

**To: National Grid Gas plc (with respect to its gas transmission business)**

**RIIO-T1 Modification of the special conditions of the gas transporter licence held by the National Grid Gas plc (NTS) and reasons for decision pursuant to sections 23 and 38A of the Gas Act 1986**

**Gas Act 1986  
Section 23(1)(a)**

**MODIFICATION OF THE GAS TRANSPORTER LICENCE HELD BY  
NATIONAL GRID GAS plc**

Whereas –

1. National Grid Gas plc (“NGG”) operates the gas national transmission system (NTS) and is the holder of a gas transporter licence (“the Licence”) granted or treated as granted under section 7 of the Gas Act 1986 (“the Act”).
2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 21 December 2012 (“the Notice”) that it proposed to make modifications to the Specials Conditions of the Licence by:
  - (a) amending the Special Conditions
  - (b) inserting proposed new Special Conditions
  - (c) deleting the Special Conditions; and
  - (d) restructuring and renumbering the remaining Special Conditions to improve the clarity and ease of use of the Special Conditions with no changes to the licence obligations or underlying policy objectives,as set out in Schedule 1 to the Notice, to implement the Authority’s decision on the RIIO-T1 price control - Final Proposals<sup>1</sup> and by requiring any representations to the modifications to be made on or before 22 January 2013.
3. Prior to the close of the consultation period in respect of the Notice, the Authority received one response, from NGG. The response has been placed on the Ofgem website.
4. In accordance with section 23(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modifications.
5. The Authority has carefully considered in relation to the proposed modifications all representations. Its response to these is attached at Schedule 2 to this modification.
6. The Authority also considers it necessary to make a number of minor changes to the modifications set out in the Notice. These are also attached at Schedule 2 to this modification.
7. In accordance with section 23(7)(d) of the Act, Schedule 2 of this modification also states the reasons for any differences between the proposed modifications set out in the Notice and the modifications set out in attached Schedule 1.

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<sup>1</sup> [RIIO-T1: Final Proposals - Overview](#)

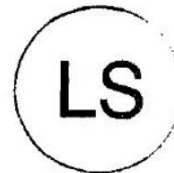
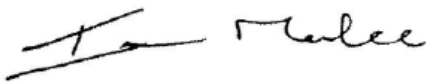
8. In accordance with section 38A of the Act, and in summary, the reason why the Authority is making these licence modifications is to give effect to the new RIIO (Revenue = Incentives + Innovation + Outputs) regulatory framework.
9. Schedule 3 to this modification sets out the reasons and effect of the modifications.

**Now therefore**

In accordance with the powers contained in section 23(1)(a) of the Act and for the reasons set out in Schedule 3 to this modification, the Authority hereby modifies the Special Conditions of the Licence in the manner specified in attached Schedule 1. This decision will take effect on and from 1 April 2013.

This document constitutes notice of the reasons for the decision to modify the Licence as required by section 38A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority  
here affixed is authenticated by the signature of**



.....  
**Ian Marlee, Senior Partner, Smarter Grids and Governance (Transmission)**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**1 February 2013**

## **Schedule 1 - Modifications of the special conditions of the GDN operators' gas transporter licences**

A copy of the modifications of the special conditions of the GDN operators' gas transporter licences

<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/GTSpCmods.pdf>

## Schedule 2 - Reasons for any differences between the modifications and those set out in the Notice

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
<b>General</b>				
1.	General	Amendments required to improve the clarity of the drafting, to correct cross referencing errors and to correct discrepancies between Final Proposals and the handbook and the licence conditions and the handbook and delete typographical errors.	Appropriate amendments made.	Y
2.	General	Minor amendments required to correct references to defined terms.	Appropriate amendments made.	Y
3.	General	Cross references require correction.	Appropriate amendments made.	Y
4.	General	Throughout Licence in various conditions – remove the wording “objections”.	The wording “or objections” should be deleted from conditions setting out consultation processes on various change mechanisms in the licence, to reflect third package changes.	Y
<b>Special Condition 1A: Definitions</b>				
5.	Para 1A.4	Correct publication dates and effective dates to be inserted into the definitions of GT1 Price Control Financial Handbook and GT1 Price Control Financial Model.	Appropriate amendments made.	Y
6.	Para 1A.4	There are a number of instances where the licence conditions refer to the Financial Handbook and these references are not clear. We request that each of the references to the Financial Handbook be checked for accuracy/consistency. In addition, we are suggesting a number of changes to the text of the Financial Handbook to improve the consistency of the Handbook with the licence. We request that these changes to the Financial Handbook be taken forward as part of this process.	Checked and amended where appropriate.	Y

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
		We request that the licence drafting be checked again to ensure that each of the defined terms in Special Condition 1A are used consistently throughout the substantive conditions and that capitalisation is consistent. Our mark-up has attempted to pick up many of these issues, but we request that Ofgem conduct a double-check to ensure consistency.	Checked and amended where appropriate.	Y
7.	Para 1A.4	Customer: Would it be more appropriate to point to NTS System Operation Charges and NTS Transportation Owner Charges rather than 'network charges'.	The definition needs to be retained in its current form. There is now a new Part E to Special Condition 2C that includes a reference to Customer and Stakeholder. The definition of "Customer" refers specifically to this condition and is as agreed with NGET and NGGT.	N
8.	Para 1A.4	The current definitions of Contractual Delivery Date, Entry/Exit Lead Time and Permits are circular. This can be corrected by deleting "ending on the Contractual Delivery Date" from the end of the Lead Time definitions and cross referring Contractual Delivery Date to Part E not Part B of the relevant conditions.	Agree with suggested change removing "ending on the Contractual Delivery Date" from the end of the Lead Time definitions and cross referring Contractual Delivery Date to Part E (and Part D) not Part B of the relevant conditions.	Y
9.	Para 1A.4	Do not believe that the definitions for "Firm Entry Capacity" and "Firm Exit Capacity" are explicit enough to differentiate from the interruptible products.  Replace with the suggested drafting that we previously suggested, e.g. "Firm Entry Capacity" means Entry Capacity that is not subject to curtailment rights under the UNC" and same changes for Exit definition.	Agree with changes that are sufficiently explicit to differentiate from the interruptible products.	y
10.	Para 1A.4	The definitions for "Funded Incremental Obligated Entry Capacity" and "Funded Incremental Obligated Exit Capacity" do not work as currently drafted.	Disagree with proposed changes to definition of Funded Incremental Obligated Entry and Exit Capacity. No need for reference to 'previously' for	N

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
		<p>Suggest that the drafting is replaced with “Funded Incremental Obligated Entry Capacity means Incremental Obligated Entry Capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not previously been provided through Entry Capacity Substitution and for which the Licensee has not received an additional funding allowance through Legacy Incremental Entry Capacity” and same changes for Exit definition.</p> <p>Also, in order to implement 5-year restriction on substitution the substitution definitions also need to be changed as follows “Entry Capacity Substitution means the process by which unsold Non-incremental Obligated Entry Capacity and unsold Funded Incremental Obligated Entry Capacity is moved from one or more NTS Entry Points (with effect from a day not less than five years from the Contractual Delivery Date applicable to that capacity) to meet the demand for Incremental Obligated Entry Capacity at another NTS Entry Point in accordance with the obligations set out in Special Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements).” And the same changes for the Exit definition.</p>	<p>the capacity definition to remain robust and the definition also needs to retain the 5-year process for capacity being moved from incremental capacity and becoming susceptible to substitution.</p> <p>The proposed changes to the substitution definitions are not needed and can be incorporated into the relevant methodology statements.</p>	
11.	Para 1A.4	Insert new definition for GT1 Price Control Financial Instruments as used in Special Condition C4A.	New definition included to reflect its use in the licence.	Y
12.	Para 1A.4	<p><i>Ofgem addition - Price Control Review Information</i>  This term is no longer used in Standard Condition B15 and has been replaced with “Specified Information.”</p>	The definition has been removed and replaced with a new definition ‘Specified Information’ which links to the information being provided under the new RIGs licence condition.	Y

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13.	Para 1A.4	Ofgem addition - Replace definition of Relevant Special Condition with definitions of Relevant SO Special Condition and Relevant TO Special Condition to recognise that these are separate controls and also to make clear that ancillary price control conditions may only be disapplied to the extent that they are linked to a request for Disapplication of an element of the relevant principal formula.	Appropriate amendments made.	Y
14.	Para 1A.4	Replacement Priority  Ofgem addition - a definition of Replacement Priority is required.	The term Replacement Priority is used in the licence and therefore requires to be defined.	Y
15.	Para 1A.4	Ofgem addition – new definition of Legacy TO Exit Capacity.	Added for clarity to identify the volume of Exit Capacity that the licensee must offer for sale.	Y
16.	Para 1A.4	New Network Equipment – proposed a change to add the wording “at the time the question falls to be considered”.	We do not consider that this additional text is required. The existing text reflects the policy intent at Final Proposals.	N
17.	Para 1A.4	The definition of “NTS System Operation Activity” needs to exclude the provision of “Funded Incremental Obligated Entry Capacity” and “Funded Incremental Obligated Exit Capacity” as these are now TO activities.  Suggest definition should exclude those activities covered by “supply of NTS Services”	No change required.	N
18.	Para 1A.4	Permit Arrangements: Don’t think the Permit Arrangements, Entry and Exit Lead Time and Contractual Delivery Date definitions work together	See issue 6 above.	Y
<b>Special Condition 1B. Amendments to Standard Special conditions relating to LNG</b>				
19.	1B.8	Should be moved to paragraph 1 as related to changes to SSC A3.	Agree. Have moved to paragraph 1 and put in format consistent with this section. No change to	Y

