

# Statutory Consultation on modifications to the Special Conditions of NGGT's Gas Transporter Licence and RIIO-GT1 Price Control Financial Instruments to implement PARCA arrangements and the funding decision on the Fleetwood entry point


## Consultation

**Publication date:** 10 July 2018  
**Response deadline:** 7 August 2018

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### Overview:

Changes are required to National Grid Gas Transmission (NGGT) Gas Transporter Special Licence Conditions and GT1 Price Control Financial Instruments to account for two decisions. The first is our decision to implement Planning and Advanced Reservation of Capacity Agreements (PARCAs). The second is our decision to remove £277.5 million from NGGT revenue allowances for investments at the Fleetwood entry point, which did not take place and are not expected to be needed over the remainder of the current control period. This consultation proposes how the consequential licence changes are to be implemented.



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## Context

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The RIIO Price Control Financial Models (PCFMs) determine adjustments to the annual revenue allowances for the companies that own and operate the transmission and distribution networks. As they are a part of the network licences, changes to PCFMs are subject to the normal processes for making licence revisions. This includes functional modifications of the PCFMs and changes in previously agreed allowances, as is the case for this consultation. There are exceptions that allow for changes to PCFMs that do not require consultation, these situations are included in the Special Conditions of the licences and can be broadly described as either being when a change will not result in material change to licensee allowances and when conducting the RIIO Annual Iteration Processes. In both of these cases, notification of changes are given with a 14-day window for representations to be made. On this occasion, the changes proposed are material and therefore require this consultation to be issued.

## Associated documents

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Consultation on changes needed to implement new arrangements for incremental gas transmission capacity (PARCAs)

[https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/parca\\_licence\\_change\\_initial\\_consultation\\_letter.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/parca_licence_change_initial_consultation_letter.pdf)

Decision on licence changes to implement Planning and Advanced Reservation of Capacity Agreements

[https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/parcas\\_modification\\_direction\\_letter\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/parcas_modification_direction_letter_0.pdf)

Consultation on review of the Fleetwood entry point in gas transmission

[https://www.ofgem.gov.uk/system/files/docs/2017/03/fleetwood\\_consultation\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/03/fleetwood_consultation_letter.pdf)

Decision on Fleetwood entry point in gas transmission

[https://www.ofgem.gov.uk/system/files/docs/2017/08/fleetwood\\_capacity\\_and\\_funding\\_decision.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/08/fleetwood_capacity_and_funding_decision.pdf)

The RIIO-GT1 Price Control Financial Model (PCFM) prior to proposed revisions

[RIIO-GT1 Financial Model for the Annual Iteration Process November 2017](#)

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## Executive Summary

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We<sup>1</sup> are consulting on the implementation of two decisions:

- 1) The introduction of Planning and Advanced Reservation of Capacity Agreements (PARCAs). The PARCA arrangement allows long-term NTS entry and/or exit capacity to be reserved for a customer while they develop their own project, before they buy that reserved capacity. In the event of a PARCA termination, NGGT is entitled to collect a security amount from the PARCA applicant as a termination fee, and share with consumers the balance between this fee and the efficient costs it incurred from working on the terminated PARCA. The calculation of the corresponding allowed revenue adjustment has to be included in the PCFM.
- 2) The reduction of £277.5 million<sup>2</sup> from NGGT revenue allowances for investments at the Fleetwood entry point, which did not take place and are not expected to be needed over the remainder of the current control period.

The introduction of PARCAs requires functional modifications to the PCFM, which we consider are material. Nonetheless, we expect that these modifications will have only a negligible effect on allowed revenues. On the contrary, we estimate the PCFM changes to reflect the decision on Fleetwood will reduce revenue by approximately £47 million during the RIIO-GT1 price control.

If having considered responses to this consultation we decide to proceed with the changes then we will issue directions to this effect in August. These would modify the NGGT Gas Transporter Special Licence Conditions and the Price Control Financial Instruments<sup>3</sup>. We intend for the related PCFM revisions to be reflected in the upcoming November 2018 Annual Iteration Process, setting allowed revenues for year 2019/20.

