

GT SECTOR	
<b>REFERENCE NUMBER:</b>	<b>CATEGORY:</b>
<b>LICENCE CONDITION NUMBER:</b> <i>(if relevant):</i>	SpC 4.5
<b>TITLE:</b>	System Operator external incentives, costs and revenues
<b>RELEVANT LICENCE CONSULTATION QUESTIONS</b> <i>(if any):</i>	Q27 – captured under generic question on views of the proposals for changes to GT licence
<b>RELEVANT ISSUES LOG:</b>	4.5 - Misc - SO incentives, costs and revenues Issues Log
<b>POLICY ISSUES</b>	
<ul style="list-style-type: none"> <li>• ODI design</li> <li>• Maintenance</li> <li>• Shrinkage</li> </ul>	<ul style="list-style-type: none"> <li>• We don't agree with Ofgem's policy position on some incentives and this represents lost customer value. We also note that in our original business plan we proposed indexation of some incentive parameters. We do not support Ofgem's decision to remove this indexation which was not clear on all incentives in the draft determination document. Please see our response to DD question GT Core 1 and NGGT questions 1-7 for our detailed policy position.</li> </ul> <p>PART F – Maintenance</p> <ul style="list-style-type: none"> <li>• 4.5.43 – we do not understand the purpose of this clause or the reference to implementation of updated financial incentives. The equivalent RIIO-1 clause related to provision of information to Ofgem for a mid RIIO-1 incentive review, as there is no equivalent mid period review of incentives, we do not understand why this clause has been retained. All the data requested in this report would already be provided to Ofgem through annual reporting. Suggest this clause is removed completely</li> </ul> <p>PART J</p> <p>This obligation is an extension of current obligation 8e to include CV shrinkage. We wish Ofgem to note, as set out in our response to NGGT Q7, responsibility for UAG should not fall solely to NGGT as we do not own the majority of meters. Similarly reducing CVS should be a joint responsibility with gas distribution networks.</p> <p>PART L – FGVT statement</p>

	<ul style="list-style-type: none"> <li>4.5.66 – as per comment for 4.5.43, we don't understand the purpose of this clause given 5 year settlement and no re opener.</li> </ul> <p>Parts K&amp;L</p> <ul style="list-style-type: none"> <li>4.5.59 requires reporting of actuals against perfect foresight of market prices. We do not understand what benefit this will deliver as we do not have perfect foresight when procuring shrinkage, so this represents a hindsight measure of performance. Reporting against average prices would be more meaningful and would show if we were delivering value (or not) for consumers.</li> </ul>
<b>DRAFTING ISSUES</b>	
<ul style="list-style-type: none"> <li>4.5.1</li> <li>Para 4.5.3:</li> <li>PART B</li> <li>PART E</li> <li>PART F</li> <li>PART G</li> <li>PART H</li> </ul>	<ul style="list-style-type: none"> <li>Delete "calculate" in line 3.</li> <li>MIRt is detailed in Part F of licence, not E</li> <li>SCt is detailed in Part I, not G</li> <li>4.5.3 includes the term 'RBIRt', however in 4.5.4 this is referred to as 'RBit'. The two need to be consistent</li> <li>4.5.3 RBCT definition has been simplified from RIIO-1 licence, but this needs to be defined as per RIIO-1 licence, otherwise it is unclear that the term refers to residual balancing. Previous definition was "means an amount (£m) equal to the revenue equivalent to the net residual balancing costs incurred by the Licensee in respect of Formula Year t and shall be equal to the sum of the Basic Net Neutrality Amount and the Adjustment Neutrality Amount (having the meanings given to each of those terms in the network code) across all Days in Formula Year t."</li> <li>4.5.9 definition of CLP – this should refer to D+1 not D</li> <li>4.5.22 Should the start date change to 31<sup>st</sup> of July 2022, reporting on the first year of RIIO-2</li> <li>4.5.26 as per previous comments, Ofgem need to state by when they will approve or reject. Our preference would be to remove "reject the proposed revisions" as we would always need to know why the revisions have been rejected. We also believe that Ofgem should provide recommendations (where applicable) in approval as well as rejection.</li> <li>4.5.26 remove "either" in line 2</li> <li>4.5.27 definitions for MCIRt and MDIt should ideally state "incentive revenue" (as per MDIRVt)</li> <li>4.5.31 TVMt definition needs to be clear that it refers to maintenance affecting exit customers only</li> <li>4.5.31 Can ofgem clarify whether term should only be whole days.</li> </ul>

<ul style="list-style-type: none"> <li>PART K</li> <li>PART L</li> </ul>	<ul style="list-style-type: none"> <li>4.5.31 TVMt refers to “volume”. This should refer to days.</li> <li>4.5.34 does not reflect the existing provision in Special Condition 8G. This is currently framed as a reasonable endeavours obligation and should be retained here. There is no rationale to change this existing obligation to a best endeavours obligation.</li> <li>4.5.36: as previous comment this should be a reasonable endeavours obligation.</li> <li>4.5.50 is superfluous and should be removed. It is not used elsewhere in the licence where the licensee is required to produce a document or report. The requirements of the report are set out in 4.5.49 and this is sufficient.</li> <li>4.5.51. This paragraph should be removed if, as per previous comment, 4.5.50 is deleted. In any event the timescales in 4.5.50 do not appear to work. It suggests that the Authority will direct a different format of report 28 days before it has received it under 4.5.48. Also, if the paragraph is retained in a suