Licensee Limited

Gas Transporter Licence

Special Conditions

DRAFT

Contents

[Chapter 1: Interpretation and definitions 5](#_Toc52364527)

[Special Condition 1.1 Interpretation and definitions 5](#_Toc52364528)

[Chapter 2: Revenue Restriction 7](#_Toc52364529)

[Special Condition 2.1 Revenue Restriction 7](#_Toc52364530)

[Special Condition 2.2 AIP adjustment term (ADJt) 9](#_Toc52364531)

[Special Condition 2.3 Correction and penalty terms 10](#_Toc52364532)

[Special Condition 2.4 Tax Review Adjustment (TAXAt) 11](#_Toc52364533)

[Chapter 3: Adjustments to Totex Allowance 13](#_Toc52364534)

[Special Condition 3.1 Baseline Network Risk Output 13](#_Toc52364535)

[Special Condition 3.2 Cyber resilience operational technology Re-opener and Price Control Deliverable (CROTt) 15](#_Toc52364536)

[Special Condition 3.3 Cyber resilience information technology Re-opener and Price Control Deliverable (CRITt) 19](#_Toc52364537)

[Special Condition 3.4 Physical Security Re-opener and Price Control Deliverable (PSUPt) 23](#_Toc52364538)

[Special Condition 3.5 Non-operational Capex IT Re-opener (NOITt) 25](#_Toc52364539)

[Special Condition 3.6 Net Zero Re-opener (NZt) 27](#_Toc52364540)

[Special Condition 3.7 Coordinated Adjustment Mechanism Re-opener (CAMt) 28](#_Toc52364541)

[Special Condition 3.8 Vulnerability and Carbon Monoxide Allowance (VCMt) 30](#_Toc52364542)

[Special Condition 3.9 Tier 1 Mains Decommissioned Price Control Deliverable (TIMDt) 32](#_Toc52364543)

[Special Condition 3.10 Tier 1 Services Repex Price Control Deliverable (TISt) 36](#_Toc52364544)

[Special Condition 3.11 Gas Holder Demolitions Price Control Deliverable (GHRAt) 39](#_Toc52364545)

[Special Condition 3.12 Capital Projects Price Control Deliverables (CAPt) 41](#_Toc52364546)

[Special Condition 3.13 Fuel Poor Network Extension Scheme Volume Driver (FPAt) 45](#_Toc52364547)

[Special Condition 3.14 Tier 2A Mains and Services Replacement Volume Driver (REt) 48](#_Toc52364548)

[Special Condition 3.15 HSE Repex policy Re-opener (REPt) 51](#_Toc52364549)

[Special Condition 3.16 Tier 1 Stubs Repex Policy Re-opener (STUBt) 53](#_Toc52364550)

[Special Condition 3.17 Heat Policy and Energy Efficiency Re-opener (HPRAt) 55](#_Toc52364551)

[Special Condition 3.18 Diversions Policy Re-opener (DIVt) 57](#_Toc52364552)

[Special Condition 3.19 Multiple Occupancy Buildings safety Re-opener (MOBSt) 59](#_Toc52364553)

[Special Condition 3.20 New Large Load Connections Re-opener (NLLRt) 61](#_Toc52364554)

[Special Condition 3.21 Smart Metering Roll-out Costs Re-opener (SMRt) 63](#_Toc52364555)

[Special Condition 3.22 Specified Streetworks Costs Re-opener (STWt) 65](#_Toc52364556)

[Special Condition 3.23 Domestic Connections Volume Driver (CAt) 66](#_Toc52364557)

[Special Condition 3.24 Consumer Value Proposition (CVPt) 68](#_Toc52364558)

[Special Condition 3.25 London Medium Pressure Repex Re-opener (LMPt) [Cadent North London ONLY] 70](#_Toc52364559)

[Special Condition 3.26 [REDACTED] Price Control Deliverable (KFDt) [SGN only] 72](#_Toc52364560)

[Special Condition 3.27 Intermediate Pressure Reconfigurations Price Control Deliverable (IPRt) [SGN only] 74](#_Toc52364561)

[Special Condition 3.28 Remote pressure management Price Control Deliverable (RPMt) [SGN only] 75](#_Toc52364562)

[Special Condition 3.29 Biomethane Improved Access Rollout [SGN only] [Not included in this consultation] 77](#_Toc52364563)

[Chapter 4: Output delivery incentives 78](#_Toc52364564)

[Special Condition 4.1 Total output delivery incentive performance 78](#_Toc52364565)

[Special Condition 4.2 Customer Satisfaction Survey output delivery incentive (CSt) 78](#_Toc52364566)

[Special Condition 4.3 Complaints Metric output delivery incentive (CMt) 81](#_Toc52364567)

[Special Condition 4.4 Shrinkage management output delivery incentive (SMt) 82](#_Toc52364568)

[Special Condition 4.5 Unplanned Interruption Overall Mean Duration output delivery incentive (UIPt) [NGN, SGN and WWU] 85](#_Toc52364569)

[Special Condition 4.5 Unplanned Interruption Overall Mean Duration output delivery incentive (UIPt) [Cadent only] 88](#_Toc52364570)

[Chapter 5: Innovation 92](#_Toc52364571)

[Special Condition 5.1 Total innovation allowance 92](#_Toc52364572)

[Special Condition 5.2 The RIIO-2 Network Innovation Allowance (NIAt) 92](#_Toc52364573)

[Special Condition 5.3 Carry-over RIIO-1 Network Innovation Allowance (CNIAt) 94](#_Toc52364574)

[Chapter 6: Pass-through expenditure 97](#_Toc52364575)

[Special Condition 6.1 Pass-through items (PTt) 97](#_Toc52364576)

[Chapter 7: Legacy Adjustments 100](#_Toc52364577)

[Special Condition 7.1 Total legacy adjustments (LARt) 100](#_Toc52364578)

[Special Condition 7.2 Legacy pass-through (LPTt) 101](#_Toc52364579)

[Special Condition 7.3 Legacy MOD (LMODt) 101](#_Toc52364580)

[Special Condition 7.4 Legacy K Correction (LKt) 102](#_Toc52364581)

[Special Condition 7.5 Legacy TRU Term (LTRUt) 102](#_Toc52364582)

[Special Condition 7.6 Close out of the RIIO-1 Network Outputs (NOCOt) 103](#_Toc52364583)

[Special Condition 7.7 Close out of the RIIO-GD1 Discretionary Reward Scheme (LDRWt) 104](#_Toc52364584)

[Special Condition 7.8 Close out of the RIIO-GD1 Stakeholder Engagement Incentive (LSEt) 105](#_Toc52364585)

[Special Condition 7.9 Close out of the RIIO-GD1 Customer Satisfaction Survey Incentive (LCSOt) 106](#_Toc52364586)

[Special Condition 7.10 Close out of the RIIO-GD1 Complaints Metric Incentive (LCMt) 106](#_Toc52364587)

[Special Condition 7.11 Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive Mechanism (LFPIt) 107](#_Toc52364588)

[Special Condition 7.12 Close out of the RIIO-GD1 Exit Capacity Cost Adjustment (LExOt) 108](#_Toc52364589)

[Special Condition 7.13 The Network Innovation Competition 109](#_Toc52364590)

[Chapter 8: Governance 111](#_Toc52364591)

[Special Condition 8.1 Governance of the GD2 Price Control Financial Instruments 111](#_Toc52364592)

[Special Condition 8.2 Annual Iteration Process for the GD2 Price Control Financial Model 113](#_Toc52364593)

[Chapter 9: General Obligations 117](#_Toc52364594)

[Special Condition 9.1 Annual Environmental Report 117](#_Toc52364595)

[Special Condition 9.2 Network Asset Risk Metric Methodology 118](#_Toc52364596)

[Special Condition 9.3 Price Control Deliverable Reporting Requirements and Methodology Document 121](#_Toc52364597)

[Special Condition 9.4 Re-opener Guidance and Application Requirements Document 122](#_Toc52364598)

[Special Condition 9.5 Digitalisation 123](#_Toc52364599)

[Special Condition 9.6 Disapplication of Relevant Special Conditions 126](#_Toc52364600)

[Special Condition 9.7 Directly Remunerated Services 126](#_Toc52364601)

[Special Condition 9.8 Restriction of prices in respect of Tariff Capped Metering Activities 128](#_Toc52364602)

[Special Condition 9.9 Tax Reconciliation Assurance Statement 130](#_Toc52364603)

[Special Condition 9.10 Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network 131](#_Toc52364604)

[Special Condition 9.11 Gas conveyed to Independent Systems [SGN Scotland only] 134](#_Toc52364605)

# Interpretation and definitions

## Interpretation and definitions

Introduction

* + 1. The purpose of this condition is to provide for the special conditions of this licence:
       1. some provisions of general interpretation; and
       2. the meaning of the defined terms, which are capitalised throughout the special conditions.

### Interpretation

* + 1. Wherever the subscript ‘t’ is used, without further numerical notation, the value to be used is the one for the Regulatory Year in question.
    2. A positive or negative numerical notation after the subscript 't' indicates that the value to be used is for a year after or before the Regulatory Year in question and the number indicates how many years after or before.
    3. In some cases, other subscripts than 't' may also be used to denote the value for a specific Regulatory Year and are explained in those special conditions.
    4. References in these special conditions to a “Distribution Network” are to each of the licensee’s Distribution Networks.
    5. Any values derived by reference to the value of revenues accrued, received or paid by or to the licensee shall be the actual sum accrued, received or paid by or to the licensee on the date of such accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
    6. Unless otherwise stated, any reference in these special conditions to the Authority giving a direction, consent, derogation, approval or designation includes:
       1. giving it to such extent, for such period of time, and subject to such conditions as the Authority thinks reasonable in all the circumstances of the case; and
       2. revoking or amending it after consulting with the licensee.
    7. Unless otherwise stated, any reference in these special conditions to the Authority making a determination includes making it subject to such conditions as the Authority thinks reasonable in all the circumstances of the case.
    8. Any direction, consent, derogation, approval, designation or determination made by the Authority in accordance with these special conditions, will be given or made in writing.
    9. Any reference in these special conditions to a numbered appendix is, unless otherwise stated, to the relevant numbered appendix to that special condition.
    10. Where these special conditions provide for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before, as well as by action taken on or after, 1 April 2021.
    11. Any monetary values in these special conditions are in sterling in a 2018/19 price base unless otherwise indicated.

### Definitions

* + 1. In these special conditions the following defined terms have the meanings given in the table below.

[Insert table here]

# Revenue Restriction

## Revenue Restriction

Introduction

* + 1. The purpose of this condition is to ensure that the licensee sets Network Charges to aim to recover no more than Allowed Revenue.
    2. This condition also provides for the calculation of the term ARt (the Allowed Revenue term).

### Licensee’s obligation when setting Network Charges

* + 1. The licensee must, when setting Network Charges use its best endeavours to ensure that Recovered Revenue does not exceed Allowed Revenue.

### Formula for calculating the Allowed Revenue term (ARt)

* + 1. The value of *ARt*is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
|  | means Calculated Revenue, derived in accordance with Part C; |
|  | is the price index calculated in accordance with Part D; |
|  | means the Annual Iteration Process adjustment term and is derived in accordance with Special Condition 2.2 (AIP adjustment term); |
|  | means the K correction term and is derived in accordance with Part A of Special Condition 2.3 (Correction and penalty terms); and |
|  | means the recovery penalty term and is derived in accordance with Part B of Special Condition 2.3 (Correction and penalty terms) |

* + 1. The value of will be published pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model). The value of is not revised following publication.

### Formula for calculating the Calculated Revenue term (Rt)

* + 1. The value of Rt is derived in accordance with the following formula:

where all values are as published pursuant to Part A of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model) and

|  |  |
| --- | --- |
|  | means fast money and has the value set out in sheet X of the GD2 Price Control Financial Model); |
|  | is derived in accordance with Special Condition 6.1 (Pass through expenditure); |
|  | means depreciation and has the value set out in sheet X of the GD2 Price Control Financial Model); |
|  | means return and has the value set out in sheet X of the GD2 Price Control Financial Model; |
|  | means return adjustment and has the value set out in sheet X of the GD2 Price Control Financial Model; |
|  | means equity issuance costs and has the value set out in sheet X of the GD2 Price Control Financial Model; |
|  | means directly remunerated services and has the value set out in sheet X of the GD2 Price Control Financial Model; |
|  | is derived in accordance with Special Condition 4.1(Total output delivery incentive performance); |
|  | means the business plan incentive term and has the value in sheet X of the GD2 Price Control Financial Model, unless the Authority directs otherwise under Special Condition 4.7 (Consumer Value Proposition); |
|  | is derived in accordance with Special Condition 5.1 (Total innovation allowance); |
|  | is derived in accordance with Special Condition 7.1 (Total legacy adjustments); |
|  | has the value set out in sheet X of the GD2 Price Control Financial Model; and |
|  | means the tax allowance adjustment term and has the value zero, unless the Authority directs otherwise under Special Condition 2.4 (Tax Review Adjustment). |

### Formula for calculating the Price Index term (PIt)

* + 1. The value of PIt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *i* | refers to Regulatory Years on or after 2020/21 and up to year t; |
| *RPIt* | means the arithmetic average of the Retail Prices Index between each of the twelve months from 1 April to 31 March in Regulatory Year t; and |
| *CPIHi* | means the arithmetic average of the Consumer Prices Index Including Owner Occupiers' Housing Costs between each of the twelve months from 1 April to 31 March in Regulatory Year i. |

## AIP adjustment term (ADJt)

Introduction

* + 1. The purpose of this condition is to calculate the term ADJt (the AIP adjustment term), which feeds into Allowed Revenue in Special Condition 2.1 (Revenue Restriction)

### Formula for calculating the AIP adjustment term (ADJt)

* + 1. For the Regulatory Year commencing on 1 April 2021, the value of ADJ is zero.
    2. For subsequent Regulatory Years, the value of ADJt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *i, j* | refer to Regulatory Years between 2021/22 and Regulatory Year t-1; |
| *PIi* | is the price index calculated in accordance with Part D of Special Condition 2.1; |
|  | means Calculated Revenue for Regulatory Year i, derived in accordance with Part C of Special Condition 2.1; |
|  | means the adjusted revenue for Regulatory Year *i*, derived in accordance with Part B; and |
| *Ij* | means the average value of SONIA between 1 April and 31 March in Regulatory Year j (inclusive). |

### Formula for adjusted revenue (ADJRt)

* + 1. The value of *ADJRt* is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *t|t-1* | means for Regulatory Year t, as of the AIP publication in Regulatory Year t-1; |
|  | means Calculated Revenue, derived in accordance with Part C of Special Condition 2.1; |
|  | is the price index calculated in accordance with Part D of Special Condition 2.1; and |
|  | means the AIP adjustment term and is derived in accordance with Part A. |

## Correction and penalty terms

Introduction

* + 1. The purpose of this condition is to calculate the term Kt (the correction term), which feeds into Allowed Revenue in Special Condition 2.1 (Revenue Restriction). The effect of which is to make the appropriate adjustment to Allowed Revenue to reflect historical deviations between Recovered Revenue and Calculated Revenue.
    2. It also calculates the term RPt (the recovery penalty term), which also feeds into Allowed Revenue in Special Condition 2.1. The effect of which is to penalise levels of Recovered Revenue in excess of 6% difference from a target published by the Authority prior to Regulatory Year t.

### Formula for calculating the correction term (Kt)

* + 1. For the Regulatory Year commencing on 1 April 2021, the value of K is zero. For subsequent Regulatory Years, the value of Kt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *i, j* | refer to Regulatory Years between 2021/22 and Regulatory Year t-1; |
|  | means the adjusted revenue for Regulatory Year *i*, derived in accordance with Part B of Special Condition 2.2 (AIP adjustment term); |
| *RPi* | means the recovery penalty derived in accordance with Part B; |
|  | means the Recovered Revenue for Regulatory Year *i*; and |
| *Ij* | means the average value of SONIA Between 1 April and 31 March in Regulatory Year j (inclusive). |

### Recovery penalty (RPt)

* + 1. For the Regulatory Year commencing on 1 April 2021, the value of RP is zero. For subsequent Regulatory Years, the value of RPt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *ARt* | means Allowed Revenue and is derived in accordance Part B of Special Condition 2.1; and |
| *RRt* | means Recovered Revenue. |

## Tax Review Adjustment (TAXAt)

Introduction

* + 1. The purpose of this condition is to calculate the term TAXAt (the Tax Review adjustment term), which feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect is to adjust Calculated Revenue following a review of differences between the licensee’s Calculated Tax Allowance and its Actual Corporation Tax Liability.
    3. It also explains the process the Authority will follow when directing any change as a result of the review.

### Undertaking a Tax Review

* + 1. The Authority may undertake a Tax Review of any material differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability.
    2. Where the Authority notifies the licensee that it has decided to undertake a Tax Review and given the reasons for that decision, the licensee must:
       1. procure an Appropriately Qualified Independent Examiner to examine the differences between the licensee’s Calculated Tax Allowance and its Actual Corporation Tax Liability and provide a report to the Authority;
       2. carry out any steps specified by the Authority for the procurement of an Appropriately Qualified Independent Examiner and comply with any requirements specified by the Authority as to the terms of appointment of the Appropriately Qualified Independent Examiner;
       3. ensure that the Appropriately Qualified Independent Examiner carries out the work within the scope, and by the date, specified by the Authority; and
       4. submit to the Authority a report from the Appropriately Qualified Independent Examiner in the form, and containing the content, specified by the Authority.
    3. Following receipt of the Appropriately Qualified Independent Examiner's report, the Authority will:
       1. direct any adjustments to the value of the TAXAt term that it considers should be made, and
       2. specify the Regulatory Years to which those adjustments relate.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 2.4.6, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations on the proposed direction may be made, which will not be less than 28 days.

# Adjustments to Totex Allowance

## Baseline Network Risk Output

Introduction

* + 1. This condition sets out the requirements on the licensee in respect of Baseline Network Risk Output and specifies the Baseline Allowed NARM Expenditure associated with that output, which contributed to the calculation of the Totex Allowance.
    2. It also sets out the requirements on the licensee in respect of the NARM Closeout Report.

### Requirement to deliver Baseline Network Risk Output

* + 1. By the end of the Price Control Period, the licensee must deliver its Baseline Network Risk Output either:
       1. in accordance with its Network Asset Risk Workbook, or
       2. through Materially Equivalent Network Risk Outputs.

### Baseline Allowed NARM Expenditure for Baseline Network Risk Output

* + 1. The licensee's Baseline Allowed NARM Expenditure for delivering its Baseline Network Risk Output is set out in Appendix 1.

### Process for Rebasing Baseline Network Risk Output

* + 1. Rebased Baseline Network Risk Output submitted in accordance with Part C of Special Condition 9.2 (Network Asset Risk Metric Methodology) must:
       1. be calculated using the NARM Methodology as approved under paragraph 9.2.8 of Special Condition 9.2;
       2. be representative of the same assumed volume and type of intervention for each NARM Asset Category as assumed in the setting of the Baseline Network Risk Output;
       3. be as Equally Challenging as the Baseline Network Risk Output; and
       4. be in the same format as the Network Asset Risk Workbook.
    2. Where the licensee proposes Rebased Baseline Network Risk Output in accordance with Part C of Special Condition 9.2, the Authority will consider the proposal and by direction either:
       1. approve it;
       2. approve it with adjustments; or
       3. reject it.
    3. Before issuing a direction under paragraph 3.1.6, the Authority will publish on the Authority’s Website:
       1. the text of the proposed direction;
       2. the date on which the Authority intends the proposed direction to come into effect;
       3. the reasons why it proposes to issue the direction; and
       4. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    4. Any Rebased Baseline Network Risk Output approved by the Authority under paragraph 3.1.7(a) or (b) will supersede the Baseline Network Risk Output for the purpose of this condition.

### Requirement to provide the NARM Closeout Report

* + 1. By 31 October 2026, the licensee must provide to the Authority the NARM Closeout Report, together with detailed supporting evidence, which sets out the following:
       1. the licensee’s Outturn Network Risk Outputs;
       2. the costs incurred by the licensee in delivering its Outturn Network Risk Outputs and a breakdown of those costs in the manner specified by the Authority by direction;
       3. details of any Material Non-intervention Risk Changes, including the associated impact on Baseline Network Risk Output or Outturn Network Risk Outputs;
       4. the licensee’s view of delivered cost efficiencies relative to Baseline Allowed NARM Expenditure for schemes or programmes of work assumed in the calculation of its Baseline Network Risk Output, and evidence that those efficiencies have not been offset by higher costs elsewhere;
       5. justification cases for any portions of over-delivery or under-delivery against Baseline Network Risk Output that the licensee considers to be justified.

Baseline Allowed NARM Expenditure for delivering Baseline Network Risk Output

|  |  |
| --- | --- |
| Regulatory Year | Baseline Allowed NARM Expenditure |
| 2021/22 |  |
| 2022/23 |  |
| 2023/24 |  |
| 2024/25 |  |
| 2025/26 |  |
| RIIO-2 Total |  |

## Cyber resilience operational technology Re-opener and Price Control Deliverable (CROTt)

Introduction

* + 1. The purpose of this condition is to calculate the term CROTt (the Cyber Resilience Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to:
       1. specify the outputs, delivery dates and associated allowances for the Price Control Deliverable;
       2. require the licensee to submit a Cyber Resilience OT Plan at the start of the Price Control Period;
       3. establish a Re-opener for the licensee and Authority to trigger amendments to the Price Control Deliverable during the Price Control Period; and
       4. provide for an assessment of the Price Control Deliverable including a Use It Or Lose It Adjustment.
    3. This condition also:
       1. explains the process the Authority will follow when directing any changes under paragraphs 3.5.8, 3.5.9, 3.5.13 and 3.5.15; and
       2. requires the licensee to report regularly to the Authority.

### Formula for calculating the Cyber Resilience OT Price Control Deliverable term (CROt)

* + 1. The value of CROTt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *CROAt* | means the sum of allowances in Appendix 1; and |
| *CRORt* | has the value zero unless otherwise directed by the Authority in accordance with Part F. |

### What must the licensee deliver?

* + 1. The licensee must deliver the outputs in accordance with, and by the delivery dates specified in, Appendix 1.

### Requirement to submit a Cyber Resilience OT Plan

* + 1. The licensee must submit to the Authority a Cyber Resilience OT Plan Between 1 April 2021 and 8 April 2021.
    2. The Cyber Resilience OT Plan submitted under paragraph 3.2.6 must:
       1. include statements:
          1. giving details of any proposed activities that the licensee considers would be capable of improving cyber resilience in relation to OT, including measured risk reduction or improved CAF Outcomes on the licensee's network and information systems;
          2. setting out any amendments requested to the outputs, delivery dates or allowances in Appendix 1;
          3. explaining how any amendments requested would improve cyber resilience in relation to OT, including measured risk reduction and improved CAF Outcomes on the licensee's network and information systems; and
          4. explaining the basis of the calculations for any amendments requested to allowances; and
       2. provide detailed supporting evidence including the items specified in the Re-opener Guidance and Application Requirements Document.
    3. The Authority will by direction make any amendments to Appendix 1 as a result of the submission of a Cyber Resilience OT Plan under paragraph 3.2.6.

### Cyber Resilience OT Re-opener

* + 1. The licensee may apply to the Authority for a direction amending the outputs, delivery dates or associated allowances in Appendix 1 where it considers there are:
       1. new activities capable of improving cyber resilience in relation to OT, including measured risk reduction or improved CAF Outcomes on the licensee's network and information systems;
       2. changes to levels of risks or threats relating to cyber resilience in relation to OT, that take the licensee outside of its organisational risk appetite; or
       3. changes to statutory or regulatory requirements relating to cyber resilience in relation to OT.
    2. An application to the Authority under paragraph 3.2.9 must be made Between25 January 2023 and 31 January 2023, unless the Authority by direction permits applications during specified later periods.
    3. An application under paragraph 3.2.9 must be made in writing and must:
       1. give details of the circumstances referred to in paragraph 3.2.9 (a), (b) or (c) that the licensee considers exist;
       2. set out any amendments requested to the outputs, delivery dates or allowances set out in Appendix 1;
       3. explain how any amendments requested would improve cyber resilience in relation to OT, including measured risk reduction or improved CAF Outcomes on the licensee's network and information systems;
       4. explain the basis of the calculations for any amendments requested to allowances; and
       5. provide detailed supporting evidence as set out in the Re-opener Guidance and Application Requirements Document.
    4. An application under paragraph 3.2.9 must:
       1. relate to circumstances of the type referred to in paragraph 3.2.9 (a), (b) or (c) that have developed since the licensee submitted its Cyber Resilience OT Plan under paragraph 3.2.6;
       2. take account of any allowed expenditure, which can be avoided as a result of the change; and
       3. be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Authority triggered re-opener

* + 1. The Authority will also consider directing amendments to the outputs, delivery dates or allowances set out in Appendix 1 without an application being made under paragraph 3.2.9, where it considers that:
       1. circumstances of the type referred to in paragraph 3.2.9 (a), (b) or (c) exist; or
       2. circumstances exist that create an unreasonable degree of risk in relation to cyber resilience.
    2. In relation to costs, any amendments directed by the Authority will be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Assessment of outputs (CRORt)

* + 1. The Authority will, in accordance with the PCD Reporting Requirements and Methodology Document, consider directing a value for CRORt where the licensee has not Fully Delivered an output in Appendix 1.

### Reporting Requirements

* + 1. Unless the Authority otherwise directs, the licensee must submit reports to the Authority on the days, and in relation to the periods, set out in Appendix 2.
    2. A report submitted under paragraph 3.2.16 must be in a form approved by the Authority and include:
       1. a summary of progress against Improvement Plan key milestones;
       2. a summary of developments against the licensee's Price Control Deliverable project plans;
       3. the licensee's assessment of the impact of the progress and developments referred to in sub-paragraphs (a) and (b) on improving cyber resilience in relation to OT, including risk reduction or improved CAF Outcomes;
       4. a description of how the licensee has considered any guidance provided by the Authority;
       5. a summary of updated CAF Outcomes; and
       6. detailed supporting evidence.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.2.8, 3.2.9, 3.2.13 or 3.2.15, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. A direction under paragraph 3.2.8, 3.2.9 or 3.2.13 will set out any amendments to Appendix 1.
    3. A direction under paragraph 3.2.15 will set out the value of the CRORt term and the Regulatory Years to which that value relates.

Cyber Resilience OT Price Control Deliverables Allowance

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Outputs | Delivery Date | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Output X |  |  |  |  |  |  |
| Output Y |  |  |  |  |  |  |
| Output Z |  |  |  |  |  |  |

Report submission dates and the associated periods to be reported on

|  |  |
| --- | --- |
| Dates on which reports must be submitted annually from 31 July 2021 to 30 April 2026 | Associated periods to be reported on |
| 31 January | 1 October to 31 December |
| 30 April | 1 January to 31 March |
| 31 July | 1 April to 30 June |
| 31 October | 1 July to 30 September |

## Cyber resilience information technology Re-opener and Price Control Deliverable (CRITt)

Introduction

* + 1. The purpose of this condition is to calculate the term CRITt (the Cyber Resilience Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to:
       1. specify the outputs, delivery dates and associated allowances for the Price Control Deliverable;
       2. require the licensee to submit a Cyber Resilience IT Plan at the start of the Price Control Period;
       3. establish a Re-opener for the licensee and Authority to trigger amendments to the Price Control Deliverable during the Price Control Period; and
       4. provide for an assessment of the Price Control Deliverable.
    3. This condition also:
       1. explains the process the Authority will follow when directing any changes under paragraphs 3.6.8, 3.6.9, 3.6.13 and 3.6.15; and
       2. requires the licensee to report regularly to the Authority.

### Formula for calculating the Cyber Resilience IT Price Control Deliverable term (CRITt)

* + 1. The value of CRITt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| CRIAt | means the sum of allowances in Appendix 1; and |
| CRIRt | has the value zero unless otherwise directed by the Authority in accordance with Part F. |

### What must the licensee deliver?

* + 1. The licensee must deliver the outputs in accordance with, and by the delivery dates specified in, Appendix 1.

### Requirement to submit a Cyber Resilience IT Plan

* + 1. The licensee must submit to the Authority a Cyber Resilience IT Plan Between 1 April 2021 and 8 April 2021.
    2. The Cyber Resilience IT Plan submitted under paragraph 3.3.6 must:
       1. include statements:
          1. giving details of any proposed activities that the licensee considers would be capable of improving cyber resilience in relation to IT, including measured risk reduction on the licensee's network and information systems;
          2. setting out any amendments requested to the outputs, delivery dates or allowances in Appendix 1;
          3. explaining how any amendments requested would improve cyber resilience in relation to IT, including measured risk reduction on the licensee's network and information systems; and
          4. explaining the basis of the calculations for any amendments requested to allowances; and
       2. provide detailed supporting evidence including the items specified in the Re-opener Guidance and Application Requirements Document.
    3. The Authority will by direction make any amendments to Appendix 1 as a result of the submission of a Cyber Resilience IT Plan under paragraph 3.3.6.

### Cyber Resilience IT Re-opener

* + 1. The licensee may apply to the Authority for a direction amending the outputs, delivery dates or associated allowances in Appendix 1 where it considers there are:
       1. new activities capable of improving cyber resilience in relation to IT, including measured risk reduction in respect to the licensee's network and information systems;
       2. changes to levels of risks or threats relating to cyber resilience in relation to IT, that take the licensee outside of its organisational risk appetite; or
       3. changes to statutory or regulatory requirements relating to cyber resilience in relation to IT.
    2. The licensee may only apply to the Authority under paragraph 3.3.9 Between 25 January 2023 and 31 January 2023, or during such later periods as the Authority may direct.
    3. An application under paragraph 3.3.9 must be made in writing and must:
       1. give details of the circumstances referred to in paragraph 3.3.9 (a), (b) or (c) that the licensee considers exist;
       2. set out any amendments requested to the outputs, delivery dates or allowances set out in Appendix 1;
       3. explain how any amendments requested would improve cyber resilience in relation to IT, including measured risk reduction on the licensee's network and information systems;
       4. explain the basis of the calculations for any amendments requested to allowances; and
       5. include detailed supporting evidence as set out in the Re-opener Guidance and Application Requirements Document.
    4. An application under paragraph 3.3.9 must:
       1. relate to circumstances of the type referred to in paragraph 3.3.9 (a), (b) or (c) that have developed since the licensee submitted its Cyber Resilience IT Plan under paragraph 3.3.7;
       2. take account of any allowed expenditure, which can be avoided as a result of the change; and
       3. be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Authority triggered re-opener

* + 1. The Authority will also consider directing amendments to the outputs, delivery dates or allowances set out in Appendix 1 without an application being made under paragraph 3.3.9, where it considers that:
       1. circumstances of the type referred to in paragraph 3.3.9 (a), (b) or (c) exist; or
       2. circumstances exist that create an unreasonable degree of risk in relation to cyber resilience.
    2. In relation to costs, any amendments directed by the Authority will be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Assessment of outputs (CRIRt)

* + 1. The Authority will, in accordance with the PCD Reporting Requirements and Methodology Document, consider directing a value for CRIRt where the licensee has not Fully Delivered an output in Appendix 1.

### Reporting Requirements

* + 1. Unless the Authority otherwise directs, the licensee must submit reports to the Authority on the days, and in relation to the periods, set out in Appendix 2.
    2. A report submitted under paragraph 3.3.16 must be in the form approved by the Authority and include:
       1. a summary of progress against Improvement Plan key milestones;
       2. a summary of developments against the licensee's Price Control Deliverable project plans;
       3. the licensee's assessment of the impact of the progress and developments referred to in subparagraphs (i) and (b) on improving cyber resilience in relation to IT, including risk reduction;
       4. a description of how the licensee has considered any guidance provided by the Authority; and
       5. detailed supporting evidence.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.3.8, 3.3.9, 3.3.13 or 3.3.15, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. A direction under paragraph 3.3.8, 3.3.9 or 3.3.13 will set out any amendments to Appendix 1.
    3. A direction under paragraph 3.3.15 will set out the value of the CRIRt term and the Regulatory Years to which those values relate.

Cyber Resilience IT Price Control Deliverables Allowance

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Outputs | Delivery Date | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Output X |  |  |  |  |  |  |
| Output Y |  |  |  |  |  |  |
| Output Z |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

A

Report submission dates and the associated periods to be reported on

|  |  |
| --- | --- |
| Dates on which reports must be submitted annually from 31 July 2021 to 30 April 2026 | Associated periods to be reported on |
| 31 January | 1 October to 31 December |
| 30 April | 1 January to 31 March |
| 31 July | 1 April to 30 June |
| 31 October | 1 July to 30 September |

## Physical Security Re-opener and Price Control Deliverable (PSUPt)

Introduction

* + 1. The purpose of this condition is to calculate the term PSUPt (the Physical Security Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to:
       1. specify the outputs, delivery dates and associated allowances for the Price Control Deliverable;
       2. establish a Re-opener for the licensee and Authority to trigger amendments to the Price Control Deliverable during the Price Control Period; and
       3. provide for an assessment of the Price Control Deliverable.
    3. This condition also sets out the process the Authority will follow when directing any changes under paragraph 3.4.6, 3.4.10 or 3.4.11.

### Formula for calculating the Physical Security Price Control Deliverable term (PSUPt)

* + 1. The value of PSUPt is derived in accordance with the following formula:

*PSUPt = PSUPAt – PSUPRt*

where:

|  |  |
| --- | --- |
| *PSUPAt* | means the sum of allowances in Appendix 1; and |
| *PSUPRt* | has the value of zero unless otherwise directed by the Authority in accordance with Part D. |

### What is the licensee funded to deliver?

* + 1. Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

### Physical Security Re-opener

* + 1. The licensee may apply to the Authority for a direction amending the outputs, delivery dates or associated allowances in Appendix 1 where government has mandated changes to the scope of work the licensee is required to carry out under the Physical Security Upgrade Programme.
    2. The licensee may only apply to the Authority under paragraph 3.4.6 Between 25 January and 31 January in each of the years 2023, 2024 and 2025, or during such later periods as the Authority may direct.
    3. An application under paragraph 3.4.6 must be made in writing and include statements:
       1. set out the changes mandated by the government to the scope of work which the licensee is required to carry out under the Physical Security Upgrade Programme to which the application relates;
       2. set out the government’s Critical National Infrastructure classification for each site to which the application relates;
       3. set out any amendments to the outputs, delivery dates or allowances set out in Appendix 1;
       4. explain the basis of the calculations for any amendments requested to allowances; and
       5. provide such detailed supporting evidence, including cost benefit analysis, impact assessments, and engineering justification statements, as is reasonable in the circumstances.
    4. An application under paragraph XX.6 must:
       1. relate to changes to the scope of work which the licensee is required to carry out under the Physical Security Upgrade Programme, mandated by government on or after 9 December 2019;
       2. take account of any allowed expenditure, which can be avoided as a result of the change; and
       3. be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Authority triggered Re-opener

* + 1. The Authority will also consider directing amendments to the outputs, delivery dates or allowances set out in Appendix 1 where there have been government mandated changes to the scope of work the licensee is required to carry out under the Physical Security Upgrade Programme that:
       1. have been mandated on or after 9 December 2019, and
       2. relate to costs incurred or expected to be incurred on or after 1 April 2021.

### Assessment of the Physical Security Price Control Deliverable (PSUPRt)

* + 1. The Authority will, in accordance with the PCD Reporting Requirements and Methodology Document, consider directing a value for PSUPRt where the licensee has not Fully Delivered an output in Appendix 1.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.4.6, 3.4.10 or 3.4.11, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. A direction under paragraph 3.4.6 or 3.4.10 will set out any amendments to Appendix.
    3. A direction under paragraph 3.4.11 will set out the value of the PSUPRt term and the Regulatory Years to which those values relate.

Physical Security Price Control Deliverable Allowance

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Site | Output | Delivery Date | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | Total Allowance (All years) |
| Site X | Install PSUP Solution at site to required Government specification. | 31 Mar 2026 |  |  |  |  |  |  |
| Site Y | Install PSUP Solution at site to required Government specification. | 31 Mar 2026 |  |  |  |  |  |  |
| Site Z | Install PSUP Solution at site to required Government specification. | 31 Mar 2026 |  |  |  |  |  |  |

## Non-operational Capex IT Re-opener (NOITt)

Introduction

* + 1. The purpose of this condition is to calculate the term NOITt (the Non-operational Capex IT Re-opener term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to:
       1. require the licensee to submit a Non-operational Capex IT Plan at the start of the Price Control Period; and
       2. establish a Re-opener triggered by either the licensee or the Authority for Non-operational Capex IT.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What costs are within the scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction adjusting the value of the NOITt term for any Regulatory Year during the Price Control Period as a result of:
       1. the licensee identifying further evidence in support of Non-operational Capex IT projects that were included in its Business Plan, but in relation to which no allowance has been provided to date;
       2. the licensee identifying activities capable of improving its Non-operational Capex IT; or
       3. any changes to statutory or regulatory requirements relating to Non-operational Capex IT.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.5.4:
       1. Between 1 April 2021 and 8 April 2021;
       2. Between 25 January 2023 and 31 January 2023; and
       3. during such other periods as the Authority may direct.

### How to make an application

* + 1. In order to make an application under paragraph 3.5.4 the licensee must submit to the Authority a Non-operational Capex IT Plan in writing and:
       1. give details of the circumstances referred to in paragraph 3.5.4(a), (b) or (c) that the licensee considers exist;
       2. explain how the adjustment requested would improve its Non-operational IT Capex;
       3. explain the basis of the calculations for the adjustment requested to allowances; and
       4. give details of anticipated business benefits derived from any risk reduction as a result of the proposed activities; and
       5. provide such detailed supporting evidence, as is reasonable in the circumstances, which must include:
          1. Improvement Plans;
          2. a prioritisation programme; and
          3. market and industry cost comparison; and
          4. anticipated business benefits derived from any risk reduction as a result of the proposed activities.
    2. An application under paragraph 3.5.4 must:
       1. take account of any allowed expenditure, which can be avoided as a result of the adjustment; and
       2. be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Authority triggered re-opener

* + 1. The Authority will also consider directing an adjustment to the value of the NOITt term without an application being made under paragraph 4 where it considers that:
       1. circumstances of the type referred to in paragraph 3.5.4 exist; and
       2. costs were incurred or will be incurred on or after 1 April 2021.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.5.4 or 3.5.8, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out any adjustments to the value of the NOITt term and the Regulatory Years to which those adjustments relate.

## Net Zero Re-opener (NZt)

### Introduction

* + 1. The purpose of this condition is to calculate the term NZt (the Net Zero term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener for the Authority to trigger amendments to the value of NZt or the outputs set out in the special conditions of this licence.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What is the scope of this Re-opener?

* + 1. The Authority will consider directing an adjustment to the value of the NZt term or the outputs set out in in the special conditions of this licence where in its view:
       1. a Net Zero Development has occurred or is expected to occur;
       2. the Net Zero Development has caused or is expected to cause the cost of Licensed Activity to increase or decrease during the Price Control Period;
       3. the effect of the Net Zero Development on the cost of Licensed Activity is not otherwise provided for in this licence;
       4. the effect of the Net Zero Development has not already been assessed under another Re-opener; and
       5. the effect, or estimated effect, of the Net Zero Development on the cost of Licensed Activity exceeds the materiality threshold set out in Appendix 1.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.6.4 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days .
    2. The direction will set out:
       1. any adjustments to the value of the NZt term and the Regulatory Years to which those adjustments relate; and
       2. any amendments to the outputs in the special conditions of this licence.

Materiality threshold for Net Zero Re-opener

|  |  |
| --- | --- |
| Licensee | Materiality threshold |
| [Licensee] | [1% of annual average base revenues] |
|  |  |
|  |  |

## Coordinated Adjustment Mechanism Re-opener (CAMt)

Introduction

* + 1. The purpose of this condition is to calculate the term CAMt (the Coordinated Adjustment Mechanism term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener triggered by the licensee where a more cost-effective opportunity has been identified to reallocate responsibility for, and revenue associated with, a CAM Activity to or from a Partner Licensee.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What costs are within scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction adjusting the value of the CAMt term and the outputs, delivery dates and allowances within [the relevant outputs condition] for any Regulatory Year during the Price Control Period as a result of reaching agreement to reallocate responsibility and associated revenue for a CAM Activity to or from a Partner Licensee.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.7.4 :
       1. [Between 23 May 2022 and 29 May 2022];
       2. [Between 20 May 2024 and 26 May 2024]; and
       3. during such other periods as the Authority may direct.

### How to make an application

* + 1. An application under paragraph 3.7.4 must be made in writing to the Authority and:
       1. give a description of the engagement between the licensee and the Partner Licensee which has led to the application;
       2. explain whether the licensee is applying to have the CAM Activity reallocated to them, or from them to a Partner Licensee;
       3. explain why the original allocation of the CAM Activity is no longer the most cost-effective, and why the reallocation is more cost-effective;
       4. give a description of the CAM Activity and associated revenue that the licensee is requesting to reallocate;
       5. set out any amendments requested to the outputs, delivery dates or allowances in [the relevant outputs condition] of this licence and that of the Partner Licensee;
       6. set out the adjustments to the value of the CAMt term for both the licensee and the Partner Licensee that the licensee is requesting and the Regulatory Years to which those adjustments relate;
       7. explain the basis of the calculation for the proposed adjustments to the value of the licensee and the Partner Licensee's CAMt terms or other allowances;
       8. provide such detailed supporting evidence including cost benefit analysis, impact assessments, risk mitigation, and engineering justification statements as is reasonable in the circumstances; and
       9. provide a copy of the agreement between the licensee and the Partner Licensee to transfer responsibility for and associated revenue of a CAM Activity, including assurance from the licensee and the Partner Licensee.
    2. An application under paragraph XX.4 must:
       1. take account of any allowed expenditure by both the licensee and the Partner Licensee, which can be avoided as a result of the change; and
       2. be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under 3.17.4 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out:
       1. any amendments to [the relevant outputs condition]; and
       2. any adjustments to the value of the CAMt terms of the licensee and the Partner Licensee and the Regulatory Years to which those adjustments relate.

## Vulnerability and Carbon Monoxide Allowance (VCMt)

Introduction

* + 1. The purpose of this condition is to calculate the term VCMt. VCMt contributes to the calculation of the Totex Allowance.
    2. This condition also makes appropriate provision for the regulation, administration and governance of the
    3. lity and Carbon Monoxide Allowance.

### Formula for calculating the Vulnerability and Carbon Monoxide Allowance

* + 1. The value of VCMt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *VCMAt* | means the total expenditure on VCM Projects; and |
| *VCMC* | means the value of the licensee's expenditure cap for VCM Projects for the Price Control Period as set out in Appendix 1. |

### The VCMA Governance Document

* + 1. The licensee must comply with the VCMA Governance Document in its administration and delivery of the VCM Projects, associated learning dissemination requirements and reporting requirements.
    2. The Authority will issue and amend the VCMA Governance Document by direction.
    3. The Authority will publish the VCMA Governance Document on the Authority's Website.
    4. The VCMA Governance Document will make provision about:
       1. the eligibility criteria that VCM Projects must meet;
       2. the information that is to be published by the licensee prior to starting any VCM Project;
       3. arrangements for ensuring that relevant learning from VCM Projects can be captured and disseminated to other all other DN Operators; and
       4. the nature of the reporting obligations in respect of VCM Projects.
    5. Before issuing the VCMA Governance Document the Authority will publish on the Authority’s Website:
       1. the proposed text of the VCMA Governance Document;
       2. the date on which the Authority intends the VCMA Governance Document to come into effect; and
       3. a period during which representations may be made on the content of the VCMA Governance Document, which will not be less than 28 days.
    6. Before directing an amendment to the VCMA Governance Document, the Authority will publish on the Authority’s Website:
       1. the text of the amended VCMA Governance Document;
       2. the date on which the Authority intends the amended VCMA Governance Document to come into effect;
       3. the reasons for the amendments to the VCMA Governance Document; and
       4. a period during which representations may be made on the amendments to the VCMA Governance Document, which will not be less than 28 days.

VCMA Expenditure Cap

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2026/27 |
| EOE | X | X | X | X | X |
| Lon | X | X | X | X | X |
| NW | X | X | X | X | X |
| WM | X | X | X | X | X |
| Northern Gas Networks Ltd | X | X | X | X | X |
| Scotland Gas Networks plc | X | X | X | X | X |
| Southern Gas Networks plc | X | X | X | X | X |
| Wales & West Utilities Ltd | X | X | X | X | X |

## Tier 1 Mains Decommissioned Price Control Deliverable (TIMDt)

Introduction

* + 1. The purpose of this condition is to calculate the term T1MDt (the Tier 1 Mains Decommissioned Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. This condition specifies the outputs for the Price Control Deliverable and puts in place reporting requirements for the licensee.

### Formula for calculating the Tier 1 Mains Decommissioned Price Control Deliverable term (TIMDt)

* + 1. The value of T1MDt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *i* | denotes each Tier 1 Mains Decommissioned Workload Activity; |
| *DVi* | means the Outturn Workload of Tier 1 Decommissioned Mains within the relevant Tier 1 Decommissioned Mains Workload Activity; |
| *BVi* | means the Baseline Volume of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity, as set out in Appendix 1; |
| *Ci* | means the Allowed Unit Cost of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity as set out in Appendix 1; and |
| *T1MRA* | means the Tier 1 Mains Baseline Value, as set out in Appendix 2. |

### What is the licensee funded to deliver?

* + 1. The licensee is funded to deliver a Baseline Target Workload of Tier 1 Mains Decommissioned during the Price Control Period, as set out in Appendix 1.

### Reporting requirements

* + 1. If T1MR is more than 2% below then the licensee must submit to the Authority a report for publication that details the reasons for, and effects of, this under-delivery in a format directed by the Authority.

Tier 1 Mains Decommissioned Baseline Target Workloads and Unit Costs

|  |  |  |  |
| --- | --- | --- | --- |
| Licensee | Diameter band of decommissioned pipe | Baseline Target Workload | Allowed Unit Cost |
| Cadent East of England | ≤3" |  |  |
| Cadent East of England | 4"-5" |  |  |
| Cadent East of England | 6"-7" |  |  |
| Cadent East of England | 8" |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Licensee | Diameter band of decommissioned pipe | Baseline Target Workload | Allowed Unit Cost |
| Cadent London | ≤3" |  |  |
| Cadent London | 4"-5" |  |  |
| Cadent London | 6"-7" |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Licensee | Diameter band of decommissioned pipe | Baseline Target Workload | Allowed Unit Cost |
| Cadent North West | ≤3" |  |  |
| Cadent North West | 4"-5" |  |  |
| Cadent North West | 6"-7" |  |  |
| Cadent North West | 8" |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Licensee | Diameter band of decommissioned pipe | Baseline Target Workload | Allowed Unit Cost |
| Cadent West Midlands | ≤3" |  |  |
| Cadent West Midlands | 4"-5" |  |  |
| Cadent West Midlands | 6"-7" |  |  |
| Cadent West Midlands | 8" |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Licensee | Diameter band of decommissioned pipe | Baseline Target Workload | Allowed Unit Cost |
| Northern Gas Networks | ≤3" |  |  |
| Northern Gas Networks | 4"-5" |  |  |
| Northern Gas Networks | 6"-7" |  |  |
| Northern Gas Networks | 8" |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Licensee | Diameter band of decommissioned pipe | Baseline Target Workload | Allowed Unit Cost |
| SGN Southern | ≤3" |  |  |
| SGN Southern | 4"-5" |  |  |
| SGN Southern | 6"-7" |  |  |
| SGN Southern | 8" |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Licensee | Diameter band of decommissioned pipe | Baseline Target Workload | Allowed Unit Cost |
| SGN Scotland | ≤3" |  |  |
| SGN Scotland | 4"-5" |  |  |
| SGN Scotland | 6"-7" |  |  |
| SGN Scotland | 8" |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Licensee | Diameter band of decommissioned pipe | Baseline Target Workload | Allowed Unit Cost |
| Wales and West Utilities | ≤3" |  |  |
| Wales and West Utilities | 4"-5" |  |  |
| Wales and West Utilities | 6"-7" |  |  |
| Wales and West Utilities | 8" |  |  |

Tier 1 Mains Baseline Values by Regulatory Year

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| GDN | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total Value (all years) |
| Cadent East of England |  |  |  |  |  |  |
| Cadent North London |  |  |  |  |  |  |
| Cadent North West |  |  |  |  |  |  |
| Cadent West Midlands |  |  |  |  |  |  |
| Northern Gas Networks |  |  |  |  |  |  |
| SGN Scotland |  |  |  |  |  |  |
| SGN Southern |  |  |  |  |  |  |
| Wales & West Utilities |  |  |  |  |  |  |

## Tier 1 Services Repex Price Control Deliverable (TISt)

Introduction

* + 1. The purpose of this condition is to calculate the term T1St (the Tier 1 Services Repex Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. This condition specifies the outputs and associated allowances for the Price Control Deliverable puts in place reporting requirements for the licensee.

### Formula for calculating the Tier 1 Services Repex Control Deliverable term

* + 1. The value of T1SRt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *i* | denotes each Tier 1 Services Repex Workload Activity; |
| *DVi* | means the Outturn Workload of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity; |
| *FVM* | means the Funded Volume Multiplier, derived in accordance with paragraph 4; |
| *BVi* | means the Baseline Volume of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity, as set out in Appendix 1; |
| *Ci* | means the Allowed Unit Cost of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity as set out in Appendix 1; and |
| *T1SRA* | means the Tier 1 Services Baseline Value, as set out in Appendix 2. |

* + 1. The value of FVM is derived in accordance with the following formula:

, 1)

where:

|  |  |
| --- | --- |
| i | denotes each Tier 1 Services Repex Workload Activity; |
| DVi | means the Outturn Workload of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity; and |
| BVi | means the Baseline Volume of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity, as set out in Appendix 1. |

### What is the licensee funded to deliver?

* + 1. The licensee, is funded to deliver a Baseline Target Workload of Tier 1 Services Repex during the Price Control Period, as set out in Appendix 1.

### Reporting requirements

* + 1. If the Outturn Workload of Tier 1 Services Repex is more than 10% less than the Baseline Target Workload, then the licensee must submit to the Authority a report for publication that details the reasons for, and effects of, this under-delivery, in a format directed by the Authority.

Tier 1 Services Baseline Target Workloads and Unit Costs

| Licensee | Type of Service Intervention | Property type | Baseline Target Workload | Allowed Unit Cost |
| --- | --- | --- | --- | --- |
| Cadent East of England | Relay | Domestic |  |  |
| Cadent East of England | Test & Transfer | Domestic |  |  |
| Cadent East of England | Relay | Non-Domestic |  |  |
| Cadent East of England | Test & Transfer | Non-Domestic |  |  |
| Cadent North London | Relay | Domestic |  |  |
| Cadent North London | Test & Transfer | Domestic |  |  |
| Cadent North London | Relay | Non-Domestic |  |  |
| Cadent North London | Test & Transfer | Non-Domestic |  |  |
| Cadent North West | Relay | Domestic |  |  |
| Cadent North West | Test & Transfer | Domestic |  |  |
| Cadent North West | Relay | Non-Domestic |  |  |
| Cadent North West | Test & Transfer | Non-Domestic |  |  |
| Cadent West Midlands | Relay | Domestic |  |  |
| Cadent West Midlands | Test & Transfer | Domestic |  |  |
| Cadent West Midlands | Relay | Non-Domestic |  |  |
| Cadent West Midlands | Test & Transfer | Non-Domestic |  |  |
| NGN | Relay | Domestic |  |  |
| NGN | Test & Transfer | Domestic |  |  |
| NGN | Relay | Non-Domestic |  |  |
| NGN | Test & Transfer | Non-Domestic |  |  |
| SGN Scotland | Relay | Domestic |  |  |
| SGN Scotland | Test & Transfer | Domestic |  |  |
| SGN Scotland | Relay | Non-Domestic |  |  |
| SGN Scotland | Test & Transfer | Non-Domestic |  |  |
| SGN Southern | Relay | Domestic |  |  |
| SGN Southern | Test & Transfer | Domestic |  |  |
| SGN Southern | Relay | Non-Domestic |  |  |
| SGN Southern | Test & Transfer | Non-Domestic |  |  |
| WWU | Relay | Domestic |  |  |
| WWU | Test & Transfer | Domestic |  |  |
| WWU | Relay | Non-Domestic |  |  |
| WWU | Test & Transfer | Non-Domestic |  |  |

Tier 1 Services Baseline Values by Regulatory Year

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| GDN | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total Value (all years) |
| Cadent East of England |  |  |  |  |  |  |
| Cadent North London |  |  |  |  |  |  |
| Cadent North West |  |  |  |  |  |  |
| Cadent West Midlands |  |  |  |  |  |  |
| Northern Gas Networks |  |  |  |  |  |  |
| SGN Scotland |  |  |  |  |  |  |
| SGN Southern |  |  |  |  |  |  |
| Wales & West Utilities |  |  |  |  |  |  |

## Gas Holder Demolitions Price Control Deliverable (GHRAt)

Introduction

* + 1. The purpose of this condition is to calculate the term GHRAt (the Gas Holder demolitions Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. This condition specifies the allowances for Gas Holder demolitions and the reduction in allowances if the licensee does not Fully Demolish all of its Gas Holders.

### Adjustment for failure to Fully Demolish Gas Holders

* + 1. The value of GHRAt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| GHBAt | means the Gas Holder demolition allowance set out in Appendix 1; |
|  | means the total Gas Holder demolition allowance in the RIIO-2 period; |
|  | means the number of Gas Holders of type n owned by the licensee on 31 March 2027 that it did not Fully Demolish; |
|  | means the Gas Holder category corresponding to the Gas Holder type set out in the table below; and |
|  | means the Gas Holder demolition unit cost set out in Appendix 2 that corresponds with Gas Holder category n.   |  |  | | --- | --- | | Gas Holder category, n | Gas Holder type | | 1 | Spiral guided, above-ground | | 2 | Spiral guided, below-ground | | 3 | Column guided, above-ground | | 4 | Column guided, below-ground | | 5 | Maschinenfabrik Augsburg-Nürnberg | | 6 | Wiggins | | 7 | Other | |

Gas Holder Demolitions Allowance (£m per Gas Holder, at 20xx/yy price levels)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2026/27 |
| EOE | X | X | X | X | X |
| Lon | X | X | X | X | X |
| NW | X | X | X | X | X |
| WM | X | X | X | X | X |
| Northern Gas Networks Ltd | X | X | X | X | X |
| Scotland Gas Networks plc | X | X | X | X | X |
| Southern Gas Networks plc | X | X | X | X | X |
| Wales & West Utilities Ltd | X | X | X | X | X |

**Gas Holder Demolitions Unit Cost (£m per Gas Holder, at 200xx/yy price levels)**

|  |  |
| --- | --- |
| Gas Holder category, n | £m per Gas Holder |
| 1 | XX |
| 2 | XX |
| 3 | XX |
| 4 | XX |
| 5 | XX |
| 6 | XX |
| 7 | XX |

## Capital Projects Price Control Deliverables (CAPt)

Introduction

* + 1. The purpose of this condition is to calculate the term CAPt (the Capital Projects Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to:
       1. specify the outputs, delivery dates and associated allowances for the Price Control Deliverables; and
       2. provide for an assessment of the Price Control Deliverable at the end of the Price Control Period.
    3. This condition also explains the process the Authority will follow when assessing the Price Control Deliverable.

### Formula for calculating the Capital Projects Price Control Deliverables term (CAPt)

* + 1. The value of CAPt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| CAPAt | means the allowances in Appendix 1 that relate to the licensee; and |
| CAPRt | has the value zero, unless otherwise directed by the Authority in accordance with Part C |

### What is the licensee funded to deliver?

* + 1. Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

### Assessment of outputs (CAPRt)

* + 1. At the end of the Price Control Period, the Authority will direct a value for CAPRt where the licensee has not Fully Delivered an output in Appendix 1 in order to reduce the allowance for the output to zero.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.12.5 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction;
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out any adjustments due to the value of the CAPRt term and the Regulatory Years to which those values relate.

Capital Projects Price Control Deliverable - Cadent

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Licensee | Project Name | Delivery Date | Total Allowance | Outputs (Reference to EJP) |
| Cadent | Capacity Upgrades > 7bar | March 2026 | 24.82 | APP\_CAD\_09.23 |
| Cadent | Offtakes & PRS Metering | March 2026 | 17.21 | APP\_CAD\_09.10 |
| Cadent | Reduced Depth of Cover | March 2026 | 5.18 | APP\_CAD\_09.32 |
| Cadent | Holford Salt Cavity | March 2026 | 1.93 | APP\_CAD\_09.15 |
| Cadent | MP/IP Valves | March 2026 | 43.77 | APP\_CAD\_09.31 |
| Cadent | Brunel Bridge | March 2026 | 0.99 | APP\_CAD\_09.13 |
| Cadent | Mersey Tunnel | March 2026 | 0.75 | APP\_CAD\_09.18 |

Capital Projects Price Control Deliverable - NGN

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Licensee | Project Name | Delivery Date | Total Allowance | Outputs (Reference to EJP) |
| NGN | TransPennine | March 2026 | 19.47 | A23.F |
| NGN | Overcrossings | March 2026 | 8.25 | A23.G |

Capital Projects Price Control Deliverable – SGN

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Licensee | Project Name | Delivery Date | Total Allowance | Outputs (Reference to EJP) |
| SC | RO2 Dunkeld | March 2026 | 23.10 | SGN-Trans-029Dunk |
| SC | T8: Pitcairngreen to Huntingtower - R04 and R05 | March 2026 | 5.67 | SGN-Trans-030Capa |
| SC | E&I Upgrade Programme (5 sites) | March 2026 | 1.05 | SGN-EandI-005Upgrades |
| SC | ICMDL | March 2026 | 1.99 | SGN-EandI-006ICMDatalog |
| SC | Telemetry Upgrades (8 Offtakes) | March 2026 | 0.46 | SGN-EandI-001Tele |
| SC | Dreghorn PRS | March 2026 | 2.04 | SGN-Trans-030Capa |
| SC | E&I Upgrade Programme (4 sites) | March 2026 | 0.55 | SGN-EandI-005Upgrades |
| SC | New PRS (Edinburgh South East Wedge) | March 2026 | 2.34 | SGN-Trans-030Capa |
| SC | Newton Means and Waterfoot PRS | March 2026 | 7.54 | SGN-Trans-023Newt |
| SC | Provan PRS | March 2026 | 11.96 | SGN-Trans-022Prov |
| SC | Telemetry Upgrade (73 PRS') | March 2026 | 3.33 | SGN-EandI-001Tele |
| SC | Tranent PRS | March 2026 | 2.39 | SGN-Trans-030Capa |
| SO | E&I Upgrade Programme (2 sites) | March 2026 | 0.48 | SGN-EandI-005Upgrades |
| SO | ICMDL | March 2026 | 2.89 | SGN-EandI-006ICMDatalog |
| SO | Mappowder | March 2026 | 3.86 | SGN-Trans-001Mapp |
| SO | Telemetry Upgrades (2 Offtakes) | March 2026 | 0.12 | SGN-EandI-001Tele |
| SO | Winkfield Offtake - System 1 (South East) | March 2026 | 4.84 | SGN-Trans-002Wink1 |
| SO | Winkfield Offtake - System 2 (South) | March 2026 | 3.81 | SGN-Trans-003Wink2 |
| SO | E&I Upgrade Programme (23 sites) | March 2026 | 3.41 | SGN-EandI-005Upgrades |
| SO | East Morden | March 2026 | 3.80 | SGN-Trans-030Capa |
| SO | Telemetry Upgrade (82 PRS') | March 2026 | 3.78 | SGN-EandI-001Tele |
| SO | Wavendon | March 2026 | 3.65 | SGN-Trans-030Capa |
| SC | Lockerbie Offtake | March 2026 | 1.74 | SGN-Trans-021Lock |
| SC | Metering Uncertainty Programme (6 sites) | March 2026 | 3.32 | SGN-EandI-004Meter |
| SC | Aberdeen (Craibstone) PRS | March 2026 | 0.59 | SGN-Trans-028Carl |
| SC | Airth | March 2026 | 1.07 | SGN-Trans-027Airt |
| SC | Carleith PRS | March 2026 | 0.83 | SGN-Trans-028Carl |
| SC | Fairmilehead | March 2026 | 1.79 | SGN-Trans-025Fair |
| SC | Granton | March 2026 | 0.68 | SGN-Trans-028Carl |
| SC | Lauder | March 2026 | 0.98 | SGN-Trans-027Airt |
| SC | St Andrews PRS | March 2026 | 2.11 | SGN-Trans-026StAn |
| SO | Metering Uncertainty Programme (1 site) | March 2026 | 0.20 | SGN-EandI-004Meter |
| SO | Aylesham PRS | March 2026 | 1.27 | SGN-Trans-004Ayle |
| SO | Battle PRS - System 1 | March 2026 | 0.49 | SGN-Trans-005Batt1 |
| SO | Boxhill PRS | March 2026 | 1.55 | SGN-Trans-006Batt2 |
| SO | Braishfield C | March 2026 | 1.23 | SGN-Trans-008Brai |
| SO | Godstone PRS | March 2026 | 1.69 | SGN-Trans-009Gods |
| SO | Hillside | March 2026 | 1.87 | SGN-Trans-010Hill |
| SO | Hurst Green PRS | March 2026 | 1.69 | SGN-Trans-011Hurs |
| SO | Reading A | March 2026 | 3.09 | SGN-Trans-012Read |
| SO | Shalford | March 2026 | 4.24 | SGN-Trans-013Shal |
| SO | Shatterling PRS | March 2026 | 1.43 | SGN-Trans-014Shat |
| SO | Smarden PRS | March 2026 | 1.53 | SGN-Trans-015Smar |
| SO | Westerham PRS - System 1 | March 2026 | 2.90 | SGN-Trans-018West1 |
| SO | Woking | March 2026 | 2.09 | SGN-Trans-019Woki |

Capital Projects Price Control Deliverable - WWU

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Licensee | Project Name | Delivery Date | Total Allowance | Outputs (Reference to EJP) |
| WWU | HN039 LTS Pipeline Replacement | March 2026 | 13.19 | 15B1.4 |

## Fuel Poor Network Extension Scheme Volume Driver (FPAt)

Introduction

* + 1. The purpose of this condition is to calculate the term FPAt (the FPNES Adjustment term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to adjust revenue to fund the licensee for connections made under the FPNES.

### Formula for calculating the FPNES Adjustment Term (FPAt)

* + 1. The value of *FPAt* is derived in accordance with the following formula:

|  |  |
| --- | --- |
| where: |  |
| *C* | means the maximum number of FPNES Connections the licensee may complete within the Price Control Period as set out in Appendix 2; |
| *DC* | means the number of Delivered FPNES Connections over the Price Control Period; and |
| *Vn,t* | means the Fuel Poor Individual Connection Cost as set out in Appendix 3. |

### Closing the scheme

* + 1. The Authority will close the FPNES by direction.
    2. Before issuing a direction, the Authority will publish a notice setting out:
       1. the changes in government policy that it considers have made the FPNES redundant;
       2. the date by which the licensee must complete all planned connections under the FPNES;
       3. the resultant changes to the licensee's RIIO-GD2 FPNES Connection Target set out in Appendix 1;
       4. the date of the planned closure, which will be not less than 30 days after the date of publication of the notice; and
       5. a period during which representations may be made on the direction, which will be not less than 15 days.

### FPNES Governance Document

* + 1. The licensee must comply with the FPNES Governance Document for the administration and delivery of the FPNES.
    2. The Authority will issue and amend the FPNES Governance Document by direction.
    3. The Authority will publish the FPNES Governance Document on the Authority's Website.
    4. The FPNES Governance Document will make provision about:
       1. the eligibility criteria which FPNES Connections must meet;
       2. requirements the licensee must adhere to in relation to the administration and delivery of the FPNES; and
       3. the nature of the reporting obligations in respect of the FPNES.
    5. Before issuing the FPNES Governance Document by direction, the Authority will publish on the Authority's Website:
       1. the text of the proposed FPNES Governance Document;
       2. the date on which the Authority intends the FPNES Governance Document to come into effect; and
       3. a period during which representations may be made on the content of the FPNES Governance Document, which will not be less than 28 days.
    6. Before amending the FPNES Governance Document by direction, the Authority will publish on the Authority's Website:
       1. the text of the amended FPNES Governance Document;
       2. the date on which the Authority intends the amended FPNES Governance Document to come into effect;
       3. the reasons for the amendments to the FPNES Governance Document; and
       4. a period during which representations may be made on the amendments to the FPNES Governance Document, which will not be less than 28 days.

RIIO-GD2 FPNES Connection Target Between 1 April 2021 and 31 March 2026

|  |  |
| --- | --- |
| Distribution Network |  |
| EOE | Xxxx |
| Lon | xxxx |
| NW | xxxx |
| WM | xxxx |
| Northern Gas Networks Ltd | xxxx |
| Scotland Gas Networks plc | xxxx |
| Southern Gas Networks plc | xxxx |
| Wales & West Utilities Ltd | xxxx |

RIIO-GD2 FPNES Connection Cap Between 1 April 2021 and 31 March 2026

|  |  |
| --- | --- |
| Distribution Network |  |
| EOE | Xxxx |
| Lon | xxxx |
| NW | xxxx |
| WM | xxxx |
| Northern Gas Networks Ltd | xxxx |
| Scotland Gas Networks plc | xxxx |
| Southern Gas Networks plc | xxxx |
| Wales & West Utilities Ltd | xxxx |

Fuel Poor Individual Connection Cost

|  |  |
| --- | --- |
| Distribution Network | £m |
| EOE | xxxx |
| Lon | xxxx |
| NW | xxxx |
| WM | xxxx |
| Northern Gas Networks Ltd | xxxx |
| Scotland Gas Networks plc | xxxx |
| Southern Gas Networks plc | xxxx |
| Wales & West Utilities Ltd | xxxx |
| Wales & West Utilities Ltd | xxxx |

## Tier 2A Mains and Services Replacement Volume Driver (REt)

Introduction

* + 1. The purpose of this condition is to calculate the term REt (the Tier 2A mains and services replacement volume driver).
    2. This contributes to the calculation of the Totex Allowance.
    3. The effect of this condition is to adjust revenue to fund the licensee for mains and services replacement expenditure incurred in relation to Above Risk Action Threshold Tier 2 Mains.

### Formula for calculating the Tier 2A mains and services replacement volume driver

* + 1. The value of REt is derived in accordance with the following formula:

where:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Ln,t | means the length of Above Risk Action Threshold Tier 2 Mains in kilometres decommissioned in respect of diameter band n, where the diameter bands are defined as set out in the following table, except that any diameter of mains not covered by the table or any mains measured in metric measurement is to be reported in the diameter band corresponding to the nearest imperial equivalent;   |  |  | | --- | --- | | Diameter band n | Nominal internal diameter of mains decommissioned (inches) | | 1 | >8<=10 | | 2 | >10 <=12 | | 3 | >12<18; and | |
| Un,t | means the specific matrix costs in respect of diameter band n as set out in the relevant table in Appendix 1. |

**Distribution Network specific matrix costs for Above Risk Action Threshold Tier 2 Mains: Distribution Network: EOE**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| 1 |  |  |  |  |  |
| 2 |  |  |  |  |  |
| 3 |  |  |  |  |  |

Distribution Network specific matrix costs (£ per metre, at 2019/20 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: LON

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| 1 |  |  |  |  |  |
| 2 |  |  |  |  |  |
| 3 |  |  |  |  |  |

Distribution Network specific matrix costs (£ per metre, at 2019/20 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: NW

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| 1 |  |  |  |  |  |
| 2 |  |  |  |  |  |
| 3 |  |  |  |  |  |

Distribution Network specific matrix costs (£ per metre, at 2019/20 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: WM

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| 1 |  |  |  |  |  |
| 2 |  |  |  |  |  |
| 3 |  |  |  |  |  |

Distribution Network specific matrix costs (£ per metre, at 2019/20 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: Northern Gas Networks Ltd

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| 1 |  |  |  |  |  |
| 2 |  |  |  |  |  |
| 3 |  |  |  |  |  |

Distribution Network specific matrix costs (£ per metre, at 2019/20 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: Scotland Gas Networks plc

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| 1 |  |  |  |  |  |
| 2 |  |  |  |  |  |
| 3 |  |  |  |  |  |

Distribution Network specific matrix costs (£ per metre, at 2019/20 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: Southern Gas Networks plc

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| 1 |  |  |  |  |  |
| 2 |  |  |  |  |  |
| 3 |  |  |  |  |  |

Distribution Network specific matrix costs (£ per metre, at 2019/20 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: Wales & West Utilities Ltd

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| 1 |  |  |  |  |  |
| 2 |  |  |  |  |  |
| 3 |  |  |  |  |  |

## HSE Repex policy Re-opener (REPt)

Introduction

* + 1. The purpose of this condition is to calculate the term REPt (the HSE Repex policy Re-opener term). This contributes to calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority where there have been specified changes to the costs of delivering the licensee's Iron Mains Risk Reduction Programme.
    3. This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

### What costs are within scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction adjusting the value of REPt term or the [repex PCDs] for any Regulatory Year during the Price Control Period where there are changes to a Repex Related HSE Policy Area that will materially impact the cost of delivering the licensee's Iron Mains Risk Reduction Programme.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.15.4:
       1. Between 25 January 2022 and 31 January 2022;
       2. Between 25 January 2023 and 31 January 2023;
       3. Between 25 January 2024 and 31 January 2024; or
       4. during such later periods as the Authority may direct.

### How to make an application

* + 1. An application under paragraph 3.15.4 must be made in writing to the Authority and:
       1. specify the Repex Related HSE Policy Areas changes to which the application relates;
       2. set out any changes to the [repex PCDs] that the licensee is requesting;
       3. set out the adjustments to the value of the REPt term that the licensee is requesting, and the Regulatory Years to which those adjustments relate;
       4. explain the basis of the calculation for the proposed adjustments to the REPt term; and
       5. include such detailed supporting evidence, including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.
    2. An application must:
       1. relate to changes to a Repex Related HSE Policy Area that occur Between 1 April 2020 and 31 March 2024;
       2. take account of any allowed expenditure, which can be avoided as a result of the changes;
       3. be confined to costs incurred or expected to be incurred that exceed the materiality threshold set out in Appendix 1; and
       4. relate to costs incurred or expected to be incurred on or after 1 April 2021.

### Authority triggered re-opener

* + 1. The Authority will also consider directing an adjustment to the value of the REPt term or the [repex PCDs] where it considers that there have been changes to any Repex Related HSE Policy Area or the licensee's Approved Programme that materially impact the cost of the licensee delivering its Iron Mains Risk Reduction Programme that:
       1. have come into effect Between 1 April 2020 and 31 March 2024;
       2. relate to changes to costs incurred or expected to be incurred that exceed the materiality threshold in Appendix 1; and
       3. relate to changes to costs incurred or expected to be incurred on or after 1 April 2021

### What process will the Authority in making a direction?

* + 1. Before making a direction under paragraph 3.15.3 or 3.15.8, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction;
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out:
       1. any amendments to the [repex PCDs]; and
       2. any adjustments to the value of the REPt term and the Regulatory Years to which those adjustments relate.

Materiality Threshold

|  |  |
| --- | --- |
| Licensee | Materiality threshold |
| Northern Gas Networks Limited |  |
| Scotland Gas Networks Plc |  |
| Southern Gas Networks Plc |  |
| Wales & West Utilities Limited |  |
| Cadent Limited |  |

## Tier 1 Stubs Repex Policy Re-opener (STUBt)

Introduction

* + 1. The purpose of this condition is to calculate the term STUBt (the Tier 1 Stubs Re-opener term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener to be triggered by the licensee where the outcome of an HSE Review will impact the cost of delivering licensed activities relating to Tier 1 Stubs.
    3. This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

### What costs are within the scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction adjusting the value of the STUBt term or amending the outputs, delivery dates or allowances in the [repex PCDs] for any Regulatory Year during the Price Control Period where the outcome of an HSE Review will impact the cost of delivering Licensed Activity relating to Tier 1 Stubs.

### When to make an application

* + 1. The licensee must apply to the Authority for an adjustment under paragraph 3.16.4 Between [25 January 2022 and 31 January 2022] or during such later periods as the Authority may direct.

### How should an application be made?

* + 1. The licensee must prepare and submit an application under paragraph 3.16.4, jointly with all other DN Operators impacted by the outcome of an HSE Review.
    2. An application must be made in writing to the Authority and must:
       1. specify the additional costs relating to the classification and definition of Tier 1 Stubs following the HSE Review that have led to the application;
       2. set out any changes relating to the classification and definition of Tier 1 Stubs and results presented by the HSE Review to which this application relates;
       3. give justification for the needs case of the proposal and how this needs case relates to the HSE Review;
       4. set out a consistent view by all DN Operators on how to define and classify Tier 1 Stubs;
       5. set out a consistent view by all DN Operators on how risk associated with Tier 1 Stubs must be assessed;
       6. set out an approach agreed by all DN Operators to determine the volumes of Tier 1 Stubs in each Licensee Asset Register;
       7. give engineering and cost justifications for the set of technical solutions for replacing Tier 1 Stubs;
       8. provide detailed cost estimates for replacing the volumes included in the application supported by market assessment and cost scoping of materials, labour and equipment;
       9. set out a proposed project timeline for replacing the volumes proposed in the application;
       10. set out any amendments to the outputs, delivery dates or allowances in the [repex PCDs] that the licensee is requesting;
       11. set out the adjustments to the value of the STUBt term that the licensee is requesting, and the Regulatory Years to which those adjustments relate;
       12. explain the basis of the calculation for the proposed adjustments to the STUBt term or the allowances in the [repex PCDs];
       13. include such detailed supporting evidence including cost benefit analysis, impact assessments and engineering justification statements as is reasonable in the circumstances.
    3. An application must:
       1. be confined to costs that are incurred or are expected to be incurred on or after 1 April 2021; and
       2. take account of any allowed expenditure which can be avoided as a result of the changes.

### Authority triggered Re-opener

* + 1. The Authority will also consider directing an adjustment to the value of the STUBt term or the outputs, delivery dates or allowances in the [repex outputs] without an application being made under paragraph 3.16.4, where it considers that:
       1. the cost of delivering Licensed Activity relating to Tier 1 Stubs has been impacted by the outcomes of an HSE Review that; and
       2. those costs were incurred or are expected to be incurred on or after 1 April 2021.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.16.4, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out:
       1. any amendments to the [repex PCDs]; and
       2. any adjustments to the value of the STUBt term and the Regulatory Years to which those adjustments relate

## Heat Policy and Energy Efficiency Re-opener (HPRAt)

Introduction

* + 1. The purpose of this condition is to calculate the term HPRAt (the heat policy Re-opener term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority where there have been changes to Heat Policy Areas that result in material changes to the cost of Licensed Activity.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What changes in the heat policy environment are within the scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction to adjust the value of the HPRAt term or the outputs within [the output conditions] for any Regulatory Year during the Price Control Period where there have been changes to Heat Policy Areas that affect its legal obligations as a licensee.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.17.4:
       1. Between [25 January 2022 and 31 January 2022];
       2. Between [25 January 2023 and 31 January 2023]; or
       3. during such later periods as the Authority may direct.

### How to make an application

* + 1. An application under paragraph 3.17.4 must be made in writing to the Authority and include:
       1. the Heat Policy Areas and the consequent changes to the licensee's legal obligations to which the application relates;
       2. any amendments requested to [the output conditions];
       3. the adjustments to the value of the HPRAt term that the licensee is requesting, and the Regulatory Years to which those adjustments relate;
       4. the basis of the calculation for the proposed adjustments to the HPRAt term or the allowances in [the output conditions]; and
       5. such detailed supporting evidence including cost benefit analysis, impact assessments and engineering justification statements as is reasonable in the circumstances.
    2. An application under paragraph 3.17.4 must:
       1. relate to changes to Heat Policy Areas that have come into effect on or after 1 April 2021;
       2. take account of any allowed expenditure, which can be avoided as a result of the changes;
       3. exceed the relevant materiality threshold in Appendix 1; and
       4. be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Authority triggered Re-opener

* + 1. The Authority will also consider directing an adjustment to the HPRAt term or the outputs, delivery dates or allowances in [the outputs condition] where it considers that there have been changes to Heat Policy Areas that affect the licensee's legal obligations as a licensee that:
       1. have come into effect on or after 1 April 2021;
       2. exceed the relevant materiality threshold in Appendix 1; and
       3. relate to costs incurred or expected to be incurred on or after 1 April 2021.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.17.4 or 3.17.10, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out:
       1. any amendments to [outputs condition]; and
       2. any adjustments to the value of the HPRAt term and the Regulatory Years to which those adjustments relate.

Materiality Threshold where application relates to one Heat Policy Area

|  |  |
| --- | --- |
| Licensee | Materiality threshold |
| Northern Gas Networks Limited |  |
| Scotland Gas Networks Plc |  |
| Southern Gas Networks Plc |  |
| Wales & West Utilities Limited |  |
| Cadent Limited |  |

## Diversions Policy Re-opener (DIVt)

Introduction

* + 1. The purpose of this condition is to calculate the term DIVt (the Diversions policy Re-opener term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority where there are material additional Diversion Costs that meet the requirements laid out in Parts A and B.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What costs are within scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction adjusting the value of the DIVt term for any Regulatory Year during the Price Control Period if the licensee incurs or expects to incur additional Diversion Costs.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.18.4 Between 25 January 2022 and 31 January 2022, or during such later periods as the Authority may direct.

### How to make an application

* + 1. An application under paragraph 3.18.4 must be made in writing to the Authority and:
       1. specify the additional Diversion Costs that have led to the application;
       2. set out the adjustments to the value of the DIVt term that the licensee is requesting and the Regulatory Years to which those adjustments relate;
       3. explain the basis of the licensee's calculation of the proposed adjustments to the value of the DIVt term;
       4. include engineering justification statements that the Diversion Costs are efficient and unavoidable; and
       5. include such detailed supporting evidence, including Improvement Plans, risk mitigation approaches, cost benefit analysis and impact assessments, as is reasonable in the circumstances.
    2. An application under paragraph 3.18.4 must:
       1. be confined to Diversion Costs that were incurred or are expected to be incurred on or after 1 April 2021;
       2. take account of any allowed expenditure, which can be avoided as a result of the change; and
       3. relate to costs incurred or expected to be incurred that exceed the materiality threshold specified for the licensee in Appendix 1.

### Authority triggered Re-opener

* + 1. The Authority will also consider directing an adjustment to the value of the DIVt term without an application being made under paragraph 3.18.4, where it considers there are additional Diversion Costs that:
       1. exceed or are expected to exceed the materiality threshold specified for the licensee in Appendix 1;
       2. were incurred or are expected to be incurred on or after 1 April 2021.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.18.4 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out any adjustments to the value of the DIVt term and the Regulatory Years to which those adjustments relate.

Materiality threshold for Diversions Re-opener

|  |  |
| --- | --- |
| Licensee | Materiality threshold |
| Northern Gas Networks Limited |  |
| Scotland Gas Networks Plc |  |
| Southern Gas Networks Plc |  |
| Wales & West Utilities Limited |  |
| Cadent Limited |  |

## Multiple Occupancy Buildings safety Re-opener (MOBSt)

Introduction

* + 1. The purpose of this condition is to calculate the term MOBSt (the Multiple Occupancy Buildings safety Re-opener term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority where there have been changes to the Safety Requirements Relating to Multiple Occupancy Buildings that result in material changes to the costs of carrying out Licensed Activity.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What changes in the safety requirements relating to Multiple Occupancy Buildings are within the scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction to adjust the value of the MOBSt term for any Regulatory Year during the Price Control Period where there have been changes to the Safety Requirements Relating to Multiple Occupancy Buildings that affect its legal obligations as a licensee.

### When can applications be made?

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.18.4:
       1. Between [25 January 2022 and 31 January 2022];
       2. Between [25 January 2023 and 31 January 2023]; or
       3. during such later periods as the Authority may direct.

### How should an application be made?

* + 1. An application under paragraph 3.18.4 must be made in writing to the Authority and must:
       1. specify the changes to the Safety Requirements Relating to Multiple Occupancy Buildings and the consequent changes to the licensee's legal obligations to which the application relates;
       2. set out the adjustments to the value of the MOBSt term that the licensee is requesting, and the Regulatory Years to which those adjustments relate;
       3. explain the basis of the calculation for the proposed adjustments to the MOBSt term; and
       4. include such detailed supporting evidence, including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.
    2. An application under paragraph 3.18.4 must:
       1. relate to changes to the Safety Requirements Relating to Multiple Occupancy Buildings that have come into effect on or after 1 April 2021;
       2. take account of any allowed expenditure, which can be avoided as a result of the change;
       3. exceed the relevant materiality threshold in Appendix 1; and
       4. be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Authority triggered re-opener

* + 1. The Authority will also consider directing an adjustment to the value of the MOBSt term where it considers that there have been changes to Safety Requirements Relating to Multiple Occupancy Buildings that affect the licensee's legal obligations as a licensee that:
       1. have come into effect on or after 1 April 2021;
       2. exceed the relevant materiality threshold in Appendix 1; and
       3. relate to costs incurred or expected to be incurred on or after 1 April 2021.

### What process will the Authority follow in directing changes to allowances?

* + 1. Before making a direction under paragraph 3.19.4 or 3.19.8, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out any amendments to the value of the MOBSt term and the Regulatory Years to which those adjustments relate,

Materiality Threshold and Totex Incentive Strength Rate

|  |  |
| --- | --- |
| Licensee | Materiality Threshold £m |
| Cadent Limited |  |
| Northern Gas Networks Ltd |  |
| Scotland Gas Networks plc |  |
| Southern Gas Networks plc |  |
| Wales & West Utilities Ltd |  |

## New Large Load Connections Re-opener (NLLRt)

Introduction

* + 1. The purpose of this condition is to calculate the term NLLRt (the New Large Load Connections Re-opener term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority where connection of New Large Load Connections will trigger specific reinforcement expenditure that cannot be recovered through the Connection Charge.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What connections are within the scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction to adjust the value of the NLLRt term for any Regulatory Year during the Price Control Period where the connection of New Large Load Connections will trigger specific reinforcement expenditure that cannot be recovered through the Connection Charge.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.20.4 Between [25 January 2023 and 31 January 2023] or during such later periods as the Authority may direct.

### How to make an application

* + 1. An application under paragraph 3.20.4 must be made in writing to the Authority and:
       1. specify the name and connection specifications of the New Large Load Connections to which the application relates;
       2. set out the adjustments to the value of the NLLRt term that the licensee is requesting, and the Regulatory Years to which those adjustments relate;
       3. explain the basis of the calculation for the proposed adjustments to the NLLRAt term including the Economic Test; and
       4. include such detailed supporting evidence, including any commitments that those seeking the New Large Load Connections may have provided, engineering justification statements and analysis of potential alternatives to specific reinforcement, as is reasonable in the circumstances.
    2. An application under paragraph 3.20.4 must:
       1. be confined to New Large Load Connections which were unforeseen at 1 April 2021;
       2. take account of any allowed expenditure, which was already included in the licensee's Totex Allowance on 1 April 2021;
       3. exceed the materiality threshold in Appendix 1; and
       4. be confined to costs incurred or expected to be incurred on or after 1 April 2021.

### Authority triggered Re-opener

* + 1. The Authority will also consider directing an adjustment to the NLLRt term where it considers that:
       1. the connection of New Large Load Connections to the network will trigger specific reinforcement expenditure that cannot be recovered through the Connection Charge;
       2. the New Large Load Connections connecting were unforeseen at 1 April 2021;
       3. exceed the relevant materiality threshold in Appendix 1; and
       4. relate to costs that are incurred or are expected to be incurred on or after 1 April 2021.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.20.4 or 3.20.8, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out any adjustments to the value of the NLLRt term and the Regulatory Years to which those adjustments relate.

Materiality Threshold and Totex Incentive Strength Rate

|  |  |
| --- | --- |
| Licensee | Materiality Threshold £m |
| Cadent Limited |  |
| Northern Gas Networks Ltd |  |
| Scotland Gas Networks plc |  |
| Southern Gas Networks plc |  |
| Wales & West Utilities Ltd |  |

## Smart Metering Roll-out Costs Re-opener (SMRt)

Introduction

* + 1. The purpose of this condition is to calculate the term SMRt (the Smart Metering Roll-out Costs term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener, triggered by either the licensee or the Authority, where there are material additional Smart Metering Roll-out Costs.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What costs are within scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction adjusting the value of the SMRt term for any Regulatory Year during the Price Control Period if the licensee incurs or expects to incur Smart Metering Roll-out Costs that fulfil the requirements set out in Part C.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.21..4 Between 25 January 2022 and 31 January 2022, or during such later periods as the Authority may direct.

### How to make an application

* + 1. An application under paragraph 3.21.4 must be made in writing to the Authority and:
       1. specify the additional Smart Metering Roll-out Costs that have led to the application;
       2. set out the adjustments to the value of the SMRt term that the licensee is requesting and the Regulatory Years to which those adjustments relate;
       3. explain the basis of the licensee’s calculation of the proposed adjustments to the value of the SMRt term; and
       4. include such detailed supporting evidence that the additional Smart Metering Roll-out Costs are efficient and unavoidable, as is reasonable in the circumstances.
    2. An application under paragraph 3.21.4 must:
       1. be confined to additional Smart Metering Roll-out Costs that have been incurred or are expected to be incurred on or after 1 April 2021;
       2. take account of any allowed expenditure, which can be avoided as a result; and
       3. relate to costs incurred or expected to be incurred that exceed or are expected to exceed the materiality threshold specified for the licensee in Appendix 1.

### Authority triggered Re-opener

* + 1. The Authority will also consider directing an adjustment to the value of the SMRt term where it considers that there are additional Smart Metering Roll-out Costs that:
       1. exceed or are expected to exceed the materiality threshold in Appendix 1; and
       2. are incurred or are expected to be incurred on or after 1 April 2021.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.21.4 or 3.21.8, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out any adjustments to the value of the SMRt term and the Regulatory Years to which those adjustments relate.

Materiality threshold for Specified Street Works Re-opener

|  |  |
| --- | --- |
| Licensee | Materiality threshold |
| Cadent Limited |  |
| Northern Gas Networks Limited |  |
| Scotland Gas Networks Plc |  |
| Southern Gas Networks Plc |  |
| Wales & West Utilities Limited |  |

## Specified Streetworks Costs Re-opener (STWt)

Introduction

* + 1. The purpose of this condition is to calculate the term STWt (the Specified Streetworks Costs term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority where there are material Specified Streetworks Costs.
    3. This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### What costs are within scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction adjusting the value of the STWt term for any Regulatory Year during the Price Control Period as a result of Specified Streetworks Costs relating to permit schemes, lane rental schemes or requirements.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.22.4 Between 25 January 2022 and 31 January 2022, or during such later periods as the Authority may direct.

### How to make an application

* + 1. An application under paragraph 3.22.4 must be made in writing to the Authority and must:
       1. specify the Specified Streetworks Costs relating to permit schemes, lane rental schemes or requirements that have led to the application;
       2. set out the adjustments to the value of the STWt term that the licensee is requesting and the Regulatory Years to which those adjustments relate;
       3. explain the basis of the licensee’s calculation of the proposed adjustments to the value of the STWt term; and
       4. include such detailed supporting evidence that the Specified Streetworks Costs are efficient and unavoidable as is reasonable in the circumstances.
    2. An application under paragraph 3.22.4 must:
       1. relate to permit schemes, lane rental schemes or requirements that have been imposed or are expected to be imposed on or after 1 April 2021;
       2. take account of any allowed expenditure, which can be avoided as a result; and
       3. relate to costs incurred or expected to be incurred that exceed or are expected to exceed the materiality threshold specified for the licensee in Appendix 1.

### Authority triggered Re-opener

* + 1. The Authority will also consider directing an adjustment to the value of the STWt term where it considers that there are Specified Streetworks Costs that:
       1. relate to permit schemes, lane rental schemes or requirements that have been imposed or are expected to be imposed on or after 1 April 2021; and
       2. exceed or are expected to exceed the materiality threshold in Appendix 1.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.22.4 or 3.22.8 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out any adjustments to the value of the STWt term and the Regulatory Years to which those adjustments relate.

Materiality threshold for Specified Streetworks Re-opener

| Licensee | Materiality threshold |
| --- | --- |
| Cadent Limited |  |
| Northern Gas Networks Limited |  |
| Scotland Gas Networks Plc |  |
| Southern Gas Networks Plc |  |
| Wales & West Utilities Limited |  |

## Domestic Connections Volume Driver (CAt)

Introduction

* + 1. The purpose of this condition is to calculate the term CAt (the Domestic Connections volume driver term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to adjust revenue to fund the licensee for Domestic Connections.

### Formula for calculating the Connections Adjustment term (CAt)

* + 1. The value of CAt is derived in accordance with the following formula:

|  |  |
| --- | --- |
| where: |  |
| *Vn,t* | means the number of delivered Domestic Connections over the Price Control Period; and |
| *Un,t* | means the specific matrix costs in respect of Parent Main Diameter Band n as set out in the relevant table in Appendix 1. |

Distribution Network specific matrix costs (£ per Domestic Connection, at 2018/19 price levels): Distribution Network: East of England

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Specific matrix costs (£ per connection) | | | | |
| Diameter Band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| n=1: <180mm |  |  |  |  |  |
| n=2: >180mm |  |  |  |  |  |

Distribution Network specific matrix costs (£ per Domestic Connection, at 2018/19 price levels): Distribution Network: London

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter Band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| n=1:: <180mm |  |  |  |  |  |
| n=2:: >180mm |  |  |  |  |  |

Distribution Network specific matrix costs (£ per Domestic Connection, at 2018/19 price levels): Distribution Network: North West

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Specific matrix costs (£ per connection) | | | | |
| Diameter Band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| n=1:: <180mm |  |  |  |  |  |
| n=2:: >180mm |  |  |  |  |  |

Distribution Network specific matrix costs (£ per Domestic Connection, at 2018/19 price levels): Distribution Network: West Midlands

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter Band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| n=1: <180mm |  |  |  |  |  |
| n=2: >180mm |  |  |  |  |  |

Distribution Network specific matrix costs (£ per Domestic Connection, at 2018/19 price levels): Distribution Network: Northern

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter Band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| n=1:: <180mm |  |  |  |  |  |
| n=2: >180mm |  |  |  |  |  |

Distribution Network specific matrix costs (£ per Domestic Connection, at 2018/19 price levels): Distribution Network: Scotland

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter Band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| n=1:: <180mm |  |  |  |  |  |
| n=2: >180mm |  |  |  |  |  |

Distribution Network specific matrix costs (£ per Domestic Connection, at 2018/19 price levels): Distribution Network: Southern

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Specific matrix costs (£ per connection) | | | | |
| Diameter Band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| n=1:: <180mm |  |  |  |  |  |
| n=2: >180mm |  |  |  |  |  |

Distribution Network specific matrix costs (£ per Domestic Connection, at 2018/19 price levels): Distribution Network: Wales & West

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Diameter Band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| n=1: <180mm |  |  |  |  |  |
| n=2: >180mm |  |  |  |  |  |

## Consumer Value Proposition (CVPt)

Introduction

* + 1. The purpose of this condition is to:
       1. calculate the term CVPt (the Consumer Value Proposition term), which contributes to the calculation of the Totex Allowance;
       2. specify the CVP Outputs and associated CVP Rewards for the licensee's CVPs;
       3. allow for the adjustment of the term BPIt (the business plan incentive term), which contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. This condition also explains the process the Authority will follow when assessing the delivery of the CVP Outputs and directing a value for CVPRt or an adjustment to BPIt.

### Formula for calculating the CVP term

* + 1. The value of the CVPt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| CVPAt | means the sum of values in the 'Reward' column of Appendix 1; and |
| CVPRt | has the value zero unless otherwise directed by the Authority in accordance with Part D. |

### What is the licensee expected to deliver?

* + 1. Appendix 1 specifies the CVP Outputs that the licensee is expected to deliver, the delivery dates for those outputs and the rewards and costs provided.

### Reporting requirements

* + 1. The licensee must submit a single report to the Authority demonstrating how the licensee has delivered all of its CVP Outputs set out in Appendix 1.
    2. The report must be submitted on or before a date to be directed by the Authority, which will be after the Price Control Period ends.
    3. If the licensee believes that a CVP Output no longer provides value to consumers, and has not delivered the CVP Output, it must include in the report required by paragraph 3.24.5:
       1. justification for this belief; and
       2. details of any alternative activity undertaken and evidence that it delivers outcomes with an equivalent or higher value to consumers.

### Authority Assessment and direction

* + 1. The Authority will consider directing a value for CVPRt and BPIt after the Price Control Period where the licensee has not demonstrated CVP Full Delivery for one or more CVP Outputs in Appendix 1.
    2. Before making a direction under paragraph 3.24.8 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Consumer Value Proposition

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Licensee | CVP Name | CVP Output | Delivery date | Reward | Costs |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

## London Medium Pressure Repex Re-opener (LMPt) [Cadent North London ONLY]

Introduction

* + 1. The purpose of this condition is to calculate the term LMPt (the London Medium Pressure Repex Re-opener term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to establish a Re-opener, triggered by the licensee where there are London Medium Pressure Project Costs.
    3. This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

### What costs are within scope of this Re-opener?

* + 1. The licensee may apply to the Authority for a direction adjusting the value of the LMPt term for any Regulatory Year during the price Control Period where the licensee incurs or expects to incur London Medium Pressure Project Costs.

### When to make an application

* + 1. The licensee may only apply to the Authority for an adjustment under paragraph 3.25.4:
       1. Between 25 January 2022 and 31 January 2022;
       2. Between 24 January 2024 and 31 January 2024; or
       3. during such later periods as the Authority may direct.

### How should an application be made?

* + 1. An application under paragraph 3.25.4 must be made in writing to the Authority and:
       1. specify the London Medium Pressure Project Costs that have led to the application;
       2. set out the adjustments to the value of the LMPt term that the licensee is requesting and the Regulatory Years to which those adjustments relate;
       3. explain the basis of the licensee’s calculation of the proposed adjustments to the value of the LMPt term;
       4. explain the justifiable needs case for the proposed Project Section of the London Medium Pressure Project;
       5. set out the overall proposed project plan and timeline for completing the relevant Project Section of the London Medium Pressure Project proposed under the application;
       6. set out a description of the proposed Project Sections and detailed cost assessment for each Project Section of the London Medium Pressure Project to be implemented under the application supported by market assessment and preliminary tendering or contracting with prospective contractors and or material suppliers;
       7. provide evidence demonstrating that utilities and stakeholders operating within the area covered by each Project Section proposed in the application have been consulted and coordination regarding permissions and access to the construction area has been agreed upon with local authorities; and
       8. include such other detailed supporting evidence, that the London Medium Pressure Project Costs are efficient and unavoidable as is reasonable in the circumstances.
    2. An application under paragraph 3.25.4 must:
       1. be confined to new work and studies completed by the licensee relating to the London Medium Pressure Project that occur Between 1 April 2021 and 31 March 2024;
       2. take account of any allowed expenditure, which can be avoided as a result of completed works and studies relating to the London Medium Pressure Project; and
       3. be confined to costs incurred or expected to be incurred during the Price Control Period.

### Authority triggered Re-opener

* + 1. The Authority will also consider directing an adjustment to the value of the LMPt term without an application being made under paragraph 3.25.4, where it considers that there are London Medium Pressure Project Costs that:
       1. are confined to new work and studies completed by the licensee relating to the London Medium Pressure Project that occur Between 1 April 2020 and 31 March 2024; and
       2. are incurred or expected to be incurred during the Price Control Period.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.25.4 or 3.25.8, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out any adjustments to the value of the LMPt term and the Regulatory Years to which those adjustments relate.

## [REDACTED] Price Control Deliverable (KFDt) [SGN only]

Introduction

* + 1. The purpose of this condition is to calculate the term KFDt (the [REDACTED] Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to:
       1. specify the outputs, delivery dates and associated allowances for the Price Control Deliverable; and
       2. provide for the adjustment of those allowances at the end of the Price Control Period.
    3. This condition also explains the process the Authority will follow when assessing the Price Control Deliverable.

### Formula for calculating the [REDACTED] Price Control Deliverable term

* + 1. The value of KFDt is derived in accordance with the following formula:

*KFDt = KFDAt - KFDRt*

where:

KFDAt means the sum of allowances in Appendix 1; and

KFDRt has the value zero unless otherwise directed by the Authority in accordance with Part C.

### What is the licensee funded to deliver?

* + 1. Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

### Assessment of outputs

* + 1. The licensee must, at the end of the Price Control Period submit to the Authority an independently audited engineering report confirming the complete delivery of the project as specified in Appendix 1.
    2. The Authority will direct a value for KFDRt equal to KFDAt, where it considers that the licensee has not Fully Delivered the project in Appendix 1 by the delivery date specified.

### What process will the Authority follow in making a direction?

* + 1. Before making a direction under paragraph 3.26.7 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. A direction under paragraph 3.26.7 will set out the value of the KFDRt term and the Regulatory Years to which those adjustments relate.

[REDACTED] Price Control Deliverable Allowance

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Licensee | Output | Delivery Date | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total Allowance (All years) |
| SGN | [REDACTED] Project - as outlined in the relevant EJP document provided in support of SGN's RIIO-GD2 Business Plan | 31 March 2026 |  |  |  |  |  | £4.9m |

## Intermediate Pressure Reconfigurations Price Control Deliverable (IPRt) [SGN only]

Introduction

* + 1. The purpose of this condition is to calculate the term IPRt (the Intermediate Pressure Reconfigurations Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. The effect of this condition is to:
       1. specify the outputs, delivery dates and associated allowances for the Price Control Deliverable; and
       2. provide for the adjustment of those allowances at the end of the Price Control Period in line with the formula in Part C.
    3. This condition also explains the process the Authority will follow when assessing the Price Control Deliverable.

### Formula for calculating the Intermediate Pressure Reconfigurations Price Control Deliverable term (IPRt)

* + 1. The value of IPRt is derived in accordance with the following formula:

IPRt = IPRAt - IPRRt

where:

IPRAt means the sum of allowances in Appendix 1; and

IPRRt is derived in accordance with Part C.

### What is the licensee funded to deliver?

* + 1. Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

### Assessment of outputs

* + 1. At the end of the Price Control Period, the value of IPRRt will be derived in accordance with the following formula:

IPRRt = [ (PRIT - PRID) x PRIC ] + [ (SGT-SGD) x SGC ]

where:

|  |  |
| --- | --- |
| PRIT | means the target number of Small PRIs specified in Appendix 2; |
| PRID | means the number of Small PRIs installed as of 31 March 2026; |
| PRIC | means the unit cost for each Small PRI as set out in Appendix 2; |
| SGT | means the target number of Service Governors specified in Appendix 2; |
| SGD | means the number of Service Governors installed as of 31 March 2026; and |
| SGC | means the unit cost for each Service Governor as set out in Appendix 2. |

Intermediate Pressure Reconfigurations Price Control Deliverable

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Licensee | Site | Output | Delivery Date | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total Allowance (All years) |
| SGN |  | Small PRI workload | End of RIIO-GD2 |  |  |  |  |  | £827,815 |
| SGN |  | Service Governor workload | End of RIIO-GD2 |  |  |  |  |  | £1,505,910 |

Target Number of Small PRIs and Service Governors and Unit Costs

|  |  |  |  |
| --- | --- | --- | --- |
| Network | Workload | Target Workload | Unit Cost £ |
| SGN | Small PRI workload | 85 | £9,739 |
| SGN | Service Governor workload | 355 | £4,242 |

## Remote pressure management Price Control Deliverable (RPMt) [SGN only]

Introduction

* + 1. The purpose of this condition is to calculate the term RPMt (the remote pressure management Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
    2. This condition specifies the outputs, delivery dates and associated allowances for the Price Control Deliverable and provides for the adjustment of allowances at the end of the Price Control Period in line with the formula in Part C.
    3. This condition also explains the process the Authority will follow when assessing the Price Control Deliverable.

### Formula for calculating the Remote Pressure Management Price Control Deliverable term

* + 1. The value of RPMt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| RPMAt | means the allowance set out in Appendix 1; and |
| RPMRt | is derived in accordance with Part C. |

### What is the licensee funded to deliver?

* + 1. The licensee is funded to deliver by 31 March 2026 the target number of District Governors that are Equipped For Remote Pressure Management specified in Appendix 2.

### Assessment of outputs

* + 1. At the end of the Price Control Period, the value of RPMRt will be derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *RPMAt* | means the allowance set out in Appendix 1; |
|  | means the total allowance in the Price Control Period set out in Appendix 1; |
| *DGT* | means the target number of District Governors Equipped For Remote Pressure Management specified in Appendix 2; |
| *DGD* | means the number of District Governors Equipped For Remote Pressure Management owned by the licensee as of 31 March 2026; and |
| *DGC* | means the allowance for each District Governor Equipped For Remote Pressure Management as set out in Appendix 2. |

Remote Pressure Management Allowance

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| GDN | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total Allowance (All years) |
| Southern | X | X | X | X | X | X |

Target Number of District Governors Equipped For Remote Pressure Management and related Cost

|  |  |  |
| --- | --- | --- |
| GDN | Target Number of District Governors Equipped For Remote Pressure Management (DGT) | Allowance Cost per District Governor Equipped For Remote Pressure Management (DGC) |
| Southern | X | X |

## Biomethane Improved Access Rollout [SGN only] [Not included in this consultation]



# Output delivery incentives

## Total output delivery incentive performance

Introduction

* + 1. The purpose of this condition is to calculate ODIt (the output delivery incentives term). This contributes to the calculation of Calculated Revenues in Special Condition 2.1 (Revenue Restriction).

### Formula for calculating total output delivery incentive performance

* + 1. The value of ODIt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *CMt* | is derived in accordance with Special Condition 4.2; |
| *CSt* | is derived in accordance with Special Condition 4.3; |
| *SMt* | is derived in accordance with Special Condition 4.4; and |
| *UIPt* | is derived in accordance with Special Condition 4.5. |

## Customer Satisfaction Survey output delivery incentive (CSt)

Introduction

* + 1. The purpose of this condition is to calculate the term CSt (the Customer Satisfaction Survey output delivery incentive term). This contributes to the calculation of the term ODIt (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of the Customer Satisfaction Survey output delivery incentive is to reward or penalise the licensee where its customer service performance improves or deteriorates under three contributing survey elements.

### Adjustments arising from the Customer Satisfaction Survey (CSt)

* + 1. The value of the CSt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *CSAt* | means the adjustment in respect of performance for the Planned Supply Interruptions element of the Customer Satisfaction Survey and is derived in accordance with Part B; |
| *CSBt* | means the adjustment in respect of performance for the Planned Supply Interruptions element of the Customer Satisfaction Survey and is derived in accordance with Part C; and |
| *CSCt* | means the actual performance for the Connections element of the Customer Satisfaction Survey and is derived in accordance with Part D. |

### Planned Supply Interruptions element of the Customer Satisfaction Survey

* + 1. The *CSAt* term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *CSASt* | means the performance score for the Planned Supply Interruptions element of the Customer Satisfaction Survey; |
| *CSATt*  *CSATUt* | means the Planned Supply Interruptions score target, fixed at [8.51];  means the Planned Supply Interruptions score at which the reward will be applied, fixed at [8.77]; |
| *CSAMAXt* | means the Planned Supply Interruptions performance score at which the maximum level of reward will be applied, which is fixed as [9.13]; |
| *CSAMINt* | means the Planned Supply Interruptions performance score at which the maximum level of penalty will be applied, which is fixed as [7.87]; and |
| *EABRt* | means Ex-ante Base Revenue. |

### Unplanned Supply Interruptions element of the Customer Satisfaction Survey

The *CSBt* term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *CSBSt* | means the performance score for the Unplanned Supply Interruptions element of the Customer Satisfaction Survey; |
| *CSBTt*  *CSBTUt* | means the Unplanned Supply Interruptions score target, fixed at [9.37];  means the Unplanned Supply Interruptions score at which the reward will be applied, fixed at [9.44]; |
| *CSBMAXt* | means the Unplanned Supply Interruptions performance score at which the maximum level of reward will be applied; which is fixed as [9.5]; |
| *CSBMINt* | means the Unplanned Supply Interruptions performance score at which the maximum level of penalty will be applied; which is fixed as [9.15]; and |
| *EABRt* | means Ex-ante Base Revenue. |

### Part D: Connections element of the Customer Satisfaction Survey

* + 1. The CSCt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *CSCSt* | means the performance score for the Connections element of the Customer Satisfaction Survey; |
| *CSCTt* | means the Connections score target, which will be fixed at [8.38.]; |
| *CSCTUt* | means the Connections score at which the reward will be applied, fixed at [8.86]; |
| *CSCMAXt* | means the Connections performance score at which the maximum level of reward will be applied, which is fixed as [9.33]; |
| *CSCMINt* | means the Connections performance score at which the maximum level of penalty will be applied, which is fixed as [7.43]; and |
| *EABRt* | means Ex-ante Base Revenue. |

## Complaints Metric output delivery incentive (CMt)

Introduction

* + 1. The purpose of this condition is to calculate the term CMt (the Complaints Metric output delivery incentive term). This contributes to the calculation of the term ODIt (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of the Complaints Metric output delivery incentive is to penalise the licensee where it has performed poorly in relation to its handling of customer Complaints.

### Adjustments arising from Complaints Metric (CMt)

* + 1. The value of the CMt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *CMSt* | is derived in accordance with Part B; |
| *CMTt* | means the Complaints Metric target score, fixed at [5]; |
| *CMMINt* | means the Complaints Metric performance score at which the maximum level of penalty will be applied, which is fixed as [10]; and |
| *EABRt* | means Ex-ante Base Revenue. |

### Complaint Metric performance score

* + 1. The value of the CMSt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| PCUDPOt | means the percentage of Complaints unresolved by the end of the first Working Day after the day on which the Complaint was first received by the licensee as reported to the Authority for that year; |
| PCUDPTt | 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 by the licensee, as reported to the Authority for that year; |
| PRCt | means the percentage of Repeat Complaints, as reported to the Authority for that year; and |
| POFt | means the percentage of total Complaints where an Ombudsman Finding Against the Licensee is made, as reported to the Authority for that year. |

## Shrinkage management output delivery incentive (SMt)

Introduction

* + 1. The purpose of this condition is to calculate the term *SMt* (the Shrinkage Management output delivery incentive term). This contributes to the calculation of the term *ODIt* (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of the Shrinkage Management output delivery incentive is to reward or penalise the licensee for its performance in reducing shrinkage of gas by means of pressure management and gas conditioning.
    3. This condition also requires the licensee to:
       1. maintain and comply with the Shrinkage and Leakage Model; and
       2. report to the Authority on levels of Shrinkage.

### Formula for calculating the Shrinkage Management incentive (SMt)

* + 1. The value of *SMt* is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *BSVt* | means the Baseline Shrinkage Volume; |
| *ASVt* | means the Actual Shrinkage Volume; |
| *GPRCt* | is derived in accordance with Part B; and |
| *CCt* | means the environmental emissions factor set out in Appendix 1. |

### Formula for calculating the gas price reference cost

* + 1. The value of the *GPRCt* term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *CF* | means the conversion factor and is used to convert the average price from pence per therm to pounds sterling per gigawatt hour, and is equal to 341.2; |
| *d* | means a calendar day, where d1 means 1 April and all other days are numbered consecutively thereafter; |
| *nt* | means the total number of calendar days in Regulatory Year t; |
| *GPd,t* | means the closing day ahead offer price of gas for calendar day d, as published in an Approved Market Price Report for delivery at the National Balancing Point. The price is typically published at close-of-business the day before calendar day d, and is otherwise the most recently published day ahead price before the day (eg published on Friday for a Sunday); and |
| *PIt* | means the price index derived in accordance with Part X of Special Condition 2.1 (Revenue Restriction). |

### Maintenance of the Shrinkage and Leakage Model

* + 1. The licensee, together with all other DN Operators, must have in place a Shrinkage and Leakage Model approved by the Authority.
    2. The Shrinkage and Leakage Model must be designed to facilitate the accurate calculation and reporting of Shrinkage and Leakage.
    3. The licensee must, by 31 July in each Regulatory Year, make publicly available and provide to the Authority a report that sets out:
       1. Actual Leakage Volumes;
       2. Actual Shrinkage Volumes; and
       3. Baseline Shrinkage Volumes,

as calculated in accordance with the Shrinkage and Leakage Model for each Distribution Network for the preceding Regulatory Year.

* + 1. Subject to the provision of at least 28 days’ prior notice by the Authority, the licensee must allow the Authority, or a duly authorised representative of the Authority, such access to the licensee’s staff, records and facilities as the Authority may reasonably require, for the purpose of establishing to the Authority’s reasonable satisfaction that:
       1. the Shrinkage and Leakage Model complies with the requirements of this condition; and
       2. the licensee is complying with the relevant processes and procedures contained within the Shrinkage and Leakage Model.
    2. 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 D.

### Modification of the Shrinkage and Leakage Model

* + 1. The licensee must conduct a review of the Shrinkage and Leakage Model every Regulatory Year, and propose such revisions to it as may be appropriate in order to ensure that it maintains or improves the accuracy of its calculation of Shrinkage and Leakage.
    2. The licensee must:
       1. consult with other DN Operators, gas shippers and other interested parties on the outcome of the review; and
       2. send a copy of the consultation to the Authority by 31 December in each Regulatory Year.
    3. Before proposing any revisions to the Shrinkage and Leakage Model, the licensee must:
       1. consult other DN Operators, gas shippers and other interested parties for their views on:
          1. whether the proposed revisions to the Shrinkage and Leakage Model would better achieve the objective set out in paragraph 4.4.7; and
          2. whether the allowed Shrinkage and allowed Leakage volumes should be revised as proposed
       2. allowing them a period of not less than 28 days in which to make representations;
       3. together with other DN Operators, appoint an independent expert, who will provide a report setting out their opinion on the extent to which the proposed revisions to the Shrinkage and Leakage Model would better achieve the objective set out in paragraph 4.4.7; and
       4. within 28 days after the close of that consultation, make publicly available and submit to the Authority a report.
    4. The report must set out:
       1. the modifications originally proposed;
       2. any impact on associated RIIO-GD2 Outputs;
       3. the non-confidential representations (if any) that were made to the licensee by other DN Operators, gas shippers or other interested parties and not withdrawn;
       4. any changes to the modifications and to associated RIIO-GD2 Outputs that are proposed as a result of such representations;
       5. a copy of the independent expert’s report required by paragraph 4.4.13.(c);
       6. an explanation of how the proposed modifications would better achieve the objective set out in paragraph XX.7; and
       7. a timetable 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.
    5. If requested by other DN Operators, the licensee must provide all the information reasonably required to enable DN Operators to comply with paragraph 4.4.13(c), even if the licensee does not agree that the modification better meets the objective set out in paragraph 4.4.7.
    6. The Authority will either:
       1. approve the revisions proposed by the licensee;
       2. reject the proposed revisions; or
       3. reject the proposed revisions and give recommendations as to alternative revisions that it considers should be made.

### Review requirements in respect of modifications

* + 1. Except where the Authority otherwise consents, the licensee must, together with other DN Operators and by no later than six months after the implementation of a modification to the Shrinkage and Leakage Model pursuant to Part D, appoint an independent expert to review and report on that implementation.
    2. The licensee must, together with other DN Operators, ensure that the independent expert’s report prepared under paragraph 4.4.18 is made publicly available, and that a copy of that report is sent to the Authority.

Environmental emissions factor (the *CCt* term) for the period beginning on 1 April 2021 and ending on 31 March 2026

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | t=1 | t=2 | t=3 | t=4 | t=5 |
| CCt | xxx | xxx | xxx | xxx | xxx |

## Unplanned Interruption Overall Mean Duration output delivery incentive (UIPt) [NGN, SGN and WWU]

Introduction

* + 1. The purpose of this condition is to calculate the term UIPt (the Unplanned Interruption output delivery incentive term). This contributes to the calculation of the term ODIt (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of the Unplanned Interruption output delivery incentive is to penalise the licensee should it fail to meet minimum standards in its Unplanned Interruption Overall Mean Duration performance.
    3. This condition also:
       1. requires the licensee to submit an explanatory report should its performance breach the Unplanned Interruption Excessive Deterioration Level; and
       2. makes provision for the licensee to apply for a reduction in the Unplanned Interruption Overall Mean Duration penalty in certain circumstances.

### Formula for calculating the Unplanned Interruption Overall Mean Duration penalty

* + 1. The value of the UIPt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *EABRt* | means Ex-ante Base Revenue; |
| *UIMDt* | means the Unplanned Interruption Overall Mean Duration expressed in minutes; |
| *UIMS* | means the Unplanned Interruption Minimum Standard Level value; and |
| *UIED* | means the Unplanned Interruption Excessive Deterioration Level value. |

### Notification where the Unplanned Interruption Excessive Deterioration Level is breached

* + 1. If UIMDt exceeds UIED for any Regulatory Year, the licensee must submit to the Authority a report setting out:
       1. an explanation of all relevant factors that have contributed to a breach of the Unplanned Interruption Excessive Deterioration Level; and
       2. details of the actions undertaken to date, or planned within specified timescales, to improve the licensee's performance in relation to Unplanned Interruptions.
    2. The licensee must submit the report within the period of 30 days beginning with the date of its submission of the Regulatory Reporting Pack for the Regulatory Year in question.

### Application for waiver or reduction in the penalty

* + 1. The licensee may apply to the Authority for a direction, waiving or reducing any Unplanned Interruption Overall Mean Duration Penalty where:
       1. in any Regulatory Year, the number of Major Incidents occurring on an individual Distribution Network exceeds the Highest Modelled Major Incidents number, resulting in a higher Unplanned Interruption Overall Mean Duration Penalty than would otherwise have applied; or
       2. a change to the RIGs on the reporting of Unplanned Interruptions results in a higher Unplanned Interruption Overall Mean Duration Penalty than would have applied had the RIGs for the Regulatory Year 2019/20 remained in effect.
    2. The licensee must submit any application for a direction, waiving or reducing the Unplanned Interruption Overall Mean Duration Penalty, together with detailed supporting evidence, to the Authority within the period of 30 days beginning with the date of its submission of the Regulatory Reporting Pack for the Regulatory Year in question.

**Unplanned Interruption Overall Mean Duration penalty levels**

| Distribution Network | Unplanned Interruptions Minimum Standard Level (UIMS) | Unplanned Interruptions Excessive Deterioration Level (UIED) | Highest Modelled Major Incidents |
| --- | --- | --- | --- |
| EoE | xxxx | xxxx | x |
| NW | xxxx | xxxx | x |
| WM | xxxx | xxxx | x |
| Northern Gas Networks Ltd | xxxx | xxxx | x |
| Scotland Gas Networks plc | xxxx | xxxx | x |
| Southern Gas Networks plc | xxxx | xxxx | x |
| Wales & West Utilities Ltd | xxxx | xxxx | x |

## Unplanned Interruption Overall Mean Duration output delivery incentive (UIPt) [Cadent only]

Introduction

* + 1. The purpose of this condition is to calculate the term UIPt (the Unplanned Interruptions output delivery incentive term). This contributes to the calculation of the term ODIt (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. In relation to the East of England, North West and West Midlands Distribution Networks, the effect of the Unplanned Interruptions incentive is to penalise the licensee if it fails to meet minimum standards in its Unplanned Interruption Overall Mean Duration performance.
    3. In relation to the London Distribution Network, this includes penalties relating to MOB Riser Interruptions as well as other types of Unplanned Interruptions.
    4. This condition also:
       1. requires the licensee to submit an explanatory report should its performance breach the Unplanned Interruption Excessive Deterioration Level; and
       2. makes provision for the licensee to apply for a reduction in the Unplanned Interruption Overall Mean Duration Penalty in certain circumstances.

### Formula for calculating the Unplanned Interruption Overall Mean Duration penalty (UIPt)

* + 1. In relation to the East of England, North West and West Midlands Distribution Networks, the value of UIPt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *EABRt* | means Ex-ante Base Revenue; |
| *UIMDt* | means the Unplanned Interruption Overall Mean Duration expressed in minutes; |
| *UIMS* | means the Unplanned Interruption Minimum Standard Level value; and |
| *UIED* | means the Unplanned Interruption Excessive Deterioration Level value. |

* + 1. In relation to the North London Distribution Network, the value of UIPt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *UIMMDt* | means the Unplanned Interruption Overall Mean Duration relating to MOB Riser Interruptions, expressed in minutes; |
| *UIMMS* | means the Unplanned Interruption Minimum Standard Level relating to MOB Riser Interruptions set out in Appendix 1; |
| *UIMED* | means the Excessive Deterioration level relating to MOB Riser Interruptions set out in Appendix 1; |
| *UINMDt* | means the Unplanned Interruption Overall Mean Duration relating to all Unplanned Interruptions other than MOB Riser Interruptions, expressed in minutes; |
| *UINMS* | means the Unplanned Interruption Minimum Standard Level relating to all Unplanned Interruptions other than those relating to MOB Riser Interruptions set out in Appendix 1; and |
| *UINED* | means the Excessive Deterioration level relating to all Unplanned Interruptions other than those relating to MOB Riser Interruptions set out in Appendix 1. |

### Notification where the Unplanned Interruption Excessive Deterioration Level is breached

* + 1. If UIMDt exceeds UIED for any Regulatory Year, the licensee must submit to the Authority a report setting out:
       1. an explanation of all relevant factors that have contributed to the breach of the Unplanned Interruption Excessive Deterioration level; and
       2. details of the actions undertaken to date, or planned within specified timescales, in order to improve the licensee's performance in relation to Unplanned Interruptions.
    2. The licensee must submit the report during the period of 30 days beginning with the date of its submission of the Regulatory Reporting Pack for the Regulatory Year in question.

### Application for waiver or reduction in the penalty

* + 1. The licensee may apply to the Authority for a direction, waiving or reducing any Unplanned Interruption Overall Mean Duration Penalty, where:
       1. in any Regulatory Year, the number of Major Incidents occurring on an individual Distribution Network exceeds the Highest Modelled Major Incidents number, resulting in a higher Unplanned Interruption Overall Mean Duration Penalty than would otherwise have applied; or
       2. a change to the RIGs on the reporting of Unplanned Interruptions results in a higher Unplanned Interruption Overall Mean Duration Penalty than would have applied had the RIGs for the Regulatory Year 2019/20 remained in effect.
    2. The licensee must submit its application for a direction, waiving or reducing the Unplanned Interruption Overall Mean Duration Penalty, together with detailed supporting evidence, to the Authority during the period of 30 days beginning with the date of its submission of the Regulatory Reporting Pack for the Regulatory Year in question.

Unplanned Interruption Overall Mean Duration penalty levels - East of England, North West and West Midlands networks

|  |  |  |  |
| --- | --- | --- | --- |
| Distribution Network | Unplanned Interruptions Minimum Standard Level (UIMS) | Unplanned Interruptions Excessive Deterioration Level (UIED) | Highest Modelled Major Incidents |
| EoE | xxxx | xxxx | X |
| NW | xxxx | xxxx | X |
| WM | xxxx | xxxx | X |

Unplanned Interruption Overall Mean Duration penalty levels - North London network for MOB Riser Interruptions

|  |  |  |
| --- | --- | --- |
| Unplanned Interruptions Minimum Standard Level  (UIMMS) | Unplanned Interruptions Excessive Deterioration Level  (UIMED) | Highest Modelled Major Incidents |
| xxxx | xxxx | x |

For All Unplanned Interruptions Other Than MOB Riser Interruptions

|  |  |  |
| --- | --- | --- |
| Unplanned Interruptions Minimum Standard Level  (UIMMS) | Unplanned Interruptions Excessive Deterioration Level  (UIMED) | Highest Modelled Major Incidents |
| xxxx | xxxx | x |

# Innovation

## Total innovation allowance

### Introduction

* + 1. The purpose of this condition is to calculate the term INNVt (the innovation allowance term). This contributes to the calculation of Calculated Revenues in Special Condition 2.1 (Revenue Restriction).

### Formula for calculating total innovation allowance

* + 1. The value of INNVt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *NIAt* | is derived in accordance with Special Condition 5.2; |
| *CNIAt* | is derived in accordance with Special Condition 5.3. |

## The RIIO-2 Network Innovation Allowance (NIAt)

Introduction

* + 1. The purpose of this condition is to calculate term NIAt (the Network Innovation Allowance term). This contributes to the calculation of the term INNVt (the innovation term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to fund investment in innovation by means of the NIA.
    3. This condition also establishes a framework for the governance and administration of the NIA.

### Formula for calculating the Network Innovation Allowance term (NIAt)

* + 1. The value of the NIAt term is the total Allowable NIA Expenditure incurred by the licensee, subject to the following limit:

### The RIIO-2 NIA Governance Document

* + 1. The licensee must comply with the RIIO-2 NIA Governance Document.
    2. The Authority will issue and amend the RIIO-2 NIA Governance Document by direction.
    3. The Authority will publish the RIIO-2 NIA Governance Document on the Authority’s Website.
    4. The RIIO-2 NIA Governance Document will make provision about the governance and administration of the NIA, including:
       1. the definition of Allowable NIA Expenditure and Unrecoverable NIA Expenditure;
       2. the eligibility criteria, which RIIO-2 NIA Projects must meet;
       3. the information that is to be published by the licensee before RIIO-2 NIA Projects can begin;
       4. the circumstances in which the licensee will require approval from the Authority before beginning a RIIO-2 NIA Project, and the processes and procedures for that approval;
       5. arrangements for ensuring that learning from RIIO-2 NIA Projects can be captured and disseminated by the licensee to other Gas Transporter licensees;
       6. the reporting obligations in respect of RIIO-2 NIA Projects (which may include reporting in respect of the funding and the completion of such projects, and the provisions of the RIIO-2 NIA Governance Document); and
       7. arrangements relating to the treatment of intellectual property rights in respect of RIIO-2 NIA Projects.
    5. Before directing that the RIIO-2 NIA Governance Document comes into effect, the Authority will publish on the Authority’s Website:
       1. the text of the proposed RIIO-2 NIA Governance Document;
       2. the date on which the Authority intends the RIIO-2 NIA Governance Document to come into effect; and
       3. a period during which representations may be made on the content of the RIIO-2 NIA Governance Document, which will not be less than 28 days.
    6. Before directing an amendment to the RIIO-2 NIA Governance Document, the Authority will publish on the Authority’s Website:
       1. the text of the amended RIIO-2 NIA Governance Document;
       2. the date on which the Authority intends the amended RIIO-2 NIA Governance Document to come into effect;
       3. the reasons for the amendments to the RIIO-2 NIA Governance Document; and
       4. a period during which representations may be made on the amendments to the RIIO-2 NIA Governance Document, which will not be less than 28 days.

## Carry-over RIIO-1 Network Innovation Allowance (CNIAt)

Introduction

* + 1. The purpose of this condition is to calculate the term CNIAt (the Carry-over Network Innovation Allowance term). This contributes to the calculation of the term INNVt (the innovation term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to extend RIIO-1 Network Innovation Allowance funding.
    3. This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the Carry-over Network Innovation Allowance.

### Formula for calculating the Carry-over Network Innovation Allowance term (CNIAt)

* + 1. For the Regulatory Year commencing on 1 April 2021, the value of CNIA is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *ECNIAt* | means the expenditure incurred by the licensee in respect of Eligible CNIA Projects as calculated by the licensee in accordance with the RIIO-1 NIA Governance Document and reported to the Authority in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance); |
| *CNIAV* | is derived in accordance with Part B; |
| *CNIAR* | means an amount recovered by the licensee in relation to Regulatory Year 2021/22 under the RIIO-1 NIA which the Authority has directed is unrecoverable in accordance with the RIIO-1 NIA Governance Document; and |
| *PIt* | is the price index calculated in accordance with Part D of Special Condition 2.1. |

* + 1. For Regulatory Years commencing on or after 1 April 2022, the value of CNIAt is equal to zero.
    2. Eligible CNIA Internal Expenditure may not exceed 25% of the total Eligible CNIA, unless the Authority consents.

### Formula for calculating the Carry-over Network Innovation Allowance Value term term (CNIAV)

* + 1. The value of CNIAV is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *NIAV2020/21* | is calculated in accordance with Part B of Special Condition 1H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; |
| *BR2020/21* | is calculated in accordance with Part B of Special Condition 1H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; |
| *ENIA2020/21* | is calculated in accordance with Part B of Special Condition 1H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; and |
| *BPC2020/21* | is calculated in accordance with Part B of Special Condition 1H (The Network Innovation Allowance) of this licence as in force on 31 March 2021. |

### The RIIO-1 NIA Governance Document

* + 1. The licensee must comply with the RIIO-1 NIA Governance Document.
    2. The Authority will amend the RIIO-1 NIA Governance Document by direction.
    3. The RIIO-1 NIA Governance Document makes and will continue to make provision in respect of:
       1. arrangements for ensuring that relevant learning from Eligible CNIA Projects can be captured and disseminated by the licensee to other Gas Transporter Licensees in whose licence a condition of equivalent affect to this has effect;
       2. 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 RIIO-1 NIA Governance Document);
       3. arrangements relating to the treatment of intellectual property rights in respect of Eligible CNIA Projects; and
       4. any other matters relating to the regulation, governance or administration of the Carry-over Network Innovation Allowance.

### Procedure for amending the RIIO-1 NIA Governance Document

* + 1. Before amending the RIIO-1 NIA Governance Document by direction, the Authority will publish on the Authority’s Website:
       1. the text of the amended RIIO-1 NIA Governance Document;
       2. the date on which the Authority intends the amended RIIO-1 NIA Governance Document to come into effect;
       3. the reasons for the amendments to the RIIO-1 NIA Governance Document; and
       4. a period during which representations may be made on the amendments to the RIIO-1 NIA Governance Document, which will not be less than 28 days.

# Pass-through expenditure

## Pass-through items (PTt)

### Introduction

* + 1. The purpose of this condition is to calculate the term PTt (the allowed pass-through term). This feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to ensure that the licensee’s Allowed Revenue reflects that certain costs can be passed through to customers.

### Formula for calculating the allowed pass-through term (PTt)

* + 1. The PTt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *RBt* | means the amount levied on the licensee in respect of the Prescribed Rates (or any equivalent tax or duty replacing them) or an amount directed under Part B; |
| *LFt* | means the payments made by the licensee in respect of Licensed Activity under Standard Condition 3 (Payments by the Licensee to the Authority); |
| *PDt* | means the payments made by the licensee to meet the Distribution Network Pension Deficit Charge, which is levied on the Distribution Network by the National Transmission System Operator; |
| *EDEt* | means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory Year; |
| *TPWIt* | is derived in accordance with Part C; |
| *TGt* | means the adjustment equal to any allowance made, in total, for reasonable costs incurred by a gas supplier pursuant to paragraphs 5, 6 and 13 of Standard Condition 7 (Provision of Information Relating to Gas Illegally Taken); |
| *MPt* | means the adjustment equal to miscellaneous pass-through costs incurred by the licensee 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 MPt; |
| *CDSPt* | means the adjustment to CDSP Costs, excluding UK Link Gemini Costs; |
| *SLt* | is derived in accordance with Part D; |
| *ECt* | means charges from the NTS for the use of NTS Exit Flat Capacity and Flex Capacity; and |
| *BDt* | is derived in accordance with Part E. |

### Review of Prescribed Rates pass-through term (RBt)

* + 1. As part of any periodic revaluation, the licensee must:
       1. engage with the Relevant Valuation Agency; and
       2. use its reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.
    2. The Authority will review the licensee’s engagement with the Relevant Valuation Agency with respect to a revaluation.
    3. If, after reviewing the licensee’s engagement with the Relevant Valuation Agency with respect to a particular revaluation, the Authority considers that the licensee has not complied with paragraph 6.1.4, the Authority will adjust the value of RBt by direction.

### Formula for calculating the Third Party Damage and Water Ingress Costs pass-through term (TPWIt)

* + 1. Subject to paragraph 6.1.10, the TPWIt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *TPWRt* | means Third Party Damage and Water Ingress Costs; and |
| *EABRt* | means Ex Ante Base Revenue. |

* + 1. The licensee must use its best endeavours to recoup Third Party Damage and Water Ingress Costs via any related insurance policies or from the person responsible for the Third Party Damage and Water Ingress Costs.
    2. The Authority will review the action taken by the licensee to recoup Third Party Damage and Water Ingress Costs.
    3. If, after reviewing the licensee’s actions, the Authority considers that the licensee has not complied with paragraph 6.1.8, the Authority will adjust the value of TPWIt by direction.

### Formula for calculating the Shrinkage Costs pass-through term (SLt)

* + 1. The value of SLt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *ASVt* | means the Actual Shrinkage Volume; and |
| *GPRCt* | means the Gas Price Reference Cost, and is derived in accordance with Part B of Special Condition 4.4 (Shrinkage management output delivery incentive). |

### Formula for calculating the Bad Debt term (BDt)

* + 1. The value of the BDt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
|  | means the aggregate value of Bad Debt the licensee has incurred or expects to incur with respect to Distribution Network Transportation Charges owed to the licensee by one or more Defaulting Gas Shippers, inclusive of interest income accrued at the default rate set out in the Uniform Network Code; and |
|  | means the aggregate value of Bad Debt previously recovered by the licensee via the BDAt term, where the licensee has been credited by the administrator or liquidator of a Defaulting Gas Shipper. |

* + 1. The values for BDAt and BDAt are to be reported in accordance with the PCFM Guidance and the licensee’s obligations under standard condition 48 (Last Resort Supply: Payment Claims).

# Legacy Adjustments

## Total legacy adjustments (LARt)

### Introduction

* + 1. The purpose of this condition is to calculate the term LARt (the legacy adjustments term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).

### Formula for calculating total legacy adjustments (LARt)

* + 1. The value of the LARt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| LPTt | is derived in accordance with Special Condition 7.2 (Legacy pass-through); |
| LMODt | has the value in sheet X of the GD2 Price Control Financial Model unless the Authority directs otherwise in accordance with Special Condition 7.3 (Legacy MOD); |
| LKt | is derived in accordance with Special Condition 7.4 (Legacy K correction term); |
| LTRUt | is derived in accordance with Special Condition 7.5 (Legacy TRU term); |
| NOCOt | is derived in accordance with Special Condition 7.6 (Close out of the RIIO-1 Network Outputs); |
| LDRWt | is derived in accordance with Special Condition 7.7 (Close out of the RIIO-GD1 Discretionary Reward Scheme); |
| LSEt | is derived in accordance with Special Condition 7.8 (Close out of the RIIO-GD1 Stakeholder Engagement Incentive) |
| LCSOt | is derived in accordance with Special Condition 7.9 (Close out of the RIIO-GD1 Customer Satisfaction Survey Incentive); |
| LCMt | is derived in accordance with Special Condition 7.10 (Close out of the RIIO-GD1 Complaints Metric Incentive); |
| LFPIt | is derived in accordance with Special Condition 7.11 (Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive Mechanism); and |
| LExOt | is derived in accordance with Special Condition 7.12 (Close out of the RIIO-GD1 Exit Capacity Cost Adjustment). |

## Legacy pass-through (LPTt)

Introduction

* + 1. The purpose of this condition is to calculate the term LPTt (the legacy pass-through term). This contributes to the calculation of the term LARt (the legacy adjustments term), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-1 pass-through term such that revenue in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflect pass-through item adjustments relating to Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively.

### Formula for calculating the legacy pass-through term (LPTt)

* + 1. For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LPT has the value of PT as determined in accordance with Special Condition 1C (Distribution Network allowed pass-through items) of this licence as in force on 31 March 2021.
    2. The value of LPTt for Regulatory Years commencing on or after 1 April 2023 is zero.

## Legacy MOD (LMODt)

Introduction

* + 1. This condition explains the process the Authority will follow when directing values for the term LMODt (the legacy MOD term). This contributes to the calculation of the term LARt (the legacy adjustments term), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect is to reflect the close out of the RIIO-1 Price Control Financial Model.

### Authority Assessment and direction

* + 1. The Authority will direct revisions to LMODt, coinciding with the Annual Iteration Process.
    2. Before making a direction under paragraph 7.3.3 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.

## Legacy K Correction (LKt)

Introduction

* + 1. The purpose of this condition is to calculate the term LKt (the legacy correction term). This contributes to the calculation of the term LARt (the legacy adjustments term), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-1 correction term such that revenue in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflect correction values relating to Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively.

### Formula for calculating the legacy correction term (LKt)

* + 1. For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LK has the value of K as determined in accordance with Part D of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.
    2. The value of LKt for Regulatory Years commencing on or after 1 April 2023 is zero.

## Legacy TRU Term (LTRUt)

Introduction

* + 1. The purpose of this condition is to calculate the term LTRUt (the legacy TRU term). This contributes to the calculation of the term LARt (the legacy adjustments term), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-1 TRU term such that revenue in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflect TRU adjustments relating to Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively.

### Formula for calculating the legacy TRU term (LTRUt)

* + 1. For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LTRUt is equivalent to TRUt as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.
    2. The value of LTRUt for Regulatory Years commencing on or after 1 April 2023 is zero.

## Close out of the RIIO-1 Network Outputs (NOCOt)

Introduction

* + 1. The purpose of this condition is to set out the process for deciding the term NOCOt (the RIIO-1 Network Outputs close out term). This contributes to the calculation of the LARt term (the legacy adjustment term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to adjust the licensee's revenue to reflect its RIIO-1 Network Outputs delivery.

### RIIO-1 Network Outputs information to be provided by the licensee

* + 1. By 31 July 2021, the licensee must provide to the Authority a report consistent with the requirements of the NOMs Incentive Methodology which sets out why it considers that it has delivered:
       1. any RIIO-1 Network Output in accordance with the relevant specifications; and
       2. any RIIO-1 Materially Equivalent Outputs; and
       3. any RIIO-1 Justified Material Over-delivery; or
       4. any RIIO-1 Justified Material Under-delivery.

### Process for directing the RIIO-1 Network Outputs close out term (NOCOt)

* + 1. The Authority will assess the licensee's RIIO-1 Network Outputs delivery in accordance with the principles in Appendix 1, which are further clarified and supplemented by the NOMs Incentive Methodology.
    2. Before directing the value of LNO, the Authority will publish on the Authority’s Website:
       1. the text of the proposed direction;
       2. the reasons why it proposes to issue the direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Treatment of under-delivery and over-delivery of RIIO-1 Network Outputs

| Incentives | Justified | Unjustified |
| --- | --- | --- |
| Over-delivery | Cost of over-delivery will be included in the licensee's revenue.  The financing cost incurred by the licensee in advancing investment will be reimbursed.  Reward of 2.5 per cent of the additional costs associated with the material over-delivery. | Cost of over-delivery will be included in the licensee's revenue.  The licensee will incur the financing cost of earlier investment. |
| Under-delivery | Cost of under-delivery will be excluded from the licensee's revenue.  The licensee will benefit from the financing cost of delayed investment. | Cost of under-delivery will be excluded from the licensee's revenue.  The benefit arising to the licensee from the financing cost of delayed investment will be clawed back.  Penalty of 2.5 per cent of the avoided costs associated with the material under-delivery. |

## Close out of the RIIO-GD1 Discretionary Reward Scheme (LDRWt)

Introduction

* + 1. The purpose of this condition is to calculate the term LDRWt (the Discretionary Reward Scheme close out term). This contributes to the calculation of the LARt term (the legacy adjustments term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-GD1 Discretionary Reward Scheme, which rewarded the licensee for delivering additional environmental, safety and social outputs not otherwise required by the special conditions.

### Formula for calculating the Discretionary Reward Scheme close out term (LDRWt)

* + 1. The value of the LDRWt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| DRWX | means the positive amount (if any) as may be determined by the Authority in respect of the licensee’s performance under the Discretionary Reward Scheme in relation to each of the Regulatory Years 2018/19, 2019/20 and 2020/21; and |
| DRWSF | means the scaling factor applied to DRWXt on the basis of the proportion of the licensee’s meter points in Regulatory Year 2020/21 that are located in the relevant Distribution Network. |

* + 1. This condition will cease to have effect on 1 April 2022.

## Close out of the RIIO-GD1 Stakeholder Engagement Incentive (LSEt)

Introduction

* + 1. The purpose of this condition is to direct the term LSEt (the RIIO-GD1 Stakeholder Engagement Incentive term). This contributes to the calculation of the LARt term (the legacy adjustments term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-GD1 Stakeholder Engagement Incentive.
    3. This condition also sets out the process the Authority will follow when amending the Stakeholder Engagement Incentive Guidance.

### Direction of the RIIO-GD1 Stakeholder Engagement Incentive term (LSEt)

* + 1. The licensee may apply to the Authority for a direction adjusting the value of the LSEt term in accordance with the Stakeholder Engagement Incentive Guidance published on the Authority’s Website.
    2. The maximum value of LSEt that the Authority will direct is equal to 0.5 per cent of [Base Distribution Network Transportation Activity Revenue] in Regulatory Year 2020/21 as calculated in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.
    3. This condition will cease to have effect on 1 April 2022.

### Amendments to the Stakeholder Engagement Incentive Guidance

* + 1. The Authority will amend the Stakeholder Engagement Incentive Guidance by direction.
    2. Before amending the Stakeholder Engagement Incentive Guidance by direction the Authority will publish on the Authority’s Website:
       1. the text of the amended Stakeholder Engagement Incentive Guidance;
       2. the date on which the Authority intends the amended Stakeholder Engagement Incentive Guidance to come into effect;
       3. the reasons for the amendments to the Stakeholder Engagement Incentive Guidance; and
       4. a period during which representations may be made on the amendments to the Stakeholder Engagement Incentive Guidance, which will not be less than 28 days.

## Close out of the RIIO-GD1 Customer Satisfaction Survey Incentive (LCSOt)

Introduction

* + 1. The purpose of this condition is to direct the LCSOt term (the RIIO-GD1 Customer Satisfaction Survey Incentive close out term). This contributes to the calculation of the LARt term (the legacy adjustments term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-GD1 Customer Satisfaction Survey Output Delivery Incentive.

### Direction of the RIIO-GD1 Customer Satisfaction Survey Incentive close out term (LCSOt)

* + 1. The value LCSOt will be determined in accordance with Part A of Special Condition 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction) of this licence as in force on 31 March 2021.
    2. This condition will cease to have effect on 1 April 2022.

## Close out of the RIIO-GD1 Complaints Metric Incentive (LCMt)

Introduction

* + 1. The purpose of this condition is to calculate the term LCMt (the RIIO-GD1 Complaints Metric Incentive close out term). This contributes to the calculation of the LARt (the legacy adjustments term), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-GD1 Complaints Metric Incentive such that revenue in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflect performance in relation to customer satisfaction in Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively.

### Formula for calculating the Complaints Metric Incentive close out term (LCMt)

* + 1. For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LCMt is determined in accordance with Part B of Special Condition 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction) of this licence as in force on 31 March 2021.
    2. This condition will cease to have effect on 1 April 2022.

## Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive Mechanism (LFPIt)

Introduction

* + 1. The purpose of this condition is to calculate the term LFPIt (the Fuel Poor Network Extension Scheme Incentive close out term). This contributes to the calculation of the LARt term (the legacy adjustments term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive, which provided a reward or penalty associated with over or under delivery of the RIIO-GD1 FPNES Connection Targets.

### Formula for calculating the Fuel Poor Network Extension Scheme Incentive close out term (LFPIt)

* + 1. The value of LFPIt is derived in accordance with the following formula, but only applies where the Authority so directs:

where:

|  |  |
| --- | --- |
| FPOt | means the positive adjustment equal to 2.5 per cent of the additional efficient costs associated with the justified over-delivery of the RIIO-GD1 FPNES Connection Targets set out in Appendix 1; and |
| FPUt | means the negative adjustment equal to 2.5 per cent of the avoided efficient costs associated with the unjustified under-delivery of the RIIO-GD1 FPNES Connection Targets set out in Appendix 1. |
|  |  |

### Requirement to report on RIIO1-GD1 FPNES Connection Targets

* + 1. By 31 July 2021, the licensee must provide a report to the Authority setting out the extent to which it has achieved the RIIO-GD1 FPNES Connection Targets set out in Appendix 1 and provide details of its performance.
    2. The licensee’s report must include detailed explanations together with detailed supporting evidence as to why the licensee reasonably considers that it has achieved Between 1 April 2013 and 31 March 2021:
       1. the RIIO-GD1 FPNES Connection Targets set out in Appendix 1; and
       2. any justified over delivery, or under delivery, in accordance with the RIIO Principles.

### Process for directing the application of the Fuel Poor Network Extension Scheme Incentive close out term

* + 1. Before issuing a direction under paragraph 7.11.3 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    2. The direction will set out the value of the LFPIt term and the Regulatory Years to which those values relate.

RIIO-GD1 FPNES Connection Targets

|  |  |
| --- | --- |
| Licensee | Scheme Connection Targets from 1 April 2013 to 31 March 2021 |
| EOE | 12,046 |
| Lon | 2,880 |
| NW | 13,330 |
| WM | 8,360 |
| Northern Gas Networks Ltd | 14,500 |
| Scotland Gas Networks plc | 17.130 |
| Southern Gas Networks plc | 10,367 |
| Wales & West Utilities Ltd | 12,590 |

## Close out of the RIIO-GD1 Exit Capacity Cost Adjustment (LExOt)

Introduction

* + 1. The purpose of this condition is to calculate the LExOt term (the RIIO-GD1 Exit Capacity Cost Adjustment close out term). This contributes to the calculation of the LARt term (the legacy adjustments term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue Restriction).
    2. The effect of this condition is to close out the RIIO-GD1 Exit Capacity Cost Adjustment.

### Formula for calculating the RIIO-GD1 Exit Capacity Cost Adjustment close out term (LExOt)

* + 1. The value of LExOt will be calculated in accordance with Parts A, B and C of Special Condition 1D (NTS Exit Capacity Cost Adjustment) of this licence as in force on 31 March 2021.
    2. This condition will cease to have effect on 1 April 2022.

## The Network Innovation Competition

Introduction

* + 1. The Network Innovation Competition ran during the RIIO-1 price control period to fund innovative low carbon or environmental projects. Although it will no longer run for the licensee from 1 April 2021, this condition makes provision for arrangements relating to the regulation, administration and governance of NIC Funding transferred before 1 April 2021.

### The Funding Return Mechanism

* + 1. The Authority may direct how Returned Project Revenues should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee.
    2. In each Regulatory Year, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, specify:
       1. the amount of any Funding Return that the licensee must pay to the NTS Operator; and
       2. the manner in which and the timescale over which the licensee must pay that amount.

### The NIC Governance Document

* + 1. The licensee must comply with the NIC Governance Document.
    2. The Authority will amend the NIC Governance Document by direction.
    3. The Authority will publish the NIC Governance Document on the Authority's Website.
    4. The NIC Governance Document makes and will continue to make provision about:
       1. the process and procedures that will be in place for the assessment, approval, and financing of project funding (where necessary);
       2. arrangements to ensure that relevant matters the licensee learned from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Gas Transporter licensees;
       3. 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 NIC Governance Document);
       4. arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
       5. any other matters relating to the governance of the NIC.

### Procedure for amending the NIC Governance Document

* + 1. Before amending the NIC Governance Document by direction, the Authority will publish on the Authority's Website:
       1. the text of the amended NIC Governance Document;
       2. the date on which the Authority intends the amended NIC Governance Document to come into effect;
       3. the reasons for the amendments to the NIC Governance Document; and
       4. a period during which representations may be made on the amendments to the NIC Governance Document, which will not be less than 28 days.

# Governance

## Governance of the GD2 Price Control Financial Instruments

Introduction

* + 1. The purpose of this condition is to establish a robust and transparent change control framework for each of the following GD2 Price Control Financial Instruments:
       1. the GD2 Price Control Financial Handbook; and
       2. the GD2 Price Control Financial Model.

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

* + 1. Before initiating any modification of a GD2 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:
       1. other Gas Transporter licensee in whose licence a condition equivalent to this one has effect the licensee;
       2. any;
       3. 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
       4. energy consumers (whether considered individually, as a whole, or by reference to any class or category of them) in Great Britain.
    2. In making the assessment required by paragraph 8.1.2, the Authority will have regard to all relevant factors including:
       1. any impact which an intended modification would be likely to have on any component of the licensee’s Allowed Revenue or on any value, rate, time period, or calculation used in the determination of Allowed Revenues; and
       2. in respect of modifications to the GD2 Price Control Financial Model, any views expressed by the GD2 Price Control Financial Model Working Group.
    3. For the purposes of paragraph 8.1.2, it is to be presumed that a modification which serves to correct a manifest error contained in a GD2 Price Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.

Part B: Circumstances in which a modification may be made

* + 1. If, having carried out the required assessment under Part A, the Authority considers that an intended modification of a GD2 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 8.1.2, it may modify that instrument by direction. Otherwise any modification will be made under section 23 of the Act.
    2. Before making a direction under paragraph 8.1.5, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction, including why the Authority believes that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 8.1.2; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    3. A direction under paragraph 8.1.5 will set out:
       1. the modifications to the Price Control Finance Instruments; and
       2. the date from which it is to have effect or the mechanism by which that date is to be determined.

Part C: Availability and updating of GD2 Price Control Financial Instruments

* + 1. This Part has effect in relation to the publication and availability of the GD2 Price Control Financial Handbook, and the GD2 Price Control Financial Model.
    2. The Authority will ensure that any modifications of the GD2 Price Control Financial Handbook, whether under Part B or otherwise, are promptly incorporated into a consolidated version of the GD2 Price Control Financial Handbook maintained on the Authority’s Website.
    3. The Authority will ensure that any modifications of the GD2 Price Control Financial Model, whether under Part B or otherwise, are promptly incorporated into a consolidated version of the GD2 Price Control Financial Model maintained on the Authority’s Website.
    4. Without limiting the general effect of paragraph 8.10, the Authority will by no later than 30 November in each Regulatory Year:
       1. publish on the Authority’s Website, in Microsoft Excel ® format, the version of the GD2 Price Control Financial Model that will be used to determine the value of the term ARt for the purposes of Part C of Special Condition 2.1 (Revenue Restriction);
       2. ensure that the electronic name of the file is “GD2 PCFM” followed by “November 20XX” where 20XX represents the calendar year containing the month of November prior to the Regulatory Year t;
       3. ensure that the words “GD2 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November” followed by the preceding Regulatory Year expressed in the format 20XX/XX are included as text within the file itself; and
       4. publish an up-to-date schedule of any modifications that have been made to the GD2 Price Control Financial Model, whether under Part B or otherwise, up to and including the date of such publication.
    5. The first Regulatory Year in which the Authority will publish a version of the GD2 Price Control Financial Model on the Authority’s Website for the purposes of paragraph 8.1.11 will be Regulatory Year 2021/22 and the last Regulatory Year will be 2024/25.

## Annual Iteration Process for the GD2 Price Control Financial Model

### Introduction

* + 1. The purpose of this condition is to set out the steps of the Annual Iteration Process that will be carried out by the licensee and the Authority each year in relation to the GD2 Price Control Financial Model, in order to determine the value of the term ARt for the purposes of Special Condition 2.1 (Revenue Restriction).
    2. This condition also explains the process the Authority will follow in issuing and amending the PCFM Guidance.

Part A: Steps comprising the Annual Iteration Process

* + 1. The paragraphs in this Part set out the steps that comprise the Annual Iteration Process.
    2. Step 1: The licensee must, by 31 July prior to each Regulatory Year:
       1. complete the PCFM Variable Values Table with the PCFM Variable Values in accordance with the PCFM Guidance;
       2. run the GD2 Price Control Financial Model to calculate the term ARt;
       3. save the GD2 Price Control Financial Model;
       4. submit the GD2 Price Control Financial Model to the Authority.
    3. Step 2: The Authority will, taking into account any decisions made by it in relation to PCFM Variable Values under Chapters 2 to 7:
       1. review the GD2 Price Control Financial Model submitted by the licensee and confirm or amend any PCFM Variable Values; or
       2. where the licensee has not complied with Step 1, complete the PCFM Variable Values Table.
    4. Step 3: The Authority will run the GD2 Price Control Financial Model to calculate the term ARt.
    5. Step 4: The Authority will publish the value of the term ARt on the Authority’s Website in accordance with Part B.
    6. In relation to Step 1 in paragraph 10B.3:
       1. where a PCFM Variable Value is not known at the time of submission, the licensee must calculate that value in accordance with the GD2 Price Control Financial Handbook or the PCFM Guidance, as applicable and otherwise provide its best estimate using the information available at the time; and
       2. where any PCFM Variable Value relies on a third-party publication that ceases to be published or no longer contains the value required, the value from the most recent publication that did contain the value must be used.

Part B: Publication of the value of the term ARt

* + 1. The value of the term ARt will be published by the Authority no later than 30 November prior to each Regulatory Year.
    2. Before publishing the value of the term ARt, the Authority will:
       1. send to the licensee:
          1. a notice stating the value for ARt that it proposes to publish;
          2. a copy of the GD2 Price Control Financial Model, which will contain the data used to calculate the value proposed for ARt; and
       2. specify a period during which representations may be made on the value of ARt, which will not be less than 14 days.

Part C: What if the Annual Iteration Process is not completed by 30 November?

* + 1. If the Authority does not publish a value for ARt by 30 November prior to any Regulatory Year, then the Annual Iteration Process will not have been completed and the provisions set out in paragraphs 8.2.13 and 8.2.14 will apply.
    2. The Authority will complete the Annual Iteration Process as soon as is practicable after 30 November by publishing a value for ARt.
    3. In the intervening period (between the 30 November and the date on which the value of ARt is published under paragraph 8.2.13), the value of ARt will be held to be equal to a value ascertained by:
       1. taking a copy of the GD2 Price Control Financial Model in its state following the last completed Annual Iteration Process which, for the avoidance of doubt, will exclude the effect of any functional modifications under Special Condition 8.1 (Governance of GD2 Price Control Financial Instruments) made after the completion of that Annual Iteration Process;
       2. using the selection facilities on the user interface sheet contained in that copy to select:
          1. the name of the licensee; and
          2. the Regulatory Year equating to the Regulatory Year t; and
       3. recording the value of the term ARt for the licensee that is shown as an output value.

Part D The final year of the GD2 Annual Iteration Process and other clarifications

* + 1. The last Regulatory Year in which there will be an Annual Iteration Process for the GD2 Price Control Financial Model is 2024/2025 for the purpose of determining the value of the term ARt for Regulatory Year 2025/26.
    2. For the avoidance of doubt, neither:
       1. an Annual Iteration Process for the GD2 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A; nor
       2. a change to the Regulatory Year included in the name of and text within the GD2 Price Control Financial Model (as referred to at paragraphs 8.1.11(b) and (c)) of Special Condition 8.1 (Governance of GD2 Price Control Financial Instruments),

will constitute a modification of the GD2 Price Control Financial Model within the meaning of Part B of Special Condition 8.1.

* + 1. Where any PCFM Variable Values are revised for years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term ARt for Regulatory Year t and, for the avoidance of doubt, it will not have any retrospective effect on a previously published value of the term ARt.

Part E The PCFM Guidance

* + 1. The licensee must comply with the PCFM Guidance when completing the Annual Iteration Process.
    2. The Authority will issue and amend PCFM Guidance by direction.
    3. The Authority will publish the PCFM Guidance on the Authority's Website.
    4. The PCFM Guidance will make provision about:
       1. instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process;
       2. instructions and guidance on the process and timeframe for reporting and submitting the required data; and
       3. any requirements for supporting information, documentation or commentary that are to be submitted.
    5. Before directing that the PCFM Guidance comes into effect, the Authority will publish on the Authority's Website:
       1. the text of the proposed PCFM Guidance;
       2. the date on which the Authority intends the PCFM Guidance to come into effect; and
       3. a period during which representations may be made on the content of the PCFM Guidance, which will not be less than 28 days.
    6. Before directing an amendment to the PCFM Guidance, the Authority will publish on the Authority's Website:
       1. the text of the proposed amended PCFM Guidance;
       2. the date on which the Authority intends the amended PCFM Guidance to come into effect;
       3. the reasons for the amendments to the PCFM Guidance; and
       4. a period during which representations may be made on the amendments to the PCFM Guidance, which will not be less than 28 days.

# General Obligations

## Annual Environmental Report

Introduction

* + 1. This condition requires the licensee to prepare and publish an Annual Environmental Report.
    2. The purpose of an Annual Environmental Report is to increase the public transparency and accountability of the licensee in relation to the impacts of its business and network activities on the environment, and the licensee's progress against its Environmental Action Plan commitments.
    3. This condition also explains the process the Authority will follow in issuing and amending Environmental Reporting Guidance, which the licensee must comply with when preparing its Annual Environmental Report.

### Requirement to prepare and publish an Annual Environmental Report

* + 1. The licensee must prepare an Annual Environmental Report in accordance with the Environmental Reporting Guidance (as amended from time to time).
    2. The licensee must publish an Annual Environmental Report for the preceding Regulatory Year on or before the date specified in the Environmental Reporting Guidance.
    3. The licensee must ensure its Annual Environmental Report is readily accessible to the public from the licensee’s website.

### Environmental Reporting Guidance

* + 1. The Authority will issue and amend Environmental Reporting Guidance by direction.
    2. The Authority will publish Environmental Reporting Guidance on the Authority's Website.
    3. The Environmental Reporting Guidance will set out how the licensee must prepare its Annual Environmental Report, including the following:
       1. the engagement the licensee is required to undertake with stakeholders to help inform the development of its Annual Environmental Report;
       2. the requirements for the structure and level of detail to be included in the Annual Environmental Report, including some of the data metrics to be used, as well as expectations about the level of explanatory text to be included; and
       3. the environmental impacts, relevant Environmental Action Plan Commitments, business practices, existing obligations and activities that must be covered in the Annual Environmental Report.
    4. Before issuing the Environmental Reporting Guidance by direction, the Authority will publish on the Authority's Website:
       1. the text of the proposed Environmental Reporting Guidance;
       2. the date on which the Authority intends the Environmental Reporting Guidance to come into effect; and
       3. a period during which representations may be made on the content of the Environmental Reporting Guidance, which will not be less than 28 days.
    5. Before amending the Environmental Reporting Guidance by direction, the Authority will publish on the Authority's Website:
       1. the text of the amended Environmental Reporting Guidance;
       2. the date on which the Authority intends the amended Environmental Reporting Guidance to come into effect;
       3. the reasons for the amendments to the Environmental Reporting Guidance; and
       4. a period during which representations may be made on the amendments to the Environmental Reporting Guidance, which will not be less than 28 days.

## Network Asset Risk Metric Methodology

Introduction

* + 1. The purpose of this condition is to set out the requirements on the licensee in respect of the NARM Methodology.
    2. It also sets out the process for modifying the NARM Methodology.

### Part A: Requirement to have a NARM Methodology

* + 1. The licensee must have in place and act in accordance with a NARM Methodology that facilitates the achievement of the NARM Objectives.

### Part B: The NARM Objectives

* + 1. The NARM Objectives are:
       1. to provide transparent and logical links between:
          1. the Asset Data that the licensee collects through inspections, maintenance, and other asset management activities;
          2. the data that the licensee inputs into its Asset Management Systems;
          3. the licensee's asset management decisions; and
          4. where relevant, the licensee's whole system investment decisions;
       2. to enable the Authority to establish the licensee's Baseline Network Risk Outputs and to undertake an objective assessment of the licensee's Baseline Network Risk Output delivery;
       3. to enable the robust estimation of Current, Forecast, Single-year, and Long-term Monetised Risk of asset failure for:
          1. each NARM Asset Category;
          2. individual NARM Assets within each NARM Asset Category; and
          3. the licensee's Distribution Network;
       4. to enable the robust estimation of the Current and Long-term Monetised Risk Benefits delivered, or expected to be delivered, through interventions on specific assets and/or groups of assets;
       5. to explain and justify, through Cost-Benefit Analysis:
          1. the licensee's investment plans for managing and renewing its NARM Assets; and
          2. the licensee's outturn delivery of investment options;
       6. to enable the identification and quantification of drivers leading to changes in Monetised Risk over time;
       7. to enable the comparative analysis of Monetised Risk between:
          1. different NARM Asset Categories and between individual NARM Assets on the licensee's Distribution Network;
          2. geographic areas of, and NARM Assets within, the licensee’s Distribution Network;
          3. the licensee’s Distribution Network and other networks within the same sector;
          4. the licensee's Distribution Network and networks outside Great Britain with similar assets should similar approaches as set out in the NARM Methodology be applied to estimate Monetised Risk for those networks; and
          5. the NTS and Distribution Networks within Great Britain; and
       8. to enable the communication to the Authority and other interested parties of relevant information about the licensee’s Distribution Network in an accessible and transparent manner.

### Part C: Modification of the NARM Methodology

* + 1. The licensee must, at least once every year, review the NARM Methodology to identify scope for modifications that would better facilitate the achievement of the NARM Objectives.
    2. Where the licensee has identified scope for modifications that would better facilitate the achievement of the NARM Objectives, it must notify the Authority of the timeframes within which it will propose the relevant modifications to the NARM Methodology.
    3. Where the licensee proposes a modification to the NARM Methodology, it must:
       1. consult with other licensees to which a condition of equivalent effect to this condition applies and with any other interested parties, allowing them a period of at least 28 days within which to make any representations on the proposed modification; and
       2. submit to the Authority a report containing:
          1. a statement explaining the proposed modification to the NARM Methodology; and
          2. an explanation of how, in the licensee’s opinion, the proposed modification, if made, would better facilitate the achievement of the NARM Objectives;
       3. a draft NARM Methodology that incorporates the proposed modification;
       4. any relevant subsidiary or supporting documents, data files, or quantitative models;
       5. a full and fair summary of any representations that were made to the licensee pursuant to paragraph 9.2.7(a) and not withdrawn;
       6. an explanation of any changes to the modification proposal that the licensee has made as a consequence of the representations received;
       7. a presentation of the data and any other relevant information (including historical data, which should be provided, where reasonably practicable and relevant, for a period of at least ten years prior to the date of the modification proposal) the licensee has used for the purpose of developing the proposed modification;
       8. a plan setting out how the licensee intends to Rebase its Baseline Network Risk Outputs, if Rebasing is a necessary consequence of implementing the proposed modification; and
       9. a timetable for the implementation of the proposed modification, including a date for submission of Rebased Baseline Network Risk Outputs, if necessary.
    4. The Authority will by direction:
       1. approve the proposed modification;
       2. approve the proposed modification with amendments; or
       3. reject the proposed modification.
    5. In the case of paragraph 9.2.8(a) or (b) the Authority may also direct the date by which the licensee must submit Rebased Baseline Network Risk Outputs in accordance with [SpC Baseline Network Risk Output].
    6. The licensee must implement the modification directed under paragraph 9.2.8(a) or (b) by such date as may be set out in that direction.
    7. Before issuing a direction under paragraph 9.2.8, the Authority will publish on the Authority’s Website:
       1. the text of the proposed direction;
       2. the reasons why is proposes to issue the direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.

## Price Control Deliverable Reporting Requirements and Methodology Document

Introduction

* + 1. The purpose of this condition is to require the licensee to report to the Authority on the delivery of its Evaluative PCDs in each Regulatory Year.
    2. This condition also provides for:
       1. the issuing and amending of the PCD Reporting Requirements and Methodology Document, which the licensee needs to comply with when preparing its annual Price Control Deliverable reports; and
       2. this condition sets out how the Authority will assess the delivery of Price Control Deliverables.

### Reporting requirement

* + 1. The licensee must by 31 July of each Regulatory Year, or such other later date directed by the Authority, send to the Authority a report on each Evaluative PCD output for which the delivery date specified in the relevant licence condition was in the previous Regulatory Year.

### PCD Reporting Requirements and Methodology Document

* + 1. The licensee must comply with the PCD Reporting Requirements and Methodology Document when preparing a report required by paragraph XX.3.
    2. The Authority will issue and amend PCD Reporting Requirements and Methodology Document by direction.
    3. The Authority will publish PCD Reporting Requirements and Methodology Document on the Authority's Website.
    4. The PCD Reporting Requirements and Methodology Document will set out:
       1. how the licensee must prepare the reports required by paragraph XX.3;
       2. the methodology the Authority will use when deciding:
          1. whether to direct a value to reduce allowances for Price Control Deliverables that have not been Fully Delivered; and
          2. the value to direct.
    5. Before issuing the PCD Reporting Requirements and Methodology Document by direction, the Authority will publish on the Authority's Website:
       1. the text of the proposed PCD Reporting Requirements and Methodology Document ;
       2. the date on which the Authority intends the PCD Reporting Requirements and Methodology Document to come into effect; and
       3. a period during which representations may be made on the content of the PCD Reporting Requirements and Methodology Document, which will not be less than 28 days.
    6. Before amending the PCD Reporting Requirements and Methodology Document by direction, the Authority will publish on the Authority's Website:
       1. the text of the amended PCD Reporting Requirements and Methodology Document;
       2. the date on which the Authority intends the amended PCD Reporting Requirements and Methodology Document to come into effect;
       3. the reasons for the amendments to the PCD Reporting Requirements and Methodology Document; and
       4. a period during which representations may be made on the amendments to the PCD Reporting Requirements and Methodology Document, which will not be less than 28 days.

## Re-opener Guidance and Application Requirements Document

Introduction

* + 1. This condition requires the licensee to prepare applications for Re-openers in accordance with the Re-opener Guidance and Application Requirements Document.
    2. This condition also explains the process the Authority will follow in issuing and amending the Re-opener Guidance and Application Requirements Document.

### Requirement to comply with the Re-opener Guidance and Application Requirements Document

* + 1. The licensee must prepare any applications for Re-openers in accordance with the Re-opener Guidance and Application Requirements Document.

### Re-opener Guidance and Application Requirements Document

* + 1. The Authority will issue and amend the Re-opener Guidance and Application Requirements Document by direction.
    2. The Authority will publish the Re-opener Guidance and Application Requirements Document on the Authority's Website.
    3. The Re-opener Guidance and Application Requirements Document will set out how the licensee must prepare its applications for Re-openers, including the following:
       1. the level of detail required in the application;
       2. any requirement to publish the application;
       3. when it is appropriate to make redactions in published applications; and
       4. any requirement for assurance.
    4. Before issuing the Re-opener Guidance and Application Requirements Document by direction, the Authority will publish on the Authority's Website:
       1. the text of the proposed the Re-opener Guidance and Application Requirements Document;
       2. the date on which the Authority intends the Re-opener Guidance and Application Requirements Document to come into effect; and
       3. a period during which representations may be made on the content of the Re-opener Guidance and Application Requirements Document, which will not be less than 28 days.
    5. Before amending the Re-opener Guidance and Application Requirements Document by direction, the Authority will publish on the Authority's Website:
       1. the text of the amended the Re-opener Guidance and Application Requirements Document;
       2. the date on which the Authority intends the amended Re-opener Guidance and Application Requirements Document to come into effect;
       3. the reasons for the amendments to the Re-opener Guidance and Application Requirements Document; and,
       4. a period during which representations may be made on the amendments to the Re-opener Guidance and Application Requirements Document, which will not be less than 28 days.

## Digitalisation

Introduction

* + 1. The purpose of this condition is to set out the licensee's obligations to:
       1. have a Digitalisation Strategy;
       2. have a Digitalisation Action Plan;
       3. update its Digitalisation Strategy and its Digitalisation Action Plan; and
       4. take account of Data Best Practice Guidance.
    2. This condition also sets out the process the Authority will follow when issuing and amending DSAP Guidance and Data Best Practice Guidance.

### Requirements of the Digitalisation Strategy

* + 1. The licensee must publish its Digitalisation Strategy on, or before, XXXX.
    2. The licensee must review the progress it has made against its Digitalisation Strategy, and update its Digitalisation Strategy, at intervals specified in the DSAP Guidance.
    3. The licensee must:
       1. publish its Digitalisation Strategy, and updates to its Digitalisation Strategy, on the licensee's website where they are readily accessible to the public;
       2. maintain an archive of all published versions of its Digitalisation Strategy on the licensee's website where they are readily accessible to the public; and
       3. notify the Authority of any updates to the Digitalisation Strategy.

### Requirements of the Digitalisation Action Plan

* + 1. The licensee must publish its Digitalisation Action Plan on, or before, XXXX.
    2. The licensee must review the progress it has made against and update its Digitalisation Action Plan at the intervals specified in the DSAP Guidance.
    3. The licensee must:
       1. publish its Digitalisation Action Plan, and updates to its Digitalisation Action Plan, on the licensee's website where they are readily accessible to the public;
       2. maintain an archive of all published versions of its Digitalisation Action Plan on the licensee's website where they are readily accessible to the public; and
       3. notify the Authority of any updates to the Digitalisation Action Plan.

### DSAP Guidance.

* + 1. The licensee must comply with the DSAP Guidance when:
       1. preparing and updating its Digitalisation Strategy; and
       2. preparing and updating its Digitalisation Action Plan.
    2. The Authority will issue and amend DSAP Guidance by direction.
    3. The Authority will publish DSAP Guidance on the Authority's Website.
    4. The DSAP Guidance will make provision about:
       1. how licensee should work towards Digitalisation;
       2. how the licensee should set out in its Digitalisation Strategy and Action Plan how it intends to use Energy System Data to generate benefits for consumers and stakeholders and the specific actions it will take to achieve that outcome;
       3. the form of the Digitalisation Strategy and the Digitalisation Action Plan, including:
          1. the structure, content and level of detail of each;
          2. the types of activities that should be covered in each; and
          3. any required information associated with those activities; and
       4. the engagement the licensee is required to undertake with stakeholders to help inform the development of its Digitalisation Strategy and its Digitalisation Action Plan.

### Requirement to employ Data Best Practice

* + 1. The licensee must, when conducting work that involves working with or making decisions about the use of Energy System Data, must use its best endeavours to act in accordance with Data Best Practice Guidance.
    2. The Authority will issue and amend Data Best Practice Guidance by direction.
    3. The Authority will publish Data Best Practice Guidance on the Authority's Website.
    4. The Data Best Practice Guidance will make provision about how the Authority expects the licensee to comply with Data Best Practice to generate benefits for consumers and stakeholders, including but not limited to ensuring services that involve Energy System Data are designed to meet the needs of consumers and those who directly use the services.

### Process for issuing and amending guidance

* + 1. Before issuing DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
       1. the text of the proposed guidance;
       2. the date on which the Authority intends the guidance to come into effect; and
       3. a period during which representations may be made on the content of the guidance, which will not be less than 28 days.
    2. Before amending DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
       1. the text of the amended guidance;
       2. the date on which the Authority intends the amended guidance to come into effect;
       3. the reasons for the amendments to the guidance; and
       4. a period during which representations may be made on the amendments to the guidance, which will not be less than 28 days.

## Disapplication of Relevant Special Conditions

* + 1. This condition is not being included as part of this consultation

## Directly Remunerated Services

### Introduction

* + 1. The purpose of this condition is to set out the basis on which services provided by the licensee will be treated as Directly Remunerated Services under the Special Conditions.
    2. The effect of this condition is that revenue derived by the licensee from the provision of Directly Remunerated Services is excluded from the calculation of the Calculated Revenue formula
    3. This condition also explains the process that the Authority will follow when directing that services provided by the licensee should be treated, or should not be treated, as Directly Remunerated Service

### Licensee's obligation to exclude Directly Remunerated Services

* + 1. The licensee must exclude revenue derived from Directly Remunerated Services from Calculated Revenue.
    2. Directly Remunerated Services are:
       1. services that comply with the general principle set out in Part B;
       2. the services listed in Part C to the extent that they comply with the general principle in Part B;
       3. services that the Authority directs are to be treated as Directly Remunerated Services
    3. Services are not to be treated as Directly Remunerated Services if the Authority so directs.

### Part B: Statement of General Principle

* + 1. The General Principle is that a service provided by the licensee as part of its Licensed Activity is to be treated as a Directly Remunerated Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 9.7.8.
    2. The charges referred to in paragraph 9.7.7 are:
       1. Network Charges, under the provisions of Special Condition 1B (Restriction of revenue in respect of the Licensed Activity); and
       2. Charges arising from any activity carried out under the provisions of Special Condition XX (Network Innovation Competition/SIF) which results in Returned Royalty Income for the licensee as defined in that condition.

### Categories of Directly Remunerated Service

* + 1. The descriptions of categories of Directly Remunerated Services set out at paragraph 9.7.10 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGs issued by the Authority under Standard Special Condition A40 (Regulatory Instructions and Guidance) of this licence.
    2. Directly Remunerated Services will include the following services:

DRS1. Connection services: This category consists of the carrying out of entry and exit connection works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain gas pipes, plant, meters or other equipment necessary to provide any new connection or modify any existing connection to the pipeline system to which this licence relates, (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 9.7.8).

DRS2. Diversionary works under an obligation: This category consists of the relocating of any gas pipes or plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the Licensee under section 9 (Powers and duties of gas transporters) of the Act.

DRS3. Works required by any alteration of premises: This category consists of the moving of any electric line or electrical plant that forms part of the licensee’s Transmission System to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.

DRS4. Telecommunications and information technology infrastructure services: (Not applicable to Gas Distribution)

DRS5. Outage Changes: (Not applicable to Gas Distribution)

DRS6. Emergency Services: This category consists of the provision of emergency services under contracts entered into pursuant to the provisions of Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter) of this licence.

DRS7. PARCA Activities: (Not applicable to Gas Distribution)

DRS8. Independent System Operation: This category consists of the operation of Independent Systems, within the meaning of Special Condition 4I (Gas conveyed to Independent Systems), of the licence applicable to the NTS Operator, on behalf of the NTS Operator.

DRS9. Network Innovation Funding: NIC/SIF payments made by the System Operator to the licensee in respect of NIC funding in accordance with Special Condition XX (Close-out of RIIO-1 The Network Innovation Competition) and Special Condition XX (Strategic Innovation Funding).

DRS10. Value Added Services: (Not applicable to Gas Distribution)

DRS11. Top-up, standby, and enhanced system security: (Not applicable to Gas Distribution)

DRS12. Revenue protection services: (Not applicable to Gas Distribution)

DRS13. Metering Services: (Not applicable to Gas Distribution)

DRS14. Smart Meter Roll-out rechargeable services: (Not applicable to Gas Distribution)

DRS15. Miscellaneous: This category consists of the provision of any other service (including the provision of gas pipes or plant) that:

* + - 1. is for the specific benefit of any third party who requests it;
      2. is not made available by the licensee as a normal part of the activities of its Distribution Network Transportation Activity and Metering Business.

### Procedure for issuing directions

* + 1. Before issuing a direction under Part A the Authority will consider the General Principle in Part B.
    2. Any direction that the Authority issues under Part A will set out the date on which the licensee must start or cease treating services as Directly Remunerated Services.

## Restriction of prices in respect of Tariff Capped Metering Activities

Introduction

* + 1. The purpose of this condition is to set out the tariff caps on certain metering activities.

### Principle restriction

* + 1. The licensee in setting its charges for each of its Tariff-Capped Metering Activities in any Regulatory Year must not exceed the maximum tariff cap in respect of that metering activity in that Regulatory Year.

### Maximum tariff caps ()

* + 1. The maximum tariff cap for each of the Tariff-Capped Metering Activities is derived in the following manner:

where:

|  |  |  |
| --- | --- | --- |
| Activity | Description | Maximum tariff caps () |
|  | Annual charge for providing and maintaining the assets that form a Domestic Credit Meter Installation, per meter per annum | £14.68 |
|  | Annual charge for providing and maintaining the assets that form a Prepayment Meter Installation, per meter per annum | £36.73 |
|  | Annual charge for providing a daily meter reading for Daily Metered Supply Meter Points, per supply meter point per annum | £500.10 |
|  | Carrying out work to replace a Domestic Credit Meter with a Prepayment Meter , per job undertaken | £78.67 |
| PIt | is the price index calculated in accordance with Part D of Special Condition 2.1 |  |

### Departure from published statements of charges in respect of Tariff-Capped Metering Activities

* + 1. Where the licensee wishes to depart from its published statement of charges prepared in accordance with Standard Special Condition D18 (Provision of Metering and Metering Reading Services) in respect of the provision of Tariff Capped Metering Activities by increasing its charges to a supplier to a level which would in any given Regulatory Year result in a breach of its obligations under paragraph 2:
       1. in consequence of that supplier having wholly or partly disposed of its meters; or
       2. where it reasonably considers that the departure is necessary to comply with its duty in paragraph 1A of Standard Special Condition D18,

the licensee must make a written application to the Authority.

* + 1. The application must—
       1. specifying why the change is requested,
       2. specify the metering activities to be provided to that supplier,
       3. specify the proposed level of charges broken down between the different types of metering activities to be provided to that supplier, and
       4. provide such other information to support the application as the Authority may reasonably direct.
    2. The licensee may, with effect from the date of the application, levy the charges specified in that application in respect of that supplier if:
       1. the Authority consents to such charges with or without amendment; or
       2. the Authority has not issued a direction to the licensee requiring the licensee not to exceed the maximum tariff cap within 90 days after receipt of the application.
    3. Subject to any direction given by the Authority, this condition shall cease to have effect on 31 December 2024.

## Tax Reconciliation Assurance Statement

### Introduction

* + 1. This condition requires the licensee to submit to the Authority an annual assurance statement in relation to the Tax Reconciliation template and sets out the form of that statement.

### Assurance Statement

* + 1. The licensee must by 31 July of each Regulatory Year submit to the Authority an assurance statement that:
       1. has been approved by a resolution of the licensee’s board of directors;
       2. is signed by a director of the licensee pursuant to the resolution in sub-paragraph (a); and
       3. is set out in the form prescribed in paragraph 9.10.3 or where paragraph 9.10.4 applies in the form prescribed in paragraph 9.10.5.
    2. The prescribed form for the assurance statement is as follows:

"In accordance with the requirements of paragraph 9.10.2 of Special Condition 9.10 (Tax Reconciliation Assurance Statement), the Directors of [licensee] (‘the Licensee”) hereby certify that for the preceding Regulatory Year, in their opinion:

* + - 1. The adjusted notional tax allowance as shown in the Tax Reconciliation template represents a fair interpretation of the licensee’s adjusted actual tax liability as shown in the licensee’s Company Tax Return (CT600).
      2. The Tax Reconciliation has been submitted to Ofgem along with a copy of:
         1. the licensee's most recent CT600 as submitted to Her Majesty's Revenue and Customs;
         2. Senior Accounting Officer (SAO2) certifications; and
         3. The licensee’s published Tax Strategy.
      3. Where appropriate, further information has also been provided to support and explain reconciling items in accordance with paragraph [X] of the Price Controls Financial Model Guidance.
      4. All adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary. Reconciling differences have been appropriately explained and any remaining, unexplained difference is considered immaterial, in aggregate."
    1. Where the licensee anticipates a material, unexplained variance to arise in the Tax Reconciliation as described in Chapter 6 of the GD2 Price Control Financial Handbook, the prescribed form for the assurance statement is set out in paragraph 9.10.5.
    2. "In accordance with the requirements of paragraph 9.10.2 of Special Condition 9.10 (Tax Reconciliation Assurance Statement), the Directors of [licensee] (‘the Licensee”) hereby certify that for the preceding Regulatory Year, in their opinion:
       1. The adjusted notional tax allowance as shown in the Tax Reconciliation template does not represent a fair interpretation of the licensee’s adjusted actual tax liability as shown in the licensee’s Company Tax Return (CT600).
       2. The Tax Reconciliation has been submitted to Ofgem along with a copy of:
          1. the licensee's most recent CT600 as submitted to Her Majesty's Revenue and Customs;
          2. Senior Accounting Officer (SAO2) certifications; and,
          3. the licensee’s published Tax Strategy.
       3. Where appropriate, further information has also been provided to support and explain reconciling items in accordance with [paragraph XX of the PCFM Guidance].
       4. All adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary. Reconciling differences have been appropriately explained, where possible. The remaining, unexplained difference is considered material, in aggregate.
       5. A notification has been made in writing to the Authority under Chapter 6 of the GD2 Price Control Financial Handbook."

## Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network

### Introduction

* + 1. This condition sets out how the licensee must allocate revenues and costs for the purposes of calculating its Allowed Revenue in respect of each relevant Distribution Network in accordance with the provisions set out in Special Condition 2.1 (Revenue Restriction).
    2. The condition also requires the licensee to:
       1. have in place a methods statement that sets out the methods that the licensee will use in the allocation and attribution of revenues and costs; and
       2. prepare and submit to the Authority a methods report, which describes the manner in which, and the extent to which the licensee has complied with the provisions of the methods statement.

### General principles of allocation and attribution

* + 1. Unless the Authority otherwise directs, any allocation or attribution of revenues, costs, assets, and liabilities performed by the licensee in order to calculate any of the values referred to in the Allowed Revenue in Special Condition 2.1 (Revenue Restriction) must conform to the principles set out in paragraphs 9.11.4, 9.11.5, and 9.11.6.
    2. Principle 1 is that the licensee must, so far as is reasonably practicable, allocate or attribute revenues, costs, assets, and liabilities in accordance with the activities which cause the revenues to be earned, the costs to be incurred, the assets to be acquired, or the liabilities to be incurred.
    3. Principle 2 is that the licensee must perform its allocations and attributions on an objective basis and in a manner calculated not to unduly benefit:
       1. itself;
       2. any other business carried on by the licensee or by any Affiliate or Related Undertaking of the licensee under a separate licence (whether or not that licence is held within the same legal entity that holds this licence);
       3. the business of any individual Distribution Network; or
       4. any other company or organisation.
    4. Principle 3 is that, wherever practicable, the licensee must perform all allocations and attributions on a consistent basis from one Regulatory Year to the next.

### Allocation and attribution as between principal activities

* + 1. To the extent relevant to its activities, the licensee must in so far as is reasonably practicable allocate or attribute all revenues earned and costs incurred by the Transportation Business and Metering Business to the following activities:
       1. the Distribution Network Transportation Activity;
       2. the Liquefied Natural Gas Import or Export Facility activity;
       3. the Metering Business and Meter Reading Business; and
       4. any services provided in accordance with the principles set out in Special Condition XX (Directly Remunerated Services).

### Statement of the methods to be used by the licensee

* + 1. Unless the Authority otherwise directs, the licensee must, by no later than 31 July in each Regulatory Year, prepare and submit to the Authority a statement in a form approved by the Authority that sets out the methods that the licensee intends to use in the allocation and attribution of revenues and costs.
    2. The methods statement must, as a minimum, clearly distinguish between the allocation or attribution of revenues, costs, assets, and liabilities to each of the activities specified in Part B.
    3. Where the basis of such allocations or attributions has changed from one year to the next, the methods statement must also indicate and explain how and why that basis has been changed.
    4. The licensee must use reasonable endeavours to comply with the methods statement for the time being in force under this condition.

### Direction to re-allocate and re-attribute

* + 1. The licensee must re-allocate revenues earned by the licensee or re-attribute costs incurred by the licensee to the activities specified in Part B in accordance with any direction made by the Authority following receipt of the methods statement, so that the licensee’s allocations or attributions (as the case may be) comply with the principles set out in Part A.

### Preparation and submission of the methods report

* + 1. Unless the Authority otherwise consents, the licensee must, by no later than four months after the end of each Regulatory Year, prepare and submit to the Authority a report that:
       1. describes the manner in which and the extent to which the licensee complied with the provisions of the methods statement and any direction made by the Authority under Part D in respect of that year; and
       2. states whether any modification should be made to the methods statement to reflect more closely the practice of the licensee.
    2. The methods report must be accompanied by a report from an Appropriate Auditor that:
       1. sets out the procedures (which must have been approved by the Authority) that they have carried out for the purposes of demonstrating the extent to which the licensee has properly prepared the methods report in accordance with the methods statement and any direction made under Part D; and
       2. gives an opinion as to the extent to which the licensee has properly prepared the methods report.
    3. To the extent that the licensee earns revenues or incurs costs in the undertaking of De Minimis Business under Standard Special Condition A36 (Restriction on Activity and Financial Ring-Fencing), the licensee must report on those revenues and costs in accordance with this condition.

## Gas conveyed to Independent Systems [SGN Scotland only]

Introduction

* + 1. The purpose of this condition is to provide for the continuation of the cross-subsidy arrangements with respect to Independent Systems that ensure that transportation charges for customers supplied by these systems do not exceed those for similar customers in the rest of the UK.
    2. The relevant values and calculations for these subsidy arrangements are set out in Special Condition [xx] (Gas Conveyed to Independent Systems) of the NTS Operator’s Gas Transporter licence.

### Obligations in Respect of Independent Systems

* + 1. This condition applies to the conveyance of gas to Relevant Premises.
    2. The licensee must not, in respect of any Independent System to which this licence condition relates, change the fuel type conveyed to such Independent System from methane to propane or butane or a combustible mixture of propane and butane with air.
    3. The licensee must, in respect of each Independent System to which this licence condition relates, set its gas transportation charges in line with the relevant Charging Methodology set out in the Uniform Network Code Transportation Principal Document Section Y (Charging Methodologies) to ensure that such charges to customers connected to the Independent System are calculated in line with Equivalent Customers in the rest of the licence area.

### Liquefied Petroleum Gas systems

* + 1. The licensee must use reasonable endeavours to ensure the continuation of appropriate terms with a Relevant Shipper for the transportation of Liquefied Petroleum Gas from any Bulk Supply Point (notified to the Authority and approved by it) to the Relevant Premises to which this licence condition relates.
    2. The licensee must provide to the NTS Operator such information as the NTS Operator may reasonably require regarding the gas conveyed in respect of any Independent System to which this licence relates to enable the NTS Operator to calculate the Bulk Price Differential payments made pursuant to Special Condition [XX] (Gas Conveyed to Independent Systems) of the NTS Operator’s Gas Transporter licence.