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<sup>1</sup> The terms "the Authority", "Ofgem" and "we" are used interchangeably. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> All monetary values in this document are expressed in real 2009/10 prices.

<sup>3</sup> The Price Control Financial Model and Financial Handbook.

# 1. Implementation of PARCA Arrangements

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## Chapter Summary

We changed the Special Conditions of NGGT's Gas Transporter licence to implement the PARCA arrangements in 2015. These changes were only a short-term solution to facilitate the introduction of the PARCA mechanism, as the preferred long term solution was to include such mechanism in the PCFM. In this chapter we propose changes in the Special Licence Conditions and in the Price Control Financial Instruments to attain the preferred long term solution and implement the PARCA mechanism in full.

**Question 1: Do you agree that the proposed changes to the Special Conditions of NGGT's Gas Transporter licence and related modifications in the Price Control Financial Instruments correctly implement PARCA arrangements?**

## Background to Implementation of PARCA Arrangements

1.1. PARCA is a bilateral contract between NGGT and a National Transmission System (NTS) customer, which might be a gas shipper, distribution network operator or any other third party such as a project developer. The PARCA arrangement allows long-term NTS entry and/or exit capacity to be reserved for a customer while they develop their own project, before they buy that reserved capacity.

1.2. On 31 January 2015, we made a number of changes to NGGT's Gas Transporter Special Licence Conditions to implement the PARCA framework<sup>4</sup>. One of the changes amended Special Condition 2A, to allow NGGT to collect eligible costs incurred for the terminated PARCA as Transmission Owner (TO) allowed revenue.

1.3. A full description of the changes we made to Special Condition 2A and the reasons why we made them can be found in the relevant documents on our website<sup>5</sup>.


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<sup>4</sup> See links to consultation and decision documents:

[https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/parca\\_licence\\_change\\_initial\\_consultation\\_letter.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/parca_licence_change_initial_consultation_letter.pdf)

[https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/parcas\\_modification\\_direction\\_letter\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/parcas_modification_direction_letter_0.pdf)

<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-changes-needed->



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In summary, if a PARCA is terminated, NGGT and the PARCA applicant decide the cause of the termination and who should bear the associated costs. Subject to the terms of the PARCA contract, NGGT is entitled to collect a security amount from the PARCA applicant as a termination fee, the "PARCA Termination Amount". This is deducted from the costs NGGT incurred from working on the terminated PARCA, the "PARCA Termination Costs". The balance of "PARCA Termination Costs" and "PARCA Termination Amount" should be added to NGGT's TO allowed Totex, provided NGGT has collected a security amount from the PARCA applicant, and translate into revenue allowances via the Totex Incentive Mechanism (TIM).

1.4. The changes made to the licence on 31 January 2015<sup>6</sup> facilitated this process. In particular, the formula in Special Condition 2A.16 calculated the annual NTS TO allowed revenue adjustment for PARCA terminations, based on NGGT's expenditure on terminated PARCAs and security amounts they had recovered from PARCA applicants. This adjustment, denominated "PARCA Termination Amount Term" and denoted by "PTV", was included in the Maximum NTS TO Revenue formula in Special Condition 2A.5. This allowed NGGT to collect and pass through eligible costs associated with PARCA terminations to TO allowed revenue.

1.5. The revised text to Special Condition 2A was, however, only a short-term measure to enable NGGT to pass through eligible costs incurred for a terminated PARCA, and allow the implementation of the mechanism. In fact, the formulae contained in Special Condition 2A provided only an approximation of the calculations required to determine the revenue adjustment. When we previously consulted on making these changes, we stated that the treatment of PARCA terminations would be better placed in the PCFM alongside other similar pass through items. This would allow us to calculate the revenue adjustment within the PCFM, as part of the other annual changes to NGGT's base revenues in the Annual Iteration Process<sup>7</sup> (AIP).

1.6. For the avoidance of doubt, if the proposed modifications are made, all past revenue adjustments for PARCA terminations will be recalculated in the PCFM and reflected in the MODt term for 2019/20.

