

27 November 2015

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Dear Paul

### **Non Gas Fuel Poor Network Extension Scheme Statutory Consultation**

Many thanks for your letter in relation to the above. We have set out our comments below which are primarily aimed at avoiding future debate in relation to the operation of this incentive mechanism.

#### **1. Paragraph 4J.4**

We would suggest that the words "or output commitment" be added after the words "allowed revenue" in this paragraph.

#### **2. Paragraph 4J.5**

We would suggest that the wording in this paragraph be amended as follows:

"By 31 July 2021, the Licensee must provide a report to the Authority (the "Performance Report") setting out the extent to which it has delivered the Scheme Connection Targets set out in this condition and providing details of its performance which will be assessed by the Authority under paragraph 4J.4 of this condition."

#### **3. Paragraph 4J.6**

We would suggest that the wording in this paragraph be amended as follows:

"~~In relation to the Licensee's~~ The Performance Report shall include detailed explanations together with supporting evidence as to why the Licensee reasonably considers that it has delivered from 1 April 2013 to 31 March 2021 etc."

In addition, the term "RIIO Principles" in this paragraph needs to be defined in order to avoid any future debate.

#### **4. Paragraph 4J.7**

This paragraph should refer to paragraph 4J.4 instead of 4I.4.

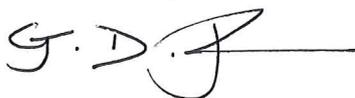
5. Table 1

We have set out below suggested changes to Table 1.

Incentives	Justified	Unjustified
Over-delivery	<p>Financial reward equal to 2.5 per cent of the additional efficient costs associated with the over delivery.</p> <p>Where the Non Gas Fuel Poor Network Extension Scheme continues beyond 31 March 2021, the over delivery shall be removed from the relevant output commitment in the Second Price Control Period (although revenues will be based on the pre-removal output commitment).</p> <p>If the Non Gas Fuel Poor Network Extension Scheme does not continue beyond 31 March 2021, we shall make a legacy adjustment of any over delivered efficient costs during the Second Price Control Period.</p>	<p>No reward.</p> <p>The over delivery shall not be offset against the relevant output commitment in the Second Price Control Period allowances.</p>
Under-delivery	<p>No penalty.</p> <p>The under delivery shall not be added to the relevant output commitment in the Second Price Control Period allowances.</p>	<p>Financial penalty equal to 2.5 per cent of the avoided efficient costs associated with the under delivery.</p> <p>Where the Non Gas Fuel Poor Network Extension Scheme continues beyond 31 March 2021, the under- delivery shall be added to the relevant output commitment in the Second Price Control Period (although revenues will be based on the pre-addition output commitment).</p> <p>If the Non Gas Fuel Poor Network Extension Scheme does not continue beyond 31 March 2021, we shall make a legacy adjustment of any under delivered efficient costs during the Second Price Control Period.</p>

We hope the above comments are helpful. If you require any further information, please let us know.

Yours sincerely



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