**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. SSC A40 came into effect on 1 April 2013, at the start of RIIO-GD1 price control period, and the Authority proposed to issue the RIGs with effect from 1 April 2013.
3. The aim of 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. In accordance with paragraph 10 of SSC A40 of the Licence, the Gas and Electricity Markets Authority (the “Authority”) gave notice on 27 April 2016 that it proposed to modify the Regulatory Instructions and Guidance (the “RIGs”).
5. The Authority requested that any representations on the proposed RIGs be made on or before 27 May 2016. The Authority received representations from two of the Gas Distribution Network companies. We considered the representations and made changes as set out in Appendix 1 included with this Direction.
6. The effect of the modification will be to improve the transparency and accuracy of the reporting by the Licensees under the RIGs.
7. A copy of this modified version of the ‘RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 3.0’ is included in the Schedule to this Direction.

**Now therefore –**

In accordance with the powers contained in paragraph 8 of SSC A40 of the Licence, the Authority hereby modifies the RIGs in the manner specified in the attached Schedule.

This modification will take effect on 29 June 2016.

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



**…………………………………………..**

**Kersti Berge**

**Partner for Networks**

**Duly authorised on behalf of the Authority**

**29 June 2016**

**Schedule to the Authority’s Direction dated 29 June 2016**

**Regulatory Instructions and Guidance**

[RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 3.0](https://www.ofgem.gov.uk/system/files/docs/2016/06/riio-gd1_gas_distribution_rigs_version_3.0_final_2015-16_1.pdf)

[RIIO-GD1 Gas Distribution Costs and Outputs Reporting Template version3.0](https://www.ofgem.gov.uk/publications-and-updates/decision-modification-riio-gd1-gas-distribution-price-control-regulatory-instructions-and-guidance-version-3-0)

[RIIO-GD1 Gas Distribution Revenue Return Template version 3.0](https://www.ofgem.gov.uk/publications-and-updates/decision-modification-riio-gd1-gas-distribution-price-control-regulatory-instructions-and-guidance-version-3-0)

**Appendix 1 to the Authority’s Decision dated 29 June 2016**

**Modification of Regulatory Instructions and Guidance - Summary of Representations to the** [**Consultation**](https://www.ofgem.gov.uk/publications-and-updates/notice-modification-relation-riio-gd1-gas-distribution-price-control-regulatory-instructions-and-guidance-version-3-0) **from the Gas Distribution Network companies**