### **Treatment of PARCA Termination Value**

1.7. We propose to remove all formulae and text for the "PARCA Termination Amount Term" PTV from Special Condition 2A, and redefine PTV as "PARCA Termination Value", calculated as the difference between "PARCA Termination Costs" and "PARCA Termination Amount". We propose to include the "PARCA Termination Value" (the new PTV item) as an uncertain cost category under Special Condition 5E. PTV will be


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[implement-new-arrangements-incremental-gas-transmission-capacity-parcas](#)

<sup>6</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/annex\\_1.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/annex_1.pdf)

<sup>7</sup> See here for details about the Annual Iteration Process:

<https://www.ofgem.gov.uk/network-regulation-riio-model/price-controls-financial-model-pcfm>



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introduced in the Price Control Financial Handbook and the PCFM as a new Variable Value. In this statutory consultation, we are consulting on these changes to the Special Conditions of NGGT's Gas Transporter licence and to related changes in the Price Control Financial Instruments (for the revised NGGT Gas Transporter Special Licence Conditions and GT1 Financial Handbook see Appendix 6 and 7 respectively).

1.8. In our view, removing the text from Special Condition 2A and placing the redefined PTV term in the PCFM will have no impact on the ability of NGGT to pass through eligible PARCA Termination Costs (net of any PARCA Termination Amounts). These changes will not affect the process NGGT and PARCA applicants go through if a PARCA is terminated. It will still be the responsibility of both parties to determine the reasons and causes for the termination occurring.

1.9. If it is established that NGGT have eligible termination costs to pass through, this will be considered through the AIP process. A PTV will be calculated and will enter the calculation of allowed Totex. The corresponding variation in revenue allowances will be determined by the operation of the TIM in the PCFM.

1.10. The proposed changes will ensure an accurate calculation of the revenue impact of PTV, as the formulae currently contained in Special Condition 2A are only an approximation of the complex calculations operated in the PCFM.


1.11. In our view, another key benefit of these proposed changes is transparency. PARCA termination costs proposed by NGGT will be subject to Authority review. Proposals must be made in the form of a notice given by NGGT to the Authority that must determine whether the cost is eligible in the year following a termination. In reaching this decision, the Authority must consult with NGGT and other interested parties, thereby allowing NTS users to comment on NGGT's proposals. Any allowed revenue variation will be determined in the PCFM, which is published at the end of the AIP each year and is therefore publicly available. We consider that these proposed changes promote transparency and allow greater scrutiny of NGGT's intended costs than the current arrangements.

### **Proposed modifications to the RIIO-GT1 PCFM**

1.12. We propose to include the "PARCA Termination Value" in the PCFM<sup>8</sup> as the Variable Value PTV, an additional uncertain cost category. This requires the insertion

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<sup>8</sup> Please note that the proposed changes have been made to the GT1 PCFM used for the AIP 2017, published on our website on 27<sup>th</sup> September 2017:  
<https://www.ofgem.gov.uk/publications-and-updates/riio-gt1-financial-model-annual-iteration-process-november-2017>



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of an additional row to the PCFM Variable Values Table (the so-called "Blue Box") in both the "NGGT TO" and "Input" sheets (row 25).

1.13. For PTV to flow through the calculation of Totex related to uncertainty mechanisms, we need to allocate the associated expenditure into the Totex sub-divisions, by using fixed attribution rates. We propose to allocate PTV costs entirely to "other capex expenditure".

1.14. This is achieved by inserting an additional cost attribution table, containing annual PTV values and fixed attribution rates in the "NGGT TO" and "Input" sheets (rows 135-140). Annual PTV figures (cells AH135:AO135) link to the corresponding values in the Blue Box (cells AH25:AO25), whilst the fixed attribution rates (cells AH136:AO140) are set to "100.00%" for "other capex expenditures" entries (cells AH138:AO138) and set to zero for all other entries.

