition 1B will result in an adjustment to the relevant Distribution Network's Base Distribution Network Transportation Activity Revenue in a manner that appropriately reflects the relevant Distribution Network's updated forecast of NTS Exit Capacity costs.

## Appendix 1

(see paragraph ~~1D.31~~ 1D.8 of this condition)

### NTS Exit Capacity cost allowance (AEx<sub>t</sub>) (2009/10 prices)

Licensee Distribution Network	NTS Exit Capacity cost allowance (AExt)							
	2013/ 14	2014/1 5	2015/1 6	2016/1 7	2017/1 8	2018/1 9	2019/2 0	2020/2 1
NGGD EoE	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7
NGGD Lon	17.2	17.1	17.1	17.1	17.1	17.1	17.1	17.1
NGGD NW	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3
NGGD WM	17.4	17.2	16.9	16.9	16.9	16.9	16.9	16.9
Northern Gas Networks	8.9	8.9	8.8	8.8	8.8	8.8	8.8	8.8

Ltd								
Scotland Gas Networks plc	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Southern Gas Networks plc	45.0	46.7	46.7	46.7	46.7	46.7	46.7	46.7
Wales & 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  $NTSTVE_{v,t}$  term)

Licensee Distribution Network	Offtake node	Exit zone	Distribution Network target volume of NTS Exit (Flat) Capacity (GWh/d)							
			$NTSTV_{gv,t}, NTSTVE_{v,t}$ (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	EM1	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	EM2	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	EM3	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
	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	NO1	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1

	Bewley									
	Elton	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 Burdon	NO1	16.6	18.7	20.9	20.9	20.9	20.9	20.9	20.9
	Melkinsthorpe	NO2	2.0	2.2	2.4	2.4	2.4	2.4	2.4	2.4
	Little Saltwick	NO1	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
	Big Saltwick	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	NO2	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
	Wetheral	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	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
	Towton	NE1	69.5	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
	Pitcairnngreen	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 &amp; 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; and
  - (c) Part F provides for the Authority, following a review by an examiner, to give directions in relation to the accuracy of any data supplied by the Licensee for use in any of the formulae contained in this condition. and

### 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 one per cent of  $BR_t$ , or be lower than the value of negative one per cent of  $BR_t$  formulae:

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

If  $(CS_{t-2} + CM_{t-2} + SE_{t-2}) \geq 0$ , then:

$$BM_t = \min [(CS_{t-2} + CM_{t-2} + SE_{t-2}), (0.01 \times BR_{t-2})] \times \left(1 + \frac{I_{t-2}}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

If  $(CS_{t-2} + CM_{t-2} + SE_{t-2}) < 0$ , then:

$$BM_t = \max [(CS_{t-2} + CM_{t-2} + SE_{t-2}), (-0.01 \times BR_{t-2})] \times \left( 1 + \frac{I_{t-2}}{100} \right) \times \left( 1 + \frac{I_{t-1}}{100} \right)$$

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.
- $I_t$  means the means the Average Specified Rate in Formula Year t.
- $BR_{t-2}$  means the amount of Base Distribution Network Transportation Activity Revenue in Formula Year t-2 as derived in accordance with the formula set out in Part C of Special Condition 1B 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:

$$CSAD_t = CSAS_t - CSAUQ$$

where:

- CSAS<sub>t</sub> means the Licensee'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 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<sub>t</sub> 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:

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

where:

- CSAMX 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. This value is equal to 0.17 per cent of BR<sub>t</sub>.

- 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:

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

where:

- CSAMP 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. This value is equal to 0.17 per cent of -BR<sub>t</sub>.

- 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 that 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:

$$CSBD_t = CSBS_t - CSBUQ$$

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

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

where:

CSBMX means the unplanned supply interruption 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. This value is equal to 0.17 per cent of BR<sub>t</sub>.

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

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

where:

CSBMP 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. . This value is equal to 0.17 per cent of -BR<sub>t</sub>.

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,  $CSCD_t$  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:

$$CSCD_t = CSCS_t - CSCUQ$$

where:

$CSCS_t$  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.

$CSCUQ$  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  $CSCR_t$  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:

$$CSCR_t = \text{MIN} \left[ \left[ \frac{CSCD_t}{CSCMX - CSCUQ} \right] \times CSOU_t, CSOU_t \right]$$

where:

$CSCMX$  means the connections performance maximum reward score which is fixed as 8.4; and

$CSOU_t$  means the maximum positive adjustment to for the Licensee in respect of the relevant Distribution Network in Formula Year t. This value is equal to 0.17 per cent of  $BR_t$ .

- 1E.17 For the purposes of the formula set out in paragraph 1E.14 of this condition  $CSCP_t$  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:

$$CSCP_t = \text{MAX} \left[ \left[ \frac{CSCD_t}{CSCMP - CSCUQ} \right] \times CSOD_t, CSOD_t \right]$$

where:

CSCMP 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. This value is equal to 0.17 per cent of -BR<sub>t</sub>

#### **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:

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

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:

$$CMIS_t = UQCM - CMP_t$$

1E.20 For the purposes of the formula set out in paragraph 1E.19 of this condition, UQCM 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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> means the percentage of Repeat Complaints in respect of the relevant Distribution Network for Formula Year t, as reported for that year.

POF<sub>t</sub> 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<sub>t</sub> in paragraph 1E.18 of this condition IRCM<sub>t</sub> 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:

$$\text{IRCM}_t = \left( \frac{\text{ARCM}_t}{\text{MLCM} - \text{UQCM}} \right)$$

where

- ARCM<sub>t</sub>** means the maximum negative adjustment in respect of the relevant Distribution Network as specified for Formula Year t. This value is equal to 0.5 per cent of BR<sub>t</sub>.
- MLCM** 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<sub>t</sub>) 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<sub>t</sub> for each Formula Year that can be determined by the Authority for the relevant Distribution Network is equal to 0.5 per cent of BR<sub>t</sub>
- 1E.25 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 paragraphs 1E.27 to 1E.29 of this condition).
- 1E.26 In addition to making provision for the matters mentioned in paragraph 1E.25 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.27 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 that 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.28 The Authority will consider any representations that are duly made, and the Authority will give reasons for its decision.

- 1E.29 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 paragraphs 1E.27 and 1E.28 of this condition.
- 1E.30 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.31 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 Stakeholder Engagement Incentive Guidance for the year in question.

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

- 1E.32 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.33 If paragraph 1E.32 of this condition applies the Authority may, after consultation with the Licensee and in accordance with paragraphs 1E.34 and 1E.35 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.34 Before issuing a direction under paragraph 1E.33 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.
- 1E.35 The Authority will consider any representations duly received under paragraph 1E.34 of this condition, and give reasons for any decision it makes in relation to them.



## **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 Maximum Distribution Network Transportation Activity Revenue 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:

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

where:

- ~~i~~ means 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 relevant Distribution Network i and derived for the relevant Distribution Network and is 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 relevant Distribution Network i, as set out in Appendix 1 of this condition~~ means the amount of the allowance in respect of the Shrinkage cost in Formula Year t-2 for the relevant Distribution Network and is derived in accordance with Part H 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;
- 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:

$$SHRR_t = \sum_{i=1}^n \sum_{n=1}^{t-2} \left[ SIP_{n,i} \times \frac{8}{8 - (n - 1)} \right] \times GPRC_{t-2} \times \frac{IQI}{1 - CT_t}$$

where:

- ~~i~~ means 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, whereby n=1 in respect of t1, n=2 in respect of

t2;

**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<sub>t</sub>** means corporation tax rate for Formula Year t;

**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 relevant Distribution Network allowed Shrinkage volume in respect of Formula Year t-2 as set out in Appendix 2 of this condition; and

**ASV<sub>t-2,i</sub>** means the actual Shrinkage volumes for the relevant Distribution Network in respect of Formula Year t-2 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 Price Control 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:

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

where:

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

**CT<sub>avg</sub>** means the average corporation tax rate 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<sub>t</sub> under Part A of this condition, the gas price reference cost (GPRC<sub>t-2</sub>) 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<sub>t</sub>)

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

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

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 relevant Distribution Network allowed Leakage volume in respect of Formula Year t-2 as set out in Appendix 3 of this condition; and

