

**Cadent Gas Limited**

**Gas Transporter Licence**

**Special Conditions**

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# Chapter 1: Interpretation and definitions

## Special Condition 1.1 Interpretation and definitions

### Introduction

1.1.1 The purpose of this condition is to provide for the special conditions of this licence:

- (a) some provisions of general interpretation; and
- (b) the meaning of the defined terms, which are capitalised throughout the special conditions.

### Part A: Interpretation

1.1.2 Wherever the subscript 't' is used, without further numerical notation, the value to be used is the one for the Regulatory Year in question.

1.1.3 A positive or negative numerical notation 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.

1.1.4 In some cases, other subscripts may also be used to denote the value for a specific Regulatory Year and are explained in those special conditions.

1.1.5 References in these special conditions to a "Distribution Network" are to each of the licensee's Distribution Networks.

1.1.6 Any values derived by reference to the value of revenues accrued, received or paid by or to the licensee will 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 charged directly by reference to the amounts so accrued, received or paid.

1.1.7 Unless otherwise stated, any reference in these special conditions to the Authority giving a direction, consent, derogation, approval or designation includes:

- (a) 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
- (b) revoking or amending it after consulting with the licensee.

1.1.8 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.

1.1.9 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.

- 1.1.10 Any reference in these special conditions to a numbered appendix is, unless otherwise stated, to the relevant numbered appendix to that special condition.
- 1.1.11 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.
- 1.1.12 Any monetary values in these special conditions are in sterling in a 2018/19 price base unless otherwise indicated.
- 1.1.13 The price base for each PCFM Variable Value is denoted in the GD2 Price Control Financial Model "Input" sheet. Where a PCFM Variable Value is listed as a "£m nominal" value, the GD2 Price Control Financial Model will convert these values in accordance with Special Condition Part F of Special Condition 2.1 (Revenue restriction), so that the component terms of Calculated Revenue are in a 2018/19 price base.

## **Part B: Definitions**

- 1.1.14 In these special conditions the following defined terms have the meanings given in the table below.
- 1.1.15 Where these special conditions state that the outputs, delivery dates and allowances for a Price Control Deliverable are located in another document, the following defined terms also have the meanings given in the table below in that document.
- 1.1.16 Where the table below states that a defined term has the meaning given to it by:
- (a) another condition of this licence;
  - (b) the GD2 Price Control Financial Instruments;
  - (c) the RIGs;
  - (d) an Associated Document;
  - (e) the Network Code; or
  - (f) the Uniform Network Code
- the defined term is to have the meaning given in that provision or those documents as amended from time to time.

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| 4x4   | means a four wheel drive vehicle with a payload of at least 1,000kg.  |
| Above Risk Action<br>Threshold Tier 2 Mains | means Included Mains where the pipe diameter is greater than 8 inches and less than 18 inches, and which have a Risk Score greater than the Threshold Risk Score. |
| the Act                                     | means the Gas Act 1986.   |

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| Actual Corporation Tax Liability                 | means the value as shown in the licensee's company tax return (CT600) as submitted to Her Majesty's Revenue and Customs, relating to the licensee.  |
| Actual Leakage Volume                            | means the actual Leakage volume derived from the application of the Shrinkage And Leakage Model, expressed in gigawatt hours.   |
| Actual Shrinkage Volume                          | means the actual Shrinkage volume derived from the application of the Shrinkage And Leakage Model, expressed in gigawatt hours.   |
| Additional Welfare Provisions                    | <p>means the following provisions made in the event of a supply interruption:</p> <ul style="list-style-type: none"> <li>(a) for Domestic Customers registered on the priority services register, additional welfare provisions beyond those required under regulation 9 of The Gas (Standards of Performance) Regulations 2005, such as hot meals (provided by means of vouchers or e-cards), showering facilities, temporary accommodation, electric blankets and thermal socks as determined by the licensee on a needs basis;</li> <li>(b) for Domestic Customers not on the priority services register but who are assessed by the licensee as being in a Vulnerable Situation: <ul style="list-style-type: none"> <li>i. the additional welfare provisions set out under regulation 9 of The Gas (Standards of Performance) Regulations 2005, to which customers not on the priority services register would not normally be entitled; and</li> <li>ii. additional welfare provisions beyond that required under regulation 9 of The Gas (Standards of Performance) Regulations 2005, such as hot meals (provided by means of vouchers or e-cards), showering facilities, temporary accommodation, electric blankets and thermal socks as determined by the licensee on a needs basis.</li> </ul> </li> </ul> |
| Affiliate  | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |
| Allowed Revenue                                  | is the amount the licensee should aim to recover through its Network Charges, derived in accordance with the formula in Part C of Special Condition 2.1 (Revenue restriction).  |
| Allowed Unit Cost Of Tier 1 Mains Decommissioned | means the allowed unit cost to decommission Tier 1 Mains in each of the Tier 1 Mains Decommissioned Workload Activities.  |
| Allowed Unit Cost Of Tier 1 Services Repex       | means the allowed unit cost per Tier 1 Service Intervention in each of the Tier 1 Services Repex Workload Activities.   |

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| Annual Environmental Report                  | means a document prepared and published by the licensee in accordance with Part A of Special Condition 9.1 (Annual Environmental Report).   |
| Annual Iteration Process                     | means in relation to the GD2 Price Control Financial Model, the process set out in Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the GD2 Price Control Financial Handbook that may be applicable to it. |
| Appropriate Auditor                          | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |
| Appropriately Qualified Independent Examiner | means a qualified tax accountant from a firm regulated by a relevant professional body, who may be an employee of the licensee's Appropriate Auditors.  |
| Approved Market Price Report                 | means the 'European Spot Gas Markets report' published by Heren Energy Limited or another market price report published by a comparable price reporting service in the United Kingdom that the Authority has notified the licensee it considers to be equivalent to the 'European Spot Gas Markets report'.   |
| Approved MOB Safety Works Programme          | means a programme of safety related works, including maintenance, repairs and surveys in Multiple Occupancy Buildings between 3-5 floors developed in agreement with the HSE.   |
| Approved Programme                           | means the programme agreed between the licensee and the HSE which details the measures and processes through which risk related to iron mains is to be managed.   |
| Asset Data                                   | means the data on the condition, location, operating environment, function, duty, and other relevant characteristics of NARM Assets, which is necessary for the calculation of Monetised Risk.  |
| Asset Intervention                           | means a deliberate action, on the part of the licensee, that improves or maintains the Monetised Risk of an asset or group of assets.   |
| Asset Management Systems                     | means the set of interrelated and interacting elements, including those IT systems used for the collecting, storing and interrogating of Asset Data, that the licensee has in place to establish its asset management policy and asset management objectives and the processes needed to achieve those objectives.                                  |
| Asset Risk                                   | means the estimated average expected impact of a Network Asset with given characteristics (such as those referred to in Asset Data definition) failing over a given time period, so that when scaled up to a sufficiently large population of identical Network Assets, the sum of the individual Asset Risks will                                  |

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|   | equate to the total expected impact of asset failure for the population over the same time period.  |
| Associated Document                                       | means a document issued and amended by the Authority by direction in accordance with the special conditions of this licence and any reference to an Associated Document is to that document as amended from time to time unless otherwise specified.  |
| the Authority   | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |
| Authority's Website                                       | means <a href="http://www.ofgem.gov.uk">www.ofgem.gov.uk</a> .  |
| Bad Debt  | means the expense incurred by the licensee when Network Charges owed to the licensee are not considered recoverable and which crystallises when normal payment terms have been exceeded and the licensee has made all reasonable efforts to collect the debt but is unable to recover the amounts owed. |
| Base Distribution Network Transportation Activity Revenue | means the revenue calculated in accordance with the formula set out in 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.   |
| Baseline Activity Volume of Tier 1 Mains Decommissioned   | means the forecast volume for each Tier 1 Mains Decommissioned Workload Activity over the Price Control Period, as set out in Appendix 2 to Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable).   |
| Baseline Activity Volume of Tier 1 Services               | means the forecast volume for each Tier 1 Services Repex Workload Activity over the Price Control Period, as set out in Appendix 2 to Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable).   |
| Baseline Allowed NARM Expenditure                         | means the allowed expenditure associated with the Baseline Network Risk Outputs as set out in Appendix 1 to Special Condition 3.1 (Baseline Network Risk Outputs).  |
| Baseline Network Risk Output                              | means the cumulative total for a given risk sub-category, of Network Risk Outputs for all items allocated to 'NARM Funding Category A1' in the licensee's Network Asset Risk Workbook.  |
| Baseline Target Workload Of Tier 1 Mains Decommissioned   | means the total volume of Tier 1 Mains decommissioning to be delivered over the Price Control Period, as set out in Appendix 1 to Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable).   |
| Baseline Target Workload Of Tier 1 Services Repex         | means the forecast volume for each Tier 1 Services Repex Workload Activities over the Price Control Period, as set out in Appendix 1 to Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable).   |

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| Basic PCD Report                        | has the meaning given to that term in the PCD Reporting Requirements and Methodology Document.  |
| Between                                 | in the context of something being done, or occurring, between two dates, means on or after the first date and on or before the second date.   |
| Bulk Price Differential                 | means the volume of Liquefied Petroleum Gas conveyed to consumers who are connected to each relevant Independent System in the relevant Regulatory Year, multiplied by the difference between: <ul style="list-style-type: none"> <li>(a) the reasonable estimate (made by the NTS Operator) of the actual delivered price of Liquefied Petroleum Gas supplied to consumers connected to the relevant Independent System; and</li> <li>(b) the average price of gas consisting principally of methane supplied to large industrial customers in Great Britain.</li> </ul> |
| Bulk Supply Point                       | means any of the bulk supply points at the places specified in the approval given on 1 March 1996 by the Director General of Gas Supply, or such other point at such place as may be notified to the Authority from time to time by the licensee.   |
| Business Plan                           | means a plan of the sort that the licensee was invited to submit by paragraph 2.25 of the document titled RIIO-2 Sector Specific Methodology – Core document, published by the Authority on 24 May 2019.  |
| CAF Outcomes                            | means the outcomes set out under the cyber security and resilience principles set out in the document titled ‘CAF Guidance’, version 3.0, published by the National Cyber Security Centre on 30 September 2019 as amended from time to time.  |
| Calculated Revenue                      | has the value given to it in Part E of Special Condition 2.1 (Revenue restriction).   |
| Calculated Tax Allowance                | means the value of the TAX <sub>i</sub> term as set out in the “Revenue” sheet of the GD2 Price Control Financial Model.  |
| CAM Activity                            | means an output, activity or deliverable that the licensee is applying to reallocate under Special Condition 3.8 (Coordinated adjustment mechanism Re-opener).  |
| Carry-over Network Innovation Allowance | means the allowance provided by Special Condition 5.3 (Carry-over Network Innovation Allowance) to extend the RIIO-1 Network Innovation Allowance for an additional Regulatory Year.  |
| CDSP Costs                              | means costs incurred, or expected to be incurred, by the licensee for the purposes of meeting its obligations under Standard Special Condition A15 (Central Data Services Provider).  |

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| Charging Methodology   | means the methodology in relation to charging in respect of a transportation arrangement established pursuant to paragraph 5 of Standard Condition 4A (Obligations as Regards Charging Methodology).  |
| CO <sub>2</sub> e  | means carbon dioxide equivalent.  |
| Collaborative Streetworks Project                              | means streetworks undertaken which meet the following criteria: <ul style="list-style-type: none"> <li>(a) 0.2km minimum length, except in cases where the project is deemed of strategic importance by the Greater London Authority;</li> <li>(b) level two collaboration at a minimum, as defined in the document titled "Collaboration Manual: A guide to the coordinated delivery of utility infrastructure" published by the London Borough of Croydon with Atkins and flux;</li> <li>(c) a minimum of two Statutory Undertakers, or a minimum of one Statutory Undertaker and a local authority, undertaking physical works in the road or pathway;</li> <li>(d) project must represent a permanent solution, not a temporary repair; and</li> <li>(e) works must be completed by end of the Price Control Period.</li> </ul> |
| Collaborative VCMA Project                                     | means a VCMA Project which is funded by more than one of the following: Cadent Gas Ltd, Northern Gas Networks Ltd, the SGN Group and Wales & West Utilities Ltd.  |
| Company Specific VCMA Project                                  | means a VCMA Project which is funded by one person.   |
| Complaint  | has the meaning given to that term in The Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008, as amended from time to time.  |
| Connection Charge  | means a charge calculated in accordance with the connection charging methodology established under Standard Licence Condition 4B (Connection Charging Methodology).   |
| Connections Element  | means the element of the Customer Satisfaction Survey that measures customer satisfaction in relation to connections work carried out by the licensee.  |
| Consumer Prices Index Including Owner Occupiers' Housing Costs | means the monthly values of the "CPIH All Items", series ID "L522", published by the Office for National Statistics (or any other public body acquiring its functions).   |
| Cost-Benefit Analysis  | means any analysis that considers, as appropriate, both the tangible costs (for example, the cost of replacement) and intangible costs (for example, costs associated with injury or loss of life) associated with, and benefits delivered by, an investment option or range of options.  |

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| COVID-19 Bad Debt                             | means Bad Debt owed to the licensee by one or more COVID-19 Defaulting Gas Shippers.  |
| COVID-19 Defaulting Gas Shipper               | means a Gas Shipper who participated in the COVID-19 Scheme and whose insolvency has resulted in the licensee incurring Bad Debt. The timing and meaning of insolvency is as per the Insolvency Act 1986.   |
| COVID-19 Scheme                               | means the COVID-19 Liquidity Relief Scheme for Shippers as established by the Uniform Network Code (UNC) modification 726: 'COVID-19 Liquidity relief scheme for Shippers'.   |
| Critical National Infrastructure              | means those critical elements of infrastructure (namely assets, facilities, systems, networks or processes and the essential workers that operate and facilitate them), the loss or compromise of which could result in: <ul style="list-style-type: none"> <li>(a) major detrimental impact on the availability, integrity or delivery of essential services – including those services whose integrity, if compromised, could result in significant loss of life or casualties – taking into account significant economic or social impacts; or</li> <li>(b) significant impact on national security, national defence, or the functioning of the state.</li> </ul> |
| Current Monetised Risk                        | means the Monetised Risk of an existing asset or group of assets, based on the most recently gathered or derived Asset Data.  |
| Customer Satisfaction Survey                  | means the survey used to measure the extent to which customers are satisfied with the service provided by the licensee in relation to planned, unplanned and connections gas supply work.   |
| CVP   | means the consumer value propositions which were submitted by the licensee in its Business Plan and accepted by the Authority in its RII0-2 Final Determinations.   |
| CVP Full Delivery                             | means the delivery as a minimum of the CVP Outputs for each CVP set out in Appendix 1 to Special Condition 4.7 (Consumer value proposition) by 31 March 2026.   |
| CVP Output                                    | means the outputs set out in Appendix 1 to Special Condition 4.7 (Consumer value proposition).  |
| CVP Reward                                    | means the values set out in Appendix 1 to Special Condition 4.7 (Consumer value proposition).   |
| Cyber Resilience IT Baseline Allowances Table | means the table of that name in the document identified in Appendix 1 to Special Condition 3.3 (Cyber resilience information technology Re-opener and Price Control Deliverable) by its title and publication date.   |
| Cyber Resilience IT PCD Table                 | means the table of that name in the document identified in Appendix 2 to Special Condition 3.3 (Cyber resilience  |

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|   | information technology Re-opener and Price Control Deliverable) by its title and publication date.   |
| Cyber Resilience IT Plan                      | means a plan of the sort that the licensee was invited to submit at bullet point 1 of paragraph 6.99 of the document titled 'RIIO-2 Sector Specific Methodology – Core document', published by the Authority on 24 May 2019.   |
| Cyber Resilience OT Baseline Allowances Table | means the table of that name in the document identified in Appendix 1 to Special Condition 3.2 (Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it allowance) by its title and publication date.   |
| Cyber Resilience OT PCD Table                 | means the table of that name in the document identified in Appendix 2 to Special Condition 3.3 (Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it allowance) by its title and publication date.   |
| Cyber Resilience OT Plan                      | means a plan of the sort that the licensee was invited to submit at bullet point 2 of para. 6.99 of the document titled 'RIIO-2 Sector Specific Methodology – Core document' (published by the Authority on 24 May 2019).  |
| Daily Metered Supply Meter Points             | means a supply meter point which is read on a daily basis in accordance with paragraph 1.3.1 of section M (Supply Point Metering) or paragraphs 1.5.1(b) or 1.5.3 of section G (Supply Points) of the Network Code having effect on 1 April 2002.  |
| Data Best Practice Guidance                   | means the guidance document issued by the Authority in accordance with Part D of Special Condition 9.5 (Digitalisation).   |
| De Minimis Business                           | has the meaning given to that term in Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing).   |
| Decommissioning                               | means, in relation to any main: <ul style="list-style-type: none"> <li>(a) removing the main from physical operation;</li> <li>(b) inserting a new polyethylene main for which the existing service acts merely as a guide;</li> <li>(c) applying an internal lining of sufficient strength and durability to comply with Regulation 5 of the Pipelines Safety Regulations 1996; or</li> <li>(d) any other means of rendering the existing non-polyethylene main safe as agreed with HSE.</li> </ul> |
| Defaulting Gas Shippers                       | means a Gas Shipper, which has failed to make payments to the licensee in accordance with the Uniform Network Code.  |
| Delivered FPNES Connection                    | means a connection made through the FPNES to achieve the RIIO-GD2 FPNES Connection Target by 31 March 2026.  |

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| Digitalisation                              | means using Energy System Data and digital technology to generate benefits for consumers and stakeholders.   |
| Digitalisation Action Plan                  | means a document prepared and published by the licensee in accordance with Part B of Special Condition 9.5 (Digitalisation).   |
| Digitalisation Strategy                     | means a document prepared and published by the licensee in accordance with Part A of Special Condition 9.5 (Digitalisation).   |
| Directly Attributable Costs                 | means costs relating to the maintenance and management of intellectual property, generated through Eligible NIC Projects (whether undertaken by the licensee or any other Gas Transporter Licensees) that have not been otherwise funded as services under Special Condition 4C (Services treated as Excluded Services) of this licence as in force on 31 March 2021 or the NIC Funding Mechanism. |
| Directly Remunerated Services               | has the meaning given to that term in Part A of Special Condition 9.7 (Directly Remunerated Services).   |
| Disallowed Expenditure                      | means revenue received (whether by the licensee or any other Gas Transporter Licensee) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.  |
| Disapplication Date                         | means the date proposed by the licensee under a Disapplication Request on and after which the specified Relevant Special Conditions and Relevant Metering Special Condition (or any part or parts of them) would cease to have effect.   |
| Disapplication Notice                       | means the notice under Special Condition 9.6 (Disapplication of Relevant Special Conditions and Relevant Metering Special Condition) that terminates the application of the Relevant Special Conditions (or any part or parts of them) specified in that request.  |
| Disapplication Request                      | means a request under Special Condition 9.6 (Disapplication of Relevant Special Conditions and Relevant Metering Special Condition) to consent to the disapplication of the Relevant Special Conditions (in whole or in part).   |
| Distributed Entry Connections               | means a facility which is connected to the network whose purpose is to inject gas onto the network.  |
| Distribution Network                        | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| Distribution Network Pension Deficit Charge | has the meaning given to that term in the RIGs.  |

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| District Governor                  | means a pressure reduction installation to reduce or control gas pressures.   |
| Diversion                          | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |
| Diversion Costs                    | means costs directly incurred, or expected to be so incurred by the licensee as a result of the relocation of existing gas assets:<br>(a) to accommodate third-party works for mains and associated services, other than costs which are recoverable directly from the customer or supplier; or<br>(b) where the licensee is obligated to divert existing gas assets, to avoid Loss of Development Claim costs, where the licensee can demonstrate that it has used reasonable endeavours to challenge both the basis of the claim and the quantum of the costs involved. |
| DN Operator                        | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |
| Domestic Connection                | means workload associated with connecting a new gas service to Domestic Premises.   |
| Domestic Credit Meter Installation | means a Domestic Sized Meter and associated equipment and installations (excluding housing) which is within the definition of a Supply Meter Installation and is not a Prepayment Meter Installation.   |
| Domestic Customer                  | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |
| Domestic Premises                  | has the meaning given to that term in the RIGs.   |
| Domestic Sized Meter               | means designated for a maximum rate of gas flow which does not exceed 6m <sup>3</sup> /hr.  |
| DSAP Guidance                      | means the guidance document issued by the Authority in accordance with Part C of Special Condition 9.5 (Digitalisation).  |
| Economic Test                      | is a financial assessment tool operated by the DN Operators that is designed to identify new connections where the level of investment would be considered 'uneconomic', and so avoids existing customers subsidising the new firm connection.  |
| EJP                                | means engineering justification paper.  |
| Eligible CNIA                      | means the amount of expenditure spent or accrued by the licensee in respect of Eligible CNIA Projects.  |
| Eligible CNIA Internal Expenditure | means the amount of Eligible CNIA spent or accrued on the internal resources of the licensee.   |

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| Eligible CNIA Projects                | means RIIIO-1 Network Innovation Allowance projects on which work commenced prior to 31 March 2021, pursuant to the requirements of the RIIIO-1 NIA Governance Document.   |
| Eligible NIC Project                  | means a project undertaken by the licensee or any other Gas Transporter Licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.  |
| Emergency And Repair Costs            | means the net cost of workforce, materials, equipment and plant and associated overhead costs including line management and support staff, in order to: maintain 24/7 emergency cover and appropriately repair a pipe following an emergency response.   |
| ENA Smarter Networks Portal           | means <a href="https://www.smarternetworks.org/">https://www.smarternetworks.org/</a> .  |
| Energy System Data                    | has the meaning given to that term in the Data Best Practice Guidance.   |
| Environmental Action Plan             | means the document of that name that the licensee submitted as part of its Business Plan.  |
| Environmental Action Plan Commitments | means the actions and initiatives that the licensee proposed in their Environmental Action Plan to undertake over the course of the Price Control Period.  |
| Environmental Reporting Guidance      | means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.1 (Annual Environmental Report).  |
| Equally Challenging                   | means presenting equal or higher challenge to the licensee compared to the Baseline Network Risk Outputs, where challenge relates to the scope for a licensee to over-deliver by carrying out the same volume of interventions but selecting different assets for intervention from those assumed in the setting of the Baseline Network Risk Outputs. |
| Equivalent Customers                  | means customers connected to the licensee's network other than customers whose premises are connected to an Independent System.  |
| Evaluative PCD                        | means a Price Control Deliverable where the relevant licence condition states that the Authority will consider making an adjustment to allowances where an output has not been Fully Delivered.  |
| Ex-Ante Base Revenue                  | for the relevant distribution network, has the value:<br>EoE: £545m<br>Lon: £395m<br>NW: £381m<br>WM: £291m<br>Northern Gas Networks Ltd: £384m<br>Scotland Gas Networks plc: £293m  |

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|                                      | Southern Gas Networks plc: £611m<br>Wales & West Utilities Ltd: £385m<br>for each Regulatory Year.   |
| Excessive Deterioration              | means the performance level at which substantial deterioration is clearly evident and the maximum penalty level is incurred.   |
| Forecast Monetised Risk              | means the Monetised Risk of an asset or group of assets expected to be in operation on a network in a given future scenario, based on the forecast view of Asset Data for the given scenario.  |
| FPNES                                | means the Fuel Poor Network Extension Scheme.  |
| FPNES Connection                     | means a connection made through the Fuel Poor Network Extension Scheme.  |
| FPNES Governance Document            | means the document of that name published by the Authority in accordance with Part C of Special Condition 3.14 (Fuel Poor Network Extension Scheme volume driver).   |
| Fuel Poor Individual Connection Cost | means the forecast average cost for the licensee to undertake a single connection through the Fuel Poor Network Extension Scheme, as stated in Appendix 3 to Special condition 3.14 (Fuel Poor Network Extension Scheme volume driver).  |
| Fuel Poor Network Extension Scheme   | means the scheme that incentivises the licensee to extend the relevant Distribution Network to premises not previously connected to that network that are occupied by individuals eligible to receive a fuel poor voucher in accordance with the guidance set out in the connection charging methodology statement issued under Standard Condition 4B (Connection Charging Methodology) and is open on 1 April 2021. |
| Full PCD Report                      | has the meaning given to that term in the PCD Reporting Requirements and Methodology Document.   |
| Fully Delivered                      | means where the output specified in the relevant licence condition has been delivered in full on or before the delivery date specified in that licence condition.  |
| Fully Demolish                       | means, in relation to any Gas Holder, to take actions that result in a state in which the tank structure and framework have been dismantled, and the resulting holes in the ground (if any) have been filled in, subject to local authority, planning, safety and environmental constraints.   |
| Fully Structural Lining Solution     | is a means of remediating a pipeline which does not rely on the structural integrity of the existing pipeline. The liner is capable of coping with both the internal and external pressures and environments.  |
| Funded Volume Multiplier             | means the calculation used to determine the proportion of volume funded by Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable) and the proportion that will   |

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|   | be entered into the Network Asset Risk Matrix, as set out in paragraph 3.11.14.   |
| Funding Return                          | is the total amount, in respect of the licensee, of any amounts arising under the Funding Return Mechanism.   |
| Funding Return Mechanism                | means the mechanism that provides for the recovery from the licensee and from other Gas Transporter Licensees, in each case to such extent (if any) as may be relevant, of: <ul style="list-style-type: none"> <li>(a) Halted Project Revenues;</li> <li>(b) Disallowed Expenditure;</li> <li>(c) Returned Royalty Income; and</li> <li>(d) Returned Project Revenues.</li> </ul>                               |
| Gas Conditioning                        | has the meaning given to that term in the RIGs.   |
| Gas Conditioning Baseline Volume        | means the Leakage volume derived from the Shrinkage And Leakage Model by replacing actual gas conditioning treated %s and saturation levels for the year in question with the mean average of the values recorded in the years 2017-18 to 2019-20, expressed in gigawatt hours.   |
| Gas Holder                              | means a gas-tight receptacle or container in which gas is stored for future use at approximately constant pressure, such that the volume of the container changes in response to the amount of gas that is being stored.  |
| Gas Shipper                             | has the meaning given to that term in section 7A(11) of the Act.  |
| Gas Transporter Licensee                | means the holder of a licence granted under section 7 of the Act.   |
| GD1 Price Control Financial Model       | has the meaning given to that term in Special Condition 1A (Definitions and Interpretation) of this licence as in force on 31 March 2021.   |
| GD2 Price Control Financial Handbook    | means the document of that name that was first published by the Authority to come into effect on 1 April 2021 and includes specific information and advice about the operation of the Annual Iteration Process and the GD2 Price Control Financial Model, as modified from time to time in accordance with the provisions of Special Condition 8.1 (Governance of the GD2 Price Control Financial Instruments). |
| GD2 Price Control Financial Instruments | means the GD2 Price Control Financial Handbook and the GD2 Price Control Financial Model.   |
| GD2 Price Control Financial Model       | means the model of that name (with a suffix referring to the month of November in Regulatory Year t-1) that was first published by the Authority to come into effect on 1 April 2021;   |

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|   | <p>(a) that is represented by a workbook in Microsoft Excel® format maintained under that name (with a Regulatory Year suffix) on the Authority's Website; and</p> <p>(b) that the Authority will use to determine the value of the term <math>AR_t</math> through the application of the Annual Iteration Process as modified from time to time in accordance with the provisions of Special Condition 8.1 (Governance of the GD2 Price Control Financial Instruments).</p>  |
| GD2 Price Control Financial Model Working Group | means the working group identified in and whose terms of reference are set out in Chapter 2 of the GD2 Price Control Financial Handbook.  |
| Great Britain                                   | means the landmass of England, Wales and Scotland, including internal waters.   |
| Halted Project Revenues                         | means revenues received (whether by the licensee or any other Gas Transporter Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.  |
| Heat Policy Area                                | <p>means any of the following:</p> <p>(a) the quality and composition of gas permitted to be conveyed through the pipeline network, as set out in, the Gas Safety (Management) Regulations 1996 or Gas (Calculation of Thermal Energy) Regulations 1996;</p> <p>(b) the connection charging arrangements for Distributed Entry Connections, as set out in the connection charging methodology required by Standard Licence Condition 4B (Connection Charging Methodology);</p> <p>(c) the connection charging arrangements for domestic premises seeking connection to the Distribution Network, as set out in Standard Licence Condition 4B; and</p> <p>(d) the promotion of energy efficiency amongst gas customers as required by section 33BC (promotion of reductions in carbon emissions: gas transporters and gas suppliers) of the Act.</p> |
| High Volume Gas Escape Toolkit                  | means a toolkit allowing for one of a number of solutions to be used in various situations where gas is escaping, as described in the HVGE Engineering Justification Paper submitted by Scotland Gas Networks plc and Southern Gas Networks plc to the Authority on 9th December 2019.  |
| HP  | means high gas pressure operating above 7 barg.   |
| HSE   | means the Health and Safety Executive or any public body acquiring its functions.   |

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| HSE Review                           | means a review undertaken by the HSE during the Price Control Period on licensee's proposals for classification and risk allocation of Tier 1 Stubs.  |
| HyNet FEED Study                     | means the Front End Engineering Design study for the hydrogen project of that name described on page 11 of the licensee's Business Plan.  |
| IGEM/TD/1                            | means the Institute of Gas Engineers & Managers standard for steel pipelines and associated installations for high pressure gas transmission.   |
| Improvement Plan                     | means a plan of the sort that the licensee was invited to submit at bullet point 2 on page 7 of the document titled 'Ofgem Competent Authority Guidance for Downstream Gas and Electricity in Great Britain' published by the Authority on 30 November 2018.        |
| Included Mains                       | means all mains which prior to Decommissioning were mains that operated at low, medium, or intermediate distribution pressures and consisted of materials other than Standard Mains Materials (and includes all decommissioned, transferred, or replaced services). |
| Independent System                   | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |
| Industrial Decarbonisation Challenge | means the UK government's innovation funding competition of the same name administered by UK Research and Innovation.   |
| Inline Inspection                    | An inspection of a pipeline from the interior of the pipe.  |
| IP                                   | means intermediate gas pressure in the range from 2 to 7 barg.  |
| IP Service Reconfiguration           | means the reconfiguration of a service connected to an intermediate pressure supply to meet current safety standards, including the installation and/or replacement of Small PRIs, Service Governors and gas mains.   |
| Iron Mains Risk Reduction Programme  | means the HSE mandated programme of work that addresses the failure of at risk iron gas mains and the consequent risk of injuries, fatalities and damage to buildings.  |
| IT                                   | means a licensee's information technology for business systems that relate to the use of computers, software, hardware and other systems and devices to perform business operations.  |
| Joint Office of Gas Transporters     | means the body established by Gas Transporter Licensees in compliance with Standard Special Condition A12 (Joint Office Governance Arrangements).   |
| Large Van                            | means a van with a gross vehicle weight of no more than 3,500kg.  |

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| LDZ   | has the meaning given to that term in the Network Code.   |
| Leakage   | means gas lost from the relevant LDZ during transportation which has been released into the atmosphere.   |
| Licensed Activity                               | means the activities of the licensee connected with the development, administration, maintenance and operation of the Distribution Network and with the Supply Of Distribution Network Services.  |
| Liquefied Natural Gas Import Or Export Facility | means containers for the storage of liquefied natural gas operated by the licensee and any other facilities used by the licensee in connection with the storage of liquefied natural gas in Great Britain which both are operated by the person who holds this licence and were so operated at a time during the period of 12 months ending with 1 March 1996.  |
| Liquefied Petroleum Gas                         | means a mix of hydrocarbon gases including propane and butane in accordance with the engineering standard titled 'British Standard European Norm 589:2018 Automotive Fuels. LPG. Requirements and test methods'.  |
| Local Area Energy Plan                          | means a plan that is the product of a process: <ul style="list-style-type: none"> <li>(a) through which a range of stakeholders which including the other Network Licensees and local authorities agree on the optimal long-term energy solutions for an area; and</li> <li>(b) that has been conducted in the context of enabling energy systems with net zero carbon emissions.</li> </ul>  |
| Long-term Monetised Risk                        | means the Monetised Risk measured over a defined period of time greater than one year from a given start date and equal to the cumulative Single-year Monetised Risk values over the defined period.  |
| Loss of Development Claim                       | means costs incurred, or expected to be incurred, by the licensee in relation to settling any claims from landowners whose land contains network assets, which relate to: <ul style="list-style-type: none"> <li>(a) loss of land development;</li> <li>(b) sterilised minerals;</li> <li>(c) landfill and tipping; and</li> <li>(d) power generation</li> </ul> where the licensee can demonstrate that it has used reasonable endeavours to challenge both the basis of the claim and the quantum of the compensation sought. |
| Mains Commissioned                              | means commissioning of a new pipeline for operation.  |
| Mains Risk Prioritisation Score                 | means the score provided by the mains risk prioritisation system used to calculate the safety risk of explosion incidents, injuries, fatalities and damage to buildings from mains remaining in use.  |

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| Major Incident              | means a loss of supply to greater than 250 customers following a single incident.   |
| Materiality Threshold       | for the relevant distribution network, has the value:<br>EoE: £5.45m<br>Lon: £3.95m<br>NW: £3.81m<br>WM: £2.91m<br>Northern Gas Networks Ltd: £3.92m<br>Scotland Gas Networks plc: £2.99m<br>Southern Gas Networks plc: £6.11m<br>Wales & West Utilities Ltd: £3.85m  |
| Medium Van                  | means a van with a gross vehicle weight of no more than 3,300kg.  |
| MOB Riser Interruptions     | has the meaning given to that term in the RIGs.   |
| Monetised Risk              | means an estimation of Asset Risk as derived in accordance with the NARM Methodology as well as the similarly derived estimated risks associated with aggregated asset groupings, and disaggregated sub-components, as relevant.  |
| Monetised Risk Benefit      | means the risk benefit delivered or expected to be delivered by an Asset Intervention, which:<br>(a) is the difference between without intervention and with intervention Monetised Risk;<br>(b) can be measured over one year or over a longer period of time; and<br>(c) includes both direct (i.e. on the asset itself) and indirect (i.e. on adjacent assets or on the wider system) Monetised Risk Benefits.   |
| MP                          | means medium gas pressure in the range from above 75 mbarg to 2 barg.   |
| Multiple Occupancy Building | means buildings containing a minimum of three individual premises, each with a separate supply point and supplied via an internal or external riser, and where at least one of those premises is more than two floors above ground level. The premises may be domestic, non-domestic, or a combination of the two. Buildings where all premises on the third floor or above are supplied through individual pipes, with the meter and emergency control valve located at a lower level, are not included. MOB's are categorised as medium-rise (3 – 5 floors), high-rise (6 – 9 floors) or high risk(10+ floors). |
| NARM Asset                  | means an asset specified within the NARM Methodology where its associated Monetised Risk can be estimated by applying the NARM Methodology.   |

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| NARM Asset Category   | means a group of assets with similar functions and design as specified in the NARM Methodology.   |
| NARM Handbook   | means the document of that name issued by the Authority in accordance with Part C of Special Condition 3.1 (Baseline Network Risk Outputs).   |
| NARM Methodology  | means the methodology established pursuant to Special Condition 9.2 (Network Asset Risk Metric methodology).  |
| NARM Objectives   | means the objectives set out in Part B of Special Condition 9.2 (Network Asset Risk Metric methodology).  |
| National Balancing Point                                    | has the meaning given to this term in the Approved Market Price Report.   |
| Net Zero Advisory Group                                     | means a group set up by the Authority with the objective to strengthen strategic coordination among key government departments and public sector organisations involved in the energy system transition, including around the heat, power, and transport sectors.   |
| Net Zero And Re-opener Development Fund                     | means the use it or lose it allowance provided by Special Condition 3.5 (Net Zero And Re-opener Development Fund use it or lose it allowance).  |
| Net Zero And Re-opener Development Fund Governance Document | means the document of that name issued by the Authority in accordance with Special Condition 3.5 (Net Zero And Re-opener Development Fund use it or lose it allowance).   |
| Net Zero Carbon Targets                                     | means the targets set out in: <ul style="list-style-type: none"> <li>(a) section 1 of the Climate Change Act 2008;</li> <li>(b) section A1 of the Climate Change (Scotland) Act 2009;</li> <li>and</li> <li>(c) section 29 of the Environment (Wales) Act 2016.</li> </ul>  |
| Net Zero Development  | means a change in circumstances related to the achievement of the Net Zero Carbon Targets that is: <ul style="list-style-type: none"> <li>(a) a change in national government policy (including policies of the devolved national parliaments);</li> <li>(b) a change in local government policy;</li> <li>(c) the successful trial of new technologies or other technological advances;</li> <li>(d) a change in the pace or nature of the uptake of low carbon technologies; or</li> <li>(e) a new obligation arising from the agreement of a Local Area Energy Plan or an equivalent arrangement.</li> </ul> |
| Net Zero Innovation Board                                   | means the board established by the government to ensure a co-ordinated approach to innovation funding across public sector bodies in the United Kingdom.  |

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| Net Zero Pre-construction Work   | means:<br>(a) surveys, assessments and studies;<br>(b) project design;<br>(c) engineering development;<br>(d) stakeholder engagement and consultation;<br>(e) tasks associated with wayleaves;<br>(f) planning applications; and<br>(g) any other relevant necessary activities to progress to final investment decision.  |
| Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document | means the document issued by the Authority in accordance with Part B of Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZP <sub>r</sub> )).  |
| Network Asset  | means the assets that collectively form the pipeline system to which this licence relates, and includes the principal components of those assets.  |
| Network Asset Risk Metric  | means the Monetised Risk associated with a NARM Asset or the Monetised Risk Benefit associated with a NARM Asset Intervention.   |
| Network Asset Risk Workbook  | means the workbook containing the licensee's Baseline Network Risk Outputs issued by the Authority in accordance with Part B of Special Condition 3.1 (Baseline Network Risk Outputs).   |
| Network Charges  | means charges made or levied, or to be made or levied, on any person by the licensee for the provision of services as part of its Licensed Activity.   |
| Network Code   | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| Network Licensee   | means the holder of a licence granted under section 7 of the Act or section 6(1)(b) or (c) of the Electricity Act 1989.  |
| Network Risk Output  | means the risk benefit delivered or expected to be delivered by an Asset Intervention and is calculated as the difference between Monetised Risk values associated with the "without intervention scenario" and the "with intervention scenario" measured over a one-year period from the end of the Price Control Period. |
| New Large Load Connections   | means<br>(a) any person seeking connection, or significant alteration to existing connection for the purpose of entering gas onto the Distribution Network which is subject to the Economic Test: or   |

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|                                    | (b) any person seeking connection, or significant alteration to existing connection for the purpose of offtaking gas from the Distribution Network with a maximum offtake capacity in excess of 1500 standard cubic metres per hour, which is subject to the Economic Test.             |
| NIA                                | means the network innovation allowance provided by Special Condition 5.2 (RIIO-2 network innovation allowance).   |
| NIC                                | means the arrangements known as the network innovation competition established by Special Condition 11 (The Network Innovation Competition) of this licence as in force on 31 March 2021.   |
| NIC Funding                        | means the total amount of funding authorised by the Authority for the licensee and other Gas Transporter Licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.   |
| NIC Funding Mechanism              | means the mechanism by which the licensee receives the amount of NIC Funding from the NTS Operator, less any Funding Return.  |
| NIC Governance Document            | means the document of that name maintained by the Authority in accordance with Part B of Special Condition 7.7 (RIIO-GD1 network innovation competition).   |
| NOMs Incentive Methodology         | means the document entitled "Network Output Measures (NOMs) Incentive Methodology" published by the Authority on 6 December 2018, as amended in accordance with Part B of Special Condition 7.6 (Close out of the RIIO-1 Network Outputs).  |
| NOMs Methodology                   | means the methodology approved under Special Condition 4G (Methodology for Network Output Measures) of this licence as in force on 31 March 2021.   |
| Non-intervention Risk Changes      | means the factors set out in the NARM Handbook (as amended in accordance with Part B of Special Condition 3.1 (Baseline Network Risk Outputs)) that are unrelated to the licensee's Asset Interventions and impact the licensee's Outturn Network Risk Outputs.                         |
| Non-operational Capex IT           | has the meaning given to that term in the RIGs.   |
| Non-recoverable                    | when referring to new Domestic Connections means costs borne by the licensee net of customer contributions.   |
| Non-traded Central Price of Carbon | means the non-traded price of carbon, which reflects the value of non-traded carbon emissions (emissions not traded through the EU-ETS scheme) that is published by the Department for Business, Energy and Industrial Strategy (or any other government department from time to time). |

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| NTS   | has the meaning given to that term in the Network Code.  |
| NTS Exit Flat Capacity                          | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| NTS Exit Flat Capacity Costs                    | means the total costs incurred by the licensee for NTS Exit Flat Capacity in respect of all NTS offtakes, less any revenues received from the NTS Operator in respect of NTS Exit Flat Capacity.   |
| NTS Exit Flex Capacity                          | has the meaning given to the term “NTS Exit (Flexibility) Capacity” in the Uniform Network Code.   |
| NTS Exit Flex Capacity Costs                    | the total costs incurred by the licensee for NTS Exit Flex Capacity in respect of all NTS offtakes less any revenues received from the NTS Operator in respect of NTS Exit Flex Capacity.  |
| NTS Operator                                    | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| Ombudsman Finding Against The Licensee          | <p>means a decision by the Energy Ombudsman where the licensee is required to:</p> <ul style="list-style-type: none"> <li>(a) make a payment in respect of the relevant Distribution Network over and above that previously offered to the complainant;</li> <li>(b) change its processes beyond what it had previously indicated to the complainant that it would; or</li> <li>(c) both</li> </ul> <p>as clarified in the RIGs.</p> |
| Operational Performance                         | is a measure of returns which includes totex and output delivery incentive performance but excludes performance on debt, tax, and the business plan incentive. It also excludes the baseline allowed return on equity.   |
| OT  | means a licensee's operational technology and information systems that monitor and control physical devices and processes of operations which relate to gas distribution.  |
| Outturn Network Risk Output                     | means the Monetised Risk Benefit delivered during the Price Control Period through the licensee's Asset Interventions and derived so as to give a fair and accurate reflection of the licensee's delivery when compared against Baseline Network Risk Outputs as part of the Authority's assessment of the licensee's overall delivery of its Baseline Network Risk Outputs.   |
| Outturn Workload Of Tier 1 Decommissioned Mains | means the volume of decommissioning at a Tier 1 Mains Decommissioned Workload Activity level as delivered throughout the Price Control Period.   |
| Outturn Workload Of Tier 1 Services Repex       | means the volume of services at a Tier 1 Services Repex Workload Activity level as delivered throughout the Price Control Period.  |

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| Parent Main   | means the gas distribution main to which a new service connection is being connected.   |
| Partner Licensee                                    | means a Network Licensee that has agreed to accept or transfer responsibility for a CAM Activity.   |
| PCD Reporting Requirements and Methodology Document | means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.3 (Price Control Deliverable Reporting Requirements and Methodology Document).   |
| PCFM Guidance                                       | means the guidance document issued by the Authority in accordance with Part E of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model).  |
| PCFM Variable Values                                | means the values in the table of that name in the GD2 Price Control Financial Handbook.   |
| PE  | means polyethylene, which is a form of plastic used for manufacturing gas distribution mains and services.  |
| Pension Scheme Established Deficit                  | means the difference between assets and liabilities, determined at any point in time, attributable to pensionable service up to the end of the 31 March 2013 and relating to the Transportation Business under the Authority's Price Control Pension Principles. The term applies equally if there is a subsequent surplus. |
| Physical Security Upgrade Programme                 | means physical security investment at Critical National Infrastructure sites as mandated by government.   |
| Planned Supply Interruptions Element                | means the element of the Customer Satisfaction Survey that measures customer satisfaction in relation to planned supply interruptions work carried out by the licensee.   |
| Prepayment Meter Installation                       | means a Domestic Sized Meter and associated equipment and installations (excluding housing) comprised in a Supply Meter Installation through which gas, which is charged for as it is used, is supplied.  |
| Prescribed Rates                                    | means: <ul style="list-style-type: none"> <li>(a) business rates in England and Wales;</li> <li>(b) non-domestic rates in Scotland; or</li> <li>(c) any equivalent tax or duty replacing those rates that is levied on the licensee in respect of its Licensed Activity.</li> </ul>   |
| Pressure Impact Volume                              | means the Leakage volume reflecting the licensee's performance in managing average system pressure, calculated as set out in paragraph 4.4.3.   |
| Pressure Lower Deadband Volume                      | means the Leakage volume derived from the Shrinkage And Leakage Model by replacing actual pressure levels for the year in question with values 0.3 mbar lower than the mean average of the values recorded in the years 2017-18 to 2019-  |

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|                                      | 20, and setting PE leakage rates to 0, expressed in gigawatt hours.   |
| Pressure Management                  | has the meaning given to that term in the RIGs.   |
| Pressure Upper Deadband Volume       | means the Leakage volume derived from the Shrinkage And Leakage Model by replacing actual pressure levels for the year in question with values 0.6 mbar higher than the mean average of the values recorded in the years 2017-18 to 2019-20, and setting PE leakage rates to 0, expressed in gigawatt hours.  |
| Price Control Average Pressure       | means the Leakage volume derived from the Shrinkage And Leakage Model by replacing actual pressure levels for the year in question with the mean value for all years in the Price Control Period to date and setting PE leakage rates to 0, expressed in gigawatt hours.  |
| Price Control Deliverable            | means the outputs, delivery dates and associated allowances in Special Conditions 3.2 to 3.4, 3.10 to 3.13, 3.25 to 3.31 and 9.12.  |
| Price Control Pension Principles     | means the principles set out in the Authority's guidance note on price control pension principles issued as Appendix 3 to the decision letter, 'Decision on the Authority's policy for funding Pension Scheme Established Deficits' dated 7 April 2017.   |
| Price Control Period                 | means the period of five Regulatory Years commencing on 1 April 2021.   |
| Project Direction                    | means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.  |
| PRS                                  | means pressure reduction stations that are installed on gas networks to reduce and control gas pressures.   |
| PSUP Solution                        | means the site physical security upgrade specified by the government.   |
| RAV                                  | means regulatory asset value.   |
| Rebased Baseline Network Risk Output | means a Baseline Network Risk Output that has been revised to give effect to a modified NARM Methodology as approved under paragraph 9.2.9 of Special Condition 9.2 (Network Asset Risk Metric methodology) pending the Authority's approval. If approved by the Authority, the Rebased Baseline Network Risk Output will supersede the Baseline Network Risk Output for the purpose of Special Condition 3.1 (Baseline Network Risk Output). |

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| Rebasing                             | means the process of modifying the Baseline Network Risk Output as set out in Part C of Special Condition 3.1 (Baseline Network Risk Outputs).   |
| Recovered Revenue                    | has the meaning given to that term in Part B of Special Condition 2.1 (Revenue restriction).   |
| Regulatory Reporting Pack            | means the reporting templates published by the Authority that must be completed and submitted by the licensee each Regulatory Year in accordance with the RIGs.  |
| Regulatory Year                      | means a period of twelve months commencing on 1 April at 05:00 and ending on the following 1 April immediately before 05:00.   |
| Related Undertaking                  | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| Relevant Metering Special Condition  | means Special Condition 9.10 (Restriction of prices in respect of Tariff Capped Metering Activities).  |
| Relevant Premises                    | means: <ul style="list-style-type: none"> <li>(a) any premises connected to a system to which this licence relates which was an Independent System on the 31st March 2021 and which remains an Independent System; and</li> <li>(b) any premises subsequently connected, in pursuance of section 10 of the Act, to a system to which this licence relates which was an Independent System on the 31st March 2021 and which remains an Independent System.</li> </ul> |
| Relevant Shipper                     | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| Relevant Special Condition           | means Special Condition 2.1 (Revenue restriction), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 2.1 to which a Disapplication Request under Special Condition 9.6 (Disapplication of Relevant Special Conditions) relates.   |
| Relevant Valuation Agency            | means: <ul style="list-style-type: none"> <li>(a) the Valuation Office Agency in England and Wales; and</li> <li>(b) the Scottish Assessors Association in Scotland.</li> </ul>  |
| Remote Pressure Management Equipment | means equipment that includes: <ul style="list-style-type: none"> <li>(a) a remote pressure management system or equivalent, with associated equipment; and</li> <li>(b) a pressure logger or equivalent.</li> </ul>   |
| Re-opener                            | means the mechanisms created by: <ul style="list-style-type: none"> <li>(a) Special Conditions 3.6 to 3.9, 3.17 to 3.24; and</li> <li>(b) Parts C, D and E of Special Condition 3.2 (Cyber resilience operational technology Re-opener, Price Control</li> </ul>   |

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|  | Deliverable and use it or lose it adjustment), Parts C, D and E of Special Condition 3.3 (Cyber resilience information technology Re-opener and Price Control Deliverable), Parts C and D of Special Condition 3.4 (Physical security Re-opener and Price Control Deliverable).  |
| Re-opener Guidance and Application Requirements Document | means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.4 (Re-opener Guidance and Application Requirements Document).   |
| Repeat Complaint   | means a Complaint where the customer makes contact to express dissatisfaction with the same or substantially the same matter that was the subject of a previously Resolved Complaint within a 12 month period, as may be further clarified in the RIGs.  |
| Repex  | means replacement expenditure related to the long term programme of work to replace old and deteriorating mains, risers and services with plastic pipes.   |
| Repex Related HSE Policy Area                            | means a change in government policy related to Repex including under any of the following pieces of legislation:<br>(a) the Pipeline Safety Regulations 1996 Regulation 13A;<br>(b) the Gas Safety Management Regulations 1996;<br>(c) the Pressure System Safety Regulations 2000; and<br>(d) the Health and Safety at Work etc Act 1974.   |
| Resolved Complaint                                       | means a Complaint in respect of which there remains no outstanding action to be taken by the licensee, as may be further clarified in the RIGs.  |
| Retail Prices Index                                      | means the monthly values of the "RPI All Items Index", series ID "CHAW", published by the Office for National Statistics (or any other public body acquiring its functions).   |
| Returned Project Revenues                                | means:<br>(a) revenues received (whether by the licensee or any other Gas Transporter Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, where that Eligible NIC Project has been carried out in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction; or<br>(b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any other Gas Transporter Licensee) other than Returned Royalty Income that the Authority determines are payable to customers. |

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| Returned Royalty Income                  | means revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other Gas Transporter Licensee) less Directly Attributable Costs, that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document. |
| RIGs                                     | means the document published by the Authority in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance).  |
| RIIO Principles                          | means the principles for the assessment of business plans set out in the document entitled “Decision on strategy for the next gas distribution price control” (Ref 47/11) published by the Authority on 31 March 2011.   |
| RIIO-1 Justified Material Over-delivery  | means the delivery of a higher level of risk mitigation than a RIIO-1 Network Output or a RIIO-1 Materially Equivalent Output, where that higher level of risk mitigation delivery is justified in accordance with the RIIO-1 NOMs Principles.   |
| RIIO-1 Justified Material Under-delivery | means the delivery of a lower level of risk mitigation than a RIIO-1 Network Output or a RIIO-1 Materially Equivalent Output, where that lower level of risk mitigation delivery is justified in accordance with the RIIO-1 NOMs Principles.   |
| RIIO-1 Materially Equivalent Output      | means an equivalent level of risk mitigation to a RIIO-1 Network Output.   |
| RIIO-1 Network Innovation Allowance      | means the arrangements established by Special Condition 1H (The Network Innovation Allowance) of this licence as in force on 31 March 2021.  |
| RIIO-1 Network Output                    | means the network replacement outputs as set out in Table 1 of Special Condition 4H (Specification of Network Replacement Outputs) of this licence as in effect on 31 March 2021.  |
| RIIO-1 NIA Governance Document           | means the document issued by the Authority in accordance with Part E of Special Condition 1H (The Network Innovation Allowance) as in force on 31 March 2021.  |
| RIIO-1 NOMs Principles                   | means the principles set out in Chapter 2 of the document titled 'Network Output Measures (NOMs) Incentive Methodology' published by the Authority on 6 December 2018.   |
| RIIO-2 Final Determinations              | means the documents published by the Authority on 8 December 2020 setting out the Authority's decisions in relation to the Price Control Period.   |
| RIIO-2 NIA Governance Document           | means the document issued by the Authority in accordance with Part C of Special Condition 5.2 (The RIIO-2 network innovation allowance).   |

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| RIIO-2 NIA Projects  | means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the RIIO-2 NIA Governance Document as are necessary to enable the projects to be funded under the provisions of Special Condition 5.2 (RIIO-2 network innovation allowance). |
| RIIO-GD1   | means the price control that applied to the licensee for the period of eight years beginning on 1 April 2013.   |
| RIIO-GD1 Broad Measure of Customer Satisfaction Incentive    | means the RIIO-GD1 incentive of that name.  |
| RIIO-GD1 Discretionary Reward Scheme                         | means the RIIO-GD1 scheme of that name.   |
| RIIO-GD1 Environmental Emissions Incentive                   | means the RIIO-GD1 incentive of that name.  |
| RIIO-GD1 Exit Capacity Cost Adjustment                       | means the RIIO-GD1 scheme of that name.   |
| RIIO-GD1 FPNES Connection Targets                            | means the connection targets set out in Appendix 1 to Special Condition 7.12 (Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive).  |
| RIIO-GD1 Fuel Poor Network Extension Scheme Incentive        | means the RIIO-GD1 incentive of that name.  |
| RIIO-GD1 Shrinkage Allowance Revenue Adjustment              | means the RIIO-GD1 scheme of that name.   |
| RIIO-GD2 FPNES Connection Target                             | means that number of connections that the licensee is required to provide through the FPNES during the Price Control Period, as stated in Appendix 1 to Special Condition 3.14 (Fuel Poor Network Extension Scheme volume driver).  |
| RIIO-GD2 Outputs   | means the licence obligations and outputs that the licensee is funded and incentivised to deliver during the Price Control Period.  |
| Risk Score   | means a GDN-specific risk score relating to Tier 2 mains as determined by the Mains Risk Prioritisation System common methodology.  |
| RPEs   | has the meaning given to the term “Real Price Effects” in Appendix 1 to the GD2 Price Control Financial Handbook.   |
| Safety Requirements Relating To Multiple Occupancy Buildings | means primary and secondary legislation; and guidance issued by the HSE or any other body with responsibility for safety in Multiple Occupancy Buildings.   |
| Service Governor   | means Apparatus for automatic regulation of pressure or of volume at a selected point on a service or gas connection.   |

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| SGN Group                     | means Southern Gas Networks plc and Scotland Gas Networks plc.  |
| Shrinkage                     | means gas lost from a Distribution Network due to Leakage, theft and gas used for operational purposes.   |
| Shrinkage And Leakage Model   | means a controlled spreadsheet utilising a combination of asset based calculations that determine overall gas losses from a Distribution Network, whose main components are: metallic mains replacement, system pressure data, mono-ethylene glycol treatment, numbers of governors and other above ground installations, theft of gas and own use gas.   |
| Shrinkage Management          | means Pressure Management and Gas Conditioning carried out by a DN Operator for the purposes of reducing Shrinkage volumes.   |
| Single-year Monetised Risk    | means the Monetised Risk measured over a given one year time period.  |
| Small Net Zero Projects       | means a project that would be within the scope of the Re-opener provided by Special Condition 3.6 (Net zero Re-opener) but for failing to meet the Materiality Threshold.   |
| Small PRI                     | means a residential pressure reduction installation to control gas pressure.  |
| Small Van                     | means a van with a gross vehicle weight of no more than 2,300kg.  |
| Smart Metering Roll-out Costs | means costs directly incurred, or expected to be so incurred by the licensee as a result of the installation of smart meters, other than costs which are recoverable directly from the customer or gas supplier.  |
| SONIA                         | means the daily values of the sterling overnight index average, series ID "IUDSOIA", published by the Bank of England (or any other public body acquiring its functions).   |
| Specified Streetworks Costs   | means costs directly incurred, or expected to be incurred, by the licensee as a result of complying with obligations or requirements arising under any orders or regulations made pursuant to Part 3 of the Traffic Management Act 2004 or, in Scotland, the Transport (Scotland) Act 2019 or under any other streetworks legislation applicable to the licensee including: <ul style="list-style-type: none"> <li>(a) one-off set-up costs;</li> <li>(b) permit fee costs;</li> <li>(c) administrative costs arising from the introduction of permit or lane rental schemes;</li> <li>(d) costs arising from the introduction of permit conditions;</li> <li>(e) costs arising from changes to working practices required by the introduction or alteration of any code of practice applicable to the licensee;</li> </ul> |

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|   | <p>(f) costs arising from lane rental charges levied on the licensee by highway authorities;</p> <p>(g) costs arising from changes to inspection fees payable by the licensee;</p> <p>(h) costs arising from changes to the requirements imposed on the licensee in respect of highway reinstatement;</p> <p>(i) costs arising from the introduction of new congestion charging schemes or changes to existing ones; and</p> <p>(j) costs arising from changes to the requirements imposed on the licensee in respect of the disposal of streetworks excavation waste material.</p>   |
| Stakeholder Engagement Incentive Guidance | means the document of that name maintained by the Authority in accordance with Part B of Special Condition 7.9 (Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive).  |
| Standard Mains Materials                  | means polyethylene or any similar polymer-based material (other than polyvinyl chloride), any Fully Structural Lining Solutions or steel that is provided with cathodic corrosion protection.   |
| Statutory Undertaker                      | means a person to whom a licence may be granted under section 50 and section 109 of the New Roads and Street Works Act 1991.  |
| Stent Bag                                 | means a device that in the event of a gas escape allows the remote insertion of a sealing stent system into a gas main in safe environment away from the gas escape in order to stop the release of gas.  |
| Successful Delivery Reward                | has the meaning given to that term in the NIC Governance Document.  |
| Supply Meter Installation                 | has the meaning given to that term in the Network Code.   |
| Supply Of Distribution Network Services   | <p>means the undertaking and performance for gain or reward of engagements:</p> <p>(a) in connection with the conveyance of gas through the Transportation System;</p> <p>(b) for the prevention of the escape of gas which has been taken off the Transportation System; and</p> <p>(c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:</p> <ol style="list-style-type: none"> <li>i. the balancing of the Transportation System through the acquisition or disposal of gas to replace gas lost from the Transportation System; and</li> <li>ii. facilitating constraint management.</li> </ol> |

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| Support Van                                   | means a van with a gross vehicle weight of no more than 3,500kg.  |
| Tariff Capped Metering Activities             | means those activities provided by the licensee listed in paragraph 3 of Special Condition 9.10 (Restriction of prices in respect of Tariff Capped Metering Activities).  |
| Tax Reconciliation                            | means the reconciliation between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability as reported to the Authority as part of the GD2 Price Control Financial Model.  |
| Tax Strategy                                  | has the meaning given to that term in Schedule 19 to the Finance Act 2016, as amended from time to time.  |
| Third Party Damage And Water Ingress Costs    | means payments made by the licensee in respect of:<br>(a) failures under regulation 7 of the Gas (Standards of Performance) Regulations 2005 to meet the prescribed standard of performance for restoration of supply following interruptions resulting from third party damage and water ingress.<br>(b) failures under paragraph 3.5 of Section J (Exit Requirements) of the Network Code to make gas available for offtake following third party damage and water ingress. |
| Threshold Risk Score                          | means the Mains Risk Prioritisation Score agreed between the licensee and the HSE as part of the licensee's approved programme under regulation 13 of the Pipelines Safety Regulation 1996.   |
| Tier 1 Main                                   | has the meaning given to it in the RIGs.  |
| Tier 1 Mains Baseline Value                   | means the portion of Totex Allowance that represents the funding for the Baseline Target Workload Of Tier 1 Mains Decommissioned set out in Appendix 3 to Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable).   |
| Tier 1 Mains Decommissioned Workload Activity | means a specific category of Tier 1 Mains decommissioning activity, defined on the basis of work type, material type and diameter band.   |
| Tier 1 Service                                | means a service pipe connected to a Tier 1 Main.  |
| Tier 1 Service Intervention                   | means remedial action taken on a Tier 1 Service in connection with Tier 1 Mains decommissioning work.   |
| Tier 1 Services Baseline Value                | means the portion of Totex Allowance that represents the funding for the Baseline Target Workload Of Tier 1 Services Repex set out in Appendix 1 to Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable).   |
| Tier 1 Services Repex Workload Activity       | means a specific category of Tier 1 Service Intervention activity, defined on the basis of intervention type.   |

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| Tier 1 Stub  | means a short length of Tier 1 Main, up to 3m in length, attached to larger diameter Parent Main at one end and polyethylene main at the other, which meet the criteria for decommissioning under the Iron Mains Risk Reduction Programme.   |
| Time Value of Money Adjustment                         | has the meaning given to that term in the glossary of the GD2 Price Control Financial Handbook.  |
| Total NIA Expenditure                                  | means expenditure that satisfies the requirements of the RIIO-2 NIA Governance Document and is partly recovered by the licensee under the Special Condition 5.2 (RIIO-2 network innovation allowance).   |
| Totex Allowance  | means the allowance used for the Totex Incentive Mechanism and is the sum of values under the heading “Totex allowance” in the “Input” sheet of the GD2 Price Control Financial Model.   |
| Totex Incentive Mechanism                              | means the mechanism within the GD2 Price Control Financial Model which provides for the licensee to bear a specified share of any overspend, or retain a specified share of any underspend, represented in either case by a difference between:<br>(a) the licensee’s Totex Allowance; and<br>(b) the licensee’s actual totex expenditure. |
| Totex Incentive Strength                               | has the value for the relevant Distribution Network set out below:<br>EoE: 50%<br>Lon: 50%<br>NW: 50%<br>WM: 50%<br>Northern Gas Networks Ltd: 49%<br>Scotland Gas Networks plc: 49%<br>Southern Gas Networks plc: 50%<br>Wales & West Utilities Ltd: 50%  |
| Transportation Business                                | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| Transportation System                                  | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| Uniform Network Code                                   | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).  |
| Uniform Network Code Transportation Principal Document | means the document of that name published by the Joint Office of Gas Transporters as amended from time to time.  |
| Unplanned Interruption                                 | has the meaning given to that term in the RIGs.  |

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| Unplanned Interruption Excessive Deterioration Level | has the value set out in Appendix 1 to Special Condition 4.5 (Unplanned Interruption Mean Duration output delivery incentive).  |
| Unplanned Interruption Mean Duration                 | has the meaning given to that term in the RIGs.   |
| Unplanned Interruption Mean Duration Penalty         | means a penalty calculated under Part A of Special Condition 4.5 (Unplanned Interruption Overall Mean Duration output delivery incentive).  |
| Unplanned Interruption Minimum Performance Level     | has the value set out in Appendix 1 to Special Condition 4.5 (Unplanned Interruption Mean Duration output delivery incentive).  |
| Unplanned Supply Interruptions Element               | means the element of the Customer Satisfaction Survey that measures customer satisfaction in relation to unplanned supply interruptions work carried out by the licensee.   |
| Use It Or Lose It Adjustment                         | means an adjustment to allowances where they have not been spent, or have not been spent in a way that is efficient to: <ul style="list-style-type: none"> <li>(a) improving cyber resilience in relation to OT, including risk reduction or improved status of the licensee's network and information systems with respect to CAF Outcomes, in relation to Special Condition 3.2 (Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it adjustment); and</li> <li>(b) developing projects in preparation for Re-openers in relation to Special Condition 3.5 (Net Zero And Re-opener Development Fund use it or lose it allowance) which will not exceed the allowance provided.</li> </ul> |
| VCMA Governance Document                             | means the document of that name issued by the Authority in accordance with Part B of Special Condition 5.4 (Vulnerability and carbon monoxide allowance).   |
| VCMA Project   | means a project that meets the eligibility criteria set out in the VCMA Governance Document.  |
| Vulnerable Situations                                | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |
| WACC   | means the vanilla weighted average cost of capital for the licensee as derived by the Authority in accordance with the GD2 Price Control Financial Handbook.  |
| Working Day  | has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).   |

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## Chapter 2: Revenue restriction

### Special Condition 2.1 Revenue restriction ( $AR_t$ )

#### Introduction

- 2.1.1 The purpose of this condition is to ensure that the licensee sets Network Charges to aim to recover no more than Allowed Revenue.
- 2.1.2 This condition also provides for the calculation of the term  $AR_t$  (the Allowed Revenue term).

#### Part A: Licensee's obligation when setting Network Charges

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

#### Part B: Recovered Revenue term ( $RR_t$ )

- 2.1.4 Recovered revenue ( $RR_t$ ) means the revenue derived by the licensee from the Supply Of Distribution Network Services to Gas Shippers, in respect of its Licensed Activity and means the undertaking and performance for gain or reward of engagements:
- (a) in connection with the conveyance of gas through the Transportation System;
  - (b) for the prevention of the escape of gas which has been taken off the Transportation System; and
  - (c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:
    - i. the balancing of the Transportation System through the acquisition or disposal of gas to replace gas lost from the Transportation System; and
    - ii. facilitating constraint management.

#### Part C: Formula for calculating the Allowed Revenue term ( $AR_t$ )

- 2.1.5 The value of  $AR_t$  is derived in accordance with the following formula:

$$AR_t = ADJR_t^* + K_t + LAR_t$$

where:

- $ADJR_t^*$  means adjusted revenue most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model) prior to the start of Regulatory Year t;
- $K_t$  means the Correction term and is derived in accordance with Part H of this condition; and
- $LAR_t$  is derived in accordance with Special Condition 7.1 (Legacy adjustments to revenue).

## **Part D: Formula for calculating Adjusted Revenue (ADJR<sub>t</sub>)**

2.1.6 The value of ADJR<sub>t</sub> is derived in accordance with the following formula:

$$ADJR_t = R_t \frac{PI_t}{PI_{2018/19}} + ADJ_t$$

where:

- $R_t$  means Calculated Revenue derived in accordance with Part E;
- $PI_t$  means the price index derived in accordance with Part F; and
- $ADJ_t$  means the AIP adjustment term derived in accordance with Part G.

## **Part E: Formula for calculating the Calculated Revenue term (R<sub>t</sub>)**

2.1.7 The value of R<sub>t</sub> is derived in accordance with the following formula:

$$R_t = FM_t + PT_t + DPN_t + RTN_t + RTNA_t + EIC_t + DRS_t + CSUB_t + ODI_t + BPI_t + ORA_t + TAX_t + TAXA_t$$

where:

- $FM_t$  means fast money and has the value calculated in the “Revenue” sheet of the GD2 Price Control Financial Model;
- $PT_t$  is derived in accordance with Special Condition 6.1 (Pass-through items);
- $DPN_t$  means depreciation and has the value calculated in the “Revenue” sheet of the GD2 Price Control Financial Model;
- $RTN_t$  means return and has the value calculated in the “Revenue” sheet of the GD2 Price Control Financial Model;
- $RTNA_t$  means return adjustment and is derived in accordance with Special Condition 2.3 (Return Adjustment);
- $EIC_t$  means equity issuance costs and has the value calculated in the “Revenue” sheet of the GD2 Price Control Financial Model;
- $DRS_t$  means Directly Remunerated Services and has the value calculated in the “Revenue” sheet of the GD2 Price Control Financial Model;
- $CSUB_t$  means the cross-subsidy adjustment and has the value calculated in the “Revenue” sheet of the GD2 Price Control Financial Model;
- $ODI_t$  is derived in accordance with Special Condition 4.1 (Total output delivery incentive performance);
- $BPI_t$  means the business plan incentive term and has the value in the “Revenue” sheet of the GD2 Price Control Financial Model, unless the Authority directs otherwise under Special Condition 4.7 (Consumer value proposition);
- $ORA_t$  is derived in accordance with Special Condition 5.1 (Total other revenue allowances);

- $TAX_t$  has the value calculated in the “Revenue” sheet of the GD2 Price Control Financial Model; and
- $TAXA_t$  means the tax allowance adjustment term and has the value zero, unless the Authority directs otherwise under Special Condition 2.2 (Tax allowance adjustment).

## **Part F: Formula for calculating the price index term ( $PI_t$ )**

- 2.1.8 The value of  $PI_t$  is the arithmetic average value of each of the twelve monthly values of  $PI_m$  from 1 April to 31 March within Regulatory Year  $t$  derived in accordance with the following formula:

$$PI_m = \begin{cases} RPI_m, & \text{if } m < \text{April 2021} \\ PI_{m-1} \left( 0.5 \frac{CPIH_m}{CPIH_{m-1}} + 0.5 \frac{RPI_m}{RPI_{m-1}} \right), & \text{if } m = \text{April 2021} \\ PI_{m-1} \cdot \frac{CPIH_m}{CPIH_{m-1}}, & \text{if } m > \text{April 2021} \end{cases}$$

where:

- $m$  refers to a year and month;
- $RPI_m$  means the Retail Prices Index for the year and month  $m$ ; and
- $CPIH_m$  means the Consumer Prices Index Including Owner Occupiers' Housing Costs for the year and month  $m$ .

## **Part G: AIP adjustment term ( $ADJ_t$ )**

- 2.1.9 For the Regulatory Year commencing on 1 April 2021, the value of  $ADJ$  is zero.
- 2.1.10 For subsequent Regulatory Years, the value of  $ADJ_t$  is derived in accordance with the following formula:

$$ADJ_t = (ADJR_{t-1} - ADJR_{t-1}^*)(1 + TVM_{t-1})$$

where:

- $ADJR_t$  is derived in accordance with Part D;
- $ADJR_t^*$  means adjusted revenue most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model) prior to the start of Regulatory Year  $t$ ; and
- $TVM_t$  means the time value of money term derived in accordance with paragraph 2.1.11.

- 2.1.11 The value of  $TVM_t$  is derived in accordance with the following formula:

$$TVM_t = (1 + WACC_t) \frac{PI_{t+1}}{PI_t} - 1$$

where:



$WACC_t$  means the vanilla weighted average cost of capital for the licensee as derived by the Authority in accordance with the GD2 Price Control Financial Handbook; and

$PI_t$  means the price index derived in accordance with Part F.

## **Part H: Correction term ( $K_t$ )**

2.1.12 For the Regulatory Year commencing on 1 April 2020, the value of  $K$  is zero.

2.1.13 For subsequent Regulatory Years, the value of  $K_t$  is derived in accordance with the following formula:

$$K_t = (AR_{t-1} - RR_{t-1})(1 + I_{t-1} + 1.15\% + PRP_{t-1} \cdot PRA_{t-1})$$

where:

$AR_t$  for Regulatory Years commencing on or after 1 April 2021  $AR_t$  is derived in accordance with Part C. For the Regulatory Year commencing on 1 April 2020 the value of  $AR_t$  is derived in accordance with Part B 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;

$RR_t$  means Recovered Revenue derived in accordance with Part B;

$I_t$  means the average value of SONIA;

$PRP_t$  means the penal rate proportion and has the value of 1, unless the Authority directs otherwise in accordance with paragraph 2.1.15; and

$PRA_t$  means the penal rate adjustment, derived in accordance with paragraph 2.1.14.

2.1.14 The value of  $PRA_t$  is derived in accordance with the following formula:

$$PRA_t = \begin{cases} 1.15\% & \text{if } RR_t/AR_t \geq 1.06 \\ -1.15\% & \text{if } RR_t/AR_t \leq 0.94 \\ 0, & \text{otherwise} \end{cases}$$

where:

$RR_t$  is derived in accordance with Part B; and

$AR_t$  is derived in accordance with Part C.

2.1.15 The Authority will direct a value for  $PRP_t$  which is not less than zero and not more than 1, if it is satisfied that differences between Recovered Revenue and Allowed Revenue were for reasons outside the reasonable control of the licensee.

## **Special Condition 2.2 Tax allowance adjustment (TAXA<sub>t</sub>)**

### **Introduction**

- 2.2.1 The purpose of this condition is to calculate any adjustment to the term TAXA<sub>t</sub> (the tax allowance adjustment term), which feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 2.2.2 The effect is to adjust Calculated Revenue, if required following a review of material, unexplained differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability, in accordance with Chapter 6 of the GD2 Price Control Financial Handbook.
- 2.2.3 This condition also explains the process the Authority will follow when directing any change as a result of the review.

### **Part A: Undertaking a tax review**

- 2.2.4 The Authority may undertake a tax review of any material, unexplained differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability, in accordance with Chapter 6 of the GD2 Price Control Financial Handbook.
- 2.2.5 Where the Authority notifies the licensee that it has decided to undertake a tax review and gives the reasons for that decision, the licensee must:
  - (a) procure an Appropriately Qualified Independent Examiner to examine the differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability and send a report to the Authority;
  - (b) carry out any reasonable steps specified by the Authority for such a procurement and comply with any requirements reasonably specified by the Authority as to the terms of appointment of the Appropriately Qualified Independent Examiner;
  - (c) ensure that the Appropriately Qualified Independent Examiner carries out the work within the scope, and by the date, reasonably specified by the Authority, after discussing with the examiner; and
  - (d) send to the Authority a report from the Appropriately Qualified Independent Examiner in the form, and containing the content, specified by the Authority, following discussion with the examiner.
- 2.2.6 Following receipt of the Appropriately Qualified Independent Examiner's report, the Authority will:
  - (a) direct any adjustment to the value of the TAXA<sub>t</sub> term that it considers should be made taking account of the report, and
  - (b) specify the Regulatory Years to which that adjustment relates.

## **Part B: What process will the Authority follow in making a direction?**

2.2.7 Before making a direction under paragraph 2.2.6, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations on the proposed direction may be made, which will not be less than 28 days.

## **Special Condition 2.3 Return Adjustment (RTNA<sub>t</sub>)**

### **Introduction**

- 2.3.1 The purpose of this condition is to calculate the term RTNA<sub>t</sub> (the return adjustment term), which feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 2.3.2 The effect of this condition is to adjust Calculated Revenue following a review of Operational Performance after the Price Control Period.
- 2.3.3 It also explains the process the Authority will follow when directing any change as a result of the review.

### **Part A: Undertaking a review of Operational Performance**

- 2.3.4 After the Price Control Period, the Authority will undertake a review of Operational Performance.
- 2.3.5 Following its review, the Authority will direct any adjustment to the value of the term RTNA<sub>t</sub> in accordance with the method set out in Parts B and C and any further applicable explanation or elaboration within the GD2 Price Control Financial Handbook.

### **Part B: Formulae for calculating the return adjustment term (RTNA<sub>t</sub>)**

2.3.6 The value of RTNA<sub>t</sub> is derived in accordance with the following formula:

$$RTNA_t = RTNR \cdot \frac{RAVL_t \cdot (1 - G)}{\sum_{t=2021/22}^{2025/26} RAVL_t \cdot (1 - G)} \cdot \frac{\sum_{t=2021/22}^{2025/26} RAVD_t \cdot (1 - G)}{\sum_{t=2021/22}^{2025/26} RAVL_t \cdot (1 - G)}$$

where:

- RTNR* means the return adjustment for the licensee over the Price Control Period, derived in accordance with paragraphs 2.3.7 and 2.3.8;
- RAVD<sub>t</sub>* means the RAV value for the Distribution Network derived in accordance with the GD2 Price Control Financial Model;
- RAVL<sub>t</sub>* means the RAV value for the licensee and has the value derived in accordance with the GD2 Price Control Financial Model; and
- G* means notional gearing, and has the value of 60%.

- 2.3.7 Where Operational Performance is equal to or greater than zero, the value of RTNR is derived in accordance with the following formula:

$$RTNR = \sum_{t=2021/22}^{2025/26} RAVL_t \cdot (1 - G) \cdot$$

$$[ MAX( MIN(EO - OPP, EO), 0 ) - MAX( MIN(OPP, T2) - T1, 0 ) \cdot AR1 \\ - MAX(OPP - T2, 0) \cdot AR2 ]$$

where:

*RAVL<sub>t</sub>* means the RAV value for the licensee and has the value derived in accordance with the GD2 Price Control Financial Model; and

*G* means notional gearing, and has the value of 60%;

*EO* means expected outperformance, and has the value of 0.25%;

*OPP* means the Operational Performance value for the licensee, in percentage terms, over the Price Control Period and has the value derived in accordance with the GD2 Price Control Financial Model;

*T1* means threshold 1, and has the value of 3%;

*T2* means threshold 2, and has the value of 4%;

*AR1* means adjustment rate 1, and has the value of 50%; and

*AR2* means adjustment rate 2, has the value of 90%.

- 2.3.8 When Operational Performance is less than zero, the value of RTNR is derived in accordance with the following formula:

$$RTNR = \sum_{t=2021/22}^{2025/26} RAVL_t \cdot (1 - G) \cdot$$

$$EO + MAX( MIN(-OPP, T2) - T1, 0 ) \cdot AR1 + MAX(-OPP - T2, 0) \cdot AR2 ]$$

where each term has the meaning given in paragraph 2.3.7.

### **Part C: What process will the Authority follow in making a direction?**

- 2.3.9 Before making a direction under paragraph 2.3.5, the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons for the proposed direction; and

(c) a period during which representations on the proposed direction may be made, which will not be less than 28 days.

- 2.3.10 A direction under paragraph 2.3.5 will set out the value of the RTNA<sub>t</sub> term and the Regulatory Years to which that adjustment relates.



## Chapter 3: Totex Allowance adjustments

### Special Condition 3.1 Baseline Network Risk Outputs (NARM<sub>t</sub>)

#### Introduction

- 3.1.1 This condition sets out the requirements on the licensee in respect of Baseline Network Risk Outputs and specifies the value of the term NARM<sub>t</sub> (the Baseline Allowed NARM Expenditure term), which contributes to the calculation of the Totex Allowance.
- 3.1.2 It also sets out:
- (a) the processes for issuing and amending the Network Asset Risk Workbook and the NARM Handbook; and
  - (b) the requirements on the licensee in respect of a closeout report.

#### Part A: Requirement to deliver Baseline Network Risk Outputs

- 3.1.3 By the end of the Price Control Period, the licensee must deliver its Baseline Network Risk Outputs in accordance with sheet “1.1. Baseline Network Risk Outputs” of the Network Asset Risk Workbook.
- 3.1.4 Any relevant funding adjustments and penalties to reflect the licensee’s Outturn Network Risk Outputs and incurred costs of delivery will be calculated by the Authority in accordance with the NARM Handbook.

#### Part B: Network Asset Risk Workbook

- 3.1.5 The Authority will issue and amend the Network Asset Risk Workbook by direction.
- 3.1.6 The Authority will publish the Network Asset Risk Workbook on the Authority’s Website.
- 3.1.7 Before issuing the Network Risk Asset Workbook by direction, the Authority will publish on the Authority’s Website:
- (a) the text of the proposed Network Asset Risk Workbook;
  - (b) the date on which the Authority intends the Network Asset Risk Workbook to come into effect; and
  - (c) a period during which representations may be made on the content of the Network Asset Risk Workbook, which will not be less than 28 days.
- 3.1.8 Before amending the Network Asset Risk Workbook by direction, the Authority will publish on the Authority’s Website:
- (a) the text of the amended Network Asset Risk Workbook;
  - (b) the date on which the Authority intends the amended Network Asset Risk Workbook to come into effect;

- (c) the reasons for the amendments to the Network Asset Risk Workbook; and
- (d) a period during which representations may be made on the amendments to the Network Asset Risk Workbook, which will not be less than 28 days.

### **Part C: NARM Handbook**

- 3.1.9 The Authority will issue and amend the NARM Handbook by direction.
- 3.1.10 The Authority will publish the NARM Handbook on the Authority's Website.
- 3.1.11 Before issuing the NARM Handbook by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the proposed NARM Handbook;
  - (b) the date on which the Authority intends the NARM Handbook to come into effect; and
  - (c) a period during which representations may be made on the content of the NARM Handbook, which will not be less than 28 days.
- 3.1.12 Before amending the NARM Handbook by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the amended NARM Handbook;
  - (b) the date on which the Authority intends the amended NARM Handbook to come into effect;
  - (c) the reasons for the amendments to the NARM Handbook; and
  - (d) a period during which representations may be made on the amendments to the NARM Handbook, which will not be less than 28 days.

### **Part D: Baseline Allowed NARM Expenditure for Baseline Network Risk Outputs (NARM<sub>t</sub>)**

- 3.1.13 The licensee's Baseline Allowed NARM Expenditure for delivering its Baseline Network Risk Outputs is set out in Appendix 1.

### **Part E: Process for Rebasing Baseline Network Risk Outputs**

- 3.1.14 Rebased Baseline Network Risk Outputs submitted in accordance with Part C of Special Condition 9.2 (Network Asset Risk Metric methodology) must:
  - (a) be calculated using the NARM Methodology as approved under paragraph 9.2.9;
  - (b) 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 Outputs;
  - (c) be as Equally Challenging as the Baseline Network Risk Outputs; and
  - (d) be in the same format as the Network Asset Risk Workbook.

- 3.1.15 Where the licensee proposes Rebased Baseline Network Risk Outputs in accordance with Part C of Special Condition 9.2, the Authority will consider the proposal and by direction:
- (a) approve it;
  - (b) approve it with adjustments; or
  - (c) reject it.
- 3.1.16 Before issuing a direction under paragraph 3.1.15, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the date on which the Authority intends the proposed direction to come into effect;
  - (c) the reasons for the proposed direction; and
  - (d) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.1.17 Any Rebased Baseline Network Risk Outputs approved by the Authority under paragraph 3.1.15(a) or (b) will supersede the Baseline Network Risk Outputs for the purpose of this condition.

#### **Part F: Requirement to provide a closeout report**

- 3.1.18 On or before 31 October 2026, the licensee must provide to the Authority a report, together with detailed supporting evidence, which sets out the following:
- (a) the licensee's Outturn Network Risk Outputs;
  - (b) 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 under Standard Condition A40 (Regulatory Instructions and Guidance);
  - (c) details of any Non-intervention Risk Changes, including the associated impact on Baseline Network Risk Outputs or Outturn Network Risk Outputs; and
  - (d) justification cases for any portions of over-delivery or under-delivery against Baseline Network Risk Outputs that the licensee considers to be justified.

### **Appendix 1**

#### **Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Outputs (£m) (EoE)**

| <b>Regulatory Year</b> | <b>NARM<sub>t</sub> excluding RPEs (£m)</b> |
|------------------------|---|
| 2021/22                | 22.44                                       |



|                     |               |
|---------------------|---------------|
| 2022/23             | 22.97         |
| 2023/24             | 21.78         |
| 2024/25             | 19.57         |
| 2025/26             | 18.65         |
| <b>RIIO-2 Total</b> | <b>105.40</b> |

**Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Outputs ( £m) (Lon)**

| <b>Regulatory Year</b> | <b>NARM<sub>t</sub> excluding RPEs (£m)</b> |
|------------------------|---|
| 2021/22                | 29.72                                       |
| 2022/23                | 30.41                                       |
| 2023/24                | 29.41                                       |
| 2024/25                | 28.66                                       |
| 2025/26                | 26.21                                       |
| <b>RIIO-2 Total</b>    | <b>144.42</b>                               |

**Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Outputs (£m) (NW)**

| <b>Regulatory Year</b> | <b>NARM<sub>t</sub> excluding RPEs (£m)</b> |
|------------------------|---|
| 2021/22                | 14.33                                       |
| 2022/23                | 16.50                                       |
| 2023/24                | 15.44                                       |
| 2024/25                | 14.26                                       |
| 2025/26                | 11.83                                       |
| <b>RIIO-2 Total</b>    | <b>72.36</b>                                |

**Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Outputs (£m) (WM)**

| <b>Regulatory Year</b> | <b>NARM<sub>t</sub> excluding RPEs (£m)</b> |
|------------------------|---|
| 2021/22                | 10.52                                       |
| 2022/23                | 10.02                                       |
| 2023/24                | 10.69                                       |
| 2024/25                | 10.19                                       |
| 2025/26                | 9.82  |

|                     |              |
|---------------------|--------------|
| <b>RIIO-2 Total</b> | <b>51.24</b> |
|---------------------|--------------|

**Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Outputs (£m) (Northern Gas Networks Limited)**

| <b>Regulatory Year</b> | <b>NARM<sub>t</sub> excluding RPEs (£m)</b> |
|------------------------|---|
| 2021/22                | 34.29                                       |
| 2022/23                | 37.81                                       |
| 2023/24                | 37.26                                       |
| 2024/25                | 34.16                                       |
| 2025/26                | 33.07                                       |
| <b>RIIO-2 Total</b>    | <b>176.60</b>                               |

**Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Outputs (£m) (Scotland Gas Networks plc)**

| <b>Regulatory Year</b> | <b>NARM<sub>t</sub> excluding RPEs (£m)</b> |
|------------------------|---|
| 2021/22                | 11.55                                       |
| 2022/23                | 12.42                                       |
| 2023/24                | 12.24                                       |
| 2024/25                | 11.66                                       |
| 2025/26                | 10.95                                       |
| <b>RIIO-2 Total</b>    | <b>58.82</b>                                |

**Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Output (£m) (Southern Gas Networks plc)**

| <b>Regulatory Year</b> | <b>NARM<sub>t</sub> excluding RPEs (£m)</b> |
|------------------------|---|
| 2021/22                | 41.87                                       |
| 2022/23                | 39.92                                       |
| 2023/24                | 40.04                                       |
| 2024/25                | 38.33                                       |
| 2025/26                | 35.00                                       |
| <b>RIIO-2 Total</b>    | <b>195.16</b>                               |

**Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Output (£m) (Wales & West Utilities Limited)**

| <b>Regulatory Year</b> | <b>NARM<sub>t</sub> excluding RPEs (£m)</b> |
|------------------------|---|
| 2021/22                | 17.65                                       |
| 2022/23                | 19.31                                       |
| 2023/24                | 17.69                                       |
| 2024/25                | 17.56                                       |
| 2025/26                | 17.30                                       |
| <b>RIIO-2 Total</b>    | <b>89.51</b>                                |

**Special Condition 3.2 Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it adjustment (CROT<sub>t</sub> and CROTRE<sub>t</sub>)**

**Introduction**

- 3.2.1 The purpose of this condition is to calculate the terms CROT<sub>t</sub> (the cyber resilience Price Control Deliverable term) and CROTRE<sub>t</sub> (the cyber resilience OT Re-opener term). These contribute to the calculation of the Totex Allowance.
- 3.2.2 The effect of this condition is to:
- (a) establish the Cyber Resilience OT PCD Table, which specifies the outputs, delivery dates and associated allowances for cyber resilience in relation to OT;
  - (b) require the licensee to take all reasonable steps to deliver in accordance with the Cyber Resilience OT PCD Table;
  - (c) require the licensee to submit a Cyber Resilience OT Plan at the start of the Price Control Period;
  - (d) establish Re-openers for the licensee and Authority to trigger amendments to the Cyber Resilience OT PCD Table during the Price Control Period;
  - (e) require the licensee to report regularly to the Authority on cyber resilience OT; and
  - (f) provide for an assessment of delivery under this condition, including a Use It Or Lose It Adjustment.
- 3.2.3 This condition also sets out the process the Authority will follow when directing any changes under paragraph 3.2.8, 3.2.11, 3.2.15 or 3.2.17..

**Part A: Formulae for calculating the cyber resilience OT term (CROT<sub>t</sub>) and the cyber resilience OT Re-opener term (CROTRE<sub>t</sub>)**

3.2.4 The value of CROT<sub>t</sub> is derived in accordance with the following formula:

$$CROT_t = CROTA_t - CROTRA_t$$

where:

*CROTA<sub>t</sub>* means the allowances in the Cyber Resilience OT Baseline Allowances Table; and

*CROTRA<sub>t</sub>* has the value zero unless otherwise directed by the Authority in accordance with Part F.

3.2.5 The value of CROTRE<sub>t</sub> is derived in accordance with the following formula:

$$CROTRE_t = CROTO_t - CROTRO_t$$

where:

*CROTO<sub>t</sub>* means the sum of allowances directed by the Authority as a result of Re-openers established by Parts C, D and E; and

*CROTRO<sub>t</sub>* has the value zero unless otherwise directed by the Authority in accordance with Part F.

**Part B: Cyber resilience OT outputs**

3.2.6 The Cyber Resilience OT PCD Table specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

3.2.7 The licensee must take all reasonable steps to deliver the outputs in accordance with, and by the delivery dates specified in, the Cyber Resilience OT PCD Table.

**Part C: Requirement to submit a Cyber Resilience OT Plan and Re-opener application**

3.2.8 The licensee must Between 1 April 2021 and 8 April 2021 submit to the Authority:

(a) a Cyber Resilience OT Plan; and

(b) an application for a direction by the Authority requesting such amendments to the Cyber Resilience OT PCD Table as it considers are warranted by its Cyber Resilience OT Plan.

3.2.9 A Cyber Resilience OT Plan submitted under paragraph 3.2.8(a) must be in writing and give details of any proposed activities that the licensee considers would be capable of improving cyber resilience in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF Outcomes.

3.2.10 An application under paragraph 3.2.8(b) must be made in writing and:

- (a) include statements:
  - i. setting out any amendments requested to the outputs, delivery dates or allowances in the Cyber Resilience OT PCD Table;
  - ii. explaining how any amendments requested would improve cyber resilience in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF Outcomes; and
  - iii. explaining the basis of the calculations for any amendments requested to allowances; and
- (b) provide such detailed supporting evidence as is reasonable in the circumstances.

#### **Part D: Cyber resilience OT Re-opener**

- 3.2.11 The licensee may apply to the Authority for a direction amending the outputs, delivery dates or associated allowances in the Cyber Resilience OT PCD Table where it considers there are:
  - (a) new activities, including new technology, capable of improving cyber resilience in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF Outcomes;
  - (b) 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
  - (c) changes to statutory or regulatory requirements relating to cyber resilience in relation to OT.
- 3.2.12 The licensee may only apply to the Authority under paragraph 3.2.11 Between 25 January 2023 and 31 January 2023, and during such other periods as the Authority may direct.
- 3.2.13 An application under paragraph 3.2.11 must be made in writing to the Authority and must:
  - (a) give details of the circumstances referred to in paragraph 3.2.11 that the licensee considers exist;
  - (b) set out any amendments requested to the outputs, delivery dates or allowances set out in the Cyber Resilience OT PCD Table;
  - (c) explain how any amendments requested would improve cyber resilience in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF Outcomes;
  - (d) explain the basis of the calculations for any amendments requested to allowances; and
  - (e) provide such detailed supporting evidence as is reasonable in the circumstances.

- 3.2.14 An application under paragraph 3.2.11 must:
- (a) relate to circumstances of the type referred to in paragraph 3.2.11 that have developed since the licensee submitted its Cyber Resilience OT Plan under paragraph 3.2.8;
  - (b) take account of any allowed expenditure which can be avoided as a result of the change; and
  - (c) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

#### **Part E: Authority triggered Re-opener**

- 3.2.15 The Authority will also consider directing amendments to the outputs, delivery dates or allowances set out in the Cyber Resilience OT PCD Table without an application being made under paragraph 3.2.11, where it considers that:
- (a) circumstances of the type referred to in paragraph 3.2.11 exist; or
  - (b) circumstances exist that create an unreasonable degree of risk in relation to cyber resilience.
- 3.2.16 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.

#### **Part F: Assessment of delivery under this condition (CROTRO<sub>t</sub> and CROTRA<sub>t</sub>)**

- 3.2.17 The Authority will direct a value for CROTRA<sub>t</sub> and CROTRO<sub>t</sub> where either of the following is appropriate:
- (a) an adjustment in accordance with the PCD Reporting Requirements and Methodology Document, where the licensee has not Fully Delivered an output in the Cyber Resilience OT PCD Table; or
  - (b) a Use It Or Lose It Adjustment, which will be assessed after any assessment under sub-paragraph (a).

#### **Part G: Reporting Requirements**

- 3.2.18 The licensee must send reports to the Authority, in a form approved by the Authority, that include:
- (a) a summary of progress against key milestones contained in the licensee's Improvement Plan;
  - (b) a summary of developments against the outputs in the Cyber Resilience OT PCD Table;
  - (c) the licensee's assessment of the impact of the progress and developments referred to in paragraphs 3.2.18(a) and (b) on improving cyber resilience in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF Outcomes;
  - (d) a description of how the licensee has considered any relevant guidance provided by the Authority;

- (e) a summary of the current status of CAF Outcomes; and
  - (f) such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.19 Unless the Authority otherwise directs, the licensee must send reports under paragraph 3.2.18 by no later than the dates, and in relation to the periods, set out in Appendix 3.

**Part H: What process will the Authority follow in making a direction?**

- 3.2.20 Before making a direction under paragraph 3.2.8, 3.2.11, 3.2.15 or 3.2.17 the Authority will send to the licensee:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.2.21 A direction under paragraph 3.2.8, 3.2.11 or 3.2.15 will:
- (a) set out in full the Cyber Resilience OT PCD Table as amended; and
  - (b) replace the text in Appendix 2 with the title and publication date of the direction.
- 3.2.22 A direction under paragraph 3.2.17 will set out the value of the CROTRA<sub>t</sub> and CROTRO<sub>t</sub> term and the Regulatory Years to which those adjustments relate.

**Appendix 1**

**Title and publication date of document containing the Cyber Resilience OT Baseline Allowances Table**

| <b>Licensee</b>   | <b>Title</b>   | <b>Publication Date</b> |
|---|--|-------------------------|
| Cadent Gas Ltd  | RIIO-2 Final Determinations - Cadent Operational Technology Cyber Resilience (REVISED) | 3 February 2021         |
| Northern Gas Networks Ltd                               | RIIO-2 Final Determinations - NGN Operational Technology Cyber Resilience (REVISED)    | 3 February 2021         |
| Southern Gas Networks plc and Scotland Gas Networks plc | RIIO-2 Final Determinations - SGN Operational Technology Cyber Resilience (REVISED)    | 3 February 2021         |
| Wales & West Utilities Ltd                              | RIIO-2 Final Determinations - WWU Operational Technology Cyber Resilience (REVISED)    | 3 February 2021         |

## Appendix 2

### Title and publication date of document containing the Cyber Resilience OT PCD Table

| Licensee  | Title  | Publication Date |
|---|--|------------------|
| Cadent Gas Ltd  | RIIO-2 Final Determinations - Cadent Operational Technology Cyber Resilience (REVISED) | 3 February 2021  |
| Northern Gas Networks Ltd                               | RIIO-2 Final Determinations - NGN Operational Technology Cyber Resilience (REVISED)    | 3 February 2021  |
| Southern Gas Networks plc and Scotland Gas Networks plc | RIIO-2 Final Determinations - SGN Operational Technology Cyber Resilience (REVISED)    | 3 February 2021  |
| Wales & West Utilities Ltd                              | RIIO-2 Final Determinations - WWU Operational Technology Cyber Resilience (REVISED)    | 3 February 2021  |

## Appendix 3

### Report submission dates and the associated periods to be reported on

| Dates each year by which reports must be submitted from 31 January 2022 to 31 July 2026 | Associated periods to be reported on |
|---|--------------------------------------|
| 31 July   | 1 October to 31 March                |
| 31 January  | 1 April to 30 September              |

### Special Condition 3.3 Cyber resilience information technology Re-opener and Price Control Deliverable (CRIT<sub>t</sub> and CRITRE<sub>t</sub>)

#### Introduction

- 3.3.1 The purpose of this condition is to calculate the terms CRIT<sub>t</sub> (the Cyber resilience IT Price Control Deliverable term) and CRITRE<sub>t</sub> (the cyber resilience IT Re-opener term). These contribute to the calculation of the Totex Allowance.
- 3.3.2 The effect of this condition is to:
- (a) establish the Cyber Resilience IT PCD Table, which specifies the outputs, delivery dates and associated allowances for cyber resilience in relation to IT;
  - (b) require the licensee to take all reasonable steps to deliver in accordance with the Cyber Resilience IT PCD Table;



- (c) require the licensee to submit a Cyber Resilience IT Plan at the start of the Price Control Period;
  - (d) establish Re-openers for the licensee and Authority to trigger amendments to the Cyber Resilience IT PCD Table during the Price Control Period;
  - (e) require the licensee to report regularly to the Authority on cyber resilience IT; and
  - (f) provide for an assessment of the Price Control Deliverable.
- 3.3.3 This condition also sets out the process the Authority will follow when directing any changes under paragraph 3.3.8, 3.3.11, 3.3.15 or 3.3.17.

**Part A: Formulae for calculating the cyber resilience IT term ( $CRIT_t$ ) and the cyber resilience IT Re-opener term ( $CRITRE_t$ )**

- 3.3.4 The value of  $CRIT_t$  is derived in accordance with the following formula:

$$CRIT_t = CRITA_t - CRITRA_t$$

where:

$CRITA_t$  means the allowances in the Cyber Resilience IT Baseline Allowances Table; and

$CRITRA_t$  has the value zero unless otherwise directed by the Authority in accordance with Part F.

- 3.3.5 The value of  $CRITRE_t$  is derived in accordance with the following formula:

$$CRITRE_t = CRITO_t - CRITRO_t$$

where:

$CRITO_t$  means the sum of allowances directed by the Authority as a result of Re-openers established by Parts D and E; and

$CRITRO_t$  has the value zero unless otherwise directed by the Authority in accordance with Part F.

**Part B: Cyber resilience IT outputs**

- 3.3.6 The Cyber Resilience IT PCD Table specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.
- 3.3.7 The licensee must take all reasonable steps to deliver the outputs in accordance with, and by the delivery dates specified in, the Cyber Resilience IT PCD Table.

**Part C: Requirement to submit a Cyber Resilience IT Plan and Re-opener application**

- 3.3.8 The licensee must Between 1 April 2021 and 8 April 2021 submit to the Authority:

- (a) a Cyber Resilience IT Plan; and
  - (b) an application for a direction by the Authority requesting such amendments to the Cyber Resilience IT PCD Table as it considers are warranted by its Cyber Resilience IT Plan.
- 3.3.9 A Cyber Resilience IT Plan submitted under paragraph 3.3.8(a) must be in writing and give details of any proposed activities that the licensee considers would be capable of improving cyber resilience in relation to IT, including risk reduction on the licensee's network and information systems.
- 3.3.10 An application under paragraph 3.3.8(b) must be made in writing and:
  - (a) include statements:
    - i. setting out any amendments requested to the outputs, delivery dates or allowances in the Cyber Resilience IT PCD Table;
    - ii. explaining how any amendments requested would improve cyber resilience in relation to IT, including risk reduction on the licensee's network and information systems; and
    - iii. explaining the basis of the calculations for any amendments requested to allowances; and
  - (b) provide such detailed supporting evidence as is reasonable in the circumstances.

#### **Part D: Cyber resilience IT Re-opener**

- 3.3.11 The licensee may apply to the Authority for a direction amending the outputs, delivery dates or associated allowances in the Cyber Resilience IT PCD Table where it considers there are:
  - (a) new activities, including new technology, capable of improving cyber resilience in relation to IT, including risk reduction in respect to the licensee's network and information systems;
  - (b) 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
  - (c) changes to statutory or regulatory requirements relating to cyber resilience in relation to IT.
- 3.3.12 The licensee may only apply to the Authority under paragraph 3.3.11 Between 25 January 2023 and 31 January 2023, and during such other periods as the Authority may direct.
- 3.3.13 An application under paragraph 3.3.11 must be made in writing to the Authority and must:
  - (a) give details of the circumstances referred to in paragraph 3.3.11 that the licensee considers exist;
  - (b) set out any amendments requested to the outputs, delivery dates or allowances set out in the Cyber Resilience IT PCD Table;

- (c) explain how any amendments requested would improve cyber resilience in relation to IT, including risk reduction on the licensee's network and information systems;
  - (d) explain the basis of the calculations for any amendments requested to allowances; and
  - (e) include such detailed supporting evidence as is reasonable in the circumstances.
- 3.3.14 An application under paragraph 3.3.11 must:
- (a) relate to circumstances of the type referred to in paragraph 3.3.11 that have developed since the licensee submitted its Cyber Resilience IT Plan under paragraph 3.3.8;
  - (b) take account of any allowed expenditure which can be avoided as a result of the change; and
  - (c) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

**Part E: Authority triggered Re-opener**

- 3.3.15 The Authority will also consider directing amendments to the outputs, delivery dates or allowances set out in the Cyber Resilience IT PCD Table without an application being made under paragraph 3.3.11, where it considers that:
- (a) circumstances of the type referred to in paragraph 3.3.11 exist; or
  - (b) circumstances exist that create an unreasonable degree of risk in relation to cyber resilience.
- 3.3.16 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.

**Part F: Assessment of the Price Control Deliverable (CRITRA<sub>t</sub> and CRITRO<sub>t</sub>)**

- 3.3.17 The Authority will, in accordance with the PCD Reporting Requirements and Methodology Document, consider directing a value for CRITRA<sub>t</sub> and CRITRO<sub>t</sub> where the licensee has not Fully Delivered an output in the Cyber Resilience IT PCD Table.

**Part G: Reporting Requirements**

- 3.3.18 The licensee must send reports to the Authority, in a form approved by the Authority, that include:
- (a) a summary of progress against key milestones contained in the licensee's Improvement Plan;
  - (b) a summary of developments against the outputs in the Cyber Resilience IT PCD Table;

- (c) the licensee's assessment of the impact of the progress and developments referred to in paragraphs 3.3.18(a) and (b) on improving cyber resilience in relation to IT, including risk reduction;
  - (d) a description of how the licensee has considered any relevant guidance provided by the Authority; and
  - (e) such detailed supporting evidence as is reasonable in the circumstances.
- 3.3.19 Unless the Authority otherwise directs, the licensee must send reports under paragraph 3.3.18 by no later than the dates, and in relation to the periods, set out in Appendix 3.

#### **Part H: What process will the Authority follow in making a direction?**

- 3.3.20 Before making a direction under paragraph 3.3.8, 3.3.11, 3.3.15 or 3.3.17, the Authority will send to the licensee:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.3.21 A direction under paragraph 3.3.8, 3.3.11 or 3.3.15 will:
- (a) set out in full the Cyber Resilience IT PCD Table as amended; and
  - (b) replace the text in Appendix 2 with the title and publication date of the direction.
- 3.3.22 A direction under paragraph 3.3.17 will set out the value of the CRITRA<sub>t</sub> and CRITRO<sub>t</sub> term and the Regulatory Years to which those adjustments relate.

### **Appendix 1**

#### **Title and publication date of document containing the Cyber Resilience IT Baseline Allowances Table**

| <b>Licensee</b>  | <b>Title</b>   | <b>Publication Date</b> |
|--|--|-------------------------|
| Cadent Gas Ltd   | RIIO-2 Final Determinations -<br>Cadent Information Technology<br>Cyber Resilience (REVISED) | 3 February 2021         |
| Northern Gas Networks Ltd                                  | RIIO-2 Final Determinations -<br>NGN Information Technology<br>Cyber Resilience (REVISED)    | 3 February 2021         |
| Southern Gas Networks plc and<br>Scotland Gas Networks plc | RIIO-2 Final Determinations -<br>SGN Information Technology<br>Cyber Resilience (REVISED)    | 3 February 2021         |
| Wales & West Utilities Ltd                                 | RIIO-2 Final Determinations -<br>WWU Information Technology<br>Cyber Resilience (REVISED)    | 3 February 2021         |

## Appendix 2

### Title and publication date of document containing the Cyber Resilience IT PCD Table

| Licensee  | Title  | Publication Date |
|---|--|------------------|
| Cadent Gas Ltd  | RIIO-2 Final Determinations - Cadent Information Technology Cyber Resilience (REVISED) | 3 February 2021  |
| Northern Gas Networks Ltd                               | RIIO-2 Final Determinations - NGN Information Technology Cyber Resilience (REVISED)    | 3 February 2021  |
| Southern Gas Networks plc and Scotland Gas Networks plc | RIIO-2 Final Determinations - SGN Information Technology Cyber Resilience (REVISED)    | 3 February 2021  |
| Wales & West Utilities Ltd                              | RIIO-2 Final Determinations - WWU Information Technology Cyber Resilience (REVISED)    | 3 February 2021  |

## Appendix 3

### Report submission dates and the associated periods to be reported on

| Dates each year by which reports must be submitted from 31 January 2022 to 31 July 2026 | Associated periods to be reported on |
|---|--------------------------------------|
| 31 July   | 1 October to 31 March                |
| 31 January  | 1 April to 30 September              |

## Special Condition 3.4 Physical security Re-opener and Price Control Deliverable (PSUP<sub>t</sub> and PSUPRE<sub>t</sub>)

### Introduction

- 3.4.1 The purpose of this condition is to calculate the terms PSUP<sub>t</sub> (the physical security Price Control Deliverable term) and PSUPRE<sub>t</sub> (the physical security Re-opener term). These contribute to the calculation of the Totex Allowance.
- 3.4.2 The effect of this condition is to:
- (a) specify the outputs, delivery dates and associated allowances for the Price Control Deliverable;
  - (b) establish a Re-opener for the licensee and Authority to trigger amendments to the Price Control Deliverable during the Price Control Period; and
  - (c) provide for an assessment of the Price Control Deliverable.
- 3.4.3 This condition also sets out the process the Authority will follow when directing any changes under paragraph 3.4.7, 3.4.11 or 3.12.

**Part A: Formulae for calculating the physical security Price Control Deliverable term (PSUP<sub>t</sub>) and the physical security Re-opener term (PSUPRE<sub>t</sub>)**

3.4.4 The value of PSUP<sub>t</sub> is derived in accordance with the following formula:

$$PSUP_t = PSUPA_t - PSUPRA_t$$

where:

*PSUPA<sub>t</sub>* means the baseline allowances in Appendix 1 that relate to the licensee; and

*PSUPRA<sub>t</sub>* has the value zero unless otherwise directed by the Authority in accordance with Part E.

3.4.5 The value of PSUPRE<sub>t</sub> is derived in accordance with the following formula:

$$PSUPRE_t = PSUPO_t - PSUPRO_t$$

where:

*PSUPO<sub>t</sub>* means the sum of allowances directed by the Authority as a result of Re-openers established by Parts C and D; and

*PSUPRO<sub>t</sub>* has the value zero unless otherwise directed by the Authority in accordance with Part E.

**Part B: What is the licensee funded to deliver?**

3.4.6 Appendix 2 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

**Part C: Physical Security Re-opener**

3.4.7 The licensee may apply to the Authority for a direction amending the outputs, delivery dates or associated allowances in Appendix 2 where the scope of work the licensee is required to carry out under the Physical Security Upgrade Programme has changed.

3.4.8 The licensee may only apply to the Authority under paragraph 3.4.7 Between 25 January and 31 January in year 2024, or during such later periods as the Authority may direct.

3.4.9 An application under paragraph 3.4.7 must be made in writing to the Authority and include statements:

- (a) setting out the changes to the scope of work the licensee is required to carry out under the Physical Security Upgrade Programme to which the application relates;
- (b) setting out the Critical National Infrastructure classification for each site to which the application relates;
- (c) setting out any amendments to the outputs, delivery dates or allowances set out in Appendix 2;

- (d) explaining the basis of the calculations for any amendments requested to allowances; and
  - (e) providing such detailed supporting evidence as is reasonable in the circumstances.
- 3.4.10 An application under paragraph 3.4.7 must:
- (a) relate to changes to the scope of work the licensee is required to carry out under the Physical Security Upgrade Programme on or after 9 December 2019;
  - (b) take account of any allowed expenditure, which can be avoided as a result of the change; and
  - (c) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

**Part D: Authority triggered Re-opener**

- 3.4.11 The Authority will also consider directing amendments to the outputs, delivery dates or allowances set out in Appendix 2 under paragraph 3.4.7 where there have changes to the scope of work the licensee is required to carry out under the Physical Security Upgrade Programme that:
- (a) have been mandated on or after 9 December 2019, and
  - (b) relate to costs incurred or expected to be incurred on or after 1 April 2021.

**Part E: Assessment of the Physical Security Price Control Deliverable (PSUPRA<sub>t</sub> and PSUPRO<sub>t</sub>)**

- 3.4.12 The Authority will, in accordance with the PCD Reporting Requirements and Methodology Document, consider directing a value for PSUPRA<sub>t</sub> and PSUPRO<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 2.

**Part F: Process the Authority will follow in making a direction**

- 3.4.13 Before making a direction under paragraph 3.4.7, 3.4.11 or 3.4.12,, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.4.14 A direction under paragraph 3.4.7 or 3.4.11 will set out any amendments to Appendix 2.
- 3.4.15 A direction under paragraph 3.4.12 will set out the value of the PSUPRA<sub>t</sub> and PSUPRO<sub>t</sub> terms and the Regulatory Years to which those adjustments relate.

## Appendix 1

### Physical security baseline allowances (PSUPA<sub>t</sub>) by Regulatory Year (£m)

| GDN                        | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total allowance<br>(all years) |
|----------------------------|-------|-------|-------|-------|-------|--------------------------------|
| EoE                        | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                            |
| Lon                        | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                            |
| NW                         | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                            |
| WM                         | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                            |
| Northern Gas Networks Ltd  | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                            |
| Scotland Gas Networks plc  | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                            |
| Southern Gas Networks plc  | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                            |
| Wales & West Utilities Ltd | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                            |

## Appendix 2

### Physical security Price Control Deliverable allowances by Regulatory Year (£m)

| Site | Output | Delivery<br>Date | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total |
|------|--------|------------------|-------|-------|-------|-------|-------|-------|
| N/A  | N/A    | N/A              | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |

## Special Condition 3.5 Net Zero And Re-opener Development Fund use it or lose it allowance (RDF<sub>t</sub>)

### Introduction

- 3.5.1 The purpose of this condition is to calculate the term RDF<sub>t</sub> (the Net Zero And Re-opener Development Fund term). This contributes to the calculation of the Totex Allowance.
- 3.5.2 The effect of this condition is to:
- (a) specify the allowance for the Net Zero And Re-opener Development Fund;
  - (b) require the licensee to comply with the Net Zero And Re-opener Development Fund Governance Document; and
  - (c) provide for a Use It Or Lose It Adjustment.
- 3.5.3 This condition also explains the process the Authority will follow when issuing or amending the Net Zero And Re-opener Development Fund Governance Document.



**Part A: Formula for calculating the Net Zero And Re-opener Development Fund term ( $RDF_t$ )**

3.5.4 The value of  $RDF_t$  is derived in accordance with the following formula:

$$RDF_t = RDFA_t - RDFR_t$$

where:

- $RDFA_t$  means the allowances in Appendix 1 that relate to the licensee; and
- $RDFR_t$  has the value zero unless otherwise directed by the Authority in accordance with Part D.

**Part B: Net Zero And Re-opener Development Fund Governance Document**

- 3.5.5 The licensee must comply with the Net Zero And Re-opener Development Fund Governance Document when incurring expenditure in relation to the allowance provided by this licence condition.
- 3.5.6 The Authority will issue and amend the Net Zero And Re-opener Development Fund Governance Document by direction.
- 3.5.7 The Authority will publish the Net Zero And Re-opener Development Fund Governance Document on the Authority's Website.
- 3.5.8 The Net Zero And Re-opener Development Fund Governance Document will make provision about the governance and administration of the Net Zero And Re-opener Development Fund, including:
- (a) the definition of "allowable RDF expenditure" and "unrecoverable RDF expenditure";
  - (b) the eligibility criteria, which expenditure incurred in relation to the allowance provided by this licence condition must meet; and
  - (c) the reporting obligations in respect of which expenditure incurred in relation to Net Zero And Re-opener Development Fund which the licensees must meet.
- 3.5.9 Before directing that the Net Zero And Re-opener Development Fund Governance Document comes into effect, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Net Zero And Re-opener Development Fund Governance Document;
  - (b) the date on which the Authority intends the Net Zero And Re-opener Development Fund Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Net Zero And Re-opener Development Fund Governance Document, which will not be less than 28 days.

- 3.5.10 Before directing an amendment to the Net Zero And Re-opener Development Fund Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended Net Zero And Re-opener Development Fund Governance Document;
  - (b) the date on which the Authority intends the amended Net Zero And Re-opener Development Fund Governance Document to come into effect;
  - (c) the reasons for the amendments to the Net Zero And Re-opener Development Fund Governance Document; and
  - (d) a period during which representations may be made on the amendments to the Net Zero And Re-opener Development Fund Governance Document, which will not be less than 28 days.

### **Part C: Use It Or Lose It Adjustment**

- 3.5.11 The Authority will direct an amendment to the value of  $RDFR_t$  where it considers that a Use It Or Lose It Adjustment is appropriate.

### **Part D: Authority's direction process**

- 3.5.12 Before making a direction under paragraph 3.5.11, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.5.13 The direction will set out the value of the  $RDFR_t$  term and the Regulatory Years to which that adjustment relates.

## **Appendix 1**

### **Net Zero And Re-opener Development Fund allowance ( $RDFA_t$ ) by Regulatory Year (£m)**

| Network                   | Allowance |         |         |         |         |       |
|---------------------------|-----------|---------|---------|---------|---------|-------|
|                           | 2021/22   | 2022/23 | 2023/24 | 2024/25 | 2025/26 | Total |
| EoE                       | 1.46      | 1.46    | 1.46    | 1.46    | 1.46    | 7.31  |
| Lon                       | 0.82      | 0.82    | 0.82    | 0.82    | 0.82    | 4.09  |
| NW                        | 0.98      | 0.98    | 0.98    | 0.98    | 0.98    | 4.87  |
| WM                        | 0.71      | 0.71    | 0.71    | 0.71    | 0.71    | 3.56  |
| Northern Gas Networks Ltd | 0.92      | 0.92    | 0.92    | 0.92    | 0.92    | 4.59  |
| Scotland Gas Networks plc | 0.67      | 0.67    | 0.67    | 0.67    | 0.67    | 3.35  |

|                            |      |      |      |      |      |      |
|----------------------------|------|------|------|------|------|------|
| Southern Gas Networks plc  | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 7.49 |
| Wales & West Utilities Ltd | 0.95 | 0.95 | 0.95 | 0.95 | 0.95 | 4.75 |

## Special Condition 3.6 Net zero Re-opener (NZ<sub>t</sub>)

### Introduction

- 3.6.1 The purpose of this condition is to calculate the term NZ<sub>t</sub> (the net zero Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.6.2 The effect of this condition is to establish a Re-opener for the Authority to trigger amendments to the value of NZ<sub>t</sub> and the outputs, delivery dates and allowances established by the special conditions of this licence.
- 3.6.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### Part A: Formula for calculating the net zero Re-opener term

- 3.6.4 The value of NZ<sub>t</sub> is derived in accordance with the following formula:

$$NZ_t = NZO_t - NZRO_t$$

where:

NZO<sub>t</sub> means the sum of allowances directed by the Authority as a result of this Re-opener; and

NZRO<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part C.

### Part B: What is the scope of this Re-opener?

- 3.6.5 The Authority will consider directing an adjustment to the value of the NZO<sub>t</sub> term and the outputs, delivery dates and allowances established by the special conditions of this licence, where in its opinion:
- (a) a Net Zero Development has occurred or is expected to occur;
  - (b) 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;
  - (c) the effect of the Net Zero Development on the cost of Licensed Activity is not otherwise provided for in this licence;
  - (d) the effect of the Net Zero Development has not already been assessed under another Re-opener; and
  - (e) the effect, or estimated effect, of the Net Zero Development on the cost of Licensed Activity exceeds the Materiality Threshold.

## **Part C: Adjustments to Re-opener allowances**

- 3.6.6 Where a direction under Part B adjusts allowances in relation to a special condition in the first column of the table in Appendix 1, then the direction making power in the second column of the table in Appendix 1 extends to adjusting the value of NZRO<sub>t</sub> term.
- 3.6.7 Before making a direction under paragraph 3.6.6 the Authority will follow the same procedure as specified for the direction making power in the second column of the table in Appendix 1.

## **Part D: What process will the Authority follow in making a direction?**

- 3.6.8 Before making a direction under paragraph 3.6.5 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.6.9 The direction will set out:
- (a) any adjustments to the PCFM Variable Vales and the Regulatory Years to which those adjustments relate; and
  - (b) any amendments to the outputs and delivery dates established by the special conditions of this licence.

### **Appendix 1**

#### **Adjustments to Re-opener allowances**

| <b>Special condition</b>  | <b>Direction making power</b> |
|---|-------------------------------|
| 3.2 Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it adjustment | Part F of that condition      |
| 3.3 Cyber resilience information technology Re-opener and Price Control Deliverable                               | Part F of that condition      |
| 3.4 Physical security Re-opener and Price Control Deliverable   | Part E of that condition      |

## **Special Condition 3.7 Non-operational IT Capex Re-opener (NOIT<sub>t</sub>)**

### **Introduction**

- 3.7.1 The purpose of this condition is to calculate the term NOIT<sub>t</sub> (the Non-operational IT Capex Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.7.2 The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority for Non-operational IT Capex.
- 3.7.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.7.4 The licensee may apply to the Authority for a direction adjusting the value of the NOIT<sub>t</sub> term for any Regulatory Year during the Price Control Period as a result of:
  - (a) the licensee identifying further evidence in support of Non-operational IT Capex projects that were included in its Business Plan, but in relation to which no allowance has been provided to date;
  - (b) the licensee identifying activities capable of improving its Non-operational IT Capex; or
  - (c) any changes to statutory or regulatory requirements relating to Non-operational IT Capex.

### **Part B: When to make an application**

- 3.7.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.7.4:
  - (a) Between 1 April 2021 and 8 April 2021;
  - (b) Between 25 January 2023 and 31 January 2023; and
  - (c) during such other periods as the Authority may direct.

### **Part C: How to make an application**

- 3.7.6 An application under paragraph 3.7.4 must be made to the Authority in writing and:
  - (a) give details of the circumstances referred to in paragraph 3.7.4 that the licensee considers exist;
  - (b) explain how the adjustment requested would improve its Non-operational IT Capex;
  - (c) explain the basis of the calculations for the adjustment requested to allowances;
  - (d) give details of anticipated business benefits derived from any risk reduction as a result of the proposed activities; and

- (e) provide such detailed supporting evidence, as is reasonable in the circumstances, which must include:
    - i. delivery plans;
    - ii. a prioritisation programme;
    - iii. market and industry cost comparison; and
    - iv. anticipated business benefits derived as a result of the proposed activities.
- 3.7.7 An application under paragraph 3.7.4 must:
- (a) take account of any allowed expenditure, which can be avoided as a result of the adjustment; and
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

#### **Part D: Authority triggered re-opener**

- 3.7.8 The Authority will also consider directing an adjustment to the value of the  $NOIT_t$  term without an application being made under paragraph 3.7.4 where it considers that:
- (a) circumstances of the type referred to in paragraph 3.7.4 exist; and
  - (b) costs were incurred or will be incurred on or after 1 April 2021.

#### **Part E: What process will the Authority follow in making a direction?**

- 3.7.9 Before making a direction under paragraph 3.7.4 or 3.7.8, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.7.10 A direction under paragraph 3.7.4 or 3.7.8 will set out any amendments to the  $NOIT_t$  term and the Regulatory Years to which that relates.

### **Special Condition 3.8 Coordinated adjustment mechanism Re-opener ( $CAM_t$ )**

#### **Introduction**

- 3.8.1 The purpose of this condition is to calculate the term  $CAM_t$  (the coordinated adjustment mechanism term). This contributes to the calculation of the Totex Allowance.
- 3.8.2 The effect of this condition is to establish a Re-opener triggered by the licensee where an opportunity that delivers greater overall consumer value has been

identified to reallocate responsibility for, and revenue associated with, a CAM Activity to or from a Partner Licensee.

- 3.8.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

#### **Part A: What is the scope of this Re-opener?**

- 3.8.4 The licensee may apply to the Authority for a direction adjusting the value of the CAM<sub>t</sub> term and the outputs, delivery dates and allowances within the special conditions relating to the CAM Activity 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.

#### **Part B: When to make an application**

- 3.8.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.8.4 Between 23 May and 29 May in each of the years 2021, 2022, 2023, 2024, 2025, and during such other periods as the Authority may direct.

#### **Part C: How to make an application**

- 3.8.6 An application under paragraph 3.8.4 must be made in writing to the Authority and:
- (a) give a description of the engagement between the licensee and the Partner Licensee which has led to the application;
  - (b) explain whether the licensee is applying to have the CAM Activity reallocated to the licensee from the Partner Licensee, or from the licensee to the Partner Licensee;
  - (c) explain why the original allocation of the CAM Activity no longer delivers greater overall consumer value, and why the reallocation does deliver greater overall consumer value;
  - (d) give a description of the CAM Activity and associated revenue that the licensee is applying to reallocate;
  - (e) set out any amendments requested to the outputs, delivery dates or established by the special conditions of this licence and that of the Partner Licensee relating to the CAM Activity;
  - (f) set out the adjustments to the value of the CAM<sub>t</sub> term for both the licensee and the Partner Licensee that the licensee is requesting and the Regulatory Years to which those adjustments relate;
  - (g) explain the basis of the calculation for the proposed adjustments to the value of the licensee and the Partner Licensee's CAM<sub>t</sub> terms or other allowances of the licensee and the Partner Licensee;
  - (h) provide such detailed supporting evidence including cost benefit analysis, impact assessments, risk mitigation, and engineering justification statements as is reasonable in the circumstances; and

- (i) provide a copy of the agreement between the licensee and the Partner Licensee to transfer responsibility for and associated revenue of the CAM Activity.
- 3.8.7 An application under paragraph 3.8.4 must:
- (a) 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
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

**Part D: What process will the Authority follow in making a direction?**

- 3.8.8 Before making a direction under paragraph 3.8.4 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.8.9 The direction will set out:
- (a) any adjustments to the PCFM Variable Values of this licence and that of the Partner Licensee;
  - (b) the Regulatory Years to which those adjustments relate; and
  - (c) any amendments to the outputs and delivery dates established by the special conditions of this licence and that of the Partner Licensee.

**Special Condition 3.9 Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZP<sub>t</sub>)**

**Introduction**

- 3.9.1 The purpose of this condition is to calculate the term NZP<sub>t</sub> (the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.9.2 The effect of this condition is to:
- (a) establish a Re-opener for the Authority to trigger amendments to the value of NZP<sub>t</sub>; and
  - (b) require the licensee to comply with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document.
- 3.9.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.



## **Part A: What is the scope of this Re-opener?**

- 3.9.4 The Authority will consider directing an adjustment to the value of the NZP<sub>t</sub> term where in its view:
- (a) there is Net Zero Pre-construction Work or Small Net Zero Projects needed that will enable the achievement of Net Zero Carbon Targets;
  - (b) the Net Zero Pre-construction Work or Small Net Zero Project has caused or is expected to cause the cost of the licensee's Licensed Activity to increase during the Price Control Period;
  - (c) the effect, or estimated effect, of the Net Zero Pre-construction Work or Small Net Zero Project on the cost of Licensed Activity exceeds the materiality threshold of £1m.

## **Part B: Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document**

- 3.9.5 The licensee must comply with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document in relation to any Net Zero Pre-construction Work and Small Net Zero Projects funded by this Re-opener.
- 3.9.6 The Authority will issue and amend the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction.
- 3.9.7 The Authority will publish the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document on the Authority's Website.
- 3.9.8 Before issuing the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document;
  - (b) the date on which the Authority intends the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document, which will not be less than 28 days.
- 3.9.9 Before amending the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document;
  - (b) the date on which the Authority intends the amended Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document to come into effect;

- (c) the reasons for the amendments to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document; and
- (d) a period during which representations may be made on the amendments to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document, which will not be less than 28 days.

**Part C: What process will the Authority follow in making a direction?**

3.9.10 Before making a direction under paragraph 3.9.4 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction.

3.9.11 The direction will set out:

- (a) any adjustment to the value of the NZP<sub>t</sub> term and the Regulatory Years to which that adjustment relates; and
- (b) where appropriate, any adjustment that is also being made to the value of the NZPD<sub>t</sub> term in accordance with Special Condition 6.1 (Transportation owner pass-through items) of the NTS Operator's licence and the Regulatory Years to which that adjustment relates.

**Special Condition 3.10 Tier 1 Mains decommissioned Price Control Deliverable (T1MD<sub>t</sub>)**

**Introduction**

3.10.1 The purpose of this condition is to calculate the term T1MD<sub>t</sub> (the Tier 1 Mains decommissioned Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.

3.10.2 This condition specifies the outputs, allowances and delivery dates for the Price Control Deliverable, as well as the adjustment to allowances to reflect the workload delivered.

**Part A: Formula for calculating the Tier 1 Mains decommissioned Price Control Deliverable term (T1MD<sub>t</sub>)**

3.10.3 After the Price Control Period the value of T1MD<sub>t</sub> will be derived in accordance with the following formula:

$$T1MD_t = T1MRA_t + \min \left[ \sum_i C_i (DV_i - BV_i) \cdot 10^{-6}, T1MRA \cdot 0.03 \right] \cdot \frac{T1MRA_t}{T1MRA}$$

where:

*i* denotes each Tier 1 Mains Decommissioned Workload Activity;

|           |  |
|-----------|--|
| $DV_i$    | means the Outturn Workload Of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity;                                   |
| $BV_i$    | means the Baseline Activity Volume Of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity, as set out in Appendix 2; |
| $C_i$     | means the Allowed Unit Cost Of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity as set out in Appendix 2;         |
| $T1MRA_t$ | means the Tier 1 Mains Baseline Value for the Regulatory Year as set out in Appendix 3; and  |
| $T1MRA$   | means the total Tier 1 Mains Baseline Value across all years of the Price Control Period, as set out in Appendix 3.  |

## **Part B: What is the licensee funded to deliver?**

- 3.10.4 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.

## **Part C: Reporting requirements**

- 3.10.5 If the total Outturn Workload Value Of Tier 1 Mains Decommissioned across all Tier 1 Mains Decommissioned Workload Activities for the Distribution Network is more than 2% below T1MRA 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.

## **Appendix 1**

### **Baseline Target Workloads of Tier 1 Mains Decommissioned**

| <b>GDN</b>                 | <b>Volume (km)</b> |
|----------------------------|--------------------|
| EoE                        | 2,773.9            |
| Lon                        | 1,531.4            |
| NW                         | 1,918.3            |
| WM                         | 1,468.5            |
| Northern Gas Networks Ltd  | 2,144.3            |
| Scotland Gas Networks plc  | 1,020.6            |
| Southern Gas Networks plc  | 3,001.3            |
| Wales & West Utilities Ltd | 1,568.0            |

## Appendix 2

### Baseline Activity Volumes of Tier 1 Mains Decommissioned and Allowed Unit Costs of Tier 1 Mains Decommissioned

| Licensee | Diameter band of decommissioned pipe | Baseline Activity Volumes of Tier 1 Mains Decommissioned (km) | Allowed Unit Cost (£/km) |
|----------|--------------------------------------|---|--------------------------|
| EoE      | ≤3"                                  | 32.3  | 83,074                   |
| EoE      | 4"-5"                                | 1,476.5   | 91,960                   |
| EoE      | 6"-7"                                | 851.4   | 133,911                  |
| EoE      | 8"                                   | 413.8   | 200,529                  |

| Licensee | Diameter band of decommissioned pipe | Baseline Activity Volumes of Tier 1 Mains Decommissioned (km) | Allowed Unit Cost (£/km) |
|----------|--------------------------------------|---|--------------------------|
| Lon      | ≤3"                                  | 1.2   | 89,916                   |
| Lon      | 4"-5"                                | 755.9   | 99,534                   |
| Lon      | 6"-7"                                | 496.0   | 144,939                  |
| Lon      | 8"                                   | 278.2   | 217,045                  |

| Licensee | Diameter band of decommissioned pipe | Baseline Activity Volumes of Tier 1 Mains Decommissioned (km) | Allowed Unit Cost (£/km) |
|----------|--------------------------------------|---|--------------------------|
| NW       | ≤3"                                  | 99.6  | 97,874                   |
| NW       | 4"-5"                                | 921.6   | 108,343                  |
| NW       | 6"-7"                                | 622.5   | 157,768                  |
| NW       | 8"                                   | 274.7   | 236,255                  |

| Licensee | Diameter band of decommissioned pipe | Baseline Activity Volumes of Tier 1 Mains Decommissioned (km) | Allowed Unit Cost (£/km) |
|----------|--------------------------------------|---|--------------------------|
| WM       | ≤3"                                  | 24.2  | 98,152                   |
| WM       | 4"-5"                                | 667.8   | 108,652                  |
| WM       | 6"-7"                                | 455.3   | 158,216                  |
| WM       | 8"                                   | 321.2   | 236,927                  |

| <b>Licensee</b>           | <b>Diameter band of decommissioned pipe</b> | <b>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</b> | <b>Allowed Unit Cost (£/km)</b> |
|---------------------------|---|--|---------------------------------|
| Northern Gas Networks Ltd | ≤3"   | 81.6   | 71,336                          |
| Northern Gas Networks Ltd | 4"-5"                                       | 1,122.0  | 78,966                          |
| Northern Gas Networks Ltd | 6"-7"                                       | 615.3  | 114,989                         |
| Northern Gas Networks Ltd | 8"  | 325.5  | 172,195                         |

| <b>Licensee</b>           | <b>Diameter band of decommissioned pipe</b> | <b>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</b> | <b>Allowed Unit Cost (£/km)</b> |
|---------------------------|---|--|---------------------------------|
| Scotland Gas Networks plc | ≤3"   | 61.4   | 102,299                         |
| Scotland Gas Networks plc | 4"-5"                                       | 512.4  | 113,242                         |
| Scotland Gas Networks plc | 6"-7"                                       | 343.5  | 164,900                         |
| Scotland Gas Networks plc | 8"  | 103.4  | 246,936                         |

| <b>Licensee</b>           | <b>Diameter band of decommissioned pipe</b> | <b>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</b> | <b>Allowed Unit Cost (£/km)</b> |
|---------------------------|---|--|---------------------------------|
| Southern Gas Networks plc | ≤3"   | 75.3   | 99,335                          |
| Southern Gas Networks plc | 4"-5"                                       | 1,821.5  | 109,961                         |
| Southern Gas Networks plc | 6"-7"                                       | 794.0  | 160,123                         |
| Southern Gas Networks plc | 8"  | 310.4  | 239,781                         |

| <b>Licensee</b>            | <b>Diameter band of decommissioned pipe</b> | <b>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</b> | <b>Allowed Unit Cost (£/km)</b> |
|----------------------------|---|--|---------------------------------|
| Wales & West Utilities Ltd | ≤3"   | 19.0   | 87,051                          |

|                                     |       |         |
|-------------------------------------|-------|---------|
| Wales & West 4"-5"<br>Utilities Ltd | 797.8 | 96,363  |
| Wales & West 6"-7"<br>Utilities Ltd | 494.3 | 140,322 |
| Wales & West 8"<br>Utilities Ltd    | 256.9 | 210,131 |

### Appendix 3

#### Tier 1 Mains Baseline Values by Regulatory Year (T1MRA<sub>t</sub>, £m)

| GDN                        | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total Value (all years) |
|----------------------------|-------|-------|-------|-------|-------|-------------------------|
| EoE                        | 68.6  | 68.4  | 66.9  | 66.2  | 65.3  | 335.4                   |
| Lon                        | 43.1  | 40.7  | 41.3  | 40.3  | 42.1  | 207.6                   |
| NW                         | 57.2  | 55.3  | 54.0  | 53.2  | 53.1  | 272.7                   |
| WM                         | 46.4  | 45.2  | 44.3  | 43.8  | 43.4  | 223.1                   |
| Northern Gas Networks Ltd  | 43.9  | 43.4  | 45.2  | 44.6  | 44.1  | 221.2                   |
| Scotland Gas Networks plc  | 30.2  | 30.2  | 30.0  | 29.7  | 30.0  | 150.0                   |
| Southern Gas Networks plc  | 79.8  | 84.6  | 84.0  | 83.4  | 83.1  | 414.8                   |
| Wales & West Utilities Ltd | 41.5  | 40.9  | 40.8  | 38.7  | 40.0  | 201.9                   |

### Special Condition 3.11 Tier 1 Services Repex Price Control Deliverable (T1SR<sub>t</sub>)

#### Introduction

- 3.11.1 The purpose of this condition is to calculate the term T1SR<sub>t</sub> (the Tier 1 Services Repex Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.11.2 This condition specifies the outputs, allowances and delivery dates for the Price Control Deliverable, as well as the adjustment to allowances to reflect the workload delivered.

#### Part A: Formula for calculating the Tier 1 Services Repex Price Control Deliverable term

- 3.11.3 After the Price Control Period the value of T1SR<sub>t</sub> will be derived in accordance with the following formula:

$$T1SR_t = T1SRA_t + \sum_i (((DV_i \cdot FVM) - BV_i) \cdot C_i \cdot 10^{-6}) \cdot \frac{T1SRA_t}{T1SRA}$$

where:

- i* denotes each Tier 1 Services Repex Workload Activity;
- DV<sub>i</sub>* 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 3.11.4;
- BV<sub>i</sub>* means the Baseline Activity Volume Of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity, as set out in Appendix 2;
- C<sub>i</sub>* means the Allowed Unit Cost Of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity as set out in Appendix 2;
- T1SRA* means the total Tier 1 Services Baseline Value across all years of the Price Control Period, as set out in Appendix 3; and
- T1SRA<sub>t</sub>* means the Tier 1 Services Baseline Value, as set out in Appendix 3.

3.11.4 The value of FVM is derived in accordance with the following formula:

$$FVM = \min \left( \left( \frac{\sum_i BV_i}{\sum_i DV_i} \times 1.1 \right), 1 \right)$$

where:

- i* denotes each Tier 1 Services Repex Workload Activity;
- DV<sub>i</sub>* means the Outturn Workload Of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity; and
- BV<sub>i</sub>* means the Baseline Activity Volume Of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity, as set out in Appendix 1.

## **Part B: What is the licensee funded to deliver?**

3.11.5 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.

## **Part C: Reporting requirements**

3.11.6 If the total Outturn Workload Of Tier 1 Services Repex across all Tier 1 Services Repex Workload Activities for the Distribution Network is more than 10% less than the Baseline Target Workload Of Tier 1 Services Repex, 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.

## Appendix 1

### Baseline Target Workloads of Tier 1 Services

| <b>GDN</b>                 | <b>Volume (no. interventions)</b> |
|----------------------------|-----------------------------------|
| EoE                        | 241,930                           |
| Lon                        | 185,295                           |
| NW                         | 195,011                           |
| WM                         | 157,646                           |
| Northern Gas Networks Ltd  | 147,469                           |
| Scotland Gas Networks plc  | 80,430                            |
| Southern Gas Networks plc  | 269,929                           |
| Wales & West Utilities Ltd | 118,603                           |

## Appendix 2

### Baseline Activity Volumes of Tier 1 Services and Allowed Unit Costs

| <b>Licensee</b>            | <b>Type of service intervention</b> | <b>Baseline Activity Volume of Tier 1 Services (no. interventions)</b> | <b>Allowed Unit Cost (£/intervention)</b> |
|----------------------------|-------------------------------------|--|---|
| EoE                        | Relay                               | 115,293  | 780                                       |
| EoE                        | Test & Transfer                     | 126,636  | 492                                       |
| Lon                        | Relay                               | 138,138  | 733                                       |
| Lon                        | Test & Transfer                     | 47,158   | 462                                       |
| NW                         | Relay                               | 128,774  | 519                                       |
| NW                         | Test & Transfer                     | 66,237   | 327                                       |
| WM                         | Relay                               | 103,826  | 531                                       |
| WM                         | Test & Transfer                     | 53,820   | 335                                       |
| Northern Gas Networks Ltd  | Relay                               | 88,481   | 319                                       |
| Northern Gas Networks Ltd  | Test & Transfer                     | 58,988   | 201                                       |
| Scotland Gas Networks plc  | Relay                               | 31,130   | 840                                       |
| Scotland Gas Networks plc  | Test & Transfer                     | 49,300   | 529                                       |
| Southern Gas Networks plc  | Relay                               | 179,836  | 742                                       |
| Southern Gas Networks plc  | Test & Transfer                     | 90,093   | 467                                       |
| Wales & West Utilities Ltd | Relay                               | 59,302   | 519                                       |
| Wales & West Utilities Ltd | Test & Transfer                     | 59,302   | 327                                       |



## Appendix 3

### Tier 1 Services Baseline Values by Regulatory Year (T1SRA<sub>t</sub>, £m)

| GDN                        | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total Value (all years) |
|----------------------------|-------|-------|-------|-------|-------|-------------------------|
| EoE                        | 31.0  | 31.0  | 30.4  | 30.1  | 29.7  | 152.2                   |
| Lon                        | 25.6  | 24.2  | 24.5  | 23.9  | 24.9  | 123.1                   |
| NW                         | 18.6  | 18.0  | 17.5  | 17.2  | 17.2  | 88.4                    |
| WM                         | 15.2  | 14.8  | 14.5  | 14.3  | 14.2  | 73.1                    |
| Northern Gas Networks Ltd  | 7.9   | 7.8   | 8.2   | 8.1   | 8.0   | 40.0                    |
| Scotland Gas Networks plc  | 10.5  | 10.5  | 10.4  | 10.4  | 10.4  | 52.3                    |
| Southern Gas Networks plc  | 33.9  | 35.8  | 35.5  | 35.1  | 35.1  | 175.5                   |
| Wales & West Utilities Ltd | 11.2  | 10.0  | 9.3   | 9.9   | 9.7   | 50.2                    |

## Special Condition 3.12 Capital projects Price Control Deliverables (CAP<sub>t</sub>)

### Introduction

- 3.12.1 The purpose of this condition is to calculate the term CAP<sub>t</sub> (the capital projects Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.12.2 The effect of this condition is to:
- (a) specify the outputs, delivery dates and associated allowances for the Price Control Deliverables; and
  - (b) provide for an assessment of the Price Control Deliverable at the end of the Price Control Period.
- 3.12.3 This condition also explains the process the Authority will follow when assessing the Price Control Deliverable.

### Part A: Formula for calculating the capital projects Price Control Deliverable term (CAP<sub>t</sub>)

- 3.12.4 The value of CAP<sub>t</sub> is derived in accordance with the following formula:

$$CAP_t = CAPA_t - CAPR_t$$

where:

- CAPA<sub>t</sub> means the allowances in Appendix 1 that relate to the licensee; and
- CAPR<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part C.

**Part B: What is the licensee funded to deliver?**

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

**Part C: Assessment of the Price Control Deliverable (CAPR<sub>t</sub>)**

3.12.6 The Authority will, in accordance with the PCD Reporting Requirements and Methodology Document, consider directing a value for CAPR<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 1.

**Part D: What process will the Authority follow in making a direction?**

3.12.7 Before making a direction under paragraph 3.12.6 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

3.12.8 The direction will set out any adjustments due to the value of the CAPR<sub>t</sub> term and the Regulatory Years to which that adjustment relates.

**Appendix 1****Capital projects Price Control Deliverable – Cadent Gas Limited**

| <b>GDN</b>          | <b>Field</b>    | <b>Description</b>   |
|---------------------|-----------------|--|
| EoE, NW and WM      | Project name    | Capacity upgrades > 7bar   |
|                     | Delivery date   | 31 March 2026  |
|                     | Total allowance | £29.79m  |
|                     | Outputs         | Upsize the following 13 sites to meet peak 1-in-20 year demand:<br>EoE: March, Maltby, Eye Green Offtake, West Winch Offtake, Teversham, Westfield.<br>NW: Ashton Under Lyne, Thornton, Barrowford, Longridge Road, Hambleton PRI.<br>WM: Dawley, Kinver.                                  |
| EoE, Lon, NW and WM | Project name    | Offtakes & PRS Metering  |
|                     | Delivery date   | 31 March 2026  |
|                     | Total allowance | £17.11m  |
|                     | Outputs         | Replace the flow weighted average calorific value metering systems at the following offtake sites: EoE: Great Wilbraham, Matching Green, Sutton Bridge, Royston, Walesby, Bacton, Kirkstead, Brisley.<br>Lon: Horndon, Dunstall Green Inter-LDZ.<br>NW: Warburton, Partington, Ecclestone. |

|     |                 |   |
|-----|-----------------|---|
| EoE | Project name    | WM: Alrewas (A), Leamington, Hydes Pastures Inter-LDZ, Atherstone Inter-LDZ, Rugby.                               |
|     | Delivery date   | Lowestoft   |
|     | Total allowance | 31 March 2026   |
|     | Outputs         | £2.24m<br>Replace interim PE pipes within the service tunnel at Lowestoft Harbour with a permanent 8" steel pipe. |

**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) – Cadent Gas Limited**

| Project name             | GDN | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total |
|--------------------------|-----|-------|-------|-------|-------|-------|-------|
| Capacity upgrades > 7bar | EoE | 1.50  | 4.90  | 2.28  | 0.00  | 1.00  | 9.68  |
|                          | NW  | 1.14  | 5.57  | 4.87  | 3.28  | 0.00  | 14.86 |
|                          | WM  | 3.19  | 0.00  | 0.41  | 1.65  | 0.00  | 5.25  |
| Offtakes & PRS Metering  | EoE | 0.71  | 2.58  | 1.82  | 1.90  | 0.89  | 7.90  |
|                          | Lon | 0.00  | 0.08  | 1.07  | 0.89  | 0.02  | 2.06  |
|                          | NW  | 0.12  | 0.95  | 0.97  | 0.72  | 0.04  | 2.80  |
|                          | WM  | 0.19  | 1.57  | 1.06  | 0.82  | 0.71  | 4.35  |
| Lowestoft                | EoE | 2.24  | 0.00  | 0.00  | 0.00  | 0.00  | 2.24  |

**Capital projects Price Control Deliverable – Northern Gas Networks Limited**

| GDN                       | Field           | Description  |
|---------------------------|-----------------|--|
| Northern Gas Networks Ltd | Project name    | TransPennine   |
|                           | Delivery date   | 31 March 2026  |
|                           | Total allowance | £19.47m  |
|                           | Outputs         | Carry out diversionary works required for the TransPennine electrification upgrade scheme for Ridge Road overcrossing, Dewsbury 17bar overcrossing, Austhorpe Lane overcrossing, and distribution crossings (intermediate, medium and low pressure). |
| Northern Gas Networks Ltd | Project name    | Overcrossings  |
|                           | Delivery date   | 31 March 2026  |
|                           | Total allowance | £ 8.34m  |
|                           | Outputs         | Remediate 45 overcrossings known to have extreme deterioration in asset condition, and   |

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carry out security upgrades at 63 overcrossings.

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**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) – Northern Gas Networks Limited**

| Project name  | GDN                       | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total |
|---------------|---------------------------|-------|-------|-------|-------|-------|-------|
| TransPennine  | Northern Gas Networks Ltd | 2.40  | 5.49  | 6.89  | 3.79  | 0.90  | 19.47 |
| Overcrossings | Northern Gas Networks Ltd | 1.55  | 1.60  | 1.50  | 1.88  | 1.81  | 8.34  |

**Capital projects Price Control Deliverable – Scotland Gas Networks plc and Southern Gas Networks plc**

| GDN   | Field           | Description  |
|---|-----------------|--|
| Scotland Gas Networks plc                               | Project name    | R02 Dunkeld  |
|   | Delivery date   | 31 March 2026  |
|   | Total allowance | £23.46m  |
|   | Outputs         | Construct a new pressure reduction station at Dunkeld and a new IP main from the pressure reduction station to the outlet of Logierait PRS. Abandon the elements of the existing steel HP pipeline with compromised integrity from Dunkeld to Logierait and install a new district governor to receive gas from the new IP pipeline. |
| Scotland Gas Networks plc                               | Project name    | T8: Pitcairngreen to Huntingtower - R04 and R05  |
|   | Delivery date   | 31 March 2026  |
|   | Total allowance | £ 6.70m  |
|   | Outputs         | Reinforce the Pitcairngreen to Huntingtower pipeline (supplying Huntingtower PRS) by installing a new pipeline and facilities to allow Inline Inspection of the new pipeline.  |
| Scotland Gas Networks plc and Southern Gas Networks plc | Project name    | E&I Upgrade Programme  |
|   | Delivery date   | 31 March 2026  |
|   | Total allowance | £7.49m   |

|                           |                 |   |
|---------------------------|-----------------|---|
|                           | Outputs         | <p>The full, or partial, upgrade of the required electrical, instrumentation and control assets at offtakes and PRS sites:</p> <p>Offtake sites</p> <p>Scotland Gas Networks plc: 5 Sites</p> <p>Southern Gas Networks plc: 2 Sites</p> <p>PRS sites</p> <p>Scotland Gas Networks plc: 4 Sites</p> <p>Southern Gas Networks plc: 23 Sites</p> |
| Scotland Gas Networks plc | Project name    | Newton Mearns and Waterfoot PRS   |
|                           | Delivery date   | 31 March 2026   |
|                           | Total allowance | £8.52m  |
|                           | Outputs         | Decommission the existing Newton Mearns PRS and Waterfoot PRS. Construct a new PRS and new outlet pipework to connect the Newton Mearns Grid and Waterfoot Grid.  |
| Scotland Gas Networks plc | Project name    | Provan PRS  |
|                           | Delivery date   | 31 March 2026   |
|                           | Total allowance | £13.85m   |
|                           | Outputs         | Full site rebuild of Provan PRS (Beardmores and City), replace above ground pipework (HP, MP, and Local MP) with buried pipelines, and install facilities to allow Inline Inspection of the new pipeline.   |
| Southern Gas Networks plc | Project name    | Mappowder   |
|                           | Delivery date   | 31 March 2026   |
|                           | Total allowance | £5.17m  |
|                           | Outputs         | Replace the pre-heating system and pressure control system at Mappowder NTS offtake.  |
| Southern Gas Networks plc | Project name    | Winkfield Offtake - System 1 (South East)   |
|                           | Delivery date   | 31 March 2026   |
|                           | Total allowance | £7.88m  |
|                           | Outputs         | Replace the PRS pre-heating system and pressure control systems including the two stream slam-shut valves on the Winkfield South East LDZ Offtake site.   |
| Southern Gas Networks plc | Project name    | Winkfield Offtake - System 2 (South)  |

|                           |                 |   |
|---------------------------|-----------------|---|
| Southern Gas Networks plc | Delivery date   | 31 March 2026   |
|                           | Total allowance | £7.44m  |
|                           | Outputs         | Replace the PRS pre-heating system and pressure control systems including the two stream slam-shut valves on the Winkfield South LDZ Offtake site.  |
|                           |                 |   |
| Southern Gas Networks plc | Project name    | [REDACTED]  |
|                           | Delivery date   | 31 March 2026   |
|                           | Total allowance | £4.79m  |
|                           | Outputs         | Decommission a 434m section of 12" steel intermediate pressure main located within the bridge structure and service tunnel. The existing main will be replaced with a suitable and fit for purpose alternative. |

**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) – Scotland Gas Networks plc**

| Project name                                    | GDN                       | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total |
|---|---------------------------|-------|-------|-------|-------|-------|-------|
| RO2 Dunkeld                                     | Scotland Gas Networks plc | 0.66  | 4.73  | 8.53  | 9.54  | 0.00  | 23.46 |
| T8: Pitcairngreen to Huntingtower - R04 and R05 | Scotland Gas Networks plc | 2.07  | 3.98  | 0.64  | 0.00  | 0.00  | 6.70  |
| E&I Upgrade Programme                           | Scotland Gas Networks plc | 0.44  | 0.42  | 0.41  | 0.45  | 0.48  | 2.20  |
| Newton Mearns and Waterfoot PRS                 | Scotland Gas Networks plc | 0.00  | 0.00  | 0.76  | 2.15  | 5.60  | 8.52  |
| Provan PRS                                      | Scotland Gas Networks plc | 0.00  | 4.01  | 8.11  | 1.73  | 0.00  | 13.85 |

**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) – Southern Gas Networks plc**

| Project name          | GDN                       | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total |
|-----------------------|---------------------------|-------|-------|-------|-------|-------|-------|
| E&I Upgrade Programme | Southern Gas Networks plc | 1.09  | 1.01  | 1.02  | 1.03  | 1.13  | 5.28  |
| Mappowder             | Southern Gas Networks plc | 0.22  | 0.36  | 1.54  | 2.83  | 0.22  | 5.17  |

|   |                              |      |      |      |      |      |      |
|---|------------------------------|------|------|------|------|------|------|
| Winkfield<br>Offtake - System<br>1 (South East) | Southern Gas<br>Networks plc | 0.31 | 1.74 | 4.70 | 1.12 | 0.00 | 7.88 |
| Winkfield<br>Offtake - System<br>2 (South)      | Southern Gas<br>Networks plc | 0.31 | 1.74 | 2.35 | 2.65 | 0.39 | 7.44 |
| [REDACTED]                                      | Southern Gas<br>Networks plc | 4.79 | 0.00 | 0.00 | 0.00 | 0.00 | 4.79 |

#### Capital projects Price Control Deliverable - Wales & West Utilities Limited

| GDN                           | Field           | Description  |
|-------------------------------|-----------------|--|
| Wales & West<br>Utilities Ltd | Project name    | HN039 LTS Pipeline Replacement   |
|                               | Delivery date   | 31 March 2026  |
|                               | Total allowance | £13.19m  |
|                               | Outputs         | Replace 13km of the HN039 pipeline to meet the latest IGEM/TD/1 standards. |

#### Capital projects Price Control Deliverable allowances by Regulatory Year (£m) – Wales & West Utilities Limited

| Project name                   | GDN                           | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total |
|--------------------------------|-------------------------------|-------|-------|-------|-------|-------|-------|
| HN039 LTS Pipeline Replacement | Wales & West<br>Utilities Ltd | 2.42  | 9.43  | 1.34  | 0.00  | 0.00  | 13.19 |

### Special Condition 3.13 Commercial fleet Price Control Deliverable (OTC<sub>t</sub>)

#### Introduction

- 3.13.1 The purpose of this condition is to calculate the term OTC<sub>t</sub> (the commercial fleet Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.13.2 This condition specifies the allowances for the Price Control Deliverable and the reduction in allowances if the licensee does not deliver the number of units associated with each vehicle category.

#### Part A: Formula for calculating the commercial fleet Price Control Deliverable term (OTC<sub>t</sub>)

- 3.13.3 The value of OTC<sub>t</sub> is derived in accordance with the following formula:

$$OTC_t = OTCA_t - OTCR_t$$

where:

- $OTCA_t$  means the allowances in Appendix 1 that relate to the licensee; and  
 $OTCR_t$  is zero unless after the Price Control Period the Authority directs that Part C applies.

### Part B: What is the licensee funded to deliver?

3.13.4 The licensee is funded to the extent specified in Appendix 1 to deliver the outputs specified in Appendix 2 by 31 March 2026.

### Part C: Assessment of the Price Control Deliverable ( $OTCR_t$ )

3.13.5 Where the Authority makes a direction under paragraph 3.13.3, the value of  $OTCR_t$  will be derived in accordance with the following formula:

$$OTCR_t = \sum_{n=1}^6 \left( (OTT_n - OTD_n) \left( \frac{A_n}{10^6} \right) \right) \frac{OTCA_t}{\sum OTCA_t}$$

where:

- $OTT_n$  means the number of units for vehicle category n allowed for in Appendix 2;  
 $OTD_n$  means the number of units for vehicle category n purchased on or after 1 April 2021;  
 $A_n$  means the unit cost allowance for vehicle category n, as set out in Appendix 2; and  
 $n$  means the vehicle category corresponding to the table in Appendix 2.

## Appendix 1

### Commercial fleet allowances ( $OTCA_t$ ) by Regulatory Year (£m)

| Network                    | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | Total Allowance |
|----------------------------|-------|-------|-------|-------|-------|-----------------|
| EoE                        | 0.42  | 0.31  | 1.57  | 1.55  | 1.52  | 5.38            |
| Lon                        | 0.28  | 0.21  | 1.05  | 1.04  | 1.02  | 3.61            |
| NW                         | 0.29  | 0.22  | 1.09  | 1.08  | 1.06  | 3.73            |
| WM                         | 0.2   | 0.15  | 0.76  | 0.75  | 0.74  | 2.61            |
| Northern Gas Networks Ltd  | 0.94  | 0.83  | 0.29  | 0.07  | 0.08  | 2.21            |
| Scotland Gas Networks plc  | 0.63  | 0.87  | 1.02  | 0.53  | 0.90  | 3.94            |
| Southern Gas Networks plc  | 1.03  | 1.41  | 1.66  | 0.86  | 1.46  | 6.43            |
| Wales & West Utilities Ltd | 0.21  | 0.08  | 0.29  | 1.27  | 0.73  | 2.58            |



## Appendix 2

### Commercial fleet volumes and unit costs

| Network                    | Vehicle category (n)            | Number of units (OTT) | Unit Cost (£) |
|----------------------------|---------------------------------|-----------------------|---------------|
| EoE                        | Large Van                       | 351                   | 13,476        |
|                            | Electric vehicle charging point | 141                   | 4,757         |
| Lon                        | Large Van                       | 235                   | 13,476        |
|                            | Electric vehicle charging point | 95                    | 4,757         |
| NW                         | Large Van                       | 243                   | 13,476        |
|                            | Electric vehicle charging point | 98                    | 4,757         |
| WM                         | Large Van                       | 170                   | 13,476        |
|                            | Electric vehicle charging point | 68                    | 4,757         |
| Northern Gas Networks Ltd  | Small Van                       | 30                    | 7,755         |
|                            | Medium Van                      | 116                   | 9,307         |
|                            | Electric vehicle charging point | 182                   | 4,757         |
| Scotland Gas Networks plc  | 4x4                             | 7                     | 9,515         |
|                            | Small Van                       | 19                    | 7,755         |
|                            | Medium Van                      | 78                    | 9,307         |
|                            | Large Van                       | 135                   | 13,476        |
|                            | Support Van                     | 47                    | 11,227        |
|                            | Electric vehicle charging point | 135                   | 4,757         |
| Southern Gas Networks plc  | 4x4                             | 11                    | 9,515         |
|                            | Small Van                       | 31                    | 7,755         |
|                            | Medium Van                      | 128                   | 9,307         |
|                            | Large Van                       | 221                   | 13,476        |
|                            | Support Van                     | 76                    | 11,227        |
|                            | Electric vehicle charging point | 220                   | 4,757         |
| Wales & West Utilities Ltd | 4x4                             | 5                     | 9,515         |
|                            | Small Van                       | 33                    | 7,755         |
|                            | Medium Van                      | 150                   | 9,307         |
|                            | Electric vehicle charging point | 188                   | 4,757         |

## Special Condition 3.14 Fuel Poor Network Extension Scheme volume driver ( $FPA_t$ )

### Introduction

- 3.14.1 The purpose of this condition is to calculate the term  $FPA_t$  (the FPNES adjustment term). This contributes to the calculation of the Totex Allowance.
- 3.14.2 The effect of this condition is to adjust revenue to fund the licensee for connections made under the FPNES.

### Part A: Formula for calculating the FPNES adjustment term ( $FPA_t$ )

- 3.14.3 For any Regulatory Year where the Fuel Poor Network Extension Scheme was open at any point during that year, the value of  $FPA_t$  is derived in accordance with the following formula:

$$FPA_t = \min((DC \times (V/10^6)), (C \times V/10^6)) \cdot \frac{DC_t}{DC} - FPM_t$$

where:

- C means the maximum number of Delivered 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 while the Fuel Poor Network Extension Scheme is open;
- $DC_t$  means the number of Delivered FPNES Connections in Regulatory Year  $t$ ;
- V means the Fuel Poor Individual Connection Cost as set out in Appendix 3; and
- $FPM_t$  has the value zero unless otherwise directed by the Authority in accordance with Part B.

### Part B: Closing the scheme

- 3.14.4 The Authority will close the FPNES by direction if changes in government policy lead the Authority to the conclusion that the closure of the FPNES is appropriate in the circumstances.
- 3.14.5 Before issuing a direction, the Authority will publish a notice setting out:
- (a) the changes in government policy that it considers have made the FPNES redundant;
  - (b) the date by which the licensee must complete all planned connections under the FPNES;

- (c) the resultant changes to the licensee's RIIO-GD2 FPNES Connection Target set out in Appendix 1;
- (d) a value for  $FPM_t$ , if appropriate, to adjust the allowances for mains work associated with FPNES Connections;
- (e) the date of the planned closure, which will be not less than 30 days after the date of publication of the notice; and
- (f) a period during which representations may be made on the notice, which will not be less than 15 days.

### **Part C: FPNES Governance Document**

- 3.14.6 The licensee must comply with the FPNES Governance Document for the administration and delivery of the FPNES.
- 3.14.7 The Authority will issue and amend the FPNES Governance Document by direction.
- 3.14.8 The Authority will publish the FPNES Governance Document on the Authority's Website.
- 3.14.9 The FPNES Governance Document will make provision about:
  - (a) the eligibility criteria which FPNES Connections must meet; and
  - (b) requirements the licensee must adhere to in relation to the administration and delivery of the FPNES.
- 3.14.10 Before issuing the FPNES Governance Document by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the proposed FPNES Governance Document;
  - (b) the date on which the Authority intends the FPNES Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the FPNES Governance Document, which will not be less than 28 days.
- 3.14.11 Before amending the FPNES Governance Document by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the amended FPNES Governance Document;
  - (b) the date on which the Authority intends the amended FPNES Governance Document to come into effect;
  - (c) the reasons for the amendments to the FPNES Governance Document; and
  - (d) a period during which representations may be made on the amendments to the FPNES Governance Document, which will not be less than 28 days.

## **Appendix 1**

### **RHIO-GD2 FPNES Connection Target Between 1 April 2021 and 31 March 2026**

| <b>Distribution Network</b> | <b>FPNES Connection Target</b> |
|-----------------------------|--------------------------------|
| EoE                         | 2,050                          |
| Lon                         | 500                            |
| NW                          | 2,250                          |
| WM                          | 1,450                          |
| Northern Gas Networks Ltd   | 5,000                          |
| Scotland Gas Networks plc   | 13,000                         |
| Southern Gas Networks plc   | 5,000                          |
| Wales & West Utilities Ltd  | 2,500                          |

## **Appendix 2**

### **Maximum number of Delivered FPNES Connections Between 1 April 2021 and 31 March 2026**

| <b>Distribution Network</b> | <b>Maximum number of Delivered FPNES Connections</b> |
|-----------------------------|--|
| EoE                         | 7,525  |
| Lon                         | 2,500  |
| NW                          | 11,250   |
| WM                          | 10,450   |
| Northern Gas Networks Ltd   | 10,000   |
| Scotland Gas Networks plc   | 13,000   |
| Southern Gas Networks plc   | 6,479  |
| Wales & West Utilities Ltd  | 7,870  |

## **Appendix 3**

### **Fuel Poor Individual Connection Cost**

| <b>Distribution Network</b> | <b>£</b> |
|-----------------------------|----------|
| EoE                         | 2,230    |
| Lon                         | 2,296    |
| NW                          | 2,576    |
| WM                          | 2,502    |
| Northern Gas Networks Ltd   | 1,946    |
| Scotland Gas Networks plc   | 1,423    |

|                            |       |
|----------------------------|-------|
| Southern Gas Networks plc  | 1,508 |
| Wales & West Utilities Ltd | 2,106 |

## Special Condition 3.15 Domestic Connections volume driver (CA<sub>t</sub>)

### Introduction

- 3.15.1 The purpose of this condition is to calculate the term CA<sub>t</sub> (the Domestic Connections volume driver term). This contributes to the calculation of the Totex Allowance.
- 3.15.2 The effect of this condition is to adjust revenue to fund the licensee for the non-recoverable cost of Domestic Connections.

### Part A: Formula for calculating the Domestic Connections volume driver term (CA<sub>t</sub>)

- 3.15.3 The value of CA<sub>t</sub> is derived in accordance with the following formula:

$$CA_t = VC_t \cdot UC \cdot 10^{-6} + VM_t \cdot UM \cdot 10^{-6}$$

where:

- VC<sub>t</sub> means the number of Domestic Connections the licensee has delivered to new and existing housing;
- VM<sub>t</sub> means the length of Mains Commissioned in kilometres across all diameter bands delivered to new and existing housing;
- UC means the specific matrix cost for Domestic Connections, where the unit cost relates to the non-recoverable cost, delivered as set out in the relevant table in Appendix 1; and
- UM means the specific matrix cost for Mains Commissioned, where the unit cost relates to the non-recoverable cost, as set out in the relevant table in Appendix 1.

## Appendix 1

### Distribution Network specific matrix costs: Distribution Network: EoE

| Specific matrix costs     |         |
|---------------------------|---------|
| Unit of deliverable       |         |
| UC (£/service connection) | 1,011   |
| UM (£/km commissioned)    | 221,306 |

**Distribution Network specific matrix costs: Distribution Network: Lon****Specific matrix costs**

Unit of deliverable

UC (£/service connection) 1,426

UM (£/km commissioned) 616,731

**Distribution Network specific matrix costs: Distribution Network: NW****Specific matrix costs**

Unit of deliverable

UC (£/service connection) 1,342

UM (£/km commissioned) 291,632

**Distribution Network specific matrix costs: Distribution Network: WM****Specific matrix costs**

Unit of deliverable

UC (£/service connection) 1,603

UM (£/km commissioned) 194,945

**Distribution Network specific matrix costs: Distribution Network: Northern Gas Networks Limited****Specific matrix costs**

Unit of deliverable

UC (£/service connection) 483

UM (£/km commissioned) 57,970

**Distribution Network specific matrix costs: Distribution Network: Scotland Gas Networks plc****Specific matrix costs**

Unit of deliverable

UC (£/service connection) 164

UM (£/km commissioned) 110,873

**Distribution Network specific matrix costs: Distribution Network: Southern Gas Networks plc****Specific matrix costs**

Unit of deliverable

UC (£/service connection) 470

UM (£/km commissioned) 84,342

## Distribution Network specific matrix costs: Distribution Network: Wales & West Utilities Limited

### Specific matrix costs

Unit of deliverable

UC (£/service connection) 749

UM (£/km commissioned) 78,101

## Special Condition 3.16 Tier 2A mains and services replacement volume driver (RE<sub>t</sub>)

### Introduction

3.16.1 The purpose of this condition is to calculate the term RE<sub>t</sub> (the tier 2A mains and services replacement volume driver). This contributes to the calculation of the Totex Allowance.

3.16.2 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.

### Part A: Formula for calculating the tier 2A mains and services replacement volume driver

3.16.3 The value of RE<sub>t</sub> is derived in accordance with the following formula:

$$RE_t = \sum_{n=1}^3 (L_{n,t} \times U_{n,t} \times 10^{-6})$$

where:

$L_{n,t}$

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  |

$U_{n,t}$  means the specific matrix costs in respect of diameter band n as set out in the relevant table in Appendix 1.

## Appendix 1

### Distribution Network specific matrix costs (£ per kilometre mains decommissioned including associated service interventions) for Above Risk Action Threshold Tier 2 Mains by Regulatory Year: Distribution Network: EoE

| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|-----------------|---------|---------|---------|---------|---------|
| 1               | 119,340 | 119,340 | 119,340 | 119,340 | 119,340 |
| 2               | 247,997 | 247,997 | 247,997 | 247,997 | 247,997 |
| 3               | 424,324 | 424,324 | 424,324 | 424,324 | 424,324 |

### Distribution Network specific matrix costs (£ per kilometre mains decommissioned including associated service interventions) for Above Risk Action Threshold Tier 2 Mains by Regulatory Year: Distribution Network: Lon

| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|-----------------|---------|---------|---------|---------|---------|
| 1               | 119,615 | 119,615 | 119,615 | 119,615 | 119,615 |
| 2               | 248,567 | 248,567 | 248,567 | 248,567 | 248,567 |
| 3               | 425,299 | 425,299 | 425,299 | 425,299 | 425,299 |

### Distribution Network specific matrix costs (£ per kilometre mains decommissioned including associated service interventions) for Above Risk Action Threshold Tier 2 Mains by Regulatory Year: Distribution Network: NW

| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|-----------------|---------|---------|---------|---------|---------|
| 1               | 131,580 | 131,580 | 131,580 | 131,580 | 131,580 |
| 2               | 273,432 | 273,432 | 273,432 | 273,432 | 273,432 |
| 3               | 467,844 | 467,844 | 467,844 | 467,844 | 467,844 |

### Distribution Network specific matrix costs (£ per kilometre mains decommissioned including associated service interventions) for Above Risk Action Threshold Tier 2 Mains by Regulatory Year: Distribution Network: WM

| Diameter band n | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|-----------------|---------|---------|---------|---------|---------|
| 1               | 148,795 | 148,795 | 148,795 | 148,795 | 148,795 |
| 2               | 309,205 | 309,205 | 309,205 | 309,205 | 309,205 |
| 3               | 529,051 | 529,051 | 529,051 | 529,051 | 529,051 |



**Distribution Network specific matrix costs (£ per kilometre mains  
decommissioned including associated service interventions) for Above Risk  
Action Threshold Tier 2 Mains: Distribution Network by Regulatory Year:  
Northern Gas Networks Limited**

| <b>Diameter</b> | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> | <b>2025/26</b> |
|-----------------|----------------|----------------|----------------|----------------|----------------|
| <b>band n</b>   |                |                |                |                |                |
| 1               | 153,695        | 153,695        | 153,695        | 153,695        | 153,695        |
| 2               | 319,388        | 319,388        | 319,388        | 319,388        | 319,388        |
| 3               | 546,475        | 546,475        | 546,475        | 546,475        | 546,475        |

**Distribution Network specific matrix costs (£ per kilometre mains  
decommissioned including associated service interventions) for Above Risk  
Action Threshold Tier 2 Mains by Regulatory Year: Distribution Network:  
Scotland Gas Networks plc**

| <b>Diameter</b> | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> | <b>2025/26</b> |
|-----------------|----------------|----------------|----------------|----------------|----------------|
| <b>band n</b>   |                |                |                |                |                |
| 1               | 134,180        | 134,180        | 134,180        | 134,180        | 134,180        |
| 2               | 278,834        | 278,834        | 278,834        | 278,834        | 278,834        |
| 3               | 477,087        | 477,087        | 477,087        | 477,087        | 477,087        |

**Distribution Network specific matrix costs (£ per kilometre mains  
decommissioned including associated service interventions) for Above Risk  
Action Threshold Tier 2 Mains by Regulatory Year: Distribution Network:  
Southern Gas Networks plc**

| <b>Diameter</b> | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> | <b>2025/26</b> |
|-----------------|----------------|----------------|----------------|----------------|----------------|
| <b>band n</b>   |                |                |                |                |                |
| 1               | 143,451        | 143,451        | 143,451        | 143,451        | 143,451        |
| 2               | 298,101        | 298,101        | 298,101        | 298,101        | 298,101        |
| 3               | 510,053        | 510,053        | 510,053        | 510,053        | 510,053        |

**Distribution Network specific matrix costs (£ per kilometre mains  
decommissioned including associated service interventions) for Above Risk  
Action Threshold Tier 2 Mains by Regulatory Year: Distribution Network: Wales  
& West Utilities Limited**

| <b>Diameter</b> | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> | <b>2025/26</b> |
|-----------------|----------------|----------------|----------------|----------------|----------------|
| <b>band n</b>   |                |                |                |                |                |
| 1               | 106,954        | 106,954        | 106,954        | 106,954        | 106,954        |
| 2               | 222,257        | 222,257        | 222,257        | 222,257        | 222,257        |
| 3               | 380,283        | 380,283        | 380,283        | 380,283        | 380,283        |

## **Special Condition 3.17 HSE policy Re-opener ( $REP_t$ )**

### **Introduction**

- 3.17.1 The purpose of this condition is to calculate the term  $REP_t$  (the HSE policy Re-opener term). This contributes to calculation of the Totex Allowance.
- 3.17.2 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 Repex costs or specified changes to Emergency And Repair Costs directly associated with statutory requirements relating to managing fatigue for shift workers enforced by the HSE.
- 3.17.3 This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.17.4 The licensee may apply to the Authority for a direction adjusting:
- (a) the value of  $REP_t$  term;
  - (b) the values in Special Condition 3.1 (Baseline Network Risk Output) that relate to Repex;
  - (c) the values in Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable); and
  - (d) the values in Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable).
- where there are:
- (e) changes to a Repex Related HSE Policy Area that will materially impact Repex; or
  - (f) Emergency And Repair Costs directly arising from statutory requirements relating to managing fatigue for shift workers enforced by the HSE.

### **Part B: When to make an application**

- 3.17.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.17.4:
- (a) Between 25 January 2022 and 31 January 2022;
  - (b) Between 25 January 2023 and 31 January 2023;
  - (c) Between 25 January 2024 and 31 January 2024; and
  - (d) during such later periods as the Authority may direct.

### **Part C: How to make an application**

- 3.17.6 An application under paragraph 3.17.4 must be made in writing to the Authority and:

- (a) specify the Repex Related HSE Policy Areas changes or the statutory requirements relating to managing fatigue for shift workers to which the application relates;
- (b) set out the proposed adjustments to the value of the  $REP_t$  term that the licensee is requesting;
- (c) set out any changes to Special Condition 3.1, 3.10 or 3.11 that the licensee is requesting;
- (d) explain the basis of the calculation for any proposed adjustments to the  $REP_t$  term or any values in Special Conditions 3.1, 3.10 or 3.11;
- (e) specify the Regulatory Years to which any adjustments proposed under subparagraph (b) or (c) relate; and
- (f) include such detailed supporting evidence, including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.

3.17.7 An application must:

- (a) relate to changes to a Repex Related HSE Policy Area that came into effect Between 1 April 2020 and 31 March 2026;
- (b) take account of any allowed expenditure, which can be avoided as a result of the changes;
- (c) be confined to costs incurred or expected to be incurred that exceed the Materiality Threshold; and
- (d) relate to costs incurred or expected to be incurred on or after 1 April 2021.

#### **Part D: Authority triggered re-opener**

3.17.8 The Authority will also consider directing an adjustment to the value of the  $REP_t$  term or Special Conditions 3.1, 3.10 or 3.11 where it considers that there have been changes to any Repex Related HSE Policy Area or the licensee's Approved Programme that materially impact Repex or changes to Emergency And Repair Costs directly arising from statutory requirements relating to managing fatigue for shift workers that are enforced by the HSE, that:

- (a) have come into effect Between 1 April 2020 and 31 March 2026;
- (b) relate to changes to costs incurred or expected to be incurred that exceed the Materiality Threshold; and
- (c) relate to changes to costs incurred or expected to be incurred on or after 1 April 2021.

#### **Part E: What process will the Authority in making a direction?**

3.17.9 Before making a direction under paragraph 3.17.4 or 3.17.8, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;

- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

3.17.10 The direction will set out:

- (a) any adjustments to the value of the  $REP_t$  term;
- (b) any amendments to Special Conditions 3.1, 3.10 and 3.11; and
- (c) the Regulatory Years to which any adjustments to allowances made under sub-paragraphs (a) and (b) relate.

## **Special Condition 3.18 Tier 1 Stubs Repex policy Re-opener ( $STUB_t$ )**

### **Introduction**

- 3.18.1 The purpose of this condition is to calculate the term  $STUB_t$  (the Tier 1 Stubs Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.18.2 The effect of this condition is to establish a Re-opener to be triggered by the licensee where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs during the Price Control Period.
- 3.18.3 This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.18.4 The licensee may apply to the Authority for a direction:
  - (a) adjusting the value of the  $STUB_t$  term;
  - (b) amending the values in Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable); or
  - (c) amending the values in Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable)
 for any Regulatory Year during the Price Control Period where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs, which the licensee considers have been efficiently incurred and where those costs have not already been provided for by the special conditions of this licence.

### **Part B: When to make an application**

- 3.18.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.18.4:
  - (a) Between 25 January 2023 and 31 January 2023; and
  - (b) during such later periods as the Authority may direct.

### **Part C: How should an application be made?**

- 3.18.6 An application under paragraph 3.18.4 must be made in writing to the Authority and must:
- (a) specify the additional costs relating to the decommissioning of Tier 1 Stubs;
  - (b) give justification for the needs case of the proposal;
  - (c) give engineering and cost justifications for the set of technical solutions for replacing Tier 1 Stubs;
  - (d) provide detailed cost estimates for replacing the volumes included in the application supported by market assessment and cost scoping of materials, labour and equipment;
  - (e) set out a proposed project timeline for replacing the volumes proposed in the application;
  - (f) set out any amendments to the outputs, delivery dates or allowances in the Special Condition 3.10 or 3.11 that the licensee is requesting;
  - (g) set out the adjustments to the value of the STUB<sub>t</sub> term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;
  - (h) explain the basis of the calculation for the proposed adjustments to the STUB<sub>t</sub> term or the allowances in the Special Condition 3.10 or 3.11; and
  - (i) include such detailed supporting evidence including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in all the circumstances.
- 3.18.7 An application must:
- (a) be confined to costs that are incurred or are expected to be incurred on or after 1 April 2021; and
  - (b) take account of any allowed expenditure which can be avoided as a result of the changes.

### **Part D: What process will the Authority follow in making a direction?**

- 3.18.8 Before making a direction under paragraph 3.18.4, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.18.9 The direction will set out:
- (a) any adjustments to the value of the STUB<sub>t</sub> term;
  - (b) any amendments to Special Condition 3.10 or 3.11; and

- (c) the Regulatory Years to which any adjustments to allowances under subparagraphs (a) and (b) relate.

## **Special Condition 3.19 Heat policy and energy efficiency Re-opener (HPRA<sub>t</sub>)**

### **Introduction**

- 3.19.1 The purpose of this condition is to calculate the term HPRA<sub>t</sub> (the heat policy Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.19.2 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.
- 3.19.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of the Re-opener?**

- 3.19.4 The licensee may apply to the Authority for a direction to adjust the value of the HPRA<sub>t</sub> term and the outputs, delivery dates and allowances established by the special conditions of this licence 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.

### **Part B: When to make an application**

- 3.19.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.19.4:
  - (a) Between 25 January 2022 and 31 January 2022;
  - (b) Between 25 January 2023 and 31 January 2023; and
  - (c) during such later periods as the Authority may direct.

### **Part C: How to make an application**

- 3.19.6 An application under paragraph 3.19.4 must be made in writing to the Authority and include:
  - (a) the Heat Policy Areas and the consequent changes to the licensee's legal obligations to which the application relates;
  - (b) any amendments requested to the value of the HPRA<sub>t</sub> term and the outputs, delivery dates and allowances established by the special conditions of this licence;
  - (c) the Regulatory Years to which any adjustment to the HPRA<sub>t</sub> term or other allowances sought relates;
  - (d) the basis of the calculation for the proposed adjustments to the HPRA<sub>t</sub> term and other allowances; and

- (e) such detailed supporting evidence, including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.
- 3.19.7 An application under paragraph 3.19.4 must:
- (a) relate to changes to Heat Policy Areas that have come into effect on or after 1 April 2021;
  - (b) take account of any allowed expenditure, which can be avoided as a result of the changes;
  - (c) exceed the Materiality Threshold; and
  - (d) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

**Part D: Authority triggered Re-opener**

- 3.19.8 The Authority will also consider directing an adjustment to the HPRA<sub>t</sub> term or the outputs, delivery dates or allowances established by the special conditions of this licence where there have been changes to Heat Policy Areas that affect the licensee's legal obligations as a licensee that:
- (a) have come into effect on or after 1 April 2021;
  - (b) exceed the Materiality Threshold; and
  - (c) relate to costs incurred or expected to be incurred on or after 1 April 2021.

**Part E: What process will the Authority follow in making a direction?**

- 3.19.9 Before making a direction under paragraph 3.19.4 or 3.19.8, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.19.10 The direction will set out:
- (a) any adjustments to the PCFM Variable Values of this licence;
  - (b) the Regulatory Years to which those adjustments relate;
  - (c) any amendments to the outputs and delivery dates established by the special conditions of this licence.

## **Special Condition 3.20 Diversions and Loss of Development Claims policy Re-opener ( $DIV_t$ )**

### **Introduction**

- 3.20.1 The purpose of this condition is to calculate the term  $DIV_t$  (the Diversions policy Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.20.2 The effect of this condition is to establish a Re-opener triggered by the licensee where there are material additional Diversion Costs, Loss of Development Claims or costs of rectifying damage to pipelines from soil erosion.
- 3.20.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.20.4 The licensee may apply to the Authority for a direction adjusting the value of the  $DIV_t$  term for any Regulatory Year during the Price Control Period in relation to additional:
  - (a) Diversion Costs;
  - (b) Loss of Development Claims; or
  - (c) costs of diverting gas assets due to adverse environmental factors.

### **Part B: When to make an application**

- 3.20.5 The licensee may only make an application under paragraph 3.20.4 Between 25 January 2024 and 31 January 2024, and during such later periods as the Authority may direct.

### **Part C: How to make an application**

- 3.20.6 An application under paragraph 3.20.4 must be made in writing to the Authority and:
  - (a) specify the Diversion Costs, Loss of Development Claims or costs of rectifying damage to pipelines from soil erosion that have led to the application;
  - (b) set out the adjustments to the value of the  $DIV_t$  term that the licensee is requesting and the Regulatory Years to which that adjustment relates;
  - (c) explain the basis of the licensee's calculation of the proposed adjustments to the value of the  $DIV_t$  term;
  - (d) if the application relates to Diversion Costs, include engineering justification statements that the Diversion Costs, are efficient and unavoidable;



- (e) if the application relates to Loss of Development Claims, demonstrate that reasonable challenge has been made to the basis for, and quantum, of any Loss of Development Claim; and
  - (f) include such detailed supporting evidence, including Improvement Plans, risk mitigation approaches, cost benefit analysis and impact assessments, as is reasonable in the circumstances.
- 3.20.7 An application under paragraph 3.20.4 must:
- (a) be confined to Diversion Costs, Loss of Development Claims or costs of rectifying damage to pipelines from soil erosion that were incurred or are expected to be incurred on or after 1 April 2021;
  - (b) take account of any allowed expenditure, which can be avoided as a result of the change; and
  - (c) relate to costs incurred or expected to be incurred that exceed the Materiality Threshold.

**Part D: What process will the Authority follow in making a direction?**

- 3.20.8 Before making a direction under paragraph 3.20.4 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.20.9 The direction will set out any adjustments to the value of the  $DIV_t$  term and the Regulatory Years to which that adjustment relates.

**Special Condition 3.21 Multiple Occupancy Buildings safety Re-opener (MOBS<sub>t</sub>)**

**Introduction**

- 3.21.1 The purpose of this condition is to calculate the term MOBS<sub>t</sub> (the Multiple Occupancy Buildings safety Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.21.2 The effect of this condition is to establish a Re-opener triggered by the licensee where there have been changes to the Safety Requirements Relating To Multiple Occupancy Buildings and or the development of an Approved MOB Safety Works Programme, that result in material changes to the costs of carrying out Licensed Activity.
- 3.21.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.21.4 The licensee may apply to the Authority for a direction to adjust the value of the MOBS<sub>t</sub> term for any Regulatory Year during the Price Control Period where there have been changes to:
- (a) the Safety Requirements Relating To Multiple Occupancy Buildings that affect its legal obligations as a licensee; or
  - (b) an Approved MOB Safety Works Programme.

### **Part B: When to make an application**

- 3.21.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.21.4:
- (a) Between 25 January 2023 and 31 January 2023;
  - (b) Between 25 January 2024 and 31 January 2024; and
  - (c) during such later periods as the Authority may direct.

### **Part C: How to make an application**

- 3.21.6 An application under paragraph 3.21.4 must be made in writing to the Authority and must:
- (a) specify the changes set out in paragraph 3.21.4 to which the application relates;
  - (b) set out the adjustments to the value of the MOBS<sub>t</sub> term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;
  - (c) explain the basis of the calculation for the proposed adjustments to the MOBS<sub>t</sub> term; and
  - (d) include such detailed supporting evidence, including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.
- 3.21.7 An application under paragraph 3.21.4(a) must:
- (a) relate to changes that have come into effect on or after 1 April 2021;
  - (b) take account of any allowed expenditure, which can be avoided as a result of the change;
  - (c) request changes to allowances that exceed the Materiality Threshold; and
  - (d) be confined to costs incurred or expected to be incurred on or after 1 April 2021.
- 3.21.8 An application under paragraph 3.21.4(b) must:
- (a) take account of any allowed expenditure, which can be avoided as a result of the change;
  - (b) request changes to allowances that exceed the Materiality Threshold; and

- (c) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

#### **Part D: What process will the Authority follow in directing changes to allowances?**

- 3.21.9 Before making a direction under paragraph 3.21.4 the Authority will publish on the Authority's Website:
  - (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.21.10 The direction will set out any amendments to the value of the MOBS<sub>t</sub> term and the Regulatory Years to which that adjustment relates.

### **Special Condition 3.22 New Large Load Connections Re-opener (NLLR<sub>t</sub>)**

#### **Introduction**

- 3.22.1 The purpose of this condition is to calculate the term NLLR<sub>t</sub> (the New Large Load Connections Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.22.2 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.
- 3.22.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

#### **Part A: What is the scope of this Re-opener?**

- 3.22.4 The licensee may apply to the Authority for a direction to adjust the value of the NLLR<sub>t</sub> 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.

#### **Part B: When to make an application**

- 3.22.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.22.4 Between 25 January 2024 and 31 January 2024, and during such later periods as the Authority may direct.

## **Part C: How to make an application**

- 3.22.6 An application under paragraph 3.22.4 must be made in writing to the Authority and:
- (a) specify the name and connection specifications of the New Large Load Connections to which the application relates;
  - (b) set out the adjustments to the value of the  $NLLR_t$  term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;
  - (c) explain the basis of the calculation for the proposed adjustments to the  $NLLR_t$  term including the Economic Test; and
  - (d) 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.
- 3.22.7 An application under paragraph 3.22.4 must:
- (a) take account of any allowed expenditure, which can be avoided as a result of the change;
  - (b) relate to costs that exceed the Materiality Threshold; and
  - (c) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

## **Part D: What process will the Authority follow in making a direction?**

- 3.22.8 Before making a direction under paragraph 3.22.4, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.22.9 The direction will set out any adjustments to the value of the  $NLLR_t$  term and the Regulatory Years to which that adjustment relates.

## **Special Condition 3.23 Smart Metering Roll-out Costs Re-opener ( $SMR_t$ )**

### **Introduction**

- 3.23.1 The purpose of this condition is to calculate the term  $SMR_t$  (the Smart Metering Roll-out Costs Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.23.2 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.

- 3.23.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

**Part A: What is the scope of this Re-opener?**

- 3.23.4 The licensee may apply to the Authority for a direction adjusting the value of the  $SMR_t$  term for any Regulatory Year during the Price Control in relation to additional Smart Metering Roll-out Costs.

**Part B: When to make an application**

- 3.23.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.23.4 Between 25 January 2024 and 31 January 2024, and during such later periods as the Authority may direct.

**Part C: How to make an application**

- 3.23.6 An application under paragraph 3.23.4 must be made in writing to the Authority and:
- (a) set out the adjustments to the value of the  $SMR_t$  term that the licensee is requesting and the Regulatory Years to which that adjustment relates;
  - (b) explain the basis of the licensee's calculation of the proposed adjustments to the value of the  $SMR_t$  term; and
  - (c) include such detailed supporting evidence that the additional Smart Metering Roll-out Costs are efficient and unavoidable as is reasonable in the circumstances.
- 3.23.7 An application under paragraph 3.23.4 must:
- (a) 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;
  - (b) take account of any allowed expenditure, which can be avoided as a result of these additional Smart Metering Roll-out Costs; and
  - (c) relate to costs incurred or expected to be incurred that exceed or are expected to exceed the Materiality Threshold.

**Part D: What process will the Authority follow in making a direction?**

- 3.23.8 Before making a direction under paragraph 3.23.4 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.23.9 The direction will set out any adjustments to the value of the  $SMR_t$  term and the Regulatory Years to which that adjustment relates.

## **Special Condition 3.24 Specified Streetworks Costs Re-opener (STW<sub>t</sub>)**

### **Introduction**

- 3.24.1 The purpose of this condition is to calculate the term STW<sub>t</sub> (the Specified Streetworks Costs Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.24.2 The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority in relation to Specified Streetworks Costs.
- 3.24.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.24.4 The licensee may apply to the Authority for a direction adjusting the value of the STW<sub>t</sub> term for any Regulatory Year during the Price Control Period in relation to Specified Streetworks Costs.

### **Part B: When to make an application**

- 3.24.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.24.4 Between 25 January 2024 and 31 January 2024, and during such later periods as the Authority may direct.

### **Part C: How to make an application**

- 3.24.6 An application under paragraph 3.24.4 must be made in writing to the Authority and must:
  - (a) state the Specified Streetworks Costs that have led to the application;
  - (b) set out the adjustments to the value of the STW<sub>t</sub> term that the licensee is requesting and the Regulatory Years to which that adjustment relates;
  - (c) explain the basis of the licensee's calculation of the proposed adjustments to the value of the STW<sub>t</sub> term; and
  - (d) include such detailed supporting evidence that the Specified Streetworks Costs are efficient and unavoidable as is reasonable in the circumstances.
- 3.24.7 An application under paragraph 3.24.4 must:
  - (a) 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;
  - (b) take account of any allowed expenditure, which can be avoided as a result; and
  - (c) relate to costs incurred or expected to be incurred that exceed or are expected to exceed the Materiality Threshold.

## **Part D: What process will the Authority follow in making a direction?**

- 3.24.8 Before making a direction under paragraph 3.24.4 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.24.9 The direction will set out any adjustments to the value of the  $STW_t$  term and the Regulatory Years to which that adjustment relates.

## **Special Condition 3.25 Not used**

## **Special Condition 3.26 Personalising welfare facilities Price Control Deliverable ( $PWF_t$ )**

### **Introduction**

- 3.26.1 The purpose of this condition is to calculate the term  $PWF_t$  (the personalising welfare facilities Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.26.2 The effect of this condition is to specify the outputs, delivery dates and associated allowances for the Price Control Deliverable.
- 3.26.3 This condition also explains the process the Authority will follow when assessing the Price Control Deliverable.

### **Part A: Formula for calculating the personalising welfare facilities Price Control Deliverable term ( $PWF_t$ )**

- 3.26.4 The value of  $PWF_t$  is derived in accordance with the following formula:

$$PWF_t = PWFA_t - PWFR_t$$

where:

- $PWFA_t$  means the sum of allowances in Appendix 1; and
- $PWFR_t$  has the value zero unless otherwise directed by the Authority in accordance with Part C.

### **Part B: What is the licensee funded to deliver?**

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

### Part C: Assessment of the Price Control Deliverable (PWFR<sub>t</sub>)

3.26.6 The Authority will, in accordance with the PCD Reporting Requirements and Methodology Document, consider directing a value for PWFR<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 1.

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

3.26.7 Before making a direction under paragraph 3.26.6, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

3.26.8 A direction under paragraph 3.26.6 will set out the value of the PWFR<sub>t</sub> term and the Regulatory Years to which that adjustment relates.

### Appendix 1

| Output  | Number of Additional Welfare Provisions provided |
|---|--|
| Additional Welfare Provisions to priority services register customers beyond business as usual work | 82,125   |
| Additional Welfare Provisions to non-priority services register customers in Vulnerable Situations  | 82,125   |

### Personalising welfare provisions Price Control Deliverable: EoE

| Output  | Delivery Date | Allowance (£m) |       |       |       |       |  | Total |
|---|---------------|----------------|-------|-------|-------|-------|--|-------|
|   |               | 21/22          | 22/23 | 23/24 | 24/25 | 25/26 |  |       |
| Additional Welfare Provisions to priority services register customers beyond business as usual work | 31 March 2026 | 0.30           | 0.30  | 0.30  | 0.30  | 0.30  |  | 1.51  |
| Additional Welfare Provisions to non-priority services register customers in Vulnerable Situations  | 31 March 2026 | 0.60           | 0.60  | 0.60  | 0.60  | 0.60  |  | 3.02  |

### Personalising welfare provisions Price Control Deliverable: Lon

| Output  | Delivery Date | Allowance (£m) |       |       |       |       |  | Total |
|---|---------------|----------------|-------|-------|-------|-------|--|-------|
|   |               | 21/22          | 22/23 | 23/24 | 24/25 | 25/26 |  |       |
| Additional Welfare Provisions to priority services register customers beyond business as usual work | 31 March 2026 | 0.17           | 0.17  | 0.17  | 0.17  | 0.17  |  | 0.85  |
| Additional Welfare Provisions to non-priority services register customers in Vulnerable Situations  | 31 March 2026 | 0.34           | 0.34  | 0.34  | 0.34  | 0.34  |  | 1.71  |



### Personalising welfare provisions Price Control Deliverable: NW

| Output  | Delivery      | Allowance (£m) |       |       |       |       | Total |
|---|---------------|----------------|-------|-------|-------|-------|-------|
|   | Date          | 21/22          | 22/23 | 23/24 | 24/25 | 25/26 |       |
| Additional Welfare Provisions to priority services register customers beyond business as usual work | 31 March 2026 | 0.20           | 0.20  | 0.20  | 0.20  | 0.20  | 1.01  |
| Additional Welfare Provisions to non-priority services register customers in Vulnerable Situations  | 31 March 2026 | 0.40           | 0.40  | 0.40  | 0.40  | 0.40  | 2.02  |

### Personalising welfare provisions Price Control Deliverable: WM

| Output  | Delivery Date | Allowance (£m) |       |       |       |       | Total |
|---|---------------|----------------|-------|-------|-------|-------|-------|
|   |               | 21/22          | 22/23 | 23/24 | 24/25 | 25/26 |       |
| Additional Welfare Provisions to priority services register customers beyond business as usual work | 31 March 2026 | 0.15           | 0.15  | 0.15  | 0.15  | 0.15  | 0.74  |
| Additional Welfare Provisions to non-priority services register customers in Vulnerable Situations  | 31 March 2026 | 0.30           | 0.30  | 0.30  | 0.30  | 0.30  | 1.48  |

## Special Condition 3.27 London Medium Pressure Price Control Deliverable ( $LMP_t$ )

### Introduction

- 3.27.1 The purpose of this condition is to calculate the term  $LMP_t$  (the London Medium Pressure Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.27.2 The effect of this condition is to specify the outputs, delivery dates and associated allowances for the London Medium Pressure Price Control Deliverable.
- 3.27.3 This condition also sets out the process the Authority will follow when assessing the Price Control Deliverable.

### Part A: Formula for calculating the London Medium Pressure Price Control Deliverable term ( $LMP_t$ )

- 3.27.4 The value of  $LMP_t$  is derived in accordance with the following formula:

$$LMP_t = LMPA_t - LMPR_t$$

where:

- LMPA<sub>t</sub> means the allowances in Appendix 1; and
- LMPR<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part C.

**Part B: What is the licensee funded to deliver?**

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

**Part C: Assessment of the Price Control Deliverable (LMPR<sub>t</sub>)**

- 3.27.6 The Authority will, in accordance with the PCD Reporting Requirements and Methodology Document, consider directing a value for LMPR<sub>t</sub> where the licensee has not Fully Delivered an output in the Redundant Assets PCD Table.

**Part D: What process will the Authority follow in making a direction?**

- 3.27.7 Before making a direction under paragraph 3.27.6 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.27.8 The direction will set out any adjustments to the value of the LMPR<sub>t</sub> term and the Regulatory Years to which that adjustment relates.

**Appendix 1**

**London Medium Pressure Price Control Deliverable outputs**

| Outputs - Mains replacement sections       |                           |                        |
|--|---------------------------|------------------------|
| Section                                    | Length to be replaced (m) | Existing pipe diameter |
| 1a: Belgrave Sq. to Buckingham Gate        | 1,268                     | 36"                    |
| 1b: Buckingham Gate 795 to Horseferry Road |                           | 36"                    |
| 1c: Horseferry Road 610 to Monck St        |                           | 36"                    |
| 2. Salmon Lane Bridge to Commercial Road   | 638                       | 48"                    |
| 3A: 84 to 60 Commercial Road               | 149                       | 48"                    |
| 5a: Farringdon Road                        | 452                       | 48"                    |

|                                      |       |     |
|--------------------------------------|-------|-----|
| 5b: Farringdon Street                | 399   | 48" |
| 10a: Farringdon Rd to Bloomsbury Way | 1,438 | 48" |
| 10b: Bloomsbury Way to the Mall      | 1,654 | 48" |
| 10c: The Mall to Storey's Gate       | 625   | 48" |
| 10d: Storey's Gate to Monck St       | 746   | 48" |
| 11a: New Bridge St to Farringdon St  | 464   | 36" |
| 12. Farringdon Road                  | 650   | 36" |

#### **Outputs - Associated governor interventions**

| <b>Governor</b> | <b>Scope</b>   |
|-----------------|--|
| Belgrave Square | Install new direct-buried, modular, 3 stream "Orpheus" governor units, with associated controls/vent stack, covers. Remove old equipment and demolish existing chambers. |
| Monck Street    |  |
| Central Street  |  |
| Horseferry Road | Demolish and remove old equipment/chambers, reinstate road, cap-off old pipework and valves.   |

#### **London Medium Pressure Price Control Deliverable allowances by Regulatory Year (£m) - Lon**

| <b>Project name</b>    | <b>Delivery Date</b> | <b>21/22</b> | <b>22/23</b> | <b>23/24</b> | <b>24/25</b> | <b>25/26</b> | <b>Total</b> |
|------------------------|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| London Medium Pressure | 31 March 2026        | 11.22        | 10.90        | 11.73        | 8.34         | 4.50         | 46.69        |

**Special Condition 3.28 Not used**

**Special Condition 3.29 Not used**

**Special Condition 3.30 Not used**

**Special Condition 3.31 Not used**

## Chapter 4: Output delivery incentives

### Special Condition 4.1 Total output delivery incentive performance

#### Introduction

- 4.1.1 The purpose of this condition is to calculate  $ODI_t$  (the output delivery incentives term). This contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).

#### Part A: Formula for calculating total output delivery incentive performance

- 4.1.2 The value of  $ODI_t$  is derived in accordance with the following formula:

$$ODI_t = CS_t + CM_t + SM_t + UIP_t + CSW_t$$

where:

- $CS_t$  is derived in accordance with Special Condition 4.2 (Customer Satisfaction Survey output delivery incentive);
- $CM_t$  is derived in accordance with Special Condition 4.3 (Complaints metric output delivery incentive);
- $SM_t$  is derived in accordance with Special Condition 4.4 (Shrinkage Management output delivery incentive);
- $UIP_t$  is derived in accordance with Special Condition 4.5 (Unplanned Interruption Overall Mean Duration output delivery incentive); and
- $CSW_t$  is derived in accordance with Special Condition 4.6 (Collaborative streetworks output delivery incentive).

### Special Condition 4.2 Customer Satisfaction Survey output delivery incentive ( $CS_t$ )

#### Introduction

- 4.2.1 The purpose of this condition is to calculate the term  $CS_t$  (the Customer Satisfaction Survey output delivery incentive term). This contributes to the calculation of the term  $ODI_t$  (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.2.2 The effect of this incentive is to reward or penalise the licensee in relation to its customer service performance under three contributing survey elements.

#### Part A: Adjustments arising from the Customer Satisfaction Survey ( $CS_t$ )

- 4.2.3 The value of the  $CS_t$  term is derived in accordance with the following formula:

$$CS_t = CSA_t + CSB_t + CSC_t$$

where:

|                  |   |
|------------------|---|
| CSA <sub>t</sub> | 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;       |
| CSB <sub>t</sub> | means the adjustment in respect of performance for the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey and is derived in accordance with Part C; and |
| CSC <sub>t</sub> | means the adjustment in respect of performance for the Connections Element of the Customer Satisfaction Survey and is derived in accordance with Part D.                        |

## **Part B: Planned Supply Interruptions Element of the Customer Satisfaction Survey**

4.2.4 The CSA<sub>t</sub> term is derived in accordance with the following formula:

$$CSA_t = \begin{cases} \min \left( \frac{CSAS_t - CSATU_t}{CSAMAX_t - CSATU_t}, 1 \right) 0.005/3 EABR_t, & CSAS_t \geq CSATU_t \\ \max \left( \frac{CSAS_t - CSAT_t}{CSAT_t - CSAMIN_t}, -1 \right) \frac{0.005}{3} EABR_t, & CSAS_t < CSAT_t \\ 0, & \text{Otherwise} \end{cases}$$

where:

|                     |  |
|---------------------|--|
| CSAS <sub>t</sub>   | means the performance score for the Planned Supply Interruptions Element of the Customer Satisfaction Survey;                              |
| CSAT <sub>t</sub>   | means the Planned Supply Interruptions Element score at which the penalty will be applied, fixed at 8.34;                                  |
| CSATU <sub>t</sub>  | means the Planned Supply Interruptions Element score at which the reward will be applied, fixed at 8.69;                                   |
| CSAMAX <sub>t</sub> | means the Planned Supply Interruptions Element performance score at which the maximum level of reward will be applied, fixed at 9.13;      |
| CSAMIN <sub>t</sub> | means the Planned Supply Interruptions Element performance score at which the maximum level of penalty will be applied, fixed at 7.90; and |
| EABR <sub>t</sub>   | means Ex-Ante Base Revenue.  |

## **Part C: Unplanned Supply Interruptions Element of the Customer Satisfaction Survey**

4.2.5 The CSB<sub>t</sub> term is derived in accordance with the following formula:

$$CSB_t = \begin{cases} \min \left( \frac{CSBS_t - CSBTU_t}{CSBMAX_t - CSBTU_t}, 1 \right) 0.005/3 EABR_t, & CSBS_t \geq CSBTU_t \\ \max \left( \frac{CSBS_t - CSBT_t}{CSBT_t - CSBMIN_t}, -1 \right) \frac{0.005}{3} EABR_t, & CSBS_t < CSBT_t \\ 0, & \text{Otherwise} \end{cases}$$

where:

|            |  |
|------------|--|
| $CSBS_t$   | means the performance score for the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey;                              |
| $CSBT_t$   | means the Unplanned Supply Interruptions Element score at which the penalty will be applied, fixed at 9.00;                                  |
| $CSBTU_t$  | means the Unplanned Supply Interruptions Element score at which the reward will be applied, fixed at 9.43;                                   |
| $CSBMAX_t$ | means the Unplanned Supply Interruptions Element performance score at which the maximum level of reward will be applied; fixed at 9.58;      |
| $CSBMIN_t$ | means the Unplanned Supply Interruptions Element performance score at which the maximum level of penalty will be applied; fixed at 8.85; and |
| $EABR_t$   | means Ex-Ante Base Revenue.  |

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

4.2.6 The  $CSC_t$  term is derived in accordance with the following formula:

$$CSC_t = \begin{cases} \min \left( \frac{CSCS_t - CSCTU_t}{CSCMAX_t - CSCTU_t}, 1 \right) 0.005/3 EABR_t, & CSCS_t \geq CSCTU_t \\ \max \left( \frac{CSCS_t - CSCT_t}{CSCT_t - CSCMIN_t}, -1 \right) \frac{0.005}{3} EABR_t, & CSCS_t < CSCT_t \\ 0, & \text{Otherwise} \end{cases}$$

where:

|            |  |
|------------|--|
| $CSCS_t$   | means the performance score for the Connections Element of the Customer Satisfaction Survey;                         |
| $CSCT_t$   | means the Connections Element score at which the penalty will be applied, fixed at 8.11;                             |
| $CSCTU_t$  | means the Connections Element score at which the reward will be applied, fixed at 8.65;                              |
| $CSCMAX_t$ | means the Connections Element performance score at which the maximum level of reward will be applied, fixed at 9.33; |

|            |   |
|------------|---|
| $CSCMIN_t$ | means the Connections Element performance score at which the maximum level of penalty will be applied, fixed at 7.43; and |
| $EABR_t$   | means Ex-Ante Base Revenue.   |

## Special Condition 4.3 Complaints metric output delivery incentive ( $CM_t$ )

### Introduction

- 4.3.1 The purpose of this condition is to calculate the term  $CM_t$  (the complaints metric output delivery incentive term). This contributes to the calculation of the term  $ODI_t$  (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.3.2 The effect of this incentive is to penalise the licensee where it has performed poorly in relation to its handling of customer Complaints.

### Part A: Adjustments arising from complaints metric ( $CM_t$ )

- 4.3.3 The value of the  $CM_t$  term is derived in accordance with the following formula:

$$CM_t = \begin{cases} 0, & CMS_t \leq CMT_t \\ \max \left( \frac{CMS_t - CMT_t}{CMT_t - CMMIN_t}, -1 \right) 0.005 EABR_t, & CMS_t > CMT_t \end{cases}$$

where:

- $CMS_t$  is derived in accordance with Part B;
- $CMT_t$  means the complaints metric target score, fixed at 5;
- $CMMIN_t$  means the complaints metric performance score at which the maximum level of penalty will be applied, fixed at 10; and
- $EABR_t$  means Ex-Ante Base Revenue.

### Part B: Complaints metric performance score

- 4.3.4 The value of the  $CMS_t$  term is derived in accordance with the following formula:

$$CMS_t = 10PCUDPO_t + 30PCUDPT_t + 50PRC_t + 10POF_t$$

where:

- $PCUDPO_t$  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;
- $PCUDPT_t$  means the percentage of Complaints unresolved after the end of the period of 31 Working Days beginning with 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;



|         |   |
|---------|---|
| $PRC_t$ | means the percentage of Repeat Complaints, as reported to the Authority for that year; and  |
| $POF_t$ | means the percentage of total Complaints where an Ombudsman Finding Against The Licensee is made, as reported to the Authority for that year. |

## **Special Condition 4.4 Shrinkage Management output delivery incentive ( $SM_t$ )**

### **Introduction**

- 4.4.1 The purpose of this condition is to calculate the term  $SM_t$  (the Shrinkage Management output delivery incentive term). This contributes to the calculation of the term  $ODI_t$  (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.4.2 The effect of this incentive is to reward or penalise the licensee for its performance in reducing shrinkage of gas by means of pressure management and gas conditioning.
- 4.4.3 This condition also requires the licensee to:
- (a) maintain and comply with the Shrinkage And Leakage Model; and
  - (b) report to the Authority on levels of Shrinkage.

### **Part A: Formula for calculating the Shrinkage Management incentive ( $SM_t$ )**

- 4.4.4 The value of  $SM_t$  is derived in accordance with the following formula:

$$SM_t = \max [\min ((CBV_t - AL_t + PIV_t)(GPRC_t + CC_t), 0.0025 \cdot EABR), -0.0025 \cdot EABR] \cdot TIS$$

where:

|          |   |
|----------|---|
| $CBV_t$  | means the Gas Conditioning Baseline Volume;   |
| $AL_t$   | means the Actual Leakage Volume;  |
| $EABR$   | means Ex-Ante Base Revenue;   |
| $PIV_t$  | means the Pressure Impact Volume, derived in accordance with paragraph 4.4.5;                     |
| $GPRC_t$ | is derived in accordance with Part B;   |
| $CC_t$   | means the Non Traded Central Carbon Price, multiplied by a GWh conversion factor of 1,226.42; and |
| $TIS$    | means the Totex Incentive Strength.   |

- 4.4.5 The value of the term  $PIV_t$  is derived in accordance with the following formula:

$$PIV_t = \begin{cases} PLDV_t - AvPV_t & \text{if } AvPV_t < PLDV_t \\ PUDV_t - AvPV_t & \text{if } AvPV_t > PUDV_t \\ 0, & \text{otherwise} \end{cases}$$

where:

$PLDV_t$  means the Pressure Lower Deadband Volume;

$AvPV_t$  means the Price Control Average Pressure Volume; and

$PUDV_t$  means the Pressure Upper Deadband Volume.

#### **Part B: Formula for calculating the gas price reference cost (GPRC<sub>t</sub>)**

- 4.4.6 The value of the GPRC<sub>t</sub> term is derived in accordance with the following formula:

$$GPRC_t = CF \left( \frac{\sum_{d=1}^n GP_{d,t}}{n_t} \right) \cdot \frac{PI_{2018/19}}{PI_t}$$

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;

$n_t$  means the total number of calendar days in Regulatory Year t;

$GP_{d,t}$  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

$PI_t$  means the price index derived in accordance with Part F of Special Condition 2.1.

#### **Part C: Maintenance of the Shrinkage And Leakage Model**

- 4.4.7 The licensee, together with all other DN Operators, must have in place a Shrinkage And Leakage Model approved by the Authority.
- 4.4.8 The licensee must have in place a methodology to apply the Shrinkage And Leakage Model in a way that is consistent with all other DN Operators, such that the resulting Shrinkage and Leakage volumes are comparable.
- 4.4.9 The Shrinkage And Leakage Model and the licensee's methodology must be designed to facilitate the accurate calculation and reporting of Shrinkage and Leakage.

- 4.4.10 The licensee must, by 31 July in each Regulatory Year, make publicly available and provide to the Authority a report that sets out:
- (a) Actual Leakage Volumes; and
  - (b) Actual Shrinkage Volumes as calculated in accordance with the Shrinkage And Leakage Model for each Distribution Network for the preceding Regulatory Year.
- 4.4.11 Subject to the provision of at least 28 days' 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:
- (a) the Shrinkage And Leakage Model complies with the requirements of this condition; and
  - (b) the licensee is complying with its methodology for the Shrinkage And Leakage Model.
- 4.4.12 The licensee must not make any modification to the Shrinkage And Leakage Model except where it is directed to do so by the Authority under Part D.
- 4.4.13 The licensee must not make modifications to its methodology for the Shrinkage And Leakage model where the changes would have a material impact on the calculation of Shrinkage volumes under the Shrinkage And Leakage Model, except where it is directed to do so by the Authority under Part D.

**Part D: Modification of the Shrinkage And Leakage Model and methodology**

- 4.4.14 The licensee must keep the Shrinkage And Leakage Model under review, 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.
- 4.4.15 The licensee, together with other DN Operators, must annually review their methodologies for the Shrinkage And Leakage Model to verify the comparability of the Shrinkage and Leakage volumes produced by each DN Operator.
- 4.4.16 The licensee must, together with the other DN Operators, submit a report to the Authority on or before 31 March in each Regulatory Year, which must include:
- (a) details of how they have complied with paragraphs 4.4.14 and 4.4.15; and
  - (b) any representations relating to the workings of the Shrinkage And Leakage Model that have been submitted by Gas Shippers and other interested parties.
- 4.4.17 Before proposing any revisions to the Shrinkage And Leakage Model or its methodology, the licensee must:

- (a) consult other DN Operators, Gas Shippers and other interested parties for their views on whether the proposed revisions would better achieve the objective set out in paragraph 4.4.9;
- (b) allow them a period of not less than 28 days in which to make representations;
- (c) together with other DN Operators, consider whether the proposed revision requires review by an independent expert, and if so, appoint such an expert to 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 4.4.9; and
- (d) during the period of 28 days beginning with the date of the close of that consultation, make publicly available and submit to the Authority a report in accordance with paragraph 4.4.18.

4.4.18 The report must set out:

- (a) the revisions proposed, including the original form of those revisions if they changed as a result of the consultation under paragraph 4.4.17;
- (b) any impact on RIIO-GD2 Outputs;
- (c) 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;
- (d) either:
  - i. a copy of the independent expert's report required by paragraph 4.4.17(c); or
  - ii. an explanation of why the DN Operators did not consider it appropriate to appoint an independent expert;
- (e) an explanation of how the proposed modifications would better achieve the objective set out in paragraph 4.4.9; and
- (f) a timetable for implementing the proposed modifications, including the proposed date that they would take effect.

4.4.19 If requested by another person, the licensee must provide all the non-confidential information reasonably required to enable them to propose a change to the Shrinkage And Leakage Model, even if the licensee does not agree that the modification better meets the objective set out in paragraph 4.4.9.

4.4.20 The Authority will:

- (a) approve the revisions proposed by the licensee;
- (b) reject the proposed revisions; or
- (c) reject the proposed revisions and give recommendations as to alternative revisions that it considers should be made.

## Part E: Review requirements in respect of modifications

- 4.4.21 Except where the Authority otherwise consents, the licensee must, together with other DN Operators, and before the end of the period of 12 months beginning with the date of implementation of a modification to the Shrinkage And Leakage Model, appoint an independent expert to review and report on that implementation.
- 4.4.22 The licensee must, together with other DN Operators, ensure that the independent expert's report prepared under paragraph 4.4.21 is made publicly available, and that a copy of that report is sent to the Authority.

## Special Condition 4.5 Unplanned Interruption Mean Duration output delivery incentive ( $UIP_t$ )

### Introduction

- 4.5.1 The purpose of this condition is to calculate the term  $UIP_t$  (the Unplanned Interruptions output delivery incentive term). This contributes to the calculation of the term  $ODI_t$  (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.5.2 The effect of this incentive is to penalise the licensee if it fails to meet minimum standards in the average duration of its Unplanned Interruptions, excluding those that occurred as part of a Major Incident.
- 4.5.3 This includes two separate penalty mechanisms, one relating to MOB Riser Interruptions and another relating to all other types of Unplanned Interruptions.
- 4.5.4 This condition also:
- (a) requires the licensee to submit an explanatory report should its performance breach the Unplanned Interruption Excessive Deterioration Level; and
  - (b) makes provision for the licensee to apply for a reduction in the Unplanned Interruption Mean Duration Penalty in certain circumstances.

### Part A: Formula for calculating the Unplanned Interruption Mean Duration Penalty ( $UIP_t$ )

- 4.5.5 The value of  $UIP_t$  is derived in accordance with the following formula:

$$UIP_t = \begin{cases} 0, & UIMMD_t \leq UIMMS \\ \max \left( \frac{UIMMD_t - UIMMS}{UIMMS - UIMED}, -1 \right) [0.0025 EABR_t], & UIMMD_t > UIMMS \end{cases}$$
$$+ \begin{cases} 0, & UINMD_t \leq UINMS \\ \max \left( \frac{UINMD_t - UINMS}{UINMS - UINED}, -1 \right) [0.0025 EABR_t], & UINMD_t > UINMS \end{cases}$$

where:

|                    |   |
|--------------------|---|
| UIMMD <sub>t</sub> | means the Unplanned Interruption Mean Duration relating to MOB Riser Interruptions, expressed in minutes;   |
| UIMMS              | means the Unplanned Interruption Minimum Performance Level relating to MOB Riser Interruptions set out in Appendix 1;   |
| UIMED              | means the Unplanned Interruptions Excessive Deterioration level relating to MOB Riser Interruptions set out in Appendix 1;  |
| UINMD <sub>t</sub> | means the Unplanned Interruption Mean Duration relating to all Unplanned Interruptions other than MOB Riser Interruptions, expressed in minutes;  |
| UINMS              | means the Unplanned Interruption Minimum Performance Level relating to all Unplanned Interruptions other than those relating to MOB Riser Interruptions set out in Appendix 1;          |
| UINED              | means the Unplanned Interruptions Excessive Deterioration level relating to all Unplanned Interruptions other than those relating to MOB Riser Interruptions set out in Appendix 1; and |
| EABR <sub>t</sub>  | means Ex-Ante Base Revenue.   |

## **Part B: Notification where the Unplanned Interruption Excessive Deterioration Level is breached**

- 4.5.6 If UIMMD<sub>t</sub> exceeds UIMED, or UINMD<sub>t</sub> exceeds UINED, for any Regulatory Year, the licensee must submit to the Authority a report setting out:
- (a) an explanation of all relevant factors that have contributed to the breach of the Unplanned Interruption Excessive Deterioration level; and
  - (b) 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.
- 4.5.7 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.

## **Part C: Application for waiver or reduction in the penalty**

- 4.5.8 The licensee may apply to the Authority for a direction, waiving or reducing any Unplanned Interruption Mean Duration Penalty, where a change to the RIGs on the reporting of Unplanned Interruptions results in a higher Unplanned Interruption Mean Duration Penalty than would have applied had the RIGs for the Regulatory Year 2019/20 remained in effect.
- 4.5.9 The licensee must submit its application for a direction, waiving or reducing the Unplanned Interruption 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.

## **Appendix 1**

### **Unplanned Interruption Mean Duration Penalty levels for all Unplanned Interruptions Other Than MOB Riser Interruptions (hours)**

| <b>Distribution Network</b> | <b>Unplanned Interruptions Minimum Performance Level (UINMS)</b> | <b>Unplanned Interruptions Excessive Deterioration Level (UINED)</b> |
|-----------------------------|--|--|
| EoE                         | 12   | 17   |
| Lon                         | 14   | 19   |
| NW                          | 14   | 19   |
| WM                          | 13   | 18   |

### **Unplanned Interruption Mean Duration Penalty levels for all Unplanned MOB Riser Interruptions (hours)**

| <b>Distribution Network</b> | <b>Unplanned Interruptions Minimum Performance Level (UIMMS)</b> | <b>Unplanned Interruptions Excessive Deterioration Level (UIMED)</b> |
|-----------------------------|--|--|
| EoE                         | 518  | 718  |
| Lon                         | 601  | 801  |
| NW                          | 601  | 801  |
| WM                          | 601  | 801  |

## **Special Condition 4.6 Collaborative streetworks output delivery incentive (CSW<sub>t</sub>)**

### **Introduction**

- 4.6.1 The purpose of this condition is to calculate the term CSW<sub>t</sub> (the collaborative streetworks output delivery incentive term). This contributes to the calculation of the term ODI<sub>t</sub> (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.6.2 The effect of this incentive is to reward the licensee where it delivers a Collaborative Streetworks Project.
- 4.6.3 This condition also requires the licensee to keep a central information source on the ENA Smarter Networks Portal.

## **Part A: Formula for calculating the collaborative streetworks incentive (CSW<sub>t</sub>)**

4.6.4 The value of the CSW<sub>t</sub> term is derived in accordance with the following formula:

$$CSW_t = \min [(X_t \cdot CSWP), 0.005 \cdot EABR] \cdot TIS$$

where:

- X<sub>t</sub> means the number of Collaborative Streetworks Projects completed;
- CSWP means a reward of £0.305m for each Collaborative Streetworks Project completed;
- TIS means the Totex Incentive Strength; and
- EABR means Ex-Ante Base Revenue.

## **Part B: Knowledge sharing requirement**

4.6.5 The licensee must keep a central information source on the ENA Smarter Networks Portal in relation to the Collaborative Streetworks Project which may take the form of links to the relevant Greater London Authority information portal.

## **Special Condition 4.7 Consumer value proposition**

### **Introduction**

- 4.7.1 The purpose of this condition is to:
- (a) specify the CVP Outputs and associated CVP Rewards; and
  - (b) allow for the adjustment of the term BPI<sub>t</sub> (the business plan incentive term), which contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.7.2 This condition also explains the process the Authority will follow when assessing the delivery of the CVP Outputs and directing an adjustment to the BPI<sub>t</sub> term.

### **Part A: What is the licensee expected to deliver?**

4.7.3 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.

### **Part B: Reporting requirements**

- 4.7.4 The licensee must submit a report to the Authority:
- (a) demonstrating how the licensee has delivered its CVP Outputs;



- (b) where it has not delivered a CVP Output, an explanation of the reasons why; and
  - (c) such detailed evidence as is reasonable in the circumstances.
- 4.7.5 The report must be submitted on or before a date directed by the Authority, which will be after the Price Control Period ends.

### **Part C: Authority Assessment and direction**

- 4.7.6 The Authority will consider directing an adjustment to BPI<sub>t</sub> after the Price Control Period where the licensee has not demonstrated CVP Full Delivery.
- 4.7.7 Before making a direction under paragraph 4.7.6 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 4.7.8 A direction under paragraph 4.7.6 will set out the value of the BPI<sub>t</sub> term and the Regulatory Years to which that adjustment relates.

## **Appendix 1**

### **Consumer value proposition: Cadent Gas Limited**

| <b>CVP</b>                       | <b>CVP Output</b>  | <b>Delivery date</b> | <b>Reward (£m)</b> |
|----------------------------------|--|----------------------|--------------------|
| Personalising welfare facilities | Additional Welfare Provisions to 82,125 priority services register customers beyond business as usual work | 31 March 2026        | 0.23               |
| Personalising welfare facilities | Additional Welfare Provisions to 82,125 non-priority services register customers in Vulnerable Situations  | 31 March 2026        | 0.45               |

## Chapter 5: Other revenue allowances

### Special Condition 5.1 Total other revenue allowances ( $ORA_t$ )

#### Part A: Introduction

- 5.1.2 The purpose of this condition is to calculate the term  $ORA_t$  (the other revenue allowance term). This contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).

#### Part B: Formula for calculating total other revenue allowance ( $ORA_t$ )

- 5.1.3 The value of  $ORA_t$  is derived in accordance with the following formula:

$$ORA_t = NIA_t + CNIA_t + VCM_t$$

where:

- $NIA_t$  is derived in accordance with Special Condition 5.2 (RIIO-2 network innovation allowance);
- $CNIA_t$  is derived in accordance with Special Condition 5.3 (Carry-over Network Innovation Allowance); and
- $VCM_t$  is derived in accordance with Special Condition 5.4 (Vulnerability and carbon monoxide allowance).

### Special Condition 5.2 RIIO-2 network innovation allowance ( $NIA_t$ )

#### Introduction

- 5.2.1 The purpose of this condition is to calculate term  $NIA_t$  (the network innovation allowance term). This contributes to the calculation of the term  $ORA_t$  (the other revenue allowance term), which in turn feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.2.2 The effect of this condition is to fund investment in innovation by means of the NIA.
- 5.2.3 This condition also establishes a framework for the governance and administration of the NIA.

#### Part A: Formula for calculating the network innovation allowance term ( $NIA_t$ )

- 5.2.4 Subject to paragraph 5.2.5, the value of the  $NIA_t$  term is derived in accordance with the following formula:

$$NIA_t = 90\% \cdot NIAE_t$$

where:

- $NIAE_t$  means the Total NIA Expenditure.

- 5.2.5 The total value of the network innovation allowance over the RIIO-2 Price Control Period is subject to the following cap:

$$\sum_{t=2021/22}^{2025/26} (NIA_t) \leq (TNIA_t + HYIN_t)$$

where:

$NIA_t$  is derived in accordance with paragraph 5.2.4;

$TNIA_t$  means the value of the licensee's network innovation allowance as set out in Appendix 1; and

$HYIN_t$  means hydrogen innovation funding and has the value zero unless otherwise directed by the Authority in accordance with Part B.

- 5.2.6 The licensee must not spend more than 25% of Total NIA Expenditure on internal resources over the Price Control Period.

### **Part B: Hydrogen innovation funding ( $HYIN_t$ )**

- 5.2.7 The Authority will direct a positive value for  $HYIN_t$  term where it has decided that the value of NIAE is insufficient to enable the licensee to proceed with hydrogen related innovation that the Authority considers:

(a) ought to proceed; and

(b) satisfy the eligibility criteria specified in the RIIO-2 NIA Governance Document.

- 5.2.8 Before making a direction under paragraph 5.2.7 the Authority will:

(a) engage with the licensee and stakeholders including:

- i. the Net Zero Innovation Board; or
- ii. the Net Zero Advisory Group; and

(b) publish on the Authority's Website:

- i. the text of the proposed direction;
- ii. the reasons for the proposed direction; and
- iii. a period during which representations may be made on the proposed direction, which will not be less than 28 days.

- 5.2.9 A direction under paragraph 5.2.7 will set out the value of the  $HYIN_t$  term and the Regulatory Years to which that adjustment relates.

### **Part C: The RIIO-2 NIA Governance Document**

- 5.2.10 The licensee must comply with the RIIO-2 NIA Governance Document.

- 5.2.11 The Authority will issue and amend the RIIO-2 NIA Governance Document by direction.

- 5.2.12 The Authority will publish the RIIO-2 NIA Governance Document on the Authority's Website.
- 5.2.13 The RIIO-2 NIA Governance Document will make provision about the governance and administration of the NIA, including:
- (a) the definition of "unrecoverable NIA expenditure";
  - (b) the eligibility criteria, which RIIO-2 NIA Projects must meet;
  - (c) the information that is to be published by the licensee before RIIO-2 NIA Projects can begin;
  - (d) 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;
  - (e) arrangements for ensuring that learning from RIIO-2 NIA Projects can be captured and disseminated by the licensee to other Gas Transporter licensees;
  - (f) 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
  - (g) arrangements relating to the treatment of intellectual property rights in respect of RIIO-2 NIA Projects.
- 5.2.14 Before directing that the RIIO-2 NIA Governance Document comes into effect, the Authority will publish on the Authority's Website:
- (a) the text of the proposed RIIO-2 NIA Governance Document;
  - (b) the date on which the Authority intends the RIIO-2 NIA Governance Document to come into effect; and
  - (c) 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.
- 5.2.15 Before directing an amendment to the RIIO-2 NIA Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended RIIO-2 NIA Governance Document;
  - (b) the date on which the Authority intends the amended RIIO-2 NIA Governance Document to come into effect;
  - (c) the reasons for the amendments to the RIIO-2 NIA Governance Document; and
  - (d) 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.

## Appendix 1

### Value of the licensee's network innovation allowance

| GDN                        | Value of TNIA (£m) |
|----------------------------|--------------------|
| EOE                        | 12.00              |
| Lon                        | 6.50               |
| NW                         | 8.00               |
| WM                         | 6.00               |
| Northern Gas Networks Ltd  | 11.50              |
| Scotland Gas Networks plc  | 11.00              |
| Southern Gas Networks plc  | 24.60              |
| Wales & West Utilities Ltd | 13.30              |

### Special Condition 5.3 Carry-over Network Innovation Allowance (CNIA<sub>t</sub>)

#### Introduction

- 5.3.1 The purpose of this condition is to calculate the term CNIA<sub>t</sub> (the Carry-over Network Innovation Allowance term). This contributes to the calculation of the term ORA<sub>t</sub> (the other revenue allowance term), which in turn feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.3.2 The effect of this condition is to extend RIIO-1 Network Innovation Allowance funding.
- 5.3.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the Carry-over Network Innovation Allowance.

#### Part A: Formula for calculating the Carry-over Network Innovation Allowance term (CNIA<sub>t</sub>)

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

$$CNIA_t = (0.9 \cdot \min[ECNIA_t, CNIAV] - CNIA_{t-1}) \frac{PI_{2018/19}}{PI_t}$$

where:

ECNIA<sub>t</sub> 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 Network Innovation Allowance which the Authority has directed is unrecoverable in accordance with the RIIO-1 NIA Governance Document; and
- Pit is the price index derived in accordance with Part F of Special Condition 2.1.

5.3.5 For Regulatory Years commencing on or after 1 April 2022, the value of CNIA<sub>t</sub> is equal to zero.

5.3.6 Eligible CNIA Internal Expenditure may not exceed 25% of the total Eligible CNIA, unless the Authority otherwise consents.

**Part B: Formula for calculating the Carry-over Network Innovation Allowance value term (CNIAV)**

5.3.7 The value of CNIAV is derived in accordance with the following formula:

$$CNIAV = NIAV_{2020/21} \cdot BR_{2020/21} - (ENIA_{2020/21} + BPC_{2020/21})$$

where:

- NIAV<sub>2020/21</sub>* 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;
- BR<sub>2020/21</sub>* is calculated in accordance with Part B of Special Condition 1H of this licence as in force on 31 March 2021;
- ENIA<sub>2020/21</sub>* is calculated in accordance with Part B of Special Condition 1H of this licence as in force on 31 March 2021; and
- BPC<sub>2020/21</sub>* is calculated in accordance with Part B of Special Condition 1H of this licence as in force on 31 March 2021.

**Part C: The RIIO-1 NIA Governance Document**

5.3.8 The licensee must comply with the RIIO-1 NIA Governance Document.

5.3.9 The Authority will amend the RIIO-1 NIA Governance Document by direction.

5.3.10 The RIIO-1 NIA Governance Document makes and will continue to make additional provision in respect of:

- (a) arrangements for ensuring that relevant learning from Eligible CNIA Projects can be captured and disseminated by the licensee to other Gas Transporter Licensees whose licences contain a condition of equivalent effect to this condition;
- (b) 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);

- (c) arrangements relating to the treatment of intellectual property rights in respect of Eligible CNIA Projects; and
- (d) any other matters relating to the regulation, governance or administration of the Carry-over Network Innovation Allowance.

#### **Part D: Procedure for amending the RIIO-1 NIA Governance Document**

- 5.3.11 Before amending the RIIO-1 NIA Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended RIIO-1 NIA Governance Document;
  - (b) the date on which the Authority intends the amended RIIO-1 NIA Governance Document to come into effect;
  - (c) the reasons for the amendments to the RIIO-1 NIA Governance Document; and
  - (d) 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.

### **Special Condition 5.4 Vulnerability and carbon monoxide allowance (VCM<sub>t</sub>)**

#### **Introduction**

- 5.4.1 The purpose of this condition is to calculate the term VCM<sub>t</sub> (the vulnerability and carbon monoxide term). This contributes to the calculation of the term ORA<sub>t</sub> (the other revenue allowance), which in turn feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.4.2 This condition also makes appropriate provision for the regulation, administration and governance of the vulnerability and carbon monoxide allowance.

#### **Part A: Formula for calculating the vulnerability and carbon monoxide allowance**

- 5.4.3 The value of VCM<sub>t</sub> is derived in accordance with the following formula:

$$VCM_t = VCMCS_t + VCMCL_t$$

where:

- VCMCS<sub>t</sub> means the Company Specific VCMA Project allowance that relates to the licensee; and
- VCMCL<sub>t</sub> means the Collaborative VCMA Project allowance that relates to the licensee.

- 5.4.4 The value of VCMCS<sub>t</sub> is derived in accordance with the following formula:

$$VCMCS_t = \max \left[ \min \left( VCMCSE_t, VCMCSC - \sum_{k=2021/22}^{t-1} VCMCSE_k \right), 0 \right]$$

where:

$VCMCSE_t$  means the total expenditure on Company Specific VCMA Projects;

$VCMCSC$  means the value of the licensee's expenditure cap for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1; and

$\sum_{k=2021/22}^{t-1} VCMCSE_k$  means the total expenditure on Company Specific VCMA Projects prior to Regulatory Year t.

5.4.5 The value of  $VCMCL_t$  is derived in accordance with the following formula:

$$VCMCL_t = \max \left[ \min \left( VCMCLE_t, VCMCLC - \sum_{k=2021/22}^{t-1} VCMCLE_k \right), 0 \right]$$

where:

$VCMCLE_t$  means the total expenditure on Collaborative VCMA Projects;

$VCMCLC$  means the value of the licensee's expenditure cap for Collaborative VCMA Projects for the Price Control Period as set out in Appendix 1; and

$\sum_{k=2021/22}^{t-1} VCMCLE_k$  means the total expenditure on Collaborative VCMA Projects prior to Regulatory Year t.

## Part B: The VCMA Governance Document

5.4.6 The licensee must comply with the VCMA Governance Document in its administration and delivery of the VCMA Projects, associated learning dissemination requirements and reporting requirements.

5.4.7 The Authority will issue and amend the VCMA Governance Document by direction.

5.4.8 The Authority will publish the VCMA Governance Document on the Authority's Website.

5.4.9 The VCMA Governance Document will make provision about:

(a) the eligibility criteria that VCMA Projects must meet;

(b) the information that is to be published by the licensee prior to starting any VCMA Project;



- (c) arrangements for ensuring that relevant learning from VCMA Projects can be captured and disseminated to all other DN Operators; and
  - (d) the nature of the reporting obligations in respect of VCMA Projects.
- 5.4.10 Before issuing the VCMA Governance Document the Authority will publish on the Authority's Website:
- (a) the proposed text of the VCMA Governance Document;
  - (b) the date on which the Authority intends the VCMA Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the VCMA Governance Document, which will not be less than 28 days.
- 5.4.11 Before directing an amendment to the VCMA Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended VCMA Governance Document;
  - (b) the date on which the Authority intends the amended VCMA Governance Document to come into effect;
  - (c) the reasons for the amendment to the VCMA Governance Document; and
  - (d) a period during which representations may be made on the amendment to the VCMA Governance Document, which will not be less than 28 days.

## **Appendix 1**

### **VCMA Expenditure Cap (£m)**

| <b>GDN</b>                 | <b>Allowance</b>                        | <b>Total</b> |
|----------------------------|---|--------------|
| EoE                        | Company Specific VCMA Project allowance | 8.22         |
|                            | Collaborative VCMA Project allowance    | 2.74         |
| Lon                        | Company Specific VCMA Project allowance | 4.60         |
|                            | Collaborative VCMA Project allowance    | 1.53         |
| NW                         | Company Specific VCMA Project allowance | 5.48         |
|                            | Collaborative VCMA Project allowance    | 1.83         |
| WM                         | Company Specific VCMA Project allowance | 4.00         |
|                            | Collaborative VCMA Project allowance    | 1.33         |
| Northern Gas Networks Ltd  | Company Specific VCMA Project allowance | 5.16         |
|                            | Collaborative VCMA Project allowance    | 1.72         |
| Scotland Gas Networks plc  | Company Specific VCMA Project allowance | 3.77         |
|                            | Collaborative VCMA Project allowance    | 1.26         |
| Southern Gas Networks plc  | Company Specific VCMA Project allowance | 8.42         |
|                            | Collaborative VCMA Project allowance    | 2.81         |
| Wales & West Utilities Ltd | Company Specific VCMA Project allowance | 5.34         |

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|                                      |      |
|--------------------------------------|------|
| Collaborative VCMA Project allowance | 1.78 |
|--------------------------------------|------|

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# Chapter 6: Pass-through expenditure

## Special Condition 6.1 Pass-through items ( $PT_t$ )

### Introduction

- 6.1.1 The purpose of this condition is to calculate the term  $PT_t$  (the allowed pass-through term). This feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 6.1.2 The effect of this condition is to ensure that the licensee's Allowed Revenue reflects that certain costs can be passed through to customers.

### Part A: Formula for calculating the allowed pass-through term ( $PT_t$ )

- 6.1.3 The  $PT_t$  term is derived in accordance with the following formula:

$$PT_t = RB_t + LF_t + PD_t + EDE_t + TPWI_t + TG_t + MP_t + CDSP_t + SL_t + EC_t + BD_t$$

where:

- $RB_t$  means the amount levied on the licensee in respect of the Prescribed Rates or an amount directed under Part B;
- $LF_t$  means the payments made by the licensee in respect of Licensed Activity under Standard Condition 3 (Payments by the Licensee to the Authority);
- $PD_t$  means the payments made by the licensee to meet the Distribution Network Pension Deficit Charge, which is levied on the Distribution Network by the NTS Operator;
- $EDE_t$  means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory Year, as further explained and elaborated upon in the GD2 Price Control Financial Handbook;
- $TPWI_t$  means the Third Party Damage And Water Ingress Costs pass-through term and is derived in accordance with Part C;
- $TG_t$  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);
- $MP_t$  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  $MP_t$ ;
- $CDSP_t$  means CDSP Costs;
- $SL_t$  means the Shrinkage costs pass-through term and is derived in accordance with Part D;

- $EC_t$  means the sum of NTS Exit Flat Capacity Costs and NTS Exit Flex Capacity Costs; and
- $BD_t$  means the Bad Debt term and is derived in accordance with Part E.

### **Part B: Review of Prescribed Rates pass-through term ( $RB_t$ )**

- 6.1.4 As part of any periodic revaluation, the licensee must:
- (a) engage with the Relevant Valuation Agency; and
  - (b) use reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.
- 6.1.5 The Authority will review the licensee's engagement with the Relevant Valuation Agency with respect to a revaluation.
- 6.1.6 If, after reviewing the licensee's engagement with the Relevant Valuation Agency and requesting any further information required from the licensee 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  $RB_t$  by direction.

### **Part C: Formula for calculating the Third Party Damage And Water Ingress Costs pass-through term ( $TPWI_t$ )**

- 6.1.7 Subject to paragraph 6.1.10, the  $TPWI_t$  term is derived in accordance with the following formula:

$$TPWI_t = \max[(0.95 \times TPWR_t) - (0.015 \times EABR_t), 0]$$

where:

- $TPWR_t$  means Third Party Damage And Water Ingress Costs; and
- $EABR_t$  means Ex-Ante Base Revenue.

- 6.1.8 The licensee must use its reasonable 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.
- 6.1.9 The Authority will review the action taken by the licensee to recoup Third Party Damage And Water Ingress Costs.
- 6.1.10 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  $TPWI_t$  by direction.

### **Part D: Formula for calculating the Shrinkage costs pass-through term ( $SL_t$ )**

- 6.1.11 The value of  $SL_t$  is derived in accordance with the following formula:

$$SL_t = ASV_t \cdot GPRC_t$$

where:

$ASV_t$  means the Actual Shrinkage Volume; and

$GPRC_t$  means the gas price reference cost, and is derived in accordance with Part B of Special Condition 4.4 (Shrinkage Management output delivery incentive).

#### **Part E: Formula for calculating the Bad Debt term ( $BD_t$ )**

6.1.12 The value of the  $BD_t$  term is derived in accordance with the following formula:

$$BD_t = BDA_t - RBD_t$$

where:

$BDA_t$  means the aggregate value of Bad Debt the licensee has incurred or expects to incur, inclusive of COVID-19 Bad Debt, with respect to Network Charges owed to the licensee by one or more Defaulting Gas Shippers, less the interest income accrued at the default rate set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme; and

$RBD_t$  means the aggregate value of Bad Debt previously recovered, inclusive of COVID-19 Bad Debt, by the licensee via the  $BDA_t$  term, where the licensee has received cash through either the Defaulting Gas Shipper or been credited by the administrator or liquidator of a Defaulting Gas Shipper.

# Chapter 7: Legacy adjustments

## Special Condition 7.1 Legacy adjustments to revenue (LAR<sub>t</sub>)

### Introduction

7.1.1 The purpose of this condition is to calculate the term LAR<sub>t</sub> (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).

7.1.2 The value of LAR<sub>t</sub> and its components are in nominal prices.

### Part A: Formula for calculating total legacy adjustments (LAR<sub>t</sub>)

7.1.3 The value of the LAR<sub>t</sub> term is derived in accordance with the following formula:

$$LAR_t = LPT_t + LMOD_t + LK_t + LTRU_t + NOCO_t + LDRW_t + LBM_t + LSHR_t + LEEI_t + LFPI_t + LEx_t$$

where:

- LPT<sub>t</sub>* is derived in accordance with Special Condition 7.2 (Legacy pass-through);
- LMOD<sub>t</sub>* is derived in accordance with Special Condition 7.3 (Legacy MOD);
- LK<sub>t</sub>* is derived in accordance with Special Condition 7.4 (Legacy K Correction);
- LTRU<sub>t</sub>* is derived in accordance with Special Condition 7.5 (Legacy TRU term);
- NOCO<sub>t</sub>* is derived in accordance with Special Condition 7.6 (Close out of the RIIO-1 Network Outputs);
- LDRW<sub>t</sub>* is derived in accordance with Special Condition 7.8 (Close out of the RIIO-GD1 Discretionary Reward Scheme);
- LBM<sub>t</sub>* is derived in accordance with Special Condition 7.9 (Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive);
- LSHR<sub>t</sub>* is derived in accordance with Special Condition 7.10 (Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment);
- LEEI<sub>t</sub>* is derived in accordance with Special Condition 7.11 (Close out of the RIIO-GD1 Environmental Emissions Incentive);
- LFPI<sub>t</sub>* is derived in accordance with Special Condition 7.12 (Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive Mechanism); and
- LEx<sub>t</sub>* is derived in accordance with Special Condition 7.13 (Close out of the RIIO-GD1 Exit Capacity Cost Adjustment).

## Special Condition 7.2 Legacy pass-through ( $LPT_t$ )

### Introduction

- 7.2.1 The purpose of this condition is to calculate the term  $LPT_t$  (the legacy pass-through term). This contributes to the calculation of the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.2.2 The effect of this condition is to close out the RII0-GD1 pass-through term such that revenue in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflects pass-through item adjustments relating to the Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively.

### Part A: Formula for calculating the legacy pass-through term ( $LPT_t$ )

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

## Special Condition 7.3 Legacy MOD ( $LMOD_t$ )

### Introduction

- 7.3.1 The purpose of this condition explains the process the Authority will follow when directing values for the term  $LMOD_t$  (the legacy MOD term). This contributes to the calculation of the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.3.2 The effect of this condition is to reflect the close out of the GD1 Price Control Financial Model.

### Part A: Authority Assessment and direction

- 7.3.3 The value of  $LMOD_t$ , is derived in accordance with the following formula:

$$LMOD_t = MOD_t \cdot RPIF_t$$

where:

$MOD_t$  has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the GD1 Price Control Financial Model, performed in accordance with Chapter 8 (legacy) of the GD2 Price Control Financial Handbook; and

$RPIF_t$  has the value of  $RPIF_t$  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.

- 7.3.4 Before making a direction under paragraph 7.3.3 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

## **Special Condition 7.4 Legacy K Correction ( $LK_t$ )**

### **Introduction**

- 7.4.1 The purpose of this condition is to calculate the term  $LK_t$  (the legacy correction term). This contributes to the calculation of the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.4.2 The effect of this condition is to close out the RIIO-GD1 correction term such that revenue in the Regulatory Years commencing on 1 April 2021 reflects the correction value relating to the Regulatory Years commencing on 1 April 2019.

### **Part A: Formula for calculating the legacy correction term ( $LK_t$ )**

- 7.4.3 For the Regulatory Years commencing on 1 April 2021, the value of  $LK_t$  is derived in accordance with the following formula:

$$LK_t = -K_t$$

Where

$K$  has the value of 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.

- 7.4.4 The value of  $LK_t$  for Regulatory Years commencing on or after 1 April 2022 is zero.

## **Special Condition 7.5 Legacy TRU term ( $LTRU_t$ )**

### **Introduction**

- 7.5.1 The purpose of this condition is to calculate the term  $LTRU_t$  (the legacy TRU term). This contributes to the calculation of the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).



- 7.5.2 The effect of this condition is to close out the RIIO-GD1 TRU term such that revenue in the Regulatory Years commencing on 1 April 2021 to 1 April 2024 reflects TRU adjustments relating to inflation forecasts used in the Regulatory Years commencing on 1 April 2017 to 1 April 2020 respectively.

**Part A: Formula for calculating the legacy TRU term ( $LTRU_t$ )**

- 7.5.3 For the Regulatory Years commencing on 1 April 2021 to 1 April 2024, the value of  $LTRU_t$  is derived in accordance with the following formula:

$$LTRU_t = TRU_t \cdot RPIF_t$$

where:

- $TRU_t$  is equivalent to  $TRU_t$  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; and
- $RPIF_t$  has the value of  $RPIF_t$  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.

- 7.5.4 The value of  $LTRU_t$  for Regulatory Years commencing on or after 1 April 2025 is zero.

**Special Condition 7.6 Close out of the RIIO-1 Network Outputs ( $NOCO_t$ )**

**Introduction**

- 7.6.1 The purpose of this condition is to set out the process for deciding the term  $NOCO_t$  (the RIIO-1 Network Outputs close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustment term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.6.2 The effect of this condition is to adjust the licensee's revenue to reflect its RIIO-1 Network Outputs delivery.

**Part A: RIIO-1 Network Outputs information to be provided by the licensee**

- 7.6.3 By 31 July 2021, or such later date directed by the Authority, 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:
- (a) any RIIO-1 Network Output in accordance with the relevant specifications; and
  - (b) any RIIO-1 Materially Equivalent Outputs.
- 7.6.4 By 1 December 2021, or such later date directed by the Authority, 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:

- (a) any RIIO-1 Justified Material Over-delivery; or
- (b) any RIIO-1 Justified Material Under-delivery.

#### **Part B: Process for modifying the NOMs Incentive Methodology**

- 7.6.5 The Authority will modify the NOMs Incentive Methodology by direction.
- 7.6.6 Before making a direction under paragraph 7.6.5, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations on the proposed direction may be made, which will not be less than 28 days.

#### **Part C: Process for directing the RIIO-1 Network Outputs close out term (NOCO<sub>t</sub>)**

- 7.6.7 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.
- 7.6.8 Before directing the value of NOCO<sub>t</sub>, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons why it proposes to issue the direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 56 days.

### **Appendix 1**

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

| <b>Incentives</b> | <b>Justified</b>   | <b>Unjustified</b>   |
|-------------------|--|--|
| Over-delivery     | Cost of over-delivery will be included in the licensee's revenue.<br>The financing cost incurred by the licensee in advancing investment will be reimbursed.<br>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.<br>The licensee will incur the financing cost of earlier investment. |

| Incentives     | Justified  | Unjustified   |
|----------------|--|---|
| Under-delivery | Cost of under-delivery will be excluded from the licensee's revenue.<br>The licensee will benefit from the financing cost of delayed investment. | Cost of under-delivery will be excluded from the licensee's revenue.<br>The benefit arising to the licensee from the financing cost of delayed investment will be clawed back.<br>Penalty of 2.5 per cent of the avoided costs associated with the material under-delivery. |

## Special Condition 7.7 RIIO-GD1 network innovation competition

### Introduction

- 7.7.1 The NIC ran during the RIIO-GD1 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.
- 7.7.2 Parts A and D are supplemented by the relevant provisions of the NIC Governance Document.

### Part A: The Funding Return Mechanism

- 7.7.3 The Authority may direct how Returned Project Revenues should be paid to customers through the Funding Return Mechanism, or where the Authority considers it appropriate, how they should be retained by the licensee.
- 7.7.4 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:
- (a) the amount of any Funding Return that the licensee must pay to the NTS Operator; and
  - (b) the manner in which and the timescale over which the licensee must pay that amount.

### Part B: The NIC Governance Document

- 7.7.5 The licensee must comply with the NIC Governance Document.
- 7.7.6 The Authority will amend the NIC Governance Document by direction.
- 7.7.7 The Authority will publish the NIC Governance Document on the Authority's Website.

- 7.7.8 The NIC Governance Document makes and will continue to make provision about:
- (a) the process and procedures that will be in place for the assessment, approval and financing of project funding (where necessary);
  - (b) 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;
  - (c) 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);
  - (d) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
  - (e) any other matters relating to the governance of the NIC.

### **Part C: Procedure for amending the NIC Governance Document**

- 7.7.9 Before amending the NIC Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended NIC Governance Document;
  - (b) the date on which the Authority intends the amended NIC Governance Document to come into effect;
  - (c) the reasons for the amendments to the NIC Governance Document; and
  - (d) a period during which representations may be made on the amendments to the NIC Governance Document, which will not be less than 28 days.

### **Part D: Successful Delivery Reward**

- 7.7.10 The Authority may direct that the NTS Operator pay the licensee a Successful Delivery Reward, in accordance with the provisions of the NIC Governance Document.

## **Special Condition 7.8 Close out of the RIIO-GD1 Discretionary Reward Scheme (LDRW<sub>t</sub>)**

### **Introduction**

- 7.8.1 The purpose of this condition is to calculate the term LDRW<sub>t</sub> (the RIIO-GD1 Discretionary Reward Scheme close out term). This contributes to the calculation of the LAR<sub>t</sub> term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.8.2 The effect of this condition is to close out the RIIO-GD1 Discretionary Reward Scheme, such that revenue in the Regulatory Years commencing 1 April 2021 and 1 April 2022 reflects the licensee's performance under the scheme.

**Part A: Formula for calculating the RIIO-GD1 Discretionary Reward Scheme close out term ( $LDRW_t$ )**

7.8.3 For the Regulatory Year commencing on 1 April 2021, the value of  $LDRW_t$  is zero.

7.8.4 For the Regulatory Year commencing on 1 April 2022, the value of the  $LDRW_t$  term is derived in accordance with the following formula:

$$LDRW_{2022/23} = DRWX \cdot DRWSF$$

where:

DRWX means the positive amount (if any) as may be determined by the Authority in respect of the licensee's performance under the RIIO-GD1 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 DRWX 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.

7.8.5 The value of  $LDRW_t$  for Regulatory Years commencing on or after 1 April 2023 is zero.

**Special Condition 7.9 Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive ( $LBM_t$ )**

**Introduction**

7.9.1 The purpose of this condition is to direct the term  $LBM_t$  (the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).

7.9.2 The effect of this condition is to close out the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive, such that revenue in the Regulatory Years commencing 1 April 2021 and 1 April 2022 reflects the licensee's performance under the incentive.

7.9.3 This condition also sets out the process the Authority will follow when amending the Stakeholder Engagement Incentive Guidance.

**Part A: The RIIO-GD1 Broad Measure of Customer Satisfaction Incentive close out term ( $LBM_t$ )**

7.9.4 For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of  $LBM$  has the value of  $BM$  as 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.

- 7.9.5 The maximum value of  $LBM_t$  that the Authority will direct is equal to 1 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.
- 7.9.6 The value of  $LBM_t$  for Regulatory Years commencing on or after 1 April 2023 is zero.

#### **Part B: Amendments to the Stakeholder Engagement Incentive Guidance**

- 7.9.7 The Authority will amend the Stakeholder Engagement Incentive Guidance by direction.
- 7.9.8 Before amending the Stakeholder Engagement Incentive Guidance by direction the Authority will publish on the Authority's Website:
- (a) the text of the amended Stakeholder Engagement Incentive Guidance;
  - (b) the date on which the Authority intends the amended Stakeholder Engagement Incentive Guidance to come into effect;
  - (c) the reasons for the amendments to the Stakeholder Engagement Incentive Guidance; and
  - (d) 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.

### **Special Condition 7.10 Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment ( $LSHR_t$ )**

#### **Introduction**

- 7.10.1 The purpose of this condition is to direct the term  $LSHR_t$  (the RIIO-GD1 Shrinkage Allowance Revenue Adjustment close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.10.2 The effect of this condition is to close out the RIIO-GD1 Shrinkage Allowance Revenue Adjustment, such that revenue in the Regulatory Years commencing 1 April 2021, 1 April 2022 and 1 April 2023 reflect the licensee's performance under the scheme.

#### **Part A: The RIIO-GD1 Shrinkage Allowance Revenue Adjustment close out term ( $LSHR_t$ )**

- 7.10.3 For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of  $LSHR$  has the value of  $SHR$  as determined in accordance with Part A of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) of this licence as in force on 31 March 2021.

7.10.4 For the Regulatory Year commencing on 1 April 2023 the value of LSHR has the value of PRGSAS as determined in accordance with Part A of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) of this licence as in force on 31 March 2021.

7.10.5 The value of  $LSHR_t$  for Regulatory Years commencing on or after 1 April 2024 is zero.

## **Special Condition 7.11 Close out of the RIIO-GD1 Environmental Emissions Incentive ( $LEEI_t$ )**

### **Introduction**

7.11.1 The purpose of this condition is to direct the term  $LEEI_t$  (the RIIO-GD1 Environmental Emissions Incentive close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).

7.11.2 The effect of this condition is to close out the RIIO-GD1 Environmental Emissions Incentive, such that revenue in the Regulatory Years commencing 1 April 2021, 1 April 2022 and 1 April 2023 reflect the licensee's performance under the incentive.

### **Part A: The RIIO-GD1 Environmental Emissions Incentive close-out term ( $LEEI_t$ )**

7.11.3 For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of  $LEEI_t$  has the value of EEI as determined in accordance with Part C of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) of this licence as in force on 31 March 2021.

7.11.4 For the Regulatory Year commencing on 1 April 2023, the value of  $LEEI_t$  has the value of PRGAS as determined in accordance Part C of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) of this licence as in force on 31 March 2021.

7.11.5 The value of  $LEEI_t$  for Regulatory Years commencing on or after 1 April 2024 is zero.

## **Special Condition 7.12 Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive ( $LFPI_t$ )**

### **Introduction**

7.12.1 The purpose of this condition is to calculate the term  $LFPI_t$  (the Fuel Poor Network Extension Scheme Incentive close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).

- 7.12.2 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.
- 7.12.3 This condition also places reporting requirements on the licensee in relation to FPNES Connection Targets.

**Part A: Formula for calculating the Fuel Poor Network Extension Scheme Incentive close out term (LFPI<sub>t</sub>)**

- 7.12.4 The value of LFPI<sub>t</sub> is derived in accordance with the following formula, but only applies where the Authority so directs:

$$LFPI_t = FPO_t + FPU_t$$

where:

- FPO<sub>t</sub> 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; and
- FPU<sub>t</sub> 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.

**Part B: Requirement to report on RIIO1-GD1 FPNES Connection Targets**

- 7.12.5 On or before 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 and provide details of its performance.
- 7.12.6 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:
- (a) the RIIO-GD1 FPNES Connection Targets; and
  - (b) any justified over delivery, or under delivery, in accordance with the RIIO Principles.

**Part C: Process for directing the application of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive close out term**

- 7.12.7 Before issuing a direction under paragraph 7.12.4 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 7.12.8 The direction will set out the value of the LFPI<sub>t</sub> term and the Regulatory Years to which that adjustment relates.



## Appendix 1

### 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   |

### Special Condition 7.13 Close out of the RIIO-GD1 Exit Capacity Cost Adjustment ( $LEx_t$ )

#### Introduction

- 7.13.1 The purpose of this condition is to calculate the  $LEx_t$  term (the RIIO-GD1 Exit Capacity Cost Adjustment close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.13.2 The effect of this condition is to close out the RIIO-GD1 Exit Capacity Cost Adjustment, such that revenue in the Regulatory Years commencing 1 April 2021 and 1 April 2022 reflects the licensee's performance under the scheme.

#### Part A: Formula for calculating the RIIO-GD1 Exit Capacity Cost Adjustment close out term ( $LEx_t$ )

- 7.13.3 For the Regulatory Years commencing on 1 April 2021 and 1 April 2022 the value of  $LEx_t$  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.
- 7.13.4 The value of  $LEx_t$  for Regulatory Years commencing on or after 1 April 2023 is zero.

## **Special Condition 7.14 Legacy net RAV additions ( $LRAV_t$ )**

### **Introduction**

- 7.14.1 This condition explains the process the Authority will follow when directing values for the term  $LRAV_t$  (the legacy net RAV additions term). This contributes to the calculation of the term  $DPN_t$  (the depreciation term as calculated by the GD2 Price Control Financial Model), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 7.14.2 The effect is to reflect the close out of the RIIO-GD1 Price Control Financial Model, in respect of legacy net RAV additions.

### **Part A: Authority assessment and direction**

- 7.14.3 The Authority will direct revisions to  $LRAV_t$ , coinciding with the Annual Iteration Process.
- 7.14.4 Before making a direction under paragraph 7.14.3 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

# **Chapter 8: Governance**

## **Special Condition 8.1 Governance of the GD2 Price Control Financial Instruments**

### **Introduction**

8.1.1 The purpose of this condition is to establish:

- (a) the GD2 Price Control Financial Instruments; and
- (b) a robust and transparent change control framework for the GD2 Price Control Financial Instruments:

### **Part A: The GD1 Price Control Financial Instruments**

8.1.2 Each of the following GD2 Price Control Financial Instruments forms part of this condition:

- (a) the GD2 Price Control Financial Handbook; and
- (b) the GD2 Price Control Financial Model.

### **Part B: Assessment of the likely impact of an intended modification**

8.1.3 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:

- (a) the licensee;
- (b) any other Gas Transporter Licensee in whose licence a condition equivalent to this one has effect; 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
- (c) energy consumers (whether considered individually, as a whole, or by reference to any class or category of them) in Great Britain.

8.1.4 In making the assessment required by paragraph 8.1.3, the Authority will have regard to all relevant factors including:

- (a) 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
- (b) in respect of modifications to the GD2 Price Control Financial Model, any views expressed by the GD2 Price Control Financial Model Working Group.

8.1.5 For the purposes of paragraph 8.1.3, 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 C: Circumstances in which a modification may be made**

- 8.1.6 If, having carried out the required assessment under Part B, 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 8.1.3, it may modify that instrument by direction. Otherwise any modification will be made under section 23 of the Act.
- 8.1.7 Before making a direction under paragraph 8.1.6, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) 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 8.1.3; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 8.1.8 A direction under paragraph 8.1.6 will set out:
- (a) the modifications to the GD2 Price Control Finance Instruments; and
  - (b) the date from which it is to have effect or the mechanism by which that date is to be determined.

## **Part D: Availability and updating of GD2 Price Control Financial Instruments**

- 8.1.9 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.
- 8.1.10 The Authority will ensure that any modifications of the GD2 Price Control Financial Handbook, whether under Part C or otherwise, are promptly incorporated into a consolidated version of the GD2 Price Control Financial Handbook maintained on the Authority's Website.
- 8.1.11 The Authority will ensure that any modifications of the GD2 Price Control Financial Model, whether under Part C or otherwise, are promptly incorporated into a consolidated version of the GD2 Price Control Financial Model maintained on the Authority's Website.
- 8.1.12 Without limiting the general effect of paragraph 8.1.11, the Authority will by no later than 30 November prior to each Regulatory Year:
- (a) publish on the Authority's Website, in Microsoft Excel ® format, the version of the GD2 Price Control Financial Model that will be used to calculate and publish the value of the terms  $ADJR_t$  and  $AR_t$  in accordance with the calculation set out in Part C of Special Condition 2.1 (Revenue restriction);
  - (b) 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;

- (c) 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
  - (d) publish an up-to-date schedule of any modifications that have been made to the GD2 Price Control Financial Model, whether under Part C or otherwise, up to and including the date of such publication.
- 8.1.13 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 8.1.12 will be Regulatory Year 2021/22 and the last Regulatory Year will be 2024/25.

## **Special Condition 8.2 Annual Iteration Process for the GD2 Price Control Financial Model**

### **Introduction**

- 8.2.1 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 calculate and publish the value of the terms  $ADJR_t$  and  $AR_t$  in accordance with Special Condition 2.1 (Revenue restriction).
- 8.2.2 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**

- 8.2.3 The paragraphs in this Part set out the steps that comprise the Annual Iteration Process.
- 8.2.4 Step 1: The licensee must, by 31 August 2021 and by 31 July prior to each Regulatory Year, thereafter:
- (a) use the version of the GD2 Price Control Financial Model published by the Authority in accordance with paragraph 8.1.12 or where there has been a republication, the version most recently published to complete the PCFM Variable Values table with the PCFM Variable Values in accordance with the PCFM Guidance;
  - (b) run the macro on the “UserInterface” sheet of the GD2 Price Control Financial Model to calculate the terms  $ADJR_t$  and  $AR_t$ ;
  - (c) save the GD2 Price Control Financial Model; and
  - (d) submit the GD2 Price Control Financial Model to the Authority.
- 8.2.5 Step 2: The Authority will, taking into account any decisions made by it in relation to PCFM Variable Values under Chapters 2 to 7 of this licence:

- (a) review the GD2 Price Control Financial Model submitted by the licensee and confirm or amend any PCFM Variable Values; or
  - (b) where the licensee has not complied with Step 1, complete the PCFM Variable Values table.
- 8.2.6 Step 3: The Authority will run the macro on the “UserInterface” sheet of the GD2 Price Control Financial Model to calculate the value of the terms  $ADJR_t$  and  $AR_t$ .
- 8.2.7 Step 4: The Authority will publish the value of the terms  $ADJR_t$  and  $AR_t$  on the Authority’s Website in accordance with Part B.
- 8.2.8 In relation to Step 1 in paragraph 8.2.4:
  - (a) 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
  - (b) 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, or an alternate input agreed to by the Authority must be used.

**Part B: Publication of the value of the terms  $ADJR_t$  and  $AR_t$**

- 8.2.9 The value of the terms  $ADJR_t$  and  $AR_t$  will be published by the Authority no later than 30 November prior to each Regulatory Year. The published or republished values for the terms  $ADJR_t$  and  $AR_t$  must be used by the licensee when setting Network Charges in accordance with Special Condition 2.1 (Revenue restriction).
- 8.2.10 The Authority may re-publish the values of the terms  $ADJR_t$  and  $AR_t$ , by the end of January prior to the Regulatory Year  $t$ .
- 8.2.11 Before publishing or re-publishing the value of the terms  $ADJR_t$  and  $AR_t$ , the Authority will:
  - (a) send to the licensee:
    - i. a notice stating the value for the terms  $ADJR_t$  and  $AR_t$  that it proposes to publish;
    - ii. a copy of the GD2 Price Control Financial Model, which will contain the data used to calculate the value proposed for the terms  $ADJR_t$  and  $AR_t$ ; and
  - (b) specify a period during which representations may be made on the value of the terms  $ADJR_t$  and  $AR_t$ , which will not be less than 14 days.

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

- 8.2.12 If the Authority does not publish a value for the terms  $ADJR_t$  and  $AR_t$  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.
- 8.2.13 The Authority will complete the Annual Iteration Process as soon as is reasonably practicable after 30 November by publishing a value for the terms  $ADJR_t$  and  $AR_t$ .
- 8.2.14 In the intervening period (Between the 30 November and the date on which the value of the terms  $ADJR_t$  and  $AR_t$  is published under paragraph 8.2.13), the value of the terms  $ADJR_t$  and  $AR_t$  will be held to be equal to a value ascertained by:
- (a) taking a copy of the GD2 Price Control Financial Model in its state following the last completed Annual Iteration Process or re-publication which, for the avoidance of doubt, will exclude the effect of any functional modifications under paragraph 8.1.6 of Special Condition 8.1 (Governance of GD2 Price Control Financial Instruments) made after the completion of that Annual Iteration Process;
  - (b) using the selection facilities on the “UserInterface” sheet contained in that copy of the GD2 Price Control Financial Model to select:
    - i. the name of the licensee; and
    - ii. the Regulatory Year equating to the Regulatory Year  $t$ ;
  - (c) pressing the “Run for One” macro button on the “UserInterface” sheet; and
  - (d) recording the value of the terms  $ADJR_t$  and  $AR_t$  for the licensee that is shown as an output value in the “SavedResults” sheet.

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

- 8.2.15 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  $ADJR_t$  for Regulatory Year 2025/26.
- 8.2.16 For the avoidance of doubt, neither:
- (a) 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
  - (b) 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 8.1.12(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 C of Special Condition 8.1.

- 8.2.17 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 terms  $ADJR_t$  and  $AR_t$  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  $ADJR_t$ .

## **Part E: The PCFM Guidance**

- 8.2.18 The licensee must comply with the PCFM Guidance when completing the Annual Iteration Process.
- 8.2.19 The Authority will issue and amend the PCFM Guidance by direction.
- 8.2.20 The Authority will publish the PCFM Guidance on the Authority's Website by the PCFM functional change cut-off date set out in the GD2 Price Control Financial Handbook.
- 8.2.21 The PCFM Guidance will make provision about:
- (a) instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process;
  - (b) instructions and guidance on the process and timeframe for reporting and submitting the required data; and
  - (c) any requirements for supporting information, documentation or commentary that are to be submitted.
- 8.2.22 Before issuing the PCFM Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed PCFM Guidance;
  - (b) the date on which the Authority intends the PCFM Guidance to come into effect; and
  - (c) a period during which representations may be made on the content of the PCFM Guidance, which will not be less than 28 days.
- 8.2.23 Before amending the PCFM Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed amended PCFM Guidance;
  - (b) the date on which the Authority intends the amended PCFM Guidance to come into effect;
  - (c) the reasons for the amendments to the PCFM Guidance; and
  - (d) a period during which representations may be made on the amendments to the PCFM Guidance, which will not be less than 28 days.



# **Chapter 9: General obligations**

## **Special Condition 9.1 Annual Environmental Report**

### **Introduction**

- 9.1.1 This condition requires the licensee to prepare and publish an Annual Environmental Report.
- 9.1.2 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 in relation to the licensee's progress against its Environmental Action Plan commitments.
- 9.1.3 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.

### **Part A: Requirement to prepare and publish an Annual Environmental Report**

- 9.1.4 The licensee must prepare an Annual Environmental Report in accordance with the Environmental Reporting Guidance.
- 9.1.5 The licensee must publish an Annual Environmental Report for the preceding Regulatory Year on or before the date specified in the Environmental Reporting Guidance.
- 9.1.6 The licensee must ensure its Annual Environmental Report is readily accessible to the public from the licensee's website.

### **Part B: Environmental Reporting Guidance**

- 9.1.7 The Authority will issue and amend Environmental Reporting Guidance by direction.
- 9.1.8 The Authority will publish Environmental Reporting Guidance on the Authority's Website.
- 9.1.9 The Environmental Reporting Guidance will set out how the licensee must prepare its Annual Environmental Report, including the following:
  - (a) the engagement the licensee is required to undertake with stakeholders to help inform the development of its Annual Environmental Report;
  - (b) 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
  - (c) the environmental impacts, relevant Environmental Action Plan Commitments, business practices, existing obligations and activities that must be covered in the Annual Environmental Report.

- 9.1.10 Before issuing the Environmental Reporting Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Environmental Reporting Guidance;
  - (b) the date on which the Authority intends the Environmental Reporting Guidance to come into effect; and
  - (c) a period during which representations may be made on the content of the Environmental Reporting Guidance, which will not be less than 28 days.
- 9.1.11 Before amending the Environmental Reporting Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended Environmental Reporting Guidance;
  - (b) the date on which the Authority intends the amended Environmental Reporting Guidance to come into effect, which, unless agreed with the licensee, will not be before three months or the commencement of the next Regulatory Year, whichever is later;
  - (c) the reasons for the amendments to the Environmental Reporting Guidance;
  - (d) how the proposed reporting requirements provide an appropriate balance between the costs of reporting and the benefit of the information created; and
  - (e) a period during which representations may be made on the amendments to the Environmental Reporting Guidance, which will not be less than 28 days.

## **Special Condition 9.2 Network Asset Risk Metric methodology**

### **Introduction**

- 9.2.1 The purpose of this condition is to set out the requirements on the licensee in respect of the NARM Methodology.
- 9.2.2 It also sets out the process for modifying the NARM Methodology.

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

- 9.2.3 The licensee must have in place and act in accordance with a NARM Methodology that facilitates the achievement of the NARM Objectives.
- 9.2.4 The NOMs Methodology in effect on 31 March 2021 is deemed to be the NARM Methodology in effect from 1 April 2021 until superseded.

### **Part B: The NARM Objectives**

- 9.2.5 The NARM Objectives are:
- (a) to provide transparent, logical links between:
    - i. the Asset Data that the licensee collects through inspections, maintenance, and other asset management activities;
    - ii. the data that the licensee inputs into its Asset Management Systems;

- iii. the licensee's asset management decisions; and
  - iv. where relevant, the licensee's whole system investment decisions;
- (b) 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;
- (c) to enable the robust estimation of Current Monetised Risk, Forecast Monetised Risk, Single-year Monetised Risk, and Long-term Monetised Risk of asset failure for:
  - i. each NARM Asset Category;
  - ii. individual NARM Assets within each NARM Asset Category; and
  - iii. the licensee's Distribution Network;
- (d) to enable the robust estimation of the Current Monetised Risk and Long-term Monetised Risk benefits delivered, or expected to be delivered, through interventions on specific assets or groups of assets;
- (e) to provide inputs to help explain and justify, through Cost-Benefit Analysis:
  - i. the licensee's investment plans for managing and renewing its NARM Assets; and
  - ii. the licensee's outturn delivery of investment options;
- (f) to enable the identification and quantification of drivers leading to changes in Monetised Risk over time;
- (g) to enable the comparative analysis of Monetised Risk between:
  - i. different NARM Asset Categories and between individual NARM Assets on the licensee's Distribution Network;
  - ii. geographic areas of, and NARM Assets within, the licensee's Distribution Network;
  - iii. the licensee's Distribution Network and other networks within the same sector;
  - iv. 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
  - v. the NTS and Distribution Networks within Great Britain; and
- (h) 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**

- 9.2.6 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.

9.2.7 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.

9.2.8 Where the licensee proposes a modification to the NARM Methodology, it must:

- (a) consult with other Network 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;
- (b) submit to the Authority a report containing:
  - i. a statement explaining the proposed modification to the NARM Methodology; and
  - ii. an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NARM Objectives;
- (c) submit to the Authority a draft NARM Methodology that incorporates the proposed modification;
- (d) submit to the Authority any relevant subsidiary or supporting documents, data files, or quantitative models;
- (e) submit to the Authority a full and fair summary of any representations that were made to the licensee pursuant to sub-paragraph (a) and not withdrawn;
- (f) submit to the Authority an explanation of any changes to the modification proposal that the licensee has made as a consequence of the representations received;
- (g) submit to the Authority 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;
- (h) submit to the Authority 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
- (i) submit to the Authority a timetable for the implementation of the proposed modification, including a date for submission of Rebased Baseline Network Risk Outputs, if necessary.

9.2.9 The Authority will by direction:

- (a) approve the proposed modification;
- (b) approve the proposed modification with amendments; or
- (c) reject the proposed modification.

- 9.2.10 In the case of paragraph 9.2.9(a) or (b) the Authority may also direct the date by which the licensee must submit Rebased Baseline Network Risk Outputs in accordance with Special Condition 3.1 (Baseline Network Risk Outputs).
- 9.2.11 The licensee must implement the modification directed under paragraph 9.2.9(a) or (b) by such date as may be set out in that direction.
- 9.2.12 Before issuing a direction under paragraph 9.2.9, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the date on which the Authority intends the proposed direction to come into effect;
  - (c) the reasons why it proposes to issue the direction; and
  - (d) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

## **Special Condition 9.3 Price Control Deliverable Reporting Requirements and Methodology Document**

### **Introduction**

- 9.3.1 The purpose of this condition is to require the licensee to report to the Authority on the delivery of its Evaluative PCDs.
- 9.3.2 This condition also provides for the issuing and amending of the PCD Reporting Requirements and Methodology Document, which:
- (a) the licensee needs to comply with when preparing its reports; and
  - (b) sets out the methodology the Authority will use to assess the delivery of Price Control Deliverables.

### **Part A: Reporting requirements**

- 9.3.3 The licensee must by 31 July of each Regulatory Year, or such later date directed by the Authority, send to the Authority a Basic PCD Report on each Evaluative PCD output for which the delivery date specified in the relevant licence condition was in the previous Regulatory Year.
- 9.3.4 Where directed to do so by the Authority the licensee must send to the Authority a Full PCD Report.

### **Part B: PCD Reporting Requirements and Methodology Document**

- 9.3.5 The licensee must comply with the PCD Reporting Requirements and Methodology Document when preparing a report required by Part A.
- 9.3.6 The Authority will issue and amend the PCD Reporting Requirements and Methodology Document by direction.

- 9.3.7 The Authority will publish the PCD Reporting Requirements and Methodology Document on the Authority's Website.
- 9.3.8 The PCD Reporting Requirements and Methodology Document will set out:
- (a) how the licensee must prepare the reports required by Part A; and
  - (b) the methodology the Authority will use when deciding:
    - i. whether to direct a value to reduce allowances for Price Control Deliverables that have not been Fully Delivered; and
    - ii. the value to direct.
- 9.3.9 Before issuing the PCD Reporting Requirements and Methodology Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed PCD Reporting Requirements and Methodology Document;
  - (b) the date on which the Authority intends the PCD Reporting Requirements and Methodology Document to come into effect; and
  - (c) 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.
- 9.3.10 Before amending the PCD Reporting Requirements and Methodology Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended PCD Reporting Requirements and Methodology Document;
  - (b) the date on which the Authority intends the amended PCD Reporting Requirements and Methodology Document to come into effect;
  - (c) the reasons for the amendments to the PCD Reporting Requirements and Methodology Document; and
  - (d) 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.

## **Special Condition 9.4 Re-opener Guidance and Application Requirements Document**

### **Introduction**

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

## **Part A: Requirement to comply with the Re-opener Guidance and Application Requirements Document**

- 9.4.3 The licensee must prepare any applications for Re-openers in accordance with any applicable provisions of the Re-opener Guidance and Application Requirements Document.

## **Part B: Re-opener Guidance and Application Requirements Document**

- 9.4.4 The Authority will issue and amend the Re-opener Guidance and Application Requirements Document by direction.
- 9.4.5 The Authority will publish the Re-opener Guidance and Application Requirements Document on the Authority's Website.
- 9.4.6 The Re-opener Guidance and Application Requirements Document will set out how the licensee must prepare its applications for Re-openers, including the following:
- (a) the Re-openers to which the document applies;
  - (b) the level of detail required in the application;
  - (c) any requirement to publish the application;
  - (d) when it is appropriate to make redactions in published applications; and
  - (e) any requirement for assurance.
- 9.4.7 Before issuing the Re-opener Guidance and Application Requirements Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Re-opener Guidance and Application Requirements Document;
  - (b) the date on which the Authority intends the Re-opener Guidance and Application Requirements Document to come into effect; and
  - (c) 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.
- 9.4.8 Before amending the Re-opener Guidance and Application Requirements Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended Re-opener Guidance and Application Requirements Document;
  - (b) the date on which the Authority intends the amended Re-opener Guidance and Application Requirements Document to come into effect;
  - (c) the reasons for the amendments to the Re-opener Guidance and Application Requirements Document; and
  - (d) 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.

## **Special Condition 9.5 Digitalisation**

### **Introduction**

- 9.5.1 The purpose of this condition is to set out the licensee's obligations to:
- (a) have a Digitalisation Strategy;
  - (b) have a Digitalisation Action Plan;
  - (c) update its Digitalisation Strategy and its Digitalisation Action Plan;
  - (d) comply with DSAP Guidance; and
  - (e) comply with Data Best Practice Guidance.
- 9.5.2 This condition also sets out the process the Authority will follow when issuing and amending DSAP Guidance and Data Best Practice Guidance.

### **Part A: Requirements of the Digitalisation Strategy**

- 9.5.3 The licensee must publish its Digitalisation Strategy on, or before, 31 March 2022.
- 9.5.4 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.
- 9.5.5 The licensee must:
- (a) publish its Digitalisation Strategy, and updates to its Digitalisation Strategy, on the licensee's website where they are readily accessible to the public;
  - (b) 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
  - (c) notify the Authority of any updates to the Digitalisation Strategy.

### **Part B: Requirements of the Digitalisation Action Plan**

- 9.5.6 The licensee must publish its Digitalisation Action Plan on, or before, 30 June 2021.
- 9.5.7 The licensee must review the progress it has made against and update its Digitalisation Action Plan at the intervals specified in the DSAP Guidance.
- 9.5.8 The licensee must:
- (a) 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;
  - (b) 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
  - (c) notify the Authority of any updates to the Digitalisation Action Plan.



## **Part C: DSAP Guidance.**

- 9.5.9 The licensee must comply with the DSAP Guidance when:
- (a) preparing and updating its Digitalisation Strategy; and
  - (b) preparing and updating its Digitalisation Action Plan.
- 9.5.10 The Authority will issue and amend the DSAP Guidance by direction.
- 9.5.11 The Authority will publish the DSAP Guidance on the Authority's Website.
- 9.5.12 The DSAP Guidance will make provision about:
- (a) how licensee should work towards digitalisation;
  - (b) how the licensee should set out in its Digitalisation Strategy and Digitalisation 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;
  - (c) the form of the Digitalisation Strategy and the Digitalisation Action Plan, including:
    - i. the structure, content and level of detail of each;
    - ii. the types of activities that should be covered in each; and
    - iii. any required information associated with those activities; and
  - (d) the engagement the licensee is required to undertake with stakeholders to help inform the development of its Digitalisation Strategy and its Digitalisation Action Plan.

## **Part D: Requirement to employ data best practice**

- 9.5.13 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.
- 9.5.14 The Authority will issue and amend Data Best Practice Guidance by direction.
- 9.5.15 The Authority will publish Data Best Practice Guidance on the Authority's Website.
- 9.5.16 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.

## **Part E: Process for issuing and amending guidance**

- 9.5.17 Before issuing DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed guidance;

- (b) the date on which the Authority intends the guidance to come into effect; and
  - (c) a period during which representations may be made on the content of the guidance, which will not be less than 28 days.
- 9.5.18 Before amending DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended guidance;
  - (b) the date on which the Authority intends the amended guidance to come into effect;
  - (c) the reasons for the amendments to the guidance; and
  - (d) a period during which representations may be made on the amendments to the guidance, which will not be less than 28 days.

## **Special Condition 9.6 Disapplication of Relevant Special Conditions and Relevant Metering Special Condition**

### **Introduction**

- 9.6.1 The purpose of this condition is to enable the licensee to make a formal request for the disapplication of the Relevant Special Conditions or Relevant Metering Special Condition (in whole or in part) and for such provisions to be disappplied following a request in the circumstances specified.

### **Part A: Procedure for making a Disapplication Request**

- 9.6.2 The licensee may submit a Disapplication Request in writing to the Authority.
- 9.6.3 A Disapplication Request must:
- (a) specify to which of the Relevant Special Conditions or Relevant Metering Special Condition (or any part or parts of them) the request relates to;
  - (b) provide a full statement of the licensee's reasons for making the request;
  - (c) contain such other information or analysis as the licensee considers sufficient to enable the Authority to fully assess the Disapplication Request;
  - (d) state the Disapplication Date that the licensee proposes (which must not be earlier than the appropriate date that is mentioned in Part C); and
  - (e) specify the Distribution Network (or any part or parts of it) to which the request relates.
- 9.6.4 A Disapplication Request may only be submitted only in respect of a specified geographical area.
- 9.6.5 The Authority may, during the period of 28 days beginning with the date of receipt of a Disapplication Request, give notice to the licensee;

- (a) specifying further information or analysis that the Authority reasonably considers is required in order to fully assess the Disapplication Request; and
  - (b) requesting the licensee to provide that information or analysis.
- 9.6.6 The licensee may withdraw a Disapplication Request at any time.

**Part B: Date from which a disapplication may take effect**

- 9.6.7 The Disapplication Date specified in a Disapplication Request must be after the period of 18 months beginning with the date of submission of the Disapplication Request, unless the Authority consents in writing to an earlier date.
- 9.6.8 If paragraph 9.6.5 applies, a Disapplication Request will be treated as submitted when that further information or analysis is received by the Authority and, if in consequence the Disapplication Date set out in the Disapplication Request no longer complies with paragraph 9.6.7, the Disapplication Date will be treated as being the earliest date that would comply with that paragraph.

**Part C: Licensee's right to terminate under a Disapplication Request**

- 9.6.9 If the licensee has submitted to the Authority a Disapplication Request that complies with the requirements of Parts A and B of this condition, it may subsequently give the Authority a Disapplication Notice:
  - (a) in the circumstance described in Part D; or
  - (b) in the circumstance described in Part E.
- 9.6.10 In either case the Disapplication Notice may not take effect before the Disapplication Date or such earlier date to which the Authority may have consented to under Part B.

**Part D: Termination without involvement of the Competition and Markets Authority**

- 9.6.11 The circumstance referred to in paragraph 9.6.9(a) is that by the beginning of the period of six months ending with the Disapplication Date, the Authority has not in response to the Disapplication Request published a decision under section 23(7) of the Act to modify:
  - (a) the Relevant Special Conditions or Relevant Metering Special Condition (or any part or parts of them) to which the Disapplication Request applies; or
  - (b) this condition so as to remove the licensee's right to give the Authority a Disapplication Notice in respect of the relevant Disapplication Request.

## **Part E: Termination after involvement of the Competition and Markets Authority**

- 9.6.12 The circumstance referred to in paragraph 9.6.9(b) is that the Authority has published a decision as described in paragraph 9.6.11(a) or 9.6.11(b) and:
- (a) the licensee has exercised its right to appeal to the Competition and Markets Authority against that decision of the Authority as provided for by section 23B of the Act;
  - (b) the Competition and Markets Authority, acting under section 23E of the Act, has, in respect of the provision to which the Disapplication Notice relates:
    - i. quashed the Authority's decision, and
    - ii. neither remitted the matter back to the Authority under section 23E(2)(b) of the Act nor substituted its own decision for that of the Authority under section 23E (2)(c) of the Act; and
  - (c) no more than 30 days have elapsed since the date on which the Competition and Markets Authority quashed the decision in the circumstances described in paragraph 9.6.11(b) above.

## **Special Condition 9.7 Directly Remunerated Services**

### **Introduction**

- 9.7.1 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 of this licence.
- 9.7.2 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 Calculated Revenue.
- 9.7.3 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

### **Part A: Licensee's obligation to exclude Directly Remunerated Services**

- 9.7.4 The licensee must exclude revenue derived from Directly Remunerated Services from Calculated Revenue.
- 9.7.5 Directly Remunerated Services are:
- (a) services that comply with the general principle set out in Part B; or
  - (b) the services listed in Part C to the extent that they comply with the general principle in Part B; or
  - (c) services that the Authority directs are to be treated as Directly Remunerated Services to the extent that such direction will comply with the general principle in Part B.

- 9.7.6 Services are not to be treated as Directly Remunerated Services if the Authority so directs to the extent that such direction will comply with the general principle in Part B.

**Part B: Statement of general principle**

- 9.7.7 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.
- 9.7.8 The charges referred to in paragraph 9.7.7 are:
- (a) Network Charges; and
  - (b) charges arising from any activity carried out under the provisions of Special Condition 7.7 (RIIO GD-1 network innovation competition) which results in Returned Royalty Income for the licensee.

**Part C: Categories of Directly Remunerated Service**

- 9.7.9 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.
- 9.7.10 Directly Remunerated Services include the following services:
- 9.7.11 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).
- 9.7.12 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.
- 9.7.13 DRS3. Works required by any alteration of premises: This category consists of the moving of any gas pipes or plant that forms part of the pipeline 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.
- 9.7.14 DRS4. Telecommunications and information technology infrastructure services: (Not applicable)
- 9.7.15 DRS5. Outage Changes: (Not applicable)

- 9.7.16 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).
- 9.7.17 DRS7. PARCA Activities: (Not applicable)
- 9.7.18 DRS8. Independent System operation: This category consists of the operation of Independent Systems, as provided for by Special Condition 6.2 (Gas conveyed to Independent Systems), of the licence applicable to the NTS Operator, on behalf of the NTS Operator.
- 9.7.19 DRS9. Network Innovation Funding: Payments made by the NTS Operator to the licensee in respect of NIC Funding in accordance with Special Condition 7.7 (RIIO-GD1 network innovation competition).
- 9.7.20 DRS10. Value Added Services: (Not applicable)
- 9.7.21 DRS11. Top-up, standby, and enhanced system security: (Not applicable)
- 9.7.22 DRS12. Revenue protection services: (Not applicable)
- 9.7.23 DRS13. Metering Services: (Not applicable)
- 9.7.24 DRS14. Smart Meter Roll-out rechargeable services: (Not applicable)
- 9.7.25 DRS15. Miscellaneous: This category consists of the provision of any other service (including the provision of gas pipes or plant) that:
- (a) is for the specific benefit of any third party who requests it;
  - (b) is not made available by the licensee as a normal part of its Licensed Activities.

#### **Part D: Procedure for issuing directions**

- 9.7.26 Before issuing a direction under Part A the Authority will consider the general principle in Part B.
- 9.7.27 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.

### **Special Condition 9.8 Tax Reconciliation assurance statement**

#### **Introduction**

- 9.8.1 This condition requires the licensee to send to the Authority an annual assurance statement in relation to the Tax Reconciliation template and sets out the form of that statement.

## **Part A: Assurance statement**

9.8.2 The licensee must by 31 July of each Regulatory Year starting from 01 April 2023, send to the Authority an assurance statement, relating to Regulatory Year *t-2* that:

- (a) has been approved by a resolution of the licensee's board of directors;
- (b) is signed by a director of the licensee pursuant to the resolution in subparagraph (a); and
- (c) is set out in the form prescribed in paragraph 9.8.3 or where paragraph 9.8.4 applies in the form prescribed in paragraph 9.8.5.

9.8.3 The prescribed form for the assurance statement is as follows:

"In accordance with the requirements of paragraph 9.8.2 of Special Condition 9.8 (Tax Reconciliation assurance statement), the Directors of [*licensee*] ("the licensee") hereby certify that for the Regulatory Year [*Regulatory Year t-2*], in their opinion:

- (a) 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).
- (b) the Tax Reconciliation has been submitted to the Authority along with a copy of:
  - i. the licensee's most recent CT600 as submitted to Her Majesty's Revenue and Customs;
  - ii. the licensee's most recently submitted Senior Accounting Officer (SAO2) certificate as per (b)i.; and
  - iii. the licensee's published Tax Strategy;
- (c) where appropriate, further information has also been provided to support and explain reconciling items in accordance with the PCFM Guidance.
- (d) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary; and
- (e) reconciling differences have been appropriately explained and any remaining, unexplained difference is considered immaterial, in aggregate."

9.8.4 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 9.8.5.

9.8.5 "In accordance with the requirements of paragraph 9.8.2 of Special Condition 9.8 (Tax Reconciliation assurance statement), the Directors of [*licensee*] ("the licensee") hereby certify that for the Regulatory Year [*Regulatory Year t-2*], in their opinion:

- (a) 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).
- (b) the Tax Reconciliation has been submitted to Ofgem along with a copy of:
  - i. the licensee's most recent CT600 as submitted to Her Majesty's Revenue and Customs;
  - ii. the licensee's most recently submitted Senior Accounting Officer (SAO2) certificate as per (b)i.; and,
  - iii. the licensee's published Tax Strategy;
- (c) where appropriate, further information has also been provided to support and explain reconciling items in accordance with the PCFM Guidance;
- (d) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary; and
- (e) a notification has been made in writing to the Authority under Chapter 6 of the GD2 Price Control Financial Handbook."

## **Special Condition 9.9 Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network**

### **Introduction**

- 9.9.1 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).
- 9.9.2 The condition also requires the licensee to:
  - (a) 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
  - (b) prepare and send 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.

### **Part A: General principles of allocation and attribution**

- 9.9.3 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 must conform to the principles set out in paragraphs 9.9.4, 9.9.5, and 9.9.6.
- 9.9.4 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.

- 9.9.5 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 itself or any other licensee or entity, affiliated or otherwise.
- 9.9.6 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.

#### **Part B: Allocation and attribution as between principal activities**

- 9.9.7 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 to the following activities:
  - (a) the Licensed Activity;
  - (b) the Liquefied Natural Gas Import Or Export Facility activity; and
  - (c) any Directly Remunerated Services.

#### **Part C: Statement of the methods to be used by the licensee**

- 9.9.8 Unless the Authority otherwise directs, the licensee must, by no later than 31 July in each Regulatory Year, prepare and send 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.
- 9.9.9 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.
- 9.9.10 Where the basis of such allocations or attributions has changed from one Regulatory Year to the next, the methods statement must also indicate and explain how and why that basis has been changed.
- 9.9.11 The licensee must use reasonable endeavours to comply with the methods statement for the time being in force under this condition.

#### **Part D: Direction to re-allocate and re-attributed**

- 9.9.12 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.

#### **Part E: Preparation and submission of the methods report**

- 9.9.13 Unless the Authority otherwise consents, the licensee must, by no later than four months after the end of each Regulatory Year, prepare and send to the Authority a methods report that:

- (a) 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
  - (b) states whether any modification should be made to the methods statement to reflect more closely the practice of the licensee.
- 9.9.14 The methods report must be accompanied by a report from an Appropriate Auditor that:
- (a) sets out the procedures (which must have been approved by the Authority) that the Appropriate Auditor has 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
  - (b) gives an opinion as to the extent to which the licensee has properly prepared the methods report.
- 9.9.15 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.

## Special Condition 9.10 Restriction of prices in respect of Tariff Capped Metering Activities

### Introduction

- 9.10.1 The purpose of this condition is to set out the tariff caps on certain metering activities.

### Part A: Principal restriction

- 9.10.2 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  $M_t^A$  in respect of that metering activity in that Regulatory Year.

### Part B: Maximum tariff caps ( $M_t^A$ )

- 9.10.3 For the Regulatory Year commencing on 1 April 2021, the maximum tariff caps have the values set out in the following table.

| Activity  | Description   | Maximum tariff caps ( $M^A$ )<br>for 2021/22 (£ nominal) |
|-----------|---|--|
| $M^{A=1}$ | Annual charge for providing and maintaining the assets that form a Domestic Credit Meter Installation, per meter per annum. | £17.70   |
| $M^{A=2}$ | Annual charge for providing and maintaining the assets that form a Prepayment Meter Installation, per meter per annum.      | £44.27   |

|           |  |         |
|-----------|--|---------|
| $M^{A=3}$ | Annual charge for providing a daily meter reading for Daily Metered Supply Meter Points, per supply meter point per annum. | £602.71 |
| $M^{A=4}$ | Carrying out work to replace a Domestic Credit Meter with a Prepayment Meter, per job undertaken.                          | £94.81  |

9.10.4 For each subsequent Regulatory Year, the maximum tariff caps have the value derived in accordance with the following formula:

$$M_t^A = M_{t-1}^A \times RPI_t$$

where

$RPI_t$  means the arithmetic average of the Retail Prices Index with respect to each of the six months from June to November in Regulatory Year t-1 divided by the arithmetic average of the Retail Price Index numbers with respect to the period from June to November in Regulatory Year t-2.

### **Part C: Departure from published statements of charges in respect of Tariff Capped Metering Activities**

9.10.5 This paragraph applies where:

- (a) the licensee proposes to depart from its published statement of charges;
- (b) the departure would include increasing the licensee's charges to a supplier to a level which would in any Regulatory Year result in a breach of the licensee's obligations under paragraph 9.10.2; and
- (c) the departure arises either:
  - i. because of the supplier having wholly or partly disposed of its meters; or
  - ii. because the licensee considers the departure necessary to comply with the duty in paragraph 1A of Standard Special Condition D18 (Provision of Metering and Meter Reading Services).

9.10.6 Where paragraph 9.10.4 applies the licensee must make a written application to the Authority:

- (a) specifying why the change is proposed;
- (b) specifying the metering activities to be provided to that supplier;
- (c) specifying the proposed level of charges broken down between the different types of metering activities to be provided to that supplier; and
- (d) including such other information to support its application as the Authority may reasonably specify in writing.

9.10.7 In paragraph 9.16.5 the reference to the statement of charges is a reference to the statement prepared in accordance with Standard Special Condition D18

(Provision of Metering and Meter Reading Services) in respect of the provision of Tariff Capped Metering Activities.

- 9.10.8 The licensee may, with effect from the date of the application, levy the charges specified in that application in respect of that supplier if:
- (a) the Authority confirms in writing that it consents to such charges with or without amendment and to such extent, and on the basis of such terms and conditions, as the Authority may specify (in which case the licensee must apply the charges with any such amendment and only to such extent, and must comply with those terms and conditions); or
  - (b) the Authority has not issued a direction to the licensee requiring the licensee not to exceed the maximum tariff cap within the period of 90 days beginning with the date of receipt of the application.
- 9.10.9 Subject to any direction given by the Authority, this condition will cease to have effect on 31 December 2024.

### **Special Condition 9.11 Not used**

## **Special Condition 9.12 HyNet Front End Engineering Design Price Control Deliverable (Hy<sub>t</sub>)**

### **Introduction**

- 9.12.1 The purpose of this condition is to place obligations on the licensee in respect of the HyNet FEED Study.
- 9.12.2 The effect is to specify the outputs and delivery dates for the Price Control Deliverable.
- 9.12.3 This condition also sets out the process the Authority will follow when assessing the Price Control Deliverable.

### **Part A: What is the licensee expected to deliver?**

- 9.12.4 Appendix 1 specifies the outputs that the licensee is expected to deliver and the anticipated delivery dates for those outputs.

### **Part B: Assessment of the Price Control Deliverable**

- 9.12.5 The Authority will take into account the close down report provided under Appendix 1 and consult with the licensee and the NTS Operator, when deciding whether to specify a value for ALT<sub>t</sub> under Special Condition 6.1 (Transportation owner pass-through items) in the NTS Operator's licence.
- 9.12.6 Where the Authority decides to specify a value for ALT<sub>t</sub> in the NTS Operator's licence, the Authority will direct the licensee to return the amount specified to the NTS Operator.

## Appendix 1

### HyNet FEED Price Control Deliverable

| Step | Outputs   | Anticipated Delivery Dates |
|------|---|----------------------------|
| 1    | <p>Inform the Authority of the outcome of the licensee's Industrial Decarbonisation Challenge funding application.</p> <p>Provide the Authority with the licensee's view on whether the Authority should direct a value for <math>ALT_t</math> in Special Condition 6.1 of the NTS Operator's licence to return money to consumers. This should include the basis of the calculation for any proposed value.</p> <p>This step must be complete before the licensee can proceed to step 2.</p>   | 1 April 2021               |
| 2    | <p>Completion of a competitive tender process for the HyNet FEED Study and updated project plan sent to the Authority.</p> <p>The project plan must include:</p> <ul style="list-style-type: none"> <li>• updated key project milestones and delivery dates;</li> <li>• an updated EJP for the latest design and preferred pipeline route, including an explanation of variations to forecast Hynet FEED Study costs;</li> <li>• a knowledge sharing plan to identify to stakeholders how the project learning will be shared and where it will be published;</li> <li>• a stakeholder engagement plan (which includes the Authority and government); and</li> <li>• the licensee's view on whether the Authority should direct a value for <math>ALT_t</math> in Special Condition 6.1 of the NTS Operator's licence to return money to consumers. This should include the basis of the calculation for any proposed value.</li> </ul> | 30 September 2021          |
| 3    | <p>Final FEED study delivery – evidenced through submission of a close down report to the Authority, which must include:</p> <ul style="list-style-type: none"> <li>• a copy of the HyNet FEED Study;</li> <li>• a copy of an independent audit of the HyNet FEED Study, on the delivery of the outputs described in step 2 of this table;</li> <li>• evidence of how knowledge has been shared with stakeholders;</li> <li>• the licensee's view on whether the Authority should direct a value for <math>ALT_t</math> in Special Condition 6.1 of the NTS Operator's licence to return money to consumers. This should include the basis of the calculation for any proposed value; and</li> </ul>  | 31 March 2024              |

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- such other detailed evidence as is reasonable in the circumstances.
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### **Special Condition 9.13 The strategic innovation fund**

9.13.1 [placeholder – to be consulted on separately]