

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 & West Utilities Limited

(Company Number: 05046791)

(together, the "Licensees")

Direction under paragraph 8 of Standard Special Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") of the Gas Transporter Licence granted to the Licensees under section 7 of the Gas Act 1986

Whereas –

1. The Licensees have each been granted a Gas Transporter Licence (the "Licence") under section 7 of the Gas Act 1986 (the "Act") and are subject to the conditions contained in the Licence.
2. In accordance with paragraph 10 of SSC A40 of the Licence the Gas and Electricity Markets Authority (the "Authority") gave notice on 16 April 2014 that it proposed to re-issue Regulatory Instructions and Guidance (the "RIGs").
3. The reason for issuing the RIGs is to enable the Authority to collect the information to enable it to administer the Special Conditions of the Licence and, where not referenced in the Licence, the RIIO-GD1 Final Proposals.
4. SSC A40 came into effect on 1 April 2013, the start of RIIO-GD1 price control period and the Authority proposed to issue the RIGs with effect from 1 April 2013.
5. A copy of the RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 1.1 is included in the Schedule to this Direction.
6. The Authority requested that any representations on the proposed RIGs be made on or before 14 May 2014. The Authority received representations from the Gas Distribution Network companies. We considered the representations and made changes as set out in Appendix 1 included with this notice.

Now therefore –

In accordance with the powers contained in paragraph 8 of SSC A40 of the Licence, the Authority hereby issues the RIGs in the manner specified in the attached Schedule. The RIGs will have effect on and from 1 April 2013.

This document constitutes notice of the reasons for the Direction as required by section 38A of the Act.

A handwritten signature in black ink, appearing to read 'Paul Branston', with a large, stylized flourish above the name.

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Paul Branston
Associate Partner, Costs and Outputs
Duly authorised on behalf of the Authority

30 May 2014

Schedule to the Authority's Direction dated 30 May 2014

Regulatory Instructions and Guidance

[RIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 1.1](#)

**Appendix 1 to the Authority’s Decision dated 30 May 2014
Modification of Regulatory Instructions and Guidance**

Table	Comment	Change
1.5	<p>1. The RIGS still include a sentence about “Credit Ratings” for loan providers – but this has now been removed from the table.</p> <p>2. Sub table E ‘Analysis of other amounts due to group companies from the balance sheet’ totals up and feeds into the net debt summary at the top of the table. We would not consider intercompany trading balances as “net debt” but the RIGS aren’t clear as to whether this needs to be included in section E or not.</p>	All cost RIGS have been amended by moving the row for other inter company items out of the net debt analysis table. The wording "credit rating" has also been removed from the irrelevant areas of the net debt tables
7.10	table 7.10 does not capture the data needed to calculate the Revenue adjustment and the NIA report we send in separately doesn’t include any costs. It would be helpful to have a table combining all reporting requirements.	No change to table required. The table shows the actual costs spent on NIA projects, there seems to be no point in replicating the revenue calculation that is included in the Revenue RIGs
7.6	This table captures FTE numbers from 3.1 but only for opex – not capex / repex / non formula – would have thought would want total FTEs?	agree and amended formula to pick up total FTEs from column AH on table 3.1
1.1	There is a formula error cell ref H71.	Agree and formula corrected
3.8	<p>The asset categories on 3.8 seem to differ from the categories agreed by the Safety and Reliability Group. Copy of the latest document attached. It is the asset categories within this document that we have been capturing costs at, and not the list in the RRP.</p> <p>Do we go with the list we have costs for, or do you want us to try and realign into the categories in the maintenance tab</p>	the asset categories on table 3.8 have been updated to reflect the asset categories on table 7.3 Asset health and criticality
3.8	there is a formula error in cell B17 currently states = if(sum(B9:B16)= 3.1Opex cost matrix! K63, "OK", "Error").	Agree and formula corrected
6.4	in the old RIGs it made it clear that on Table 6.4 (previously 3.16) the storage volume and interruption data was required at offtake (NTS Exit) zone level only, and the data should be entered against the first named offtake only. This is the last 5 columns on the table.	RIGs revised to reflect previous instructions

	Given its impractical and inaccurate to provide the information at any lower level of detail, can you confirm we can proceed as per the previous instructions?	
3.15	there is a formula error in cell D15 of tab 3.15 SIUs. Currently picking up cell D31 from 3.1, whereas, it should pick up L31	Agree and formula corrected
3.5	<p>Stores and Logistics are separated out on table 3.1, stated as to be excluded on table 3.4, but no clarification as to their inclusion / exclusion is mentioned within table 3.5 itself (previous Ofgem comment suggested they should be included). However RIGS for table 3.5 state the following which suggests that 3.5 should be completed on same basis as 3.4. For this reason we will not include Stores and Logistics in table 3.5.</p> <p>"The purpose of this table is to trace the group net cash controllable costs (from table 3.4) to individual activity allocated net cash controllable costs including any cost transfers to/from direct activity functions of the company's organisation. This table allows Ofgem to reconcile cost allocations from the various forms of control to the business support activity definitions given above."</p>	<p>Guidance updated:</p> <ul style="list-style-type: none"> • For transmission and electricity distribution columns: <ul style="list-style-type: none"> o Row 93 contains the net total from procurement (does not include stores and logistics) o Stores and Logistics are added in from CAI activities in column 95 o Row 106 contains the total allocated from group including stores and logistics • For gas distribution columns <ul style="list-style-type: none"> o Row 96 contains the net total from procurement (does not include stores and logistics) o 'Stores and logistics' should be entered in cell E104 and net total from stores and logistics recorded in row 106. o Row 106 contains net total allocated from group including stores and logistics. <p>"Stores and logistics" entered into cell E104 for GDNs.</p>
3.1	Missing formula's on row 61 and columns H, N, V, X, Z – all within the non controllable costs section (rows 41-61)	the formula is not required in these cells - the totals get picked up in column Z only
3.2	The RPI adjustment factor was not included in the grey cell D13 – but we can get it from universal data tab	agree and amended
3.13	in respect of section G of the table, some Section 74 failure to clear site on time charges are reduced to £100 if the issue relates to a few items (e.g. a cone and a sign) being left on site, it is a category 3 or 4 road that is not traffic sensitive and the matter at issue is resolved within 24 hours	updated the table for additional item to account for this type of cost

4.3	<p>The formula in K91 should be =SUM(IF(\$F\$80:\$F\$89="Non-load related",K\$80:K\$89,0))</p> <p>The formula in L91 should be =SUM(IF(\$F\$80:\$F\$89="Non-load related",L\$80:L\$89,0))</p>	Agree and formula corrected
7.10	<p>Where a DN has paid for a project upfront and costs are later recovered from collaborators the cost will need to be shown in cells C10 to C16 with cost recovery shown in C18. However cell C18 ought to be expanded so that cost recovery per project can be shown. Otherwise there will be individual cells showing costs but only one cell showing cost recovery in a project bundled way and it will not be clear which income is attributed to which project.</p>	<p>No changes made.</p> <p>The table shows a summary of NIA expenditure and recovery of costs from 3rd parties. The detailed relating to NIA expenditure and recoveries will be shown in the reporting they have to do on an annual basis.</p>
RIGs	<p>There are a number of areas where the RIGs might be improved/clarified or where there is some discrepancy between the RIGs and data tables or simply a conflict within the RIGs or tables. For example:</p> <p>1) table 6.6 the risers table correctly indicates that the number of risers should be reported while the rows refer to the length which is not correct and</p> <p>2) RIGs have been updated from previous years for the agreed new definition of totex, which includes restructuring and redundancy costs. However the definition of cash atypical has not been updated to reflect this change.</p>	<p>1) the table is correct - we wish to know the numbers per length for the categories stated in order to understand the costs which vary significantly across the categories</p> <p>2) We identify cash atypical costs as we may use these for benchmarking purposes. These costs are not excluded from Totex.</p>