$LV_{t-2,i}$  means the relevant Distribution Network actual Leakage volume 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 2020/21, the Authority will make a post period adjustment to Environmental Emissions Incentive revenue for the relevant Distribution Network during the Price Control 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:

$$PRGAS = TNEB \times CC_{avg} \times \frac{IQI}{1 - CT_{avg} \text{ €T}}$$

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

$CT_{avg}$  means the average corporation tax rate from 1 April 2013 to 31 March 2021; 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 Distribution Network 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 Distribution Network 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 Distribution Network, 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 (“SLM Modification Report”) in accordance with the provisions set out in paragraph 1F.21 of this condition.
- 1F.21 The SLM Modification Report 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 SLM Modification Report submitted by the Licensee under 1F.20 of this condition must include an 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 the SLM Modification Report submitted by the Licensee or SLM Modification 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 relevant 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;
  - (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; and
  - (c) to revise the allowance for Shrinkage costs set out in Appendix 1 to account for any revisions made to Shrinkage volumes under sub-paragraph (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 Distribution Network that they operate;
  - (c) the steps that DN Operators are taking to ensure that they have appropriate access to Smart Metering Data; and
  - (d) how each 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.

## **Part H: Revisions to the allowance in respect of Shrinkage costs (ALSC)**

- 1F.37 The Shrinkage cost allowance included in the Opening Base Revenue Allowance for each year of the Price Control Period is set out in Appendix 1 of this condition. This value may be revised during the Price Control Period.

1F.38 The Licensee may, by notice to the Authority, propose a revision to the allowance in respect of Shrinkage costs for any Formula Year or Formula Years from 2015/16 to 2020/21. In any Formula Year  $t$ , when a revision of the allowance in respect of Shrinkage costs is to take effect, the Licensee must have provided such notice in Formula Year  $t-2$ .

1F.39 A notice provided under paragraph 1F.38 of this condition must:

- (a) be provided by 31 July in any Formula Year;
- (b) state the revised allowance in respect of Shrinkage costs for the relevant Distribution Network that is proposed and the Formula Years to which the revision relates; and
- (c) subject to paragraph 1F.40, provide the basis of calculation for the revised allowance in respect of **Shrinkage** costs.

1F.40 The revised allowance in respect of Shrinkage costs must be calculated by multiplying:

- (a) the allowed Shrinkage volume for the relevant Formula Years, as set out in Appendix 2 of this condition; and
- (b) the latest **publicly** available forecast of the price of gas for the relevant Formula Years taken from an Approved Market Price Report.

## **Part I: Determination and direction of revisions to the PCFM Variable Value**

1F.41 This Part provides for the determination and direction of a revised PCFM Variable Value for the relevant Distribution Network by the Authority for the allowance in respect of Shrinkage costs (ALSC values).

1F.42 The Authority will determine whether the PCFM Variable Value should be revised for the purposes of updating the forecast of Shrinkage costs under the provisions of Part H this condition.

1F.43 Determinations under paragraph 1F.42 of this condition are to be made in accordance with the methodology contained in chapter 11 of the GD1 Price Control Financial Handbook.

1F.44 Subject to paragraph 1F.47 of this condition, a revised PCFM Variable Value determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November following receipt of the notice provided by the Licensee **under paragraph 1F.38 of this condition** (or as soon as reasonably practicable thereafter). Any direction to revise ALSC values for Formula Year  $t$  will be made in Formula Year  $t-2$  (or as soon as reasonably practicable thereafter).

1F.45 Before issuing any directions under paragraph 1F.44 of this condition, the Authority will give notice to the Licensee of the revised values that it proposes to direct.

1F.46 The notice referred to in paragraph 1F.45 of this condition will:

- (a) state that the revised PCFM Variable Value has been determined in accordance with 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 concerning the determination of any revised PCFM Variable Values.

- 1F.47 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 1F.46 of this condition, and give reasons for its decisions in relation to them.
- 1F.48 If, for any reason, the Authority does not make a direction required under paragraph 1F.44 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraph 2B.12 of Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model) and, in any case, before directing a value for  $MOD_t$  for the relevant Distribution Network under that paragraph.
- 1F.49 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  $MOD_t$  as calculated for Formula Year  $t$  for the purpose of Special Condition 1B will result in an adjustment to the relevant Distribution Network's Base Distribution Network Transportation Activity Revenue in a manner that appropriately reflects the relevant Distribution Network's updated forecast of Shrinkage costs.

**Appendix 1: Distribution Network allowance in respect of Shrinkage costs for the period beginning on 1 April 2013 and ending on 31 March 2021**

Distribution Network	Shrinkage allowance (£m 2009/10 prices)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
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
Northern Gas Networks Ltd	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 Networks plc	13.3	13.1	13.0	12.7	12.5	12.3	12.1	11.6
Wales & West Utilities Ltd	8.8	8.7	8.7	8.5	8.4	8.3	8.1	7.9

**Appendix 2: Distribution Network 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
Northern Gas Networks Ltd	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 & West Utilities Ltd	440	433	425	417	409	401	393	385

**Appendix 3: Distribution Network 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
Northern Gas Networks Ltd	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 & West Utilities Ltd	415	407	400	392	384	376	369	361
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**Appendix 4: Environmental emissions factor (the CC term) for the period beginning on 1 April 2013 and ending on 31 March 2021**

Environmental emissions factor $CC_t$ (£ / <del>MWh</del> <b>GWh</b> pre-tax 2009/10 prices)								
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
$CC_t$	<del>62.73</del> <b>0</b>	<del>63.66</del> <b>0</b>	<del>64.59</del> <b>0</b>	<del>65.54</del> <b>0</b>	<del>66.55</del> <b>0</b>	<del>67.50</del> <b>0</b>	<del>68.53</del> <b>0</b>	<del>69.61</del> <b>0</b>

## 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 with respect to the proposed NIA Governance Document may be made.
- 1H.15 The Authority will consider any representations 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 Distribution Network</b>	<b>NIA Percentage</b>
NGGD NW	0.7
NGGD EoE	0.7
NGGD WM	0.7
NGGD LON	0.7
Wales & 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 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.

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

- 2A.4 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.5 In making the assessment required by paragraph 2A.4 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.6 For the purposes of paragraph 2A.4 of this condition, it is to be presumed (subject to paragraph 2A.7 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.7 The presumption established by paragraph 2A.6 of this condition is without prejudice to the Licensee's right under paragraph 2A.13 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.4 or 2A.5(a) of this condition.

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

- 2A.8 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.4 of this condition, it may modify that instrument in accordance with paragraphs 2A.9 to 2A.12 of this condition.
- 2A.9 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.4 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.10 The Authority will publish any notice issued under paragraph 2A. 9 of this condition on the Authority's Website.
- 2A.11 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.12 Having complied with paragraphs 2A.9 to 2A.11 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.13 If the Licensee demonstrates in representations made under paragraph 2A. 9(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.4 or 2A.5(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.14 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.15 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.16 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.17 Without limiting the general effect of paragraph 2A.16 of this condition, the Authority will, subject to paragraph 2A.18 of this condition, by not later than 30 November in each Formula Year t-1:
- (a) publish on the Authority's 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;~~ ensure that the electronic name of the file is "GD1 PCFM" followed by "November 20XX" where 20XX represents the calendar year containing the month of November in the Formula Year t-1;
  - (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.18 The first Formula Year in which the Authority will publish a version of the GD1 Price Control Financial Model on the Authority's Website for the purposes of paragraph 2A.17 will be Formula Year 2013/14 and the last Formula Year will be 2019/20.

#### **Part D: Interpretation**

- 2A.19 This condition must be read and construed in conjunction with Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model).

## **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 Condition 2A (Governance of GD1 Price Control Financial Instruments) and Special Condition 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 values for the relevant Distribution Network for each Formula Year are zero as at 1 April 2013.
- 3A.7 Subject to paragraph 3A.8 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 Revisions to the LAR value for Formula Year 2013/14 will be determined in accordance with the following formula:

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

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-;

IFIAR means the adjustment in respect of errors identified in the formula used to calculate IFISD<sub>t</sub>, determined in accordance with Part B of this condition; and

IAEAR means the adjustment in respect of income adjusting events included in the legacy period.

3A.10 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 <del>H</del> 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.11 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.12 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.13 Subject to paragraph 3A.8 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) 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-;

- (g) IFIAR, in accordance with the methodology set out in part 7 of chapter 10 of the GD1 Price Control Financial Handbook; and
- (h) IAEAR, in accordance with the methodology set out in part 8 of chapter 10 of the GD1 Price Control Financial Handbook.

3A.14 The first Formula Year in which the Authority will make determinations pursuant to paragraph 3A.13 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.15 Subject to paragraph 3A.8 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.16 Any direction issued under paragraph 3A.15 of this condition will include a statement of the component term values determined under Part B.
- 3A.17 Before issuing any directions under paragraph 3A.15 of this condition, the Authority will give notice to the Licensee of all of the values that it proposes to direct.
- 3A.18 The notice referred to in paragraph 3A.17 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 concerning the determination of any revised LAR or LRAV values.
- 3A.19 The Authority will have due regard to any representations duly received under paragraph 3A.18 of this condition, and give reasons for its decisions in relation to them.
- 3A.20 If, subject to paragraph 3A.8, 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.21 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 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 as at 1 April 2013.
- 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 revisions 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 will allow the Licensee to receive additional funding within the Price Control Period only if the Authority is satisfied that the Roll-out:
- (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 a revision 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 revisions to IRM values**

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 GD1 Price Control Financial Model 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; 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 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 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, 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 Distribution Network</b>	<b>Totex Incentive Strength Rate (%)</b>
NGGD EOE	63.04%
NGGD Lon	63.04%
NGGD NW	63.04%
NGGD WM	63.04%
Northern Gas Networks Ltd	63.98%
Scotland Gas Networks plc	63.73%
Southern Gas Networks plc	63.73%
Wales & West Utilities Ltd	63.17%

## APPENDIX 2: Materiality threshold amount

<b>Licensee Distribution Network</b>	<b>£m</b>
NGGD EOE	503.751
NGGD Lon	353.576
NGGD NW	365.242
NGGD WM	273.597
Northern Gas Networks Ltd	338.713
Scotland Gas Networks plc	255.631
Southern Gas Networks plc	605.906
Wales & West Utilities Ltd	341.301

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

### Introduction

#### 3F.1

~~1A.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 Non Gas 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 Non Gas 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

~~1A.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 (Restriction of Revenue in respect of the Distribution Network Transportation Activity) 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;
- (c) allowed expenditure levels in relation to the Non Gas Fuel Poor Network Extension Scheme determined under Part C of this condition; and
- (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**

~~1A.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**

~~1A.4~~ This condition should be read and construed in conjunction with Special Condition 2A (Governance of GD1 Price Control Financial Instruments) and Special Condition 2B.

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

**3F.5**

~~1A.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**

~~1A.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**

~~1A.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**

~~1A.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**

~~1A.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**

~~1A.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
- (c) the second application window which opens on 1 May 2018 and closes on 31 May 2018.

**3F.11**

~~1A.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**

~~1A.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

~~1A.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

~~1A.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

~~1A.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

~~1A.16~~ A determination under paragraph 3F.14 of this condition may confirm, reject, or amend the proposed relevant adjustment.

3F.17

~~1A.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

~~1A.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 level for the relevant Distribution Network in relation to an uncertain cost category for any Formula Year from 2013/14 to 2020/21.

3F.19

~~1A.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

~~1A.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

~~4A.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

~~4A.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

~~4A.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

~~4A.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

~~4A.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 Non Gas Fuel Poor Network Extensions Scheme**

3F.26

~~4A.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 Non Gas 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

~~4A.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

~~1A.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

~~1A.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

~~1A.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

~~1A.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

~~1A.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 (IAEEPS 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) Non Gas Fuel Poor Network Extension Scheme (IAEFP).

3F.33

~~1A.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

~~1A.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

~~1A.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

~~1A.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

~~1A.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 Non Gas 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

~~1A.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

~~1A.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 concerning the determination of any revised PCFM Variable Values.

3F.40

~~1A.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

~~1A.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>i</sub> for the relevant Distribution Network under those paragraphs.

## APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 3F.7 of this condition)

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

## APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 3F.7 of this condition)

<b>Licensee Distribution Network</b>	<b>£m</b>
NGGD EOE	503.751
NGGD Lon	353.576
NGGD NW	365.242
NGGD WM	273.597
Northern Gas Networks Ltd	338.713
Scotland Gas Networks plc	255.631
Southern Gas Networks plc	605.906
Wales & West Utilities Ltd	341.301

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

### **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 Special Condition (in whole or in part) is terminated by a 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 Special 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 Special Condition (or part or parts of them) would cease to have effect (the “Disapplication Date”); and
  - (f) specify the Distribution 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 paragraph 4A.8 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 service of a Disapplication Request may not have effect until a date that is no earlier than 18 months after service on 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 Disapplication 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 23E(2)(b) of the Act nor substituted its own decision for that of the Authority<sup>2</sup>~~s~~ under section 23E (2)(c) of the Act; and
- (c) no more than 30 days have elapsed since the date on which the Competition Commission quashed the decision in the circumstances described in paragraph 4A.11(b) above.



## 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 of this condition. The NOMs Methodology must:
- (a) facilitate the achievement of the NOMs Methodology Objectives set out in Part B of this condition;
  - (b) enable the objective evaluation of the Network Output Measures set out in Part C of this condition;
  - (c) be implemented by the Licensee in accordance with the provisions of ~~Part~~ **Part E** of this condition; and
  - (d) be capable of being modified from time to time in accordance with the provisions of ~~Part E~~ **Part F** of this condition.
- 4G.3 The Licensee, together with all other DN Operators, must at all times after the approval by the Authority of the NOMs Methodology submitted pursuant to paragraph 4G.2 have in place and maintain the NOMs Methodology in accordance with paragraphs 4G.2.

### 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;
- (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 Distribution Network entry points and utilisation factors; and
- (e) the “Network Outputs”, which are used to measure the Licensees asset management performance as required by Special Condition 4H (Specification of Network Outputs).

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 its 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 Network Output Measures at two milestones;
  - (i) 24 months in advance of the mid-period of the Price Control Period (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 the Price Control Period (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 of this condition and will consult with the DN Operators to which a condition of equivalent effect to 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 4G.2 and 4G.8 of this condition 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 of this condition 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 a condition of equivalent effect to 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 Network Output Measures derived pursuant to it, in accordance with the information gathering plan set out in paragraph 4G.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 Network Output Measures 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 Network Output Measures relate; the Authority will propose any corresponding specific reporting arrangements applicable to the Network Output Measures 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 4G.10 of this condition 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 captured under paragraph 4G.8(a) to ensure that it facilitates 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 a condition of equivalent effect to 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 of this condition, 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) of this condition, 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 of this condition.

### **Part G: Interpretation**

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

## 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 paragraph 4H.3 of this condition, by the end of the 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 (“Materially Equivalent Outputs”);
  - (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 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 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 Output under paragraph 4H.3 of this condition the Authority will, amongst other things, take account of:
- (a) any trade-offs between asset categories the Licensee has made in its decision making relation to the delivery of its Network Outputs 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 the Authority under 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)~~(ii) 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 revenue

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 shall be included in the Second 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 shall be included in the Second Price Control Period allowances</p> <p>The Licensee shall incur the financing cost of earlier investment</p>
Material under-delivery	<p>Cost of under-delivery shall be excluded from the Second Price Control Period allowances</p> <p>The Licensee shall benefit from the financing cost of delayed investment</p>	<p>Cost of under-delivery shall be excluded from the Second 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 1 April 2013 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, the DN Operator has not delivered primary output/secondary deliverable)</p>	<p>Catch-up to output level required at the Second Price Control Period (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 the Second Price Control Period (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 Operator 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 Operator has delivered same as business plan incremental capacity</b></p> <p>No action</p> <p><b>Where DN Operator 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. ( DN Operator 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, the DN Operator has delivered primary output/secondary</p>	<p><b>Where DN Operator has delivered less than business plan incremental capacity</b></p> <p>For incremental capacity installed less forecast, the DN</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>Operator retains benefit.</p> <p>Carry-forward = 0</p> <p><b>Where DN Operator has delivered same as business plan incremental capacity</b></p> <p>Carry-forward = 0</p> <p><b>Where DN Operator 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 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 of this condition 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 the Authority under 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 direction:
  - (i) stating the reasons for and the effects of its proposed determination; and

- ~~(iii)~~(ii) specifying the time (which must not be less than a period of 56 days) within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.