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| **Company** | **Table** | **GDN comment** | **Ofgem comment- modification** |
|  | 1.4 | Cell F13 says ‘2015’ – this should be ‘2016’ | Changed |
| **National Grid Gas distribution** | 1.6 | The “Former use of site/land” cells are now grey and appear to contain profit and loss calculations. It is unclear whether Ofgem still require the former use of site/land as there is no column to put this information now.  The profit and loss calculations mentioned here require a title, and perhaps a reference in the RIGs.  Columns C and D are now yellow, but do not have a heading – presumably this would be cost and accumulated depreciation as the totals link through to the top table. Furthermore if they are linked and contain formula shouldn't the cells be grey because they require no input? | Removed the following cells from sub-table on table 1.6: C28:C46, D28:D46 and amended J28:J46. Changed cells C15 and D15 from linked cells back to input cells as per Change Log (Row 138) |
| 1.10 | The formulas from row 94 to row 117 do not seem to be correct for  example, cell 94 contains the formula:  =IF((D$19+D$27)>0,(D15+D23)/(D$20+D$28),0)  The figures highlighted in red should be changed to the following:  =IF((D$20+D$28)>0,(D15+D23)/(D$20+D$28),0)  The same issue applies to all affected rows. | Corrected |
| 1.13 | Table 1.13 – cell E12 says ‘2015’ – this should be ‘2016’ | Changed |
| 2.2 | Sub-deduct allowances have changed (row 136), however the reason for this is not clear. | This should be consistent with what was reported last year. Changed to with link to row 177 with 2015/16 price adjustment. |
| 2.2 | There is a miss-calculation in respect of Non-HSE driven mains & services in  2014/15 where the numbers don’t match once RPI has been included.  We struggled to match the previous year forecasts to 2015/16 and could not trace the RPI factor. Last year they matched, this year they do not. We believe the value of 259.4 should be 260.0 | The RPI we have used is correct at 259.4. NGGD refer to February RPI in diagram, not the financial year average RPI. No change required. |
| 2.3 | Governor intervention formulae have been reset; this is noted in change log, however the previous year’s forecast – on row 54 – has just that submitted under last year’s RRP request and not the updated classification that was requested in a later supplementary question.  The table needs to have the answer we provided in respect of the  Supplementary Question put in. | Forecast for previous 2 years won’t be written over with response to SQ but actuals for 2014 and 2015 will be incorporated. |
| 2.4 | The formula in cell C15 is now incorrect. It ought to contain the formula  =B15+C13 as it did last year however in the new version it shows only as  =C13. | Changed as suggested |
| 2.4 | For Cell B24, in our final submission for last year (East of England) the cell had the sum =B22-B23 but in the new version there is no calculation. This is repeated across the cells for the whole period.  For cell B25, in our final submission for last year the cell had the sum =B23 but in the new version there are no calculations. This is repeated across the cells for the whole period so for C25 – I25. It needs the sum =B25+C23 | Changed for consistency- there was no formula as this refers back to the previous year’s RRP. |
| 2.4 | Cells 39 & 40 in the new templates show data to 2 decimal places however  given the magnitude of these numbers (in the millions) this is a spurious  degree of accuracy. | Changed. From this a couple of formula errors were highlighted in individual GDN templates. Some previous year links linked back to 2013/14 rather than 2014/15. This has now been updated. |
| 2.4 | For cell L48 in the new version it is missing the calculation =B40-B48  C82 & C83 are grey but contain no data or formula. | L48 now contains calculation. C82 and C83 should be filled with previous year’s data. |
| 2.4 | Cells E39 – I39 in the new templates show data to 2 decimal places however given the magnitude of these numbers (in the millions) this is a spurious degree of accuracy. | Changed- agree 2dp not required |
| 2.5 | In the new version cell B25 (& across the RIIO period) does not have the  calculation behind it, which the 2015 version does (these cells contain  =SUM(B23:B24) in 2015 version) | Changed |
| 2.5 | In the new version the grey cells C112 – 114 for offtake meter errors for  2015, need to show what we submitted last year for example East of  England 2015 should be 97,396 GWh in cell C113. | Changed |
| 2.5 | Rows D68 – I68 (telemetered faults), the spreadsheet allows the input of data with two decimal places & shows this on the location line at the top of the spreadsheet, but the decimal places do not show in the table itself.  2.6 | Changed to show 1dp as in previous year |
| 2.6 | Cells D13 – I13 and E38 - I38 on the 2014/15 version the data is displayed to  one decimal place, and on the 2015/16 this is now a whole number. | Whole number display more appropriate for this summary |
| 4.3 | We need additional rows for LTS diversions. In one of our Networks we have 17 jobs to report. We suggest that the table be amended so that it has at least 20 rows for these projects.  We also need additional rows for 'Distribution Network embedded gas  entry'; this is because we have 22 projects to report in one of our Networks.  We suggest that the table be amended so that it has 25 rows for this. | Rows added as requested |
| 4.3 | Year in cell A3 incorrect - should be "2015/16" | Changed |
| 4.8 | Table 4.8, column G should have a drop-down list for Status as follows which is missing.  - To be constructed  - Under construction  - Complete | Drop down list added. |
| 5.1 | The table appears to have yellow cells (column F), these were grey last year. The RIGs state that this table auto-populates from tables 5.2-5.8 and requires no input however the table implies that values should be put in. | New formula to be added which links back to previous years- should be looking at number for all years |
| 5.6 | Cell B18 description is incorrect - should be "Total"  Cell C19 has no colour shading - we suggest it should be a yellow cell. | B18 changed to 'total' |
| 7.6 | Gas composition fractions and other input assumptions (column I) are  un-used in calculations – presumably they are being provided for information only. | Correct these are for information |
| 7.6 | The formula in G29 appears to reference values within an Ofgem data base and not values within table 3.12, which might be expected to feed it. All GDNs should be using Shrinkage Model 4 in respect of 2015/16.  If the Shrinkage model changes then baselines ought to be adjusted to avoid the model change feeding into incentive performance outcome. However, this is not an annual event; the model is only changed following appropriate consultation that has achieved agreement from stakeholders. | Updated to show correct formula and values as agreed in consultation process |

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| **Northern Gas Networks** | 3.12 | Table 3.12a Theft of Gas  For clarity our submission in 2014/15 used the following assumptions to populate the draft table, and we would support using them again and updating the RIGs to reflect this.  -The number suspected/reported incidences of theft – the number of cases as per Xoserve data which have been closed within the regulatory year.  -The number of investigations – again from an Xoserve report, which should match back to the above (and does).  -Number of cases brought to court – brought to court in this regulatory year, which doesn’t necessarily mean that the case was reported/closed in this regulatory year  -Number of successful cases – Successful means we have started receiving the money – again they may not be cases that were reported/closed in this regulatory year  -Total cost of investigations – we have only reported investigation costs where the investigation has been closed, either because it was invalid or it is considered closed because we’ve now started receiving the money.  -Money recovered from successful cases – All monies received in this regulatory year, which includes cases closed this year and monies received from cases closed last year.  The above assumptions best enable us to capture the data from existing reports with minimal manipulation and support a full audit trail, and in any case over time will enable Ofgem to track trends and effort in this area. | Ofgem to have further discussion with all GDNs on this to feed into 2016/17 consultation. NGN to continue filling 3.12a using same method as previous years. |
| 3.13 | The Gas Distribution Costs and Outputs group submitted a revised Streetworks table last year after recognising inconsistencies in reporting between the different companies, and would welcome a discussion on updating this table with Ofgem. | Noted- Ofgem to have discussion with NGN and other GDNs on this to inform 2016/17 RIGS. |
| 7.6 | In table 3.12 Shrinkage (GWh) is calculated using specific GDN average CVs from the base throughput. This then feeds into table 7.6 for calculating BCF, which then uses national averages to calculate BCF with the intention of making them comparable.  However to make it fully comparable, then a national average CV should be used to calculate Shrinkage from the GDN specific throughput on table 3.12. | The option of using GD specific values will be considered further and discussed with GDNs and any changes will be implemented in next year’s RRPs. |
| 7.7 | The Broad Measure information within 7.7 could be linked directly from table 7.8. | 7.7- F14 now links directly to 7.8- capacity connected (G57) |
| 7.10 | We would support including a split of costs into internal and external costs by project, which could then be used to provide a direct audit trail through to the separate Revenue submission which requires this split. | We will discuss with NGN and other GDNs and consider incorporating into next year’s RRP. |