



Making a positive difference  
for energy consumers

To: Gas distribution companies,  
consumer groups, investors, other  
users of the Financial Model and  
other interested parties

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Date: 19 July 2016

Dear Stakeholders,

**Clarification re: incorporating previously directed changes under Part B of Special Condition 2A of the Gas Distribution Licence into the GD1 Price Control Financial Model**

This letter clarifies that the two modifications listed in Table 1, which were made in September 2015, are incorporated into the GD1 Price Control Financial Model ('the Model').

We have today published a notice alongside this letter to modify the Model by making two new changes, and Schedule 1 to that notice incorporates the two previous changes listed in Table 1. An updated and consolidated version of the Model will be published once the new 2016 changes have been directed.

Under Special Condition (SC) 2A (Governance of GD1 Price Control Financial Instruments) of the Gas Distribution Licence, the Gas and Electricity Markets Authority (the 'Authority')<sup>1</sup>, by way of direction, can make changes to the GD1 Model.

In the lead up to the November 2015 Annual Iteration Process (AIP), on 8<sup>th</sup> September 2015, the Authority directed<sup>2</sup> two changes to the Model as outlined in Table 1, having given notice<sup>3</sup> of these changes and receiving no representations. On 30<sup>th</sup> November 2015, the Authority published its directions<sup>4</sup> revising PCFM Variable Values<sup>5</sup> and the value of MOD<sup>6</sup> following the AIP. The Model used to calculate the value of MOD was published alongside these directions.

It has since come to light that the Model used to calculate the value of MOD as directed on 30<sup>th</sup> November 2015, did not include the two directed changes. The absence of these changes did not impact the results of the AIP, as the value of MOD for all licensees, as directed to one decimal place, would not have been different had the changes been incorporated.

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<sup>1</sup> The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-under-part-b-special-condition-2a-governance-gd1-price-control-financial-instruments-each-gas-transporter-licence>

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/modification-notice-under-part-b-special-condition-2a-governance-gd1-price-control-financial-instruments-each-gas-transporter-licence>

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/rrio-gd1-directions-annual-iteration-process-november-2015-gas-distribution>

<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/gd1-price-control-financial-model-annual-iteration-process-november-2015>

<sup>6</sup> MOD represents the incremental change in Opening Base Revenue Allowances resulting from the AIP. A full definition can be found in the GD1 Financial Handbook.

**Table 1 – Location of previously directed modifications in the 2016 version of the Model**

Modification	Worksheet in Model	Cell References
Separate Inputs for Type B Tax Trigger Events	Tax Trigger	AH125:AO125, C140:AO149
Spreading Calculation for Legacy Allowed Revenue	Input	AH171:AO171

We have been reviewing our internal quality assurance processes with input from Ofgem’s newly formed Improving Regulation division. This issue came to light as part of the review of our processes and controls. We have now implemented steps to ensure the correct version of the Model is used for the AIP in future years.

If you would like to discuss this matter further, please contact Matthew Brown using the contact details provided at the start of this letter.

Yours faithfully,



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**Ian Rowson**

**Associate Partner, RIIO Finance & Investor Relations**

**Duly Authorised on behalf of the Gas and Electricity Markets Authority**

**19 July 2016**