1.15. For PTV costs to flow through the calculation of Totex related to uncertainty mechanism, we also need to update the formulae in cells AH156:AO160 in both the "NGGT TO" and "Input" sheets, so that the new PTV cost attribution table is included in the calculation of the variant allowed expenditure categories.

1.16. A breakdown of the specifics of these revisions is in Appendix 2.

1.17. No further modifications are required to the PCFM to incorporate PARCA arrangements, if the proposed modification is made. The variation in revenue will flow through automatically as part of the MOD<sub>t</sub> terms for 2019/20 and 2020/21, which will be determined respectively in November 2018 and 2019, following the AIP.

### **Allowed revenue impact of the implementation of PARCA arrangements through the PCFM**

1.18. Calculating the PTV revenue allowances in the PCFM, as opposed to using the formulae in Special Condition 2A, does not have a significant effect on allowed revenues due to the negligible value of current PARCA terminations.



## 2. Funding Decision on the Fleetwood Entry Point

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### Chapter Summary

We decided to remove £277.5 million from NGGT revenue allowances for investments at the Fleetwood entry point, which did not take place and are not expected to be needed over the remainder of the current control period. This chapter describes how we propose to implement the decision in the RIIO-GT1 PCFM.

**Question 2: Do you agree that the proposed PCFM changes correctly implement the decision to reduce NGGT funding for the Fleetwood entry point?**

### Background to the Fleetwood funding decision


2.1. NGGT had an obligation to provide 650 GWh/day of entry capacity at Fleetwood. This capacity was created when a storage developer purchased it in 2006. We funded NGGT £277.5 million in the current price control (RIIO-T1)<sup>9</sup> and the previous price control (TPCR4) rollover year<sup>10</sup> to build a number of pipelines and other network infrastructure upgrades to meet this capacity obligation. However, the project did not proceed and the capacity was largely unsold. NGGT does not expect to spend any of the allowances we provided during this price control.

2.2. We decided to remove £277.5 million from NGGT's price control allowances to ensure consumers do not pay for work which has not been carried out and reduce the capacity obligation to 350 GWh/day.

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<sup>9</sup> RIIO-T1 is the price control for transmission network companies (including NGGT) which runs from 2013 to 2021.

<sup>10</sup> TPCR4 is the price control for transmission network companies which ran from 2007 to 2012. This price control was rolled over for one year (2012/13).



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## Allowance refund details

2.3. We will remove allowances for works under the "Fleetwood pre-RIIO actual capex" and "Fleetwood" revenue drivers. The refund is for expenditure for years from 2012/13 to 2018/19, as set out in Appendix 3.

2.4. The design of the RIIO framework means that revenue allowances for years up until 2018/19 have already been determined. However, the price control has processes for the revision of expenditure allowances made after the determination.

2.5. RIIO takes account of expenditure allowance revisions through the price control AIP. Each year the AIP adjusts company allowed revenue with consideration of a multitude of factors, including the reconciliation of revisions to past periods. The price control conducts these allowance reconciliations on a net present value neutral basis.

2.6. The AIP process can only take account of this if the PCFM is revised. This consultation seeks to modify the PCFM in time for the next AIP, which is to conclude by 30 November 2018. This will mean that NGGT allowed revenue for regulatory year 2019/20 will include an adjustment for the refund that would have been applicable for all years from 2012/13 to 2018/19, as these allowed revenues have already been determined.

## Proposed modifications to the RIIO-GT1 PCFM


2.7. We propose to modify the "Fleetwood pre-RIIO actual capex" and "Fleetwood" non-variant revenue drivers reported in the PCFM<sup>11</sup> for NGGT, as a means of incorporating the funding reduction decision into our allowance calculations.

2.8. Specifically, we propose a £277.5 million reduction of allowances over the years 2012/13 to 2018/19 and, in particular:

- a) on sheet "NGGT TO" to remove £9.2 million "Fleetwood pre-RIIO actual capex" non-variant allowance for 2012/13 (cell AG244), the TPCR4 rollover year (see Appendix 3); and

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<sup>11</sup> Please note that the proposed changes have been made to the GT1 PCFM used for the AIP 2017, published on our website on 27<sup>th</sup> September 2017: <https://www.ofgem.gov.uk/publications-and-updates/riio-gt1-financial-model-annual-iteration-process-november-2017>



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- b) on sheet "NGGT TO" to remove £268.3 million non-variant allowance "Fleetwood" for years 2013/14 to 2018/19 (cells AH256:AM256). The distribution of the refund over these years is given in Appendix 3.

## **Allowed revenue impact of the expenditure allowance refund**

2.9. The refund "trues up" the allowances and reduces the sums transferred from Non-Core to Core RAV from 2017/18 to 2019/20, reflecting that no expenditure was made and is forecasted to be made at Fleetwood in the TPCR4 rollover year and in the current control period. This affects revenues over decades by reducing the depreciation of assets and return on the (lower) remaining RAV.

2.10. The refund will therefore reduce consumer revenues in the near term and in future years. Allowed revenue reductions will first be delivered in 2019/20 and this will reflect all expenditure allowance adjustments for the years 2012/13 to 2017/18. The adjustment for 2018/19 will deliver its reduction of allowed revenues from 2020/21.

2.11. As the adjustment produces its effect via a reduction of the RAV, it will predominantly reduce revenue allowances in the long term.

2.12. We estimate that the refund will reduce NGGT's revenue allowances by approximately £47 million<sup>12</sup> during the RIIO-GT1 price control.

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<sup>12</sup> These values are indicative as they are subject to tax adjustments whose exact values are dependent on the overall performance of the company, which is not known at this time.


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## Appendices

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| 7        | The revised GT1 Price Control Financial<br>Handbook                                | Associated PDF<br>file   |



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## Appendix 1 – Consultation Response

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We would like to hear from interested parties about whether they agree that these licence modifications correctly implement the policy position.

**Please include any reasoning and evidence in your answers.**

Unless you mark your response confidential, we will publish it on our website, [www.ofgem.gov.uk](http://www.ofgem.gov.uk), and put it in our library. You can ask us to keep your response confidential, and we will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

We prefer to receive responses in electronic form so we can more easily place them on our website.

**Responses should be received by 5pm on 7 August 2018.**

Responses should be sent to:


Valerio Uccello  
Regulatory Finance  
Systems and Networks  
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10 South Colonnade, Canary Wharf  
London E14 4PU  
Email: [RegFinance@ofgem.gov.uk](mailto:RegFinance@ofgem.gov.uk)

### **General feedback**

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we've conducted this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send your comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)



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## Appendix 2 – RIIO-GT1 PCFM proposed revisions: Implementation of PARCA arrangements

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The proposed revisions to the PCFM<sup>13</sup> to implement PARCA arrangements are shown in Figure 1 and Figure 2 below. The sheet and rows that these changes are applied to are detailed in the figure caption. The proposed revised PCFM is as per Appendix 5.

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<sup>13</sup> PCFM before these changes:  
<https://www.ofgem.gov.uk/publications-and-updates/riio-gt1-financial-model-annual-iteration-process-november-2017>

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Figure 1: Proposed revision to PCFM to implement PARCA arrangements; introduction of the new PTV Variable Value in the "Blue Box"; this proposed change affects sheets "NGGT TO" and "Input", Row 25.

| 3  | Parameter  | Licence c Units             | Term            | Constant     | Annual values |             |             |             |             |             |             |             |
|----|--|-----------------------------|-----------------|--------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 4  | PCFM year ending   | ED1 PCFM November 2017.xlsm |                 | 31 Mar 2019  | 31 Mar 2014   | 31 Mar 2015 | 31 Mar 2016 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2019 | 31 Mar 2020 | 31 Mar 2021 |
| 5  |  |                             |                 |              |               |             |             |             |             |             |             |             |
| 6  | PCFM Variable Values Table                                     |                             |                 |              |               |             |             |             |             |             |             |             |
| 7  |  |                             |                 |              |               |             |             |             |             |             |             |             |
| 8  | Allowed percentage cost of debt                                | 5C                          | annual real %   | CDE / SO CDE | 2.92%         | 2.72%       | 2.55%       | 2.38%       | 2.22%       | 2.22%       | 2.22%       | 2.22%       |
| 9  | Actual load related capex expenditure                          | 5B                          | £m 09/10 prices | ALC          | 3.0           | 1.2         | 1.1         | -           | -           | -           | -           | -           |
| 10 | Actual asset replacement capex expenditure                     | 5B                          | £m 09/10 prices | ARC          | 42.9          | 48.0        | 58.5        | -           | -           | -           | -           | -           |
| 11 | Actual other capex expenditure                                 | 5B                          | £m 09/10 prices | AOC          | 31.0          | 28.4        | 27.4        | -           | -           | -           | -           | -           |
| 12 | Actual controllable opex                                       | 5B                          | £m 09/10 prices | ACO          | 64.9          | 69.0        | 69.0        | -           | -           | -           | -           | -           |
| 13 | Actual non-operational capex                                   | 5B                          | £m 09/10 prices | ANC          | 10.5          | 10.0        | 11.1        | -           | -           | -           | -           | -           |
| 14 | Actual load related capex (uncertain)                          | 5B                          | £m 09/10 prices | ALU          | -             | -           | -           | -           | -           | -           | -           | -           |
| 15 | Actual asset replacement capex expenditure (uncertain)         | 5B                          | £m 09/10 prices | ARU          | -             | 1.9         | 2.1         | -           | -           | -           | -           | -           |
| 16 | Actual other capex expenditure (uncertain)                     | 5B                          | £m 09/10 prices | AOU          | 30.6          | 19.9        | 12.1        | -           | -           | -           | -           | -           |
| 17 | Actual controllable opex (uncertain)                           | 5B                          | £m 09/10 prices | ACU          | 5.1           | 3.6         | 5.1         | -           | -           | -           | -           | -           |
| 18 | Uncertain costs - Enhanced Physical Site Security              | 5E                          | £m 09/10 prices | IAEPPS       | 26.9          | 18.2        | 10.8        | 12.7        | 32.0        | 32.7        | 20.5        | 6.4         |
| 19 | Uncertain costs - Pipeline Diversion Costs                     | 5E                          | £m 09/10 prices | IAEPD        | -             | -           | -           | -           | -           | -           | -           | -           |
| 20 | Uncertain costs (Quarry & Loss Costs), uncertainty rate        | 5E                          | £m 09/10 prices | IAEQL        | -             | -           | -           | -           | -           | -           | -           | -           |
| 21 | Innovation Roll out mechanism                                  | 5D                          | £m 09/10 prices | IRM          | -             | -           | -           | -           | -           | -           | -           | -           |
| 22 | Incremental Obligated entry capacity, uncertainty rate         | 5F                          | £m 09/10 prices | ENCI         | -             | -           | -           | -           | -           | -           | -           | -           |
| 23 | Incremental Obligated exit capacity, uncertainty rate          | 5G                          | £m 09/10 prices | EXCI         | -             | -           | -           | -           | -           | -           | -           | -           |
| 24 | Uncertain costs - Network Flexibility Costs                    | 5E                          | £m 09/10 prices | IAENF        | -             | -           | -           | -           | -           | -           | -           | -           |
| 25 | Uncertain costs - PARCA Termination Value                      | 5E                          | £m 09/10 prices | PTV          | -             | -           | -           | -           | -           | -           | -           | -           |
| 26 | Uncertain costs - Industrial Emissions                         | 5E                          | £m 09/10 prices | IAEIE        | -             | -           | -           | -           | -           | -           | -           | -           |
| 27 | Uncertain costs - One Off Asset Health Costs                   | 5E                          | £m 09/10 prices | IAEAH        | -             | -           | -           | -           | -           | -           | -           | -           |
| 28 | Tax liability - gearing/interest costs                         | 5C                          | £m nominal      | TGIE         | -             | -           | -           | -           | -           | -           | -           | -           |
| 29 | Tax liability - tax trigger events                             | 5C                          | £m 09/10 prices | TTE          | -             | -           | -           | -           | (1.0)       | -           | -           | -           |
| 30 | Pension Scheme Administration and Pension Protection Fund levy | 5C                          | £m 09/10 prices | APFE         | 2.7           | 2.6         | 2.6         | 2.7         | 2.6         | 2.6         | 2.7         | 2.6         |
| 31 | Pension Scheme Established Deficit                             | 5C                          | £m 09/10 prices | EDE          | 26.4          | 26.4        | 49.4        | 49.4        | 49.4        | 49.4        | 49.4        | 49.4        |
| 32 | Legacy price control adjustments to allowed revenue            | 5A                          | £m 09/10 prices | LAR          | 7.9           |             |             |             |             |             |             |             |
| 33 | Legacy price control adjustments to RAV                        | 5A                          | £m 09/10 prices | LRAV         | 68.1          |             |             |             |             |             |             |             |
| 34 |  |                             |                 |              |               |             |             |             |             |             |             |             |

Statutory Consultation on modifications to the Special Conditions of NGGT's Gas Transporter Licence and RIIO-GT1 Price Control Financial Instruments to implement PARCA arrangements and the funding decision on the Fleetwood entry point

Figure 2: Proposed revision to PCFM to implement PARCA arrangements; introduction of the cost allocation table for the new PTV Variable Value in the "Variant Allowances section" and update of the formulae for the calculation of variant allowed expenditure categories; these proposed changes affect sheets "NGGT TO" and "Input", Rows 135-140 and 156-160 respectively.

| 3   | Parameter  | Licence o Units              | Term | Constant    | Annual values |             |             |             |             |             |             |             |
|-----|--|------------------------------|------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 4   | PCFM year ending   | ED   PCFM November 2017.xlsm |      | 31 Mar 2019 | 31 Mar 2014   | 31 Mar 2015 | 31 Mar 2016 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2019 | 31 Mar 2020 | 31 Mar 2021 |
| 134 |  |                              |      |             |               |             |             |             |             |             |             |             |
| 135 | Uncertain costs - PARCA Termination Value                  | £m 09/10 prices              |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 136 | Allocation to load related capex expenditure               | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 137 | Allocation to asset replacement capex expenditure          | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 138 | Allocation to other capex expenditure                      | %                            |      |             | 100.00%       | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     |
| 139 | Allocation to controllable opex                            | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 140 | Allocation to non-operational capex                        | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 141 |  |                              |      |             |               |             |             |             |             |             |             |             |
| 141 | Uncertain costs – Industrial Emissions                     | £m 09/10 prices              |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 142 | Allocation to load related capex expenditure               | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 143 | Allocation to asset replacement capex expenditure          | %                            |      |             | 100.00%       | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     |
| 144 | Allocation to other capex expenditure                      | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 145 | Allocation to controllable opex                            | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 146 | Allocation to non-operational capex                        | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 147 |  |                              |      |             |               |             |             |             |             |             |             |             |
| 148 |  |                              |      |             |               |             |             |             |             |             |             |             |
| 149 | Uncertain costs – One Off Asset Health Costs               | £m 09/10 prices              |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 150 | Allocation to load related capex expenditure               | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 151 | Allocation to asset replacement capex expenditure          | %                            |      |             | 100.00%       | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     |
| 152 | Allocation to other capex expenditure                      | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 153 | Allocation to controllable opex                            | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 154 | Allocation to non-operational capex                        | %                            |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 155 |  |                              |      |             |               |             |             |             |             |             |             |             |
| 156 | Variant allowed load related capex                         | £m 09/10 prices              |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 157 | Variant allowed non-load related capex - asset replacement | £m 09/10 prices              |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 158 | Variant allowed non-load related capex - other             | £m 09/10 prices              |      |             | 26.9          | 18.2        | 10.8        | 12.7        | 32.0        | 32.7        | 20.5        | 6.4         |
| 159 | Variant allowed controllable opex                          | £m 09/10 prices              |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 160 | Variant allowed non-operational capex                      | £m 09/10 prices              |      |             | -             | -           | -           | -           | -           | -           | -           | -           |
| 161 |  |                              |      |             |               |             |             |             |             |             |             |             |



## Appendix 3 – RIIO-GT1 PCFM proposed revisions: Funding Decision on the Fleetwood Entry Point

The proposed revisions to the PCFM<sup>14</sup> to reflect the Fleetwood funding decision for NGGT are shown in Table 1 and Table 2 below. The sheet and rows that these changes are applied to are detailed in the table captions. The proposed revised PCFM is as per Appendix 5.

*Table 1: Proposed revision to PCFM to account for the adjustment of "Fleetwood pre-RIIO actual capex" non-variant revenue driver; these changes affect sheet "NGGT TO", Row 244.*

| £m 09/10 prices | Year ending | 31 Mar 2006 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2009 | 31 Mar 2010 | 31 Mar 2011 | 31 Mar 2012 | 31 Mar 2013 | Total |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------|
| Previous        |             | -           | 0.3         | 7.6         | 0.7         | 1.6         | (0.1)       | 0.0         | 9.2         | 19.3  |
| Refund          |             | -           | -           | -           | -           | -           | -           | -           | (9.2)       | (9.2) |
| Revised         |             | -           | 0.3         | 7.6         | 0.7         | 1.6         | (0.1)       | 0.0         | -           | 10.1  |

*Table 2: Revision to PCFM to account for the adjustment of "Fleetwood" non-variant revenue driver; these changes affect sheet "NGGT TO", Row 256.*

| £m 09/10 prices | Year ending | 31 Mar 2014 | 31 Mar 2015 | 31 Mar 2016 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2019 | 31 Mar 2020 | 31 Mar 2021 | Total   |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------|
| Previous        |             | 12.6        | 24.1        | 67.5        | 106.4       | 55.4        | 2.3         | -           | -           | 268.3   |
| Refund          |             | (12.6)      | (24.1)      | (67.5)      | (106.4)     | (55.4)      | (2.3)       | -           | -           | (268.3) |
| Revised         |             | -           | -           | -           | -           | -           | -           | -           | -           | -       |

<sup>14</sup> PCFM before these changes:

<https://www.ofgem.gov.uk/publications-and-updates/riio-gt1-financial-model-annual-iteration-process-november-2017>

## Appendix 4 - Glossary

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### Allowed Revenue

The amount of money that a network company can earn on its regulated business.

### Annual Iteration Process

The annual iteration process is the process of annually updating the variable (blue box) values in the Price Control Financial Model (PCFM) and running its calculation functions in order to provide updated MOD and SOMOD values.

### Opening Base Revenue

The best estimate at the start of a price control on the amount of money that a network company can earn on its regulated business.

### MOD Term ( $MOD_t$ )

The term of that name included in the formula for Base NTS Transportation Owner Revenue (System Operation Revenue) set out in Special Condition 2A (or Special Condition 3A for SO) of the Gas Transporter licence. It represents the incremental change to be applied to the licensee's Opening Base Revenue Allowance for the Relevant Year concerned. The value of the MOD term is calculated through the Annual Iteration Process for the GT1 Price Control Financial Model (see Chapter 1 of the Price Control Financial Handbook) and is specified in a direction given by the Authority by 30 November in each Relevant Year.

### Regulatory Asset Value (RAV)

A financial balance representing expenditure by the licensee which has been capitalised under regulatory rules. The licensee receives a return and depreciation on its RAV in its price control allowed revenues.

### Total expenditure (Totex)

Totex consists of all the expenditure relating to a licensee's regulated activities with some specified exceptions. See the Regulatory Instructions and Guidance<sup>15</sup> for a list of these exceptions.

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<sup>15</sup> Latest version for RIIO-GT1:  
<https://www.ofgem.gov.uk/publications-and-updates/direction-make-modifications-gas-transmission-regulatory-instructions-and-guidance-rigs-riio-t1-201718>