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
			the intention of the amendment.	
20.	1B.7 and 1B.11(now para 1B.10)	There are two statutory consultations (RIIO-T1 and the ring-fencing review) making changes to this condition. This could cause confusion to modifications being proposed.	Changes to the text within these paragraphs are being modified as part of the direction issued for the ring-fencing review. Modifications from the ring-fencing review should be merged into the version of the condition being directed as part of RIIO.	N
<b>Special Condition 2A: Restriction of NTS Transportation Owner Revenue</b>				
21.	Para 2A.13	Amend equation to correct RPIF issues with $CxIncRA_{t-2}$	Accept	Y
22.	Para 2A.16 & 2A.17	We need to also include terms in the equation for REV which relate to terms which do not themselves have RPIF applied, but depend on the Base Revenue (which does have RPIF applied). Legacy one needs to include IFI, RIIO one, stakeholder satisfaction, NIC etc.	Where Base Revenue is used in the calculation of values for stakeholder satisfaction and the network innovation allowance we have not included a true-up two years later to account for the use of a forecast of RPI in the calculation of Base Revenue. The BR term used will however incorporate the true-up from two years prior. The reason for this is that we do not consider that the true-up for RPI will have a material impact on the value of these incentives, nor will the calculation be biased in one direction, ie the RPI forecast may be higher or lower than outturn RPI.	N
23.	Para 2A.16	The equation for "REV" refers to " $ISE_{t-2}$ ", but this term is not RPIFed – think it should refer to "ACPS" plus "ACPW" terms, but not clear that 2-year lag is applying?	The ISE term in Special Condition 2B has RPIF applied. Therefore it does need to appear in the formula for REV in Special Condition 2A.	N
<b>Special Condition 2B: Calculation of allowed pass-through items</b>				
24.	General	The formal proposals in relation to ring-fencing states that a mechanism should be included in the price control conditions to allow recovery of costs associated with independent directors. We would expect to see that in this pass through	As stated we have confirmed that any costs incurred will be logged up and assessed as part of the next price control.	N



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		condition but it does not appear to be included. We understand from discussions with Ofgem that this will be logged up and provided for at RIIO-T2 and would welcome confirmation in writing to this effect.		
25.	Paras 2B.3 & 2B.15	The equation for "PT" refers to "ISA", but it probably should be "IS" – but the whole drafting around the SIUs is not clear between this condition and 11F.	The equation in paragraph 2B.15 should have read $ISA = IS - (ISE \times RPIF)$ . This error has been rectified. The value of IS is calculated in Special Condition 11F. The pass through mechanism works by passing through the difference between actual costs incurred and the allowance provided in base revenues (which is £7.888m pa).	Y
<b>Special Condition 2C: Stakeholder Satisfaction Output</b>				
26.	Para 2C.4	Replace the term 'stakeholder' satisfaction survey with both customer and stakeholder satisfaction survey.	Agree to change reflecting NGGT's approach that includes a customer and stakeholder element and metrics.	Y
27.	Para 2C.12	There needs to be a process as to how the Authority will determine values e.g. timelines and how the decision will be communicated.	We do not agree with the change. The existing paragraph provides for the Authority determining values for the terms following the submission. We are not content to set a timescale on the Authority but it is clear that this process will be carried out in a timely way to support the first year assessment.	N
28.	New Part E	Ofgem comment – Part E in NGET equivalent condition should be reflected here.	We have added a new Part E to this condition. This matches the provisions for NGET and provides requirements about the survey process and information submissions.	Y
<b>Special Condition 2D: Permit Arrangements for the provision of incremental capacity</b>				
29.	General	There is no mention of the post 2013/14 arrangements – we	We do not agree with the proposed change. We	N

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		<p>were expecting some drafting around the £40.2m to be included.</p> <p>We suggest the addition of a new paragraph within the Introduction plus relevant drafting within a new Part E.</p> <p>Within the Introduction, the inclusion (at paragraph 2D.9) of:</p> <p>The Authority will consider extending the Permit Arrangements for the second, third and fourth years of the Price Control Period if the Licensee can demonstrate there is a need to continue such arrangements. The process to allow the Licensee to propose the extension of Permit Arrangements is outlined in Part E.</p> <p>As a new Part E:</p> <p><b>Part E: Review of Permit Arrangements to apply beyond 31 March 2014</b></p> <p>The Licensee must notify the Authority by 30 September in any Formula Year that it believes the Permit Arrangements need to be extended for a further Formula Year or further Formula Years beyond year one of the Price Control Period. As part of such notification, the Licensee must provide the Authority with such information as the Authority may reasonably request for the purposes of considering the extension of the Permit Arrangements. Following such submission, the Authority will determine appropriate Permit Arrangements to apply for the</p>	<p>set out in paragraph 3.66 of our Final Proposals that where the licensee can show that there is good reason why the new incremental capacity arrangements it is discussing with the industry cannot be implemented then the permits arrangements can be extended year by year for a period of an extra three years. We have stated that we would use the licensee's evidence as a starting point. This amounts to £40.2m over the extra three years if this becomes necessary.</p>	

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		following Formula Year(s) by 17 December in any Formula Year in which the Licensee has made a submission under this Part E		
30.	2D.22	Amend date by which the variation term will be notified to the Authority in relation to the legacy permits arrangements from 1 April to 1 May 2013	Agree with change as given the proximity of the March 2013 QSEC it is unreasonable to expect the notification to happen by 1 April. 1 May is consistent with the licensee's suggestion.	Y
<b>Special Condition 2E: The Network Innovation Allowance</b>				
31.	2D.6	As commented previously, placing of 0.9 pass through factor limit has effect of reducing overall cap. Please put PTRA inside brackets to avoid this unintended consequence. Also "allowed revenue" reference in FP implies that TIRGt should be included alongside BRt in base.	<p>We do not agree with the proposed changes on the following grounds:</p> <p>-PTRA: The customer only funds 90% of NIA expenditure. The remaining 10% is funded by the company. The pass through factor currently applies to both parts of the formula the effect of the proposed change would mean it only applies to the first part of the formula which would not deliver the intended policy intent.</p> <p>-TIRG: We have never said the NIA would be a proportion of opening base revenue; within period adjustments captured in the annual iteration process; and TIRG. Paragraphs 2.2 to 2.5 of FPs for the Scottish TOs only refers to setting the value of incentives.</p>	N
<b>Special Condition 2F: The Network Innovation Competition</b>				
32.	General	There is nothing to say that the NIC governance documents would not contain matters more than are necessary for the reasonable operation of the NIC. Insert Paragraph into NIC special conditions along the line of	We don't believe this is necessary as the licence condition already defines the appropriate scope of the governance document in Part E.	N

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
		the - NIC governance documents will not contain matters more than are necessary for the reasonable operation of the NIC.		
33.	31.9	Please clarify the treatment of Royalties and how this interacts with the excluded services condition. If any such income is not treated as excluded then the amount will be included in Distribution Network Transportation Activity Revenue and effectively be paid back twice.	The current drafting of the excluded services conditions states that NIC royalties are not classified as excluded services. This means is that it is treated as a separate item that is reported separately. It does not make a statement about how those revenues are recovered and would not result in funding being repaid twice. Returned Royalty income is not an excluded service. It is treated separately. Any royalty income generated through the NIC should be recorded in the RIGs. Then each year, when the funding direction is issued the returned royalty income will be paid back through the funding return mechanism and will be set out in the Funding Direction issued for the following year.	N
<b>Special Condition 3A: Restriction of NTS System Operation Revenue</b>				
34.	Para 3A.4 SOREntC <sub>t</sub> (d)	NGGT believe that 'all on the Day sales of Non-incremental Obligated Entry Capacity' this should be 'all on the Day sales of Obligated Entry Capacity' as it needs to include the Funded Incremental Obligated Entry Capacity too.	Legacy Incremental Entry Capacity is already taken into account within the SOREntC <sub>t</sub> term and should not be included again. However, we agree to include revenue from all on the Day sales from Funded Incremental Obligated Entry Capacity. This aligns with what is allowed in 2A.4 (TOREntC <sub>t</sub> ).	Y
35.	Para 3A.4 SOREx <sub>t</sub>	NGGT believe that 'all on the Day sales of Non-Incremental Obligated Exit Capacity' this should be 'all on the Day sales of	Legacy Incremental Exit Capacity is already taken into account within the SOREx <sub>t</sub> term and should	Y

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
	(d)	Obligated Exit Capacity' as it needs to include the Funded Incremental Obligated Exit Capacity too.	not be included again. However, we agree to include revenue from all on the Day sales from Funded Incremental Obligated Exit Capacity. This aligns with what is allowed in 2A.4 (TOREx <sub>t</sub> ).	
36.	Para 3A.12	The equation for "SOREV" includes references to "BaseSOC" and "SOREVIBEC" – the use of these terms is not correct –  "BaseSOC" should be outside the bracket as no RPIF has already been applied, plus the reference to SOREVIBEC should be to the whole "ECIIR" which has the RPIF applied to it.  Amend value against IOIT from 0.4 to 0.6.	BaseSOC: this was incorrectly divided by RPIF. This has now been rectified.  SOREVIBIC : Treatment as drafted is correct. The calculation of SOREVOIEC (the other part of the ECIIR term) does not have RPIF applied. RPIF is used in the setting of the maximum/minimum value, not the actual value of the term. Therefore it would be incorrect to include it in the true-up.  Correct typographical error.	Y  N  Y
<b>Special Condition 3B: Entry Capacity and Exit Capacity Constraint Management</b>				
37.	General	Revised drafting contained in marked up copy of condition to correct inappropriate comparison of CMIR to ANLL and ANLU.	Agree to the removal of present value adjustment from the incentive term CMIR to compare like with like to the annual lower and upper limits which do not have this adjustment in their figures set out in Appendix 3 and 4 to this condition.	Y
38.	Para 3B.17	Modification of definitions to encompass payments made by the licensee to Gas Shippers or DN operators in exchange for agreeing to offtake gas.	Agree to the proposed modification of the definition to encompass payments made by the licensee to Gas Shippers or DN operators in exchange for agreeing to offtake gas alongside the buyback costs that was already included within the definitions. This is consistent with the intent of Final Proposals in relation to the	Y

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
			constraint management incentive.	
39.	Para 3B.19	On reflection we believe the 0.52p/kWh buyback limit for exit capacity should be included to ensure consistency between the licence and UNC. Drafting has been suggested in the accompanying marked up document.	Agree to the application of the requirement to exit as well as to entry. This is consistent with the intent of Final Proposals to unify entry and exit arrangements.	Y
40.	Para 3B.25	Believe that "ExBBCNLR" and "RExUNC" are doing the same thing – hence need to remove one of them. Also we are missing a term to capture the daily sales of exit capacity.	Agree to removal of RExUNC as it is duplicating the value reflected by the term ExBBCNLR.  Also agree to the suggested RODExC term being added to the formula i.e. covering the revenues from the daily sales of exit capacity. This is consistent with the intent of our Final Proposals in this area.	Y
41.	Para 3B.28	List should include Network Flexibility, as per SpC 5E.	Agree that the list should refer to all the uncertainty mechanisms and therefore should extend to the network flexibility mechanism. This is consistent with Final Proposals that envisaged possible (though not certain) reopening of the constraint management targets in this condition as a result of changes through any of the uncertainty mechanisms.	Y
42.	Part J	As the targets suggested for the Constraint Management scheme did not take into account the release of any incremental capacity (as none had been signalled at the time of the Business Plan submission), should this section also allow the target to be varied following the March 2013 QSEC auction?	Do not agree to change. This would extend the proposals back to the rollover year and be contrary to our Final Proposals in this area,	N
43.	Para 3B.36 & 37	Do not understand what these two equations are trying to do – algebra does not seem to work	We agree with the comment and have amended this through the creation of two new terms	Y

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
		We do not believe that a two-year lag needs to be applied for these revenue terms – especially as the ‘RAREnC’ term feeds into the Performance Measure ‘CMOpPM’ and so to ensure that the correct year’s revenue is being correctly considered, it needs to be the value for Formula Year t.	RAREnCA and ExBBCNLRA. These allow distinction to be made between the revenue in the performance measure and the adjustment to these revenues to lag and reflect the PVF adjustment.	
44.	Appendix 3	Shouldn’t all the lower limits be negative for this to work?	Agree that the lower limits are referring to £60m costs and therefore should have a minus sign before each value in Appendix 3 of Special Condition 3B.	Y
<b>Special Condition 4A: Governance of GT1 Price Control Financial Instruments</b>				
45.	General	Condition provides for process to be followed where a modification is insignificant. No mention is made of what happens where the modification is significant.	There is default position in paragraph 4A.3 and this is the statutory modification process.	N
<b>Special Condition 5A. Legacy price control adjustments – NTS Transportation Owner</b>				
46.	5A.9	Paragraph could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.	Paragraph removed and consequential paragraph reference changes made.	Y
<b>Special Condition 5B. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – NTS Transportation Owner</b>				
47.	5B.11	Paragraph could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.	Paragraph removed and consequential paragraph reference changes made.	Y
<b>Special Condition 5C: Specified Financial Adjustments – NTS Transportation Owner</b>				
48.	Part A	Refers to EDE and APFE values being directed every year but financial handbook provides two windows.	Paragraph 5C.5 states that “the Authority will, by 30 November in each Formula Year t-1, determine whether any EDE values should be revised”. Therefore in determining whether a revision should be made we will have regard to the methodology including the adjustment	N

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
			windows.	
49.	5C.7, 5C.10, 5C.17, 5C.20, 5C.27	Paragraphs could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.	Paragraph removed and consequential paragraph reference changes made.	Y
<b>Special Condition 5D. Roll-out Mechanism</b>				
50.	5D.9(b)	Current wording would disallow any expenditure before time of adjustment. As previously commented, please qualify by inserting cut off date of 1/4/13.	This has been the case throughout the development of the IRM. This mechanism is only intended to fund activity that takes place after the Authority has given its permission, not before.	N
51.	Appendix 2	Is the value in this table meant to be in nominal terms?	Alongside other PCFM conditions we have made clear that these are 2009/10 values.	Y
<b>Special Condition 5E: Arrangements for the recovery of uncertain costs</b>				
52.	Para 5E.29	Network Flexibility Costs are included here but this has not been reflected in Special Condition 3B.	This is now reflected in Special Condition 3B.	N
<b>Special Condition 5F: Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply</b>				
53.	General	We need to have a process for setting revenue drivers in a timely manner in advance of an auction taking place – this is still missing from the drafting. Subsequent discussions with Ofgem have revealed a preference for this to instead be included in the Generic Revenue Driver Methodology and we look forward to working with Ofgem to agree this.	Do not agree with including this process in 5F. Instead agree that this process should be reflected in the Generic Revenue Driver Methodology.	N
54.	Para 5F.3	Ofgem change – removal of obsolete reference to the Total Allowed Totex term in the GT1 Price Control Financial Handbook.	Has no effect as the relevant term is no longer present in the GT1 Price Control Financial Handbook	
55.	Para 5F.8	Time period over which the notice needs to be kept requested.	No change. Consistent with the existing arrangements we intend to include no time period for holding the notice.	
56.	Para 5F.20	We now understand that the intent is for the revenue driver figures to be in 2009/10 prices for RPI, but to also include RPE	No change to table. This is the correct basis 2009/10 RPI and 2010/11 RPE. This is consistent	N



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		for 2009/10 to 2010/11 year. If this is the case then these RPE uplift figures are correct to not include the 2009/10 to 2010/11, but if not then they need changing.	with the costs in the licensee's business plan.	
57.	Table 8 and Para 5F.32	Clarity required about when Legacy TO Entry Capacity must be offered for sale as Non-incremental Obligated Entry Capacity.	'Applicable date' at which the relevant capacity must be offered for sale as Non-Incremental Obligated Entry Capacity included in table and explanatory paragraph added.	Y
<b>Special Condition 5G: Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply</b>				
58.	General	We need to have a process for setting revenue drivers in a timely manner in advance of an auction taking place – this is still missing from the drafting. Subsequent discussions with Ofgem have revealed a preference for this to instead be included in the Generic Revenue Driver Methodology and we look forward to working with Ofgem to agree this.	Do not agree with including this process in 5F. Instead agree that this process should be reflected in the Generic Revenue Driver Methodology.	N
59.	Para 5G.3	Ofgem change – removal of obsolete reference to the Total Allowed Totex term in the GT1 Price Control Financial Handbook.	Has no effect as the relevant term is no longer present in the GT1 Price Control Financial Handbook.	Y
60.	Para 5G.19	We now understand that the intent is for the revenue driver figures to be in 2009/10 prices for RPI, but to also include RPE for 2009/10 to 2010/11 year. If this is the case then these RPE uplift figures are correct to not include the 2009/10 to 2010/11, but if not then they need changing.	No change to table. This is the correct basis 2009/10 RPI and 2010/11 RPE. This is consistent with the costs in the licensee's business plan. This is now in paragraph 5G.18.	N
61.	Table 3 & Table 4	These values are calculated from the existing licence – hence are in 2009/10 RPI base, but 2005/6 RPE. We need to uplift these values by 1.116 (as per the current INDEX value in the licence) to enable these to be in 2010/11 year for RPE purposes.	Agree with the proposed uplift – change in table to reflect this. This reflects the intention based on consistent indexing of the SE revenue drivers from the existing licence but applying the uplift so that RPEs are to 2010/11 levels. These are now Tables 4 and 5.	Y
62.	Part G	Licence is missing both the old revenue driver capacity and the	Agree to inclusion of new tables of capacity (see	Y

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
		substituted capacity, so two new tables need to be included as per the Entry drafting.	comment above).	
63.	Table 7	Should remove references to 'firm' and 'interruptible' in relation to Direct Connect.	Agree to removal of references to firm and interruptible from the Direct Connects in the Table. This is now Table 8.	Y
64.	Table 8 and 9	NGGT has provided additional tables for Exit Capacity Substitution and Legacy TO Exit Capacity.	Agree to additions of new Tables 9 and 10. To fully reflect non-incremental exit capacity.	Y
65.	5G.34 and Table 9	Clarity required about when Legacy TO Exit Capacity must be offered for sale as Non-incremental Obligated Exit Capacity	Applicable date included in table (now Table 10) and explanatory paragraph included.	Y
<b>Special Condition 6A: Legacy price control adjustments – NTS System Operator</b>				
66.	6A.9	Paragraph could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.	Paragraph removed and consequential paragraph reference changes made.	Y
<b>Special Condition 6B: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – NTS System Operator</b>				
67.	6B.11	Paragraph could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.	Paragraph removed and consequential paragraph reference changes made.	Y
<b>Special Condition 6C: Specified financial adjustments – NTS System Operator</b>				
68.	Part A	Refers to EDE and APFE values being directed every year but financial handbook provides two windows.	Paragraph 6C.5 states that "the Authority will, by 30 November in each Formula Year t-1, determine whether any EDE values should be revised". Therefore in determining whether a revision should be made we will have regard to the methodology including the adjustment windows.	N
69.	6C.7, 6C.10, 6C.17, 6C.20, 6C.27	Paragraphs could cast doubt on adjustments for last two years of the price control period and/or complicate a rollover arrangement if required.	Paragraph removed and consequential paragraph reference changes made.	Y
<b>Special Condition 7D: Methodology for Network Output Measures</b>				

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
70.	7D.4	Comment from NGET in response to equivalent condition in ET. Add: “(e) the Network Replacement Outputs, which are used to measure the licensee’s asset management performance as required in Special Condition 2M (Specification of Network Replacement Outputs).”	We have made this change as the wording provides a link to SpC 7E.	Y
<b>Special Condition 7E: Specification of Network Replacement Outputs</b>				
71.	General	We were expecting the high level outputs table, as included in our submission (updated for current position) rather than the excel workbook included with the consultation. Requiring reporting at this level of detail leads to an unnecessarily onerous regulatory burden. We understand from Ofgem that this table will be replaced and look forward to a new table being included in the licence direction.	We have added in a new Table 1 for the high level outputs. This replaces the workbook.	Y
72.	Table 2 (was Table 1 in Stat Con)	We cannot reconcile the Network Output values included in the table.	We have updated the numbers. These are in line with the figures in the financial input sheet in Final Proposals (net of RPEs) and relate only to Asset Health Expenditure. This has been communicated to NGGT as well.	Y
73.	7E.3	Comment from NGET in response to equivalent condition in ET. We do not understand the term “higher specification of risk mitigation”. We do not understand the term “lower specification of risk mitigation”.	To improve clarity we have changed the text to refer to ‘levels’ of risk as measured by the network output measures in the table.	Y
74.	General	Comment from NGET in response to equivalent condition in ET. “Second Price Control Period” must be defined – suggest the use of the definition in the RIIO-GT1 drafting	We have defined this within the specific condition as a period “to commence 1 April 2021”.	Y
75.	Table 2 (was Table 1 in	Comment from NGET in response to equivalent condition in ET. “(net of the efficiency incentive rate)” should be deleted as it is	We have removed reference to the efficiency incentive rate. Applying the efficiency incentive	Y

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
	Stat Con)	incorrect. The full amount needs to be included so that the operation of the efficiency incentive rate on under or overspend in RIIO-T2 is the same as the operation of the efficiency incentive rate on the corresponding over or underspend in RIIO-T1.	rate would result in a change to revenues in future price control which would not be commensurate with costs incurred/saved.	
76.	Table 2	We cannot reconcile the Network Output values included in the table. We understand from Ofgem that these values are incorrect and look forward to them being corrected in the licence direction.	Accept and have updated to reflect the relevant table in the Costs assessment and uncertainty Supporting Document Final Proposals.	Y
<b>Special Condition 11A: Disapplication of relevant Special Conditions</b>				
77.	Throughout Condition	Minor changes required to condition to remove circularity of suspension of Disapplication request, to finesse drafting and to recognise the split in the operation of any Disapplication between the TO and SO controls.	Appropriate amendments made.	Y
<b>Special Condition 11B: Allocation of revenues and costs for calculations under the price control in respect of the NTS Transportation Owner Activity and NTS System Operation Activity</b>				
78.	Paras 11B.1 & 11B.3	Does this condition also need to refer to the SO information, hence also Chapter 8?	Referring to chapter 8 would widen the scope of this condition. We do not consider chapter 8 to be relevant to the allocation of revenues and costs.	N
79.	Para 11B.15	Conform reference to De Minimis Business  ...in the undertaking provision of De Minimis Business Activities under...	Change reflected in the licence to better reflect the policy intent of Final Proposals.	Y
<b>Special Condition 11C: Services treated as Excluded Services</b>				
80.	Para 11C.8	Thought we were also including a (d) for "Pipeline diversion costs" which are claimed under Sp C 5E?	This is not necessary. ES2 of the Excluded Services list makes clear that Pipeline diversion costs are not an excluded service.	N
<b>Special Condition 11F: Gas conveyed to Independent Systems</b>				

Comment number	Para Ref	Comment	Ofgem Response	Change made to licence (Y/N)
81.	General	Not sure that the condition is clear if a direction is not received from the Secretary of State?	We are expecting the direction and do not consider a contingency process to be necessary.	N
82.	Para 11F.13	This does not tie up with drafting within Sp C 2B.	There was an error in the drafting of Special Condition 2B which has been rectified. The IS term was incorrectly referred to as the ISA term in SpC 2B and vice versa.	Y

#### Log of changes to supporting documents

GT1 Financial Handbook - comments				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to handbook (Y/N)
Ofgem	Throughout handbook	Amendments consequential to changes to the licence conditions from the statutory consultation drafting are required.	Appropriate amendments made.	Y
Ofgem	Throughout handbook	Amendments required to improve the clarity of the drafting, to correct cross referencing errors, to correct discrepancies between Final Proposals and the handbook and between the licence conditions and the handbook and to delete typographical errors.	Appropriate amendments made.	Y
NGGT	Table 3.1	It is unclear why a valuation at 31/3/12 is needed as well as a valuation at 31/3/13 (see comments which follow below). If the 2 dates reflect different pension schemes then the text should say "2012 or 2013" rather than "and".	We have clarified the purpose of the 2012 and 2013 valuations and the requirements when a full triennial valuation is not available at the valuation date.	
	Table 3.2 & 3.4	The application of tax to this formula is incorrect because it is inconsistent with the way the financial model treats the EDE and SOEDE term. This tax treatment has been introduced since the previous draft and is incorrect.	Amendments made.	

GT1 Financial Handbook - comments				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to handbook (Y/N)
	6.19	The licence (SC 1A) refers to the handbook chapter 6 for a definition of TO Totex and SO Totex. In this context this para not only needs to say that this is a definition of TO Totex and SO Totex but it also has to be the definition that matters. In this context this para should not then say that the full definition is provided elsewhere (the RIGS). If the intention is to define it elsewhere the licence should not direct users to this chapter.	We have clarified that the RIGs will provide further detail for reporting purposes rather than the full definition and that the definition in the Handbook applies to both TO totex and SO totex as applicable.	
	Table 3.3	For clarity, the words “including contingent asset costs” need to be added to the first line of row 8 and then the third line of the following paragraph in row 8, so they read “Obtain actual deficit repair payments including contingent asset costs attributable to the licensee:” and “a) Obtain relevant portion (i.e. the portion attributable to the licensee’s transmission business) of actual deficit repair payments including contingent asset costs made by licensee during 2014-15 and 2015-16 and 2016-17 (ED);” respectively.	We have made changes in the chapter to accommodate the contingent asset allowance.	Y
	Table 3.3	In row 9 the words “before any true-up adjustment is included” should be inserted in the opening line so it reads “Obtain pre-existing EDE allowances before any true-up adjustment is included for comparison to licensee’s actual deficit repair payment”.  Similarly, in row 9 at point (a) the words “before any true-up adjustment” should be inserted so it reads “a) Obtain pre-existing EDE allowances before any true-up adjustment (“C” in Table 3.2).  These additional words are required to avoid comparing a	We have made adjustments to reflect these issues.	Y

GT1 Financial Handbook - comments				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to handbook (Y/N)
		current year cost to an allowance that reflects a combination of cost and catch up element.		

GT1 Financial Model				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response and Reasons for Changes from Statutory Consultation Drafting	Change made to model (Y/N)
<b>Special Condition [1,2,3..]. XXXXX</b>				
		No changes raised.		

Network Innovation Competition - Governance Documents				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response	Change made to licence (Y/N)
Transmission Investment LLP (TCP)	General	Respondent would like certainty of the level of risk when bidding for NIC funding. In particular: <ul style="list-style-type: none"> <li>The maximum amount of NIC funding that could be refunded</li> <li>The time-limits within which any refunding direction must be made by Ofgem.</li> </ul>	The maximum that would be refunded is the total amount received from the NIC.  The expected last point for a funding return direction will be the December following the approval of the project close down report in the governance document.	N
SGN	Overview	Respondent concerned that it is not always clear what is intended as an absolute obligation and what is intended as guidance only e.g. it uses language such as 'expect' and urge greater clarity. They ask this is considered when regulating Network Licensees under the NIC and when conducting the	Following comments to the informal consultation we added text to the front of the NIC Guidance document prior to the Statutory Consultation to clarify that section A provides guidance for the competition and section B the requirements for the	N

Network Innovation Competition - Governance Documents				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response	Change made to licence (Y/N)
		planned review.	<p>Licensee to follow once funding has been awarded.</p> <p>We note there has been no issue with the LCN fund to date, which has been running for the last 3 years and is set-up in a similar way. The review provides an opportunity to consider any changes to the governance if necessary.</p>	
SGN	General	Respondent concerned that a substantial number of comments submitted in response to the previous consultation remain and have not been taken in to consideration.	We spent time considering all the comments we received prior to the statutory consultation and made revisions where appropriate. The two year review remains available to consider any changes to the arrangements following experience from running the competition and we may consider any lessons learnt from running the first competition in 2013 if necessary.	Y
SGN	2.10	Network Licensees must ensure Project details published on the Learning Portal are up to date at all times. As project details are continuously developing throughout the life of a Project please clarify this means the most recent Project Progress Reports rather than continuously updated as the Project moves on.	The intention of this paragraph is that the licensee ensures that relevant information is up to date. This means the most recent reports that have been published. To aid clarity we have made a minor alteration to the text in paragraph 2.10, to refer to the latest project progress reports.	Y
SGN	3.3	Greater clarity regarding intended dates would be helpful as 2 Calendar Months notice is extremely tight for Projects of this size and complexity.	We provided clarity following comments from the informal consultation. Please see paragraph 3.3 where we state “we expect the ISP deadline to be in April each year and the full submission deadline to be in August each year”.	N
SGN	ISP Criteria – Page 18	Respondent concerned that the Network Licensee must be able to set out quite detailed and specific information to	We appreciate that innovative projects by their nature have a degree of uncertainty involved.	N



Network Innovation Competition - Governance Documents				
Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response	Change made to licence (Y/N)
		'demonstrate' how the Project can accelerate development of low carbon and environmental benefits and the potential to deliver value for money for customers across GB. Given the nature of such Projects, the risk and uncertainty, the difficulty associated with demonstrating the elements outlined should not be underestimated.	To understand the level of detail that will be required, an example ISP submission for the LCN Fund is <a href="#">here</a> . This is similar level of detail to what will be required for the NIC and all past LCN Fund ISPs can be found on our website.	
SGN	Evaluation Criteria – Page 32	The difficulties and uncertainty associated with the demonstrating a Project meets the criteria should not be underestimated. Details can be extremely uncertain and difficult to quantify e.g. potential to deliver net financial benefits, potential to release capacity and potential to replicate across GB.	<p>We appreciate that innovative projects by their nature have a degree of uncertainty involved.</p> <p>Any example full submission for a project is found <a href="#">here</a>. The projects are assessed as a whole against all of the criteria – it is likely that projects will perform differently against each of the individual criteria, but it is the combined performance that is important.</p> <p>All past LCN Fund Full Submissions can be found on our website (both those that were awarded funding and those that were not).</p>	N
SGN	IPR - 9.4	It is not clear what is meant by 'material'. This needs to be clearer, particularly if this is intended to be more than guidance.	The use of material is a common phrase and we do not consider it needs further definition. It may vary on a project by project basis.	N
SGN	9.5	We suggest "(as appropriate)" be inserted after the word "shared" on the penultimate line.	We do not consider this is necessary and believe the current drafting is clear as it stands.	N
SGN	9.12	We recommend use of the words "new and distinct" in relation to the definition of Foreground IPR.	The definition of Foreground IPR is linked to IPR that is generated through the project. We do consider it is appropriate to include "new and distinct".	N

<b>Network Innovation Competition - Governance Documents</b>				
<b>Comment From</b>	<b>Para Ref in the statutory consultation</b>	<b>Comment</b>	<b>Ofgem Response</b>	<b>Change made to licence (Y/N)</b>
SGN	General	The term Participant is used throughout this section but only Project Participant is defined (and used elsewhere in the document).	Where we refer to participant this has been updated to the defined term "Project Participant".	Y
Internal	General	The terms GBSO and GB Transmission System were amended in the transmission licence in 2009, with the introduction of the offshore regime. The GBSO is now the NETSO or National Electricity Transmission System Operator. The GB Transmission System is defined to exclude the offshore transmission system so the correct term should be National Electricity Transmission System or NETS.	We have made changes to refer to the GBSO as NETSO and GB transmission system as National Electricity Transmission System to account for the changes and ensure the inclusion of offshore.	Y
Internal		The current drafting of network licensee group requires clarification where a licensee is owned by more than one ultimate controller.	We have made minor changes to the definition of a network licensee group to account for when a licensee is owned by more than one ultimate controller.	Y

<b>Network Innovation Allowance (NIA) Governance Document</b>				
<b>Comment From</b>	<b>Para Ref in the statutory consultation</b>	<b>Comment</b>	<b>Ofgem Response</b>	<b>Change made to Associated document (Y/N)</b>
All	Various	Comments in relation to this document were typographical and we have accepted these minor changes.		Y

**Stakeholder Engagement Incentive Scheme Guidance**

Comment From	Para Ref in the statutory consultation	Comment	Ofgem Response	Change made to Associated document (Y/N)
All	Various	Comments in relation to this document were typographical and we have accepted these minor changes. One change has been made to paragraph 1 in the 'Evaluation and Reward Allocation' section to provide clarity on the implications of passing the part 1 submission on the overall eligibility for the reward.		Y

## **Schedule 3 – Reasons and effects for the modifications**

### **Reasons and effect of modifications to the Special Conditions in NGGT’s gas transporter licence**

#### **Special Conditions to be amended**

##### **Special Condition C1: Amendments to Standard Special Conditions relating to LNG**

Amend and renumber condition and to amend the title to Special Condition 1B: Amendments to Standard Special Conditions relating to LNG

1.1. This condition sets out amendments to certain Standard Special Conditions including, SSC A30: Regulatory Accounts and A32: Definition of Permitted Purpose.

1.2. We substantially modify SSC A30 to ensure that it remains up to date and correctly refers to up to date and relevant regulations and requirements.

1.3. We delete existing condition A32 and move the definition of ‘Permitted Purpose’ to Standard Condition A3: Definitions where we consider it more appropriate for this definition to reside. As such, the amendments that this condition makes to existing SSCs A30 and A32 need to be updated.

1.4. We therefore delete the amendment relating to SSC A30 from this condition as, given the substantive changes to SSC A30, the amendment no longer applies.

1.5. We also modify the amendment relating to SSC A32 so that it refers to SSC A3 instead.

1.6. The effect of the amendments is to update the condition to include relevant provisions and remove content that is no longer relevant.

##### **Special Condition C8A: Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity**

Amend and renumber condition and to amend title to Special Condition 1A: Definitions

1.7. The content of this condition has been updated to add new definitions that are needed for RIIO-T1, remove redundant TPCR4 definitions and, where appropriate, update definitions in light of now out of date legislation and update cross references to other licence conditions.

1.8. The effect of these changes is to create an up-to-date list of the definitions necessary to understand the special conditions that are to be in-force over the RIIO-T1 period.

## **Special Condition C8B: NTS transportation owner activity revenue restriction**

### Amend and renumber condition and to amend title to Special Condition 2A: Restriction of NTS Transportation Owner Revenue

1.1. This condition provides for calculation of the maximum revenue that the licensee is allowed to recover from customers by bringing together terms from other licence conditions. It also sets out the calculation of the price index adjustment factor used throughout the licence and the correction term (K) for the treatment of over/under recovered revenue.

1.2. No significant changes are made to the intent of this condition from the current C8B condition. Changes have been made to reflect new revenue adjustments for RIIO-T1 and to remove terms for revenue adjustments that are no longer required. We have also created a number of new specific licence conditions which will calculate terms that were previously calculated within Special Condition C8B. The calculation of the price index adjustment term has been updated to reflect the Authority's decision of July 2011.<sup>2</sup> We have also incorporated the calculation of the correction term for over/under recovery and updated its calculation as a result of the Authority's decision on measures to mitigate charging volatility.<sup>3</sup>

1.3. The effect of the changes to this condition is to enable the licensee to recover revenue streams that are consistent with the RIIO price control settlement as set out in the Final Proposals.

## **Special Condition C8C: NTS System Operation Activity Revenue Restriction**

### Amend and renumber condition and to amend title to Special Condition 3A: Restriction of NTS System Operation Revenue

1.4. The purpose of this condition is to calculate the maximum NTS system operation (SO) revenue that NGGT is allowed to recover from customers by bringing together terms from other licence conditions. It also calculates the correction factor (SOK) for the treatment of over/under recovery of SO revenue.

1.5. We have amended the title of the condition to 'Restriction of NTS System Operation Activity Revenue'.

1.6. There are a number of changes to this condition to ensure consistency of format between the TO and SO controls including:

- introducing the term 'SOBR', and a formula for its calculation, to allow for the annual iteration of the Price Control Financial Model, through the SOMOD term. This change also results in the current term SOIntIRC no longer being required

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<sup>2</sup> Decision on the RPI indexation method to apply allowed revenues in the forthcoming RIIO price controls (T1 and GD1) and the Transmission Price Control (TPCR4) Rollover (Jul 2011):  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=117&refer=Networks/Trains/PriceControls/RIIO-T1/ConRes>

<sup>3</sup> Decision on measures to mitigate charging volatility arising from the price control settlement (Oct 2012):  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=404&refer=Networks/Policy>

- removing the terms SOEIRC and SOExIRC from the SO control, with funding arrangements for investment related parts of the entry and exit capacity moving to the TO control. We retain specific dedicated licence conditions for the calculation of entry and exit revenues (currently Special Conditions C8D and C8E. See respective sections below for more information
- legacy revenue adjustments to cover funding of pre-RIIO incremental capacity remains on the SO side
- removing the term 'SORA' (which currently covers income adjusting events) from the licence, and instead making provision for uncertain costs through the SOMOD term in accordance with the new special condition 6D: Arrangements for the recovery of SO uncertain costs; and
- moving provisions for price control disapplication to a specific dedicated licence condition see special condition 11A: Disapplication of Relevant Special Conditions.

1.7. The effect of the changes to this condition is to enable NGGT to recover revenue streams that are consistent with the RIIO regime as currently set out in its Final Proposals document.

**Special Condition C8D: NTS gas entry incentives, costs and revenues (including Annex A to Special Condition C8D)**

Amend and renumber condition and to amend title to Special Condition 5F: Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply

1.8. We move some elements of this condition to:

- Special Condition: 2D: Permit Arrangements for the provision of incremental capacity
- Special Condition 3B: Entry Capacity and Exit Capacity Constraint Management
- Special Condition 2A. Restriction of NTS Transportation Owner Revenue
- Special Condition 3A. Restriction of NTS System Operation Revenue; and
- Special Condition 5F: Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply.

**AND**

**Special Condition C8E: NTS gas exit incentives, costs and revenues (including Annex A Special Condition to C8E)**

Amend and renumber condition and to amend title to Special Condition 5G: Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply

1.9. We move some elements of this condition to:

- Special Condition 2D: Permit Arrangements for the provision of Incremental Capacity
- Special Condition 3B: Entry Capacity and Exit Capacity Constraint Management
- Special Condition 2A. Restriction of NTS Transportation Owner Revenue
- Special Condition 3A. Restriction of NTS System Operation Revenue; and

- Special Condition 5G: Determination of Incremental Obligated Exit Capacity Volumes and the appropriate revenue drivers to apply.

1.10. The reasons for, and effect of the amendments to Special Conditions 5F and 5G are to determine the process for allowing the licensee to recover revenue in return for providing extra entry and exit capacity respectively. This will be modelled under the Annual Iteration Process and reflected in TO base revenue allowances through the MOD term.

1.11. There are a number of changes that are required to the existing licence conditions in order to implement NGGT's Final Proposals in this area. This includes being consistent with RIIO-T1 Final Proposals, allowed revenue relating to entry and exit revenue drivers will be provided through the TO rather than the SO as at present. This has the advantage of matching the expenditure more closely with the costs incurred. This approach allows the expenditure to be reflected in Regulatory Asset Value (RAV) rather than as part of a shadow RAV calculation.

1.12. The condition also includes provisions:

- a) to retain the existing revenue drivers, converting them to a total expenditure basis;
- b) for NGGT to calculate updated revenue drivers at points where it considers a possible likelihood of this being needed; and
- c) for NGGT to develop and use a generic revenue driver methodology once approved by the Authority.

1.13. The conditions are drafted so as to be capable of incorporating these three options, including the use of a generic revenue driver methodology if approved by the Authority at 1 April 2013. There are also provisions for revenue drivers in the absence of a generic methodology (points (a) and (b) above).

**Special Condition C9: Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity**

Amend condition and renumber as Special Condition 11B:

1.14. The purpose of this condition is to set out how the licensee must allocate revenues and costs to calculate its revenue restriction conditions, and require the licensee to have in place a statement that sets out the methods that they will use in the allocation and attribution of revenues and costs.

1.15. As part of RIIO we have modernised this condition and updated the relevant activities to which the licensee must allocate or attribute all incurred revenues earned and costs.

1.16. The effects of the changes are to retain the broad purpose of the existing special conditions that it will replace and ensure the arrangements are consistent with the new structure of the licence conditions necessitated by the RIIO price control changes.

## **Special Condition C10: Excluded Services**

### Amend and renumber condition and to amend title to Special Condition 11C: Services treated as Excluded Services

1.17. The purpose of this condition is to set out the basis on which services provided by the licensee may be treated as Excluded Services.

1.18. We have deleted the content of existing Special Condition C10, to replace with new provisions and to renumber the condition Special Condition 11C.

1.19. The effects of these changes to the existing conditions are to improve clarity regarding the activities that are to be treated as Excluded Services, and to ensure the condition is applicable for the RIIO-T1 price control period given the changes that are being made to other specials conditions in the licence.

## **Special Condition C11: Transmission Planning Code**

### Amend condition and renumber as Special Condition 7B

1.20. The purpose of this condition is to require the licensee to maintain and comply with the provisions of a Transmission Planning Code (TPC).

1.21. As part of RIIO we have modernised this condition and removed an outdated provision for switching the condition on in certain licences, which is no longer needed because switching on has already occurred.

1.22. The reasons for our pchanges are to modernise the text to make the condition more user friendly, and to remove an out of date provision.

1.23. The effect of the changes is to amend the current text of this condition with a modernised and updated equivalent.

## **Special Condition C13: Network Output Measures**

### Amend and renumber condition and to amend title to Special Condition 7D: Methodology for Network Output Measures

1.24. During TPCR4, NGGT developed a methodology for deriving and reporting Network Output Measures (NOMs). This was codified in Special Condition C13.

1.25. The purpose of this condition is to ensure that the methodology continues to meet its objectives, and provides for implementation and modification of the methodology.

1.26. As part of RIIO we have modernised the condition and removed the sections relating to development of NOMs, as these are now in place. The reasons and effect of these changes are to update the condition and provide improved clarity.



## **C21: Appointment and duties of the business separation compliance officer**

### Amend and renumber condition to Special Condition 10C:

1.27. Given the re-structuring of the special conditions, and changes to specific standard conditions, minor consequential changes are required to cross references in this condition to ensure that it continues to operate during the RIIO period.

## **Special condition C24: Network Model**

### Amend and renumber condition and to amend title to Special Condition 7C: Licensee's Network Model

1.28. The purpose of this condition is to set out the requirement on the licensee to have in place and maintain a computer simulation model of the pipe-line system.

1.29. As part of RIIO we have:

- modernised this condition, and
- removed an outdated date provision in paragraph 1 of the current condition which is no longer relevant because the computer simulation model of the pipe-line system is now in place.

1.30. The reasons for the changes are to modernise the text to make the condition more user friendly and to remove an out of date provision.

1.31. The effect of the changes is to amend the current text of this condition with a modernised and updated equivalent.

## **Special Condition C26: Gas Conveyed to Independent Systems**

### Amend condition and renumber as Special Condition 11F: Gas Conveyed to Independent Systems

1.32. The purpose of this condition is to put in place a framework that will provide for the continuation of the cross-subsidy arrangements that were in force at 31 March 2013 with respect to Independent Systems in the event that the Secretary of State issues a new direction to that effect.

1.33. Independent Systems are subsidised by GB gas customers in accordance with a direction from the Secretary of State which require the Distribution Network (DN) to charge customers in the Independent Undertakings no more than charges to other customers. Consumers within the SIUs pay the average GB transportation charge. The remaining costs are recovered from GB customers through NTS charges. The existing direction expires on 31 March 2013, DECC has stated to us that it intends to issue a new direction to provide for the continuation of such arrangements.

1.34. This condition allows NGGT to recover the costs associated with the Independent Systems through its charges, and requires NGGT to make equivalent payments to DNs.

1.35. The effects of this condition is to ensure the continuation of the current funding arrangements in the event that DECC issues a direction to that effect and to modernise the condition.

## **New Special Conditions**

### **Special Condition 2B: Calculation of allowed pass-through items**

1.36. This new Special Condition calculates the pass through costs that the licensee is allowed to recover from customers. Final Proposals set out the areas of cost that will be treated as pass-through.

1.37. There are no significant changes to the intent of this condition from the equivalent current Special Condition C8B (3). Changes have been made to reflect the Authority's decision on measures to mitigate charging volatility,<sup>4</sup> by introducing a two year lag to some of the adjustments. The effect of this change is to reduce charging volatility.

### **Special Condition 2C: Stakeholder Satisfaction Output**

1.38. The purpose of this new condition is to set out the key components of the stakeholder satisfaction output and determine the provisions deriving the financial penalty or reward (-1% to 1% of allowed revenue). Additionally and separately its sets out the conditions for a discretionary reward of up to 0.5% of allowed revenue for high quality outcomes resulting from stakeholder engagement.

1.39. There are two separate components. One is based on performance against a survey of stakeholder and/or customer views of the transmission network company's performance along with supporting information. The other provides for a discretionary reward for effective engagement<sup>5</sup> where the decision to apply such a reward would be determined by the Authority.

1.40. Parts B and C of the condition gives rise to the stakeholder engagement reward and the Stakeholder Engagement Reward Guidance<sup>6</sup> associated document. The purpose of this associated document is to provide the licensee with information on the application and reward process. The condition establishes this Guidance and provides governance arrangements should it need to be changed.

1.41. The Guidance sets out the application process to be followed by licensees to be able to qualify for a reward under the stakeholder engagement scheme. It also sets out the assessment process, including the minimum requirements, details on the evaluation and allocation of the reward and the panel members.

1.42. For RIIO-T1 and GD1, the Guidance will come into force on 1 April 2013. Recognising this is the first time the guidance has been used, we intend to test it in mid-

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<sup>4</sup> Decision on measures to mitigate charging volatility arising from the price control settlement (Oct 2012): <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=404&refer=Networks/Policy>

<sup>5</sup> The core components of the customer satisfaction output for were agreed as part of the T1 Strategy Document.

<sup>6</sup> This condition gives effect to the Stakeholder Engagement Reward Guidance which has been published alongside this document as Supporting Document 6.

2013, by holding a trial run of the Stakeholder Engagement Reward process. The results of this trial can be used to further develop the Stakeholder Engagement Reward Guidance which can then, if necessary, be modified through the governance arrangements set out in this condition.

1.43. The effect of the condition is to incentivise the licensee to deliver benefits to their customers.

### **Special Condition 2D: Permit Arrangements to manage the time of delivery of incremental Capacity**

1.44. The reason and effect for this new condition is to provide for permit arrangements. These allow permits to be used by NGGT to vary the timeframes in which it releases incremental entry and/or exit capacity from the default lead times

1.45. The condition sets a financial limit on the value of permits that could be cashed out by NGGT and a process limiting at least initial permits per project to 24 months. The condition could be extended if necessary for later years.

### **Special Condition 2E: The Network Innovation Allowance**

1.46. The purpose of this condition is to establish the Network Innovation Allowance (NIA). In the March 2011 Strategy Documents (the March Strategy Documents) we set out that as part of the RIIIO innovation stimulus we would establish a limited Innovation Allowance of between 0.5-1% of base revenue for each licensee. The NIA is self governing and will allow licensees to implement smaller scale innovation projects on their own networks.

1.47. This condition also sets out the scope and change control processes for the NIA Governance Document, and sets out that only NIA expenditure that conforms to the requirements of the NIA Governance Document will be considered eligible.

1.48. The effect of this condition is to the NIA. The condition sets out the percentage of each licensee's base revenue that it can spend on innovative projects that conform to the Network Innovation Allowance Governance Document<sup>7</sup>. The allowance will be provided on a 'use it or lose it' basis and licensees will self-certify against the criteria that are included in the NIA Governance Document.

### **Special Condition 2F: The Network Innovation Competition**

1.49. In the March Strategy Documents we outlined the introduction of an innovation stimulus. One element of the innovation stimulus is the Network Innovation Competition (NIC). We set out that licensees can bid for funding through a competitive process for projects which have potential low carbon and/or environmental benefits.

1.50. The effect of the modification is to establish the NIC. This will enable Licensees to fund eligible NIC projects, this includes:

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<sup>7</sup> This condition gives effect to the Network Innovation Allowance Governance Document which has been published alongside this document as Supporting Document 5.

- establishing the NIC Funding and the Funding Return Mechanism which outline the circumstances under which the licensee will receive funding and the circumstance under which the licensee must return money
- establishing that the regulation, governance and administration of the NIC will be detailed in the NIC Governance Document
- establishing that the licensee must comply with the NIC Governance Document<sup>8</sup> as if it forms part of the licence; and
- establishing the procedures for issuing and revising the NIC Governance Document.

### **Special Condition 3B: Entry and Exit Capacity constraint management**

1.51. The reason for this condition is to provide the arrangements for the incentive scheme related to the costs and revenues associated with entry and exit capacity constraint management activity by NGGT. It provides for the level of costs and the sharing of these through the incentive mechanism between NGGT and network users. It incorporates an overall cap and collar on total rewards and penalties through the incentive mechanism and sets out the treatment of some related revenues and costs. It also provides for the reward relating to the accelerated release of increment obligated entry capacity.

1.52. The effect of this condition is to continue to incentivise NGGT's performance in relation to its management of constraints on the NTS. The incentive payments from this condition will flow through Special Condition 3A (Restriction of NTS System Operation Revenue). The targets are set based on the licensee's assessment of expected costs.

1.53. Compared to the illustrative drafting that we consulted on in our open letter of 30 October, we have removed reference to revenues from exit overrun charges. This is not in the current incentive schemes and we have written to NGGT previously to confirm that we are not convinced that it is appropriate to add this to the incentive schemes in this area. This does not affect NGGT's ability to obtain the revenue as this is separate from these provisions.

### **Special Condition 3C: NTS Transportation Support Services**

1.54. The purpose of this condition is to capture and combine the costs and revenues associated with Constrained LNG and the long-run contracting incentive currently found in Special Condition C8E 1(c) and 1(e).

1.55. To affect these additions is to add the term  $TSS_t$  to Part E of special condition 3A: Restriction of NTS System Operation Revenue. Didcot A is being removed from the list of sites for the long-run contracting incentive due to its closure before the RIIO-T1 period. The costs and revenues from the condition will expire on 1 October 2018 in line with NGGT's proposal for replacing Avonmouth with pipeline reinforcement as outlined in their business plan.

1.56. The effect of this condition is to incentivise NGGT to efficiently choose between using either Constrained LNG and/or long-run contracts to fulfil the requirements of its safety case in the South West of the NTS.

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<sup>8</sup> This condition gives effect to the Network Innovation Competition Governance Document which has been published alongside this document as Supporting Document 4

#### **Special Condition 4A: Governance of GT1 Price Control Financial Instruments**

1.57. The reason for this new condition is to establish the change control framework for the Price Control Financial Model (PCFM) and the Price Control Financial Handbook.<sup>9</sup> Each of these form part of this condition and may only be modified by the Authority in accordance with the provisions set out in this condition.

1.58. The effect of introducing this condition is to establish, and provide governance for, two key associated documents that are essential components of the annual iteration of the Price Control Financial Model.

#### **Special Condition 4B: Annual Iteration Process for the GT1 Price Control Financial Model**

1.59. The effect of this condition is to:

- set out the steps to be taken for the annual iteration process of the PCFM, and
- the procedure for directing the value of MODt and SOMODt to the licensee.

1.60. The terms MODt and SOMODt are specified in Special Conditions 2A: Restriction of NTS Transportation Owner Revenue and 3A: Restriction of NTS System Operation Revenue and form part of the licensee's allowed revenue.

#### **Special Condition 5A: Legacy price control adjustments – NTS Transportation Owner**

1.61. The reason for introducing this new condition is to provide for the determination of PCFM Variable Values necessary to update revenues allowances and RAV balance additions as a result of the close out of legacy (pre-RIIO) price control mechanisms.

1.62. These close out adjustments are needed because:

- outturn values for schemes relating to 2012/13 (the last pre-RIIO year) may not be reported by licensees until 31 July 2013 (by which time the RIIO-T1 and GD1 price controls will be underway)
- cost totals for items subject to true-up or logging-up may not be reported by licensees until 31 July 2013; and
- the RIIO special conditions may exceptionally provide for pre-RIIO allowances to be adjusted.

1.63. The effect of introducing this condition is to provide provisions for the adjustment of companies' allowed revenue in light of close-out schemes that were introduced under the price control prior to RIIO-T1 and GD1.

#### **Special Condition 5B: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – NTS Transportation Owner**

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<sup>9</sup> This condition gives effect to The Price Control Financial Model and the Price Financial Handbook which have been published alongside this document as Supporting Documents 1 and 2 respectively

1.64. The reason for this new condition is to provide for the determination and direction of revised PCFM Variable Values relating to the licensee's actual levels of Totex expenditure. Under the annual iteration process for the PCFM, the licensee's actual level of Totex expenditure is compared to their allowed Totex expenditure levels. By then applying the Totex Incentive Strength rate for the licensee, and the Totex capitalisation rate, an appropriate adjustment to allowed revenue is calculated to reflect any over spend or under spend.

1.65. The effect of introducing this condition is to enable an adjustment to be made to the licensee's allowed revenue based on any over or under spend when compared against their allowed Totex expenditure levels.

### **Special Condition 5C: Specified financial adjustments – NTS Transportation Owner**

1.66. The reason for, and effect of this new condition is to provide for the determination and direction of revised PCFM Variables Values relating to:

- revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration Costs and Pension Protection Fund levy costs;
- revenue allowance changes driven by tax trigger events and the licensees' gearing levels and corporate debt interest costs; and
- the licensees' allowed percentage cost of corporate debt.

### **Special Condition 5D: The Innovation Roll-out Mechanism**

1.67. The purpose of this new condition is to establish the Innovation Roll-out Mechanism. This implements our policy set out in the March Strategy Documents that licensees would be able to apply for funding for the rollout of proven innovative solutions with low carbon and/or environmental customer benefits where they cannot fund the roll out under the existing price control settlement. Funding will be provided through the licensee's allowed revenue using the standard capitalisation ratio. All projects would need to demonstrate they represent value for money to consumers in the long term.

1.68. The effect of this condition is to set out the criteria licensees must address when making a notice to the Authority seeking an adjustment to their allowed revenue to fund the costs of rolling out a proven innovation. The condition also sets out the process the Authority must follow when reaching its decision regarding a notice that has been made and sets out what would be considered a relevant adjustment.

1.69. The process for determining the relevant adjustment and directing the resultant change to the PCFM values has been amended so that is consistent with other PCFM conditions.

### **Special Condition 5E: Arrangements for the recovery of uncertain costs**

1.70. The purpose and effect of this new condition is to allow for the recovery, during the price control, of additional costs through allowed revenues. The areas of cost covered by this mechanism are set out in Final Proposals.

1.71. The adjustments to revenues as a result of the application of this condition will impact allowed revenues (ie the adjustments will impact revenue through a change in MOD) through the output of the annual iteration of the Price Control Financial Model (PCFM).

#### **Special Condition 6A: Legacy price control adjustments – NTS System Operator**

1.72. The reason for this new condition is to provide for the determination of PCFM Variable Values necessary to update revenues allowances and RAV balance additions as a result of the close out of legacy (pre-RIIO) price control mechanisms.

1.73. These close out adjustments are needed because:

- outturn values for schemes relating to 2012/13 (the last pre-RIIO year) may not be reported by licensees until 31 July 2013 (by which time the RIIO-T1 price controls will be underway);
- cost totals for items subject to true-up or logging-up may not be reported by licensees until 31 July 2013; and
- the RIIO special conditions may exceptionally provide for pre-RIIO allowances to be adjusted.

1.74. The effect of this condition is to provide provisions for the adjustment of companies' allowed revenue to close-out schemes that were introduced under the price control prior to RIIO-T1.

#### **Special Condition 6B: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – NTS System Operator**

1.75. The reason for this condition is to provide for the determination and direction of revised PCFM Variable Values relating to the licensee's actual levels of System Operator Totex expenditure. Under the annual iteration process for the PCFM, the licensee's actual level of Totex expenditure is compared to their allowed Totex expenditure levels. By then applying the Totex Incentive Strength rate for the licensee, and the Totex capitalisation rate, an appropriate adjustment to allowed revenue is calculated to reflect any over spend or under spend.

1.76. The effect of introducing this condition is to enable any adjustment to be made to the licensees allowed System Operator revenue based on any over or spend when compared against their allowed System Operator Totex expenditure levels.

#### **Special Condition 6C: Specified financial adjustments – NTS System Operator**

1.77. The reason for, and effect of, introducing this new condition is to provide for the determination and direction of revised PCFM Variables Values relating to:

- revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration Costs and Pension Protection Fund levy costs
- revenue allowance changes driven by tax trigger events and the licensees' gearing levels and corporate debt interest costs; and

- the licensees' allowed percentage cost of corporate debt.

### **Special Condition 6D: Arrangements for the recovery of SO uncertain costs**

1.78. The purpose and effect of this new condition is to allow for the recovery, during the price control, of additional SO internal costs through allowed revenues. The details of the cost areas that are included are set out in the Final Proposals document for NGGT<sup>10</sup>.

1.79. The adjustments to revenues as a result of the application of this condition will impact allowed revenues (ie the adjustments will impact revenue through a change in SOMOD) through the output of the annual iteration of the PCFM.

### **Special Condition 7E: Specification of Network Replacement Outputs**

1.80. The purpose of this new condition is to specify the Network Replacement Outputs the licensee must deliver during the price control period and the allowed expenditure associated with them.

1.81. The effect of this condition is to record the outputs the licensees are expected to deliver over the RIIO-T1 period. If the outputs need to change (eg because of a change in the NOMs methodology as set out in special condition 7D: Methodology for Network Output Measures, then a licence modification will be required to modify this table.

### **Special Condition 9A: Entry Capacity and Exit Capacity Obligations and Methodology Statements**

1.82. The purpose of this new condition is to place obligations on the licensee to:

- substitute entry and exit capacity in accordance with the relevant capacity methodology statements;
- revise exit capacity in accordance with the relevant capacity methodology statements; and
- meet any requests from a relevant shipper to transfer and/or trade entry capacity in accordance with the relevant capacity methodology statements.

1.83. For clarity, we amend the title from 'Entry and Exit Capacity Methodologies and Statements' to 'Entry and Exit Capacity Obligations and Methodology Statements'.

1.84. As part of RIIO we have modernised the condition and also made the following amendments to:

- improve the clarity and consistency of the arrangements by amalgamating the following licence conditions:
  - (a) Special Condition C8D, 10, 11, 12,
  - (b) Special Condition C8E, 4(b) and 4(c)
- amend the review frequency requirement from annual to every two years; and

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<sup>10</sup> [RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas](#).



- include a requirement for an examination to be undertaken by independent examiner.

1.85. The effect of making these changes is to combine the obligation on NGGT to provide methodology statements for entry capacity and exit capacity substitution, entry capacity trade and entry capacity transfer and exit capacity revision.

**Special Condition 9B: Methodology to determine the release of Entry Capacity and Exit Capacity volumes**

1.86. The purpose of this new condition is to place obligations on the licensee to:

- develop and, where relevant, modify methodology statements which relate to the principles and methodology for the determination of:
  - (a) the quantity of incremental entry capacity and incremental exit capacity
  - (b) obligated entry capacity and obligated exit capacity release
- release entry and exit capacity; and
- produce a summary report relating to the above obligations.

1.87. As part of RIIO we intend to:

- improve the clarity and consistency of the arrangements by amalgamating the following licence conditions:
  - (a) Special Condition C8D, 7 and 9a – 9e
  - (b) Special Condition C8E, 3, 4(a), 4(e) and Annex A
  - (c) Special Condition C15
  - (d) Special Condition C18
- where possible, ensure that entry and exit arrangements are aligned
- modernise this condition
- amended the review frequency requirement from annual to every two years
- replaced the term “appropriate auditor” with “independent examiner”, to enable NGGT to select an examiner (independent of NG group, but not necessarily the statutory auditor) to undertake an examination of the capacity release methodology statements; and
- extended the time for NGGT to deliver the capacity release methodology statements to Ofgem from 7 days to 14 days.

1.88. The effect of these changes is to combine the obligation upon NGGT to provide methodology statements for the release of all obligated capacity, incremental capacity and produce a summary report on an annual basis.

1.89. The net effect of all these changes is to reduce the number and frequency of methodology statement consultations that industry needs to respond to on a regular basis.

**Special Condition 9C: Methodology to determine revenue drivers**

1.90. The purpose of this new condition is to place obligations on the licensee to:

- produce a methodology to determine any additional revenue allowances relating to the release of incremental obligated entry capacity; and

- produce a methodology to determine any additional revenue allowances relating to the release of incremental obligated exit capacity.

1.91. These methodologies will be known as the generic entry and exit revenue driver methodology statements.

1.92. This new condition is consistent with the obligations on the licensee to calculate appropriate revenue drivers for both NTS entry points and NTS exit points in a timely manner. We have also included a requirement for an examination to be undertaken by an independent examiner.

1.93. The effect of this new condition is that NGGT must produce and consult upon methodologies that determine any additional revenue allowances relating to the release of incremental obligated entry and exit capacity. These methodologies must be reviewed, consulted on and audited at a minimum of every 2 years.

### **Special Condition 11A: Disapplication of Relevant Special Conditions**

1.94. This new condition replaces the existing disapplication provisions contained in current Special conditions C8B and C8C which expressly refer to references to section 24 of the Gas Act 1986 relating to modification references to the Competition Commission (CC).

1.95. The Electricity and Gas (Internal Markets) Regulations 2011 (the Third Package Regulations) introduced a new procedure for making licence modifications.

1.96. In particular, under the new licence modification procedure the Authority is no longer able to make licence condition references to the CC which is a key mechanism in the condition. Instead, the Authority may modify the licence unilaterally, but licensees and certain other specified parties have the right to refer any decision to modify a condition to the CC.

1.97. Accordingly, existing provisions need to be amended to take account of these changes. We also note that the disapplication provisions are currently set out in more than one licence condition. For clarity and ease of reference, we consider it appropriate to consolidate the disapplication provisions in NGGT's licence into this new single licence condition.

1.98. The effects of the amendments is to ensure that the condition reflects changes brought in by the Third Package Regulations, and to improve the clarity of how the disapplication provisions are set out in the licences by bringing the provisions into a single licence condition.

## Deleted Special Conditions

### **Special Condition C1B: Amendments to Standard Special Condition A40 (Price Control Review Information)**

1.99. This condition sets out amendments to SSC A40. Price Control Review Information.

1.100. The existing SSC A40 is being replaced by a new licence condition – SSC A40: Regulatory Instructions and Guidance.

1.101. As such, the amendments that Special Condition C1B makes to the existing SSC A40 are no longer relevant. We therefore delete this condition. The effect of the deletion is to remove an amendment to a condition that is being replaced.

### **C8G: NTS System Operator internal incentives, costs and revenues**

1.102. This condition provides NGGT with revenue for its internal costs. The provisions in this condition have been updated and incorporated into Special Condition 3A: Restriction of NTS System Operation Revenue.

1.103. We have therefore deleted this condition. The effect of this deletion is to remove provisions that will be covered elsewhere in the licence.

### **Special Condition C12: Restriction of prices in respect of tariff capped metering activities**

1.104. This Special Condition sets the maximum tariff cap to ensure that the licensee does not set charges for each of its metering activities that exceed the maximum tariff cap in respect of that metering activity.

1.105. We have sought evidence from NGGT and we are content that this condition can be removed from the licence because the activity charges do not relate to gas transmission.

1.106. The reason for the deletion of this condition is to remove domestic metering obligations from NGGT's licence. The effect of this is that the condition is removed from the licence and no longer apply to NGGT given that there are no domestic meters on the NTS.

### **Special Condition C14: Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS transportation owner activity and NTS system operation activity**

1.107. Reporting requirements for the energy network companies are currently set out in a number of different licence conditions. Under our revisions to the reporting licence conditions, the information needed to do this will be consolidated through the new Standard Special Condition A40: Regulatory Instructions and Guidance (RIGs) ('the RIGs Licence Condition').

1.108. The RIGs is the collective term for a group of documents that includes instructions and guidance on what data the Network Operators (NWOs) must report and how, and the templates they must complete. The RIGs are an associated document to the licence and specify what data is to be collected. Elements of the RIGs have historically sometimes been referred to as the Regulatory Reporting Packs (RRPs).

1.109. The new RIGs Licence Condition sets out the purpose, key elements, and governance arrangements (eg change control process) for the RIGs.

1.110. As part of RIIO we consolidate the governance and instructions for the reporting of regulatory information into the new RIGs Licence Condition. Accordingly, we delete the above conditions and replace with new SSC A40 Regulatory Instructions and Guidance.

1.111. The effect of deleting this condition and introducing the a new RIGs Licence Condition is to remove the need for other reporting related provisions within other licence conditions. Consolidating the provisions in a new single licence condition does not alter the broad types of information that the energy network companies will need to provide.

#### **Special Condition C14B: Price Control Revenue Reporting and associated information**

1.112. See above, the reasons for, and effect of, deleting this condition are those given in Special Condition 14: Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS transportation owner activity and NTS system operation activity.

#### **Special Condition C15: Licensee's methodology for determining incremental entry capacity volumes**

1.113. The broad provisions in this condition will be retained. This condition has been merged with Special Condition C18, and parts of Special Condition C8D and C8E, into the Special Condition 9B: Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes.

1.114. Accordingly we delete this condition as the provisions will be incorporated into Special Condition 9B.

1.115. The effect of this deletion is to remove provisions that will be covered elsewhere in the licence.

#### **Special Condition C17: Exit Code Statement**

1.116. This Special Condition was introduced into the licence to provide information on the services provided by the NTS to GDNs and was anticipated to become obsolete on introduction of the enduring exit regime, after which a transparent external NTS-DN interface would exist.

1.117. The enduring regime started on the 1 October 2012. Therefore, we delete this condition as it is no longer necessary. The effect of the deletion is to remove an obsolete licence condition.

### **Special Condition C18: Licensee's methodology for determining the release of NTS exit capacity volumes**

1.118. The broad provisions in this condition will be retained. This condition has been merged with Special Condition C18 and parts of Special Condition C8D and C8E into Special Condition 9B: Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes.

1.119. Accordingly we delete this condition as the provisions will be incorporated into Special Condition 9B.

1.120. The effect of this deletion is to remove provisions that will be covered elsewhere in the licence.

### **Special Condition C27: Balancing Arrangements**

1.121. This Special Condition requires the licensee to use reasonable endeavours to develop in consultation with shippers and interested parties (including the Health and Safety Executive), a gas linepack product by 1 April 2011. It also requires the licensee to report to the Authority on the conclusions of any such development and consultation by 1 May 2011.<sup>11</sup>

1.122. NGGT's view is that this licence condition has been met and that as there is little or no demand for such a linepack product there is little benefit in further developing this condition. In April 2011 we issued a letter setting out our general view on Special Condition C27.<sup>12</sup>

1.123. Given the lack of demand from gas shippers for a linepack product we have deleted this Special Condition. The effect of the deletion is to remove a now redundant licence condition.

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<sup>11</sup> Paragraph 1(a) of SpC C27.

<sup>12</sup> <http://www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Documents1/UNC337D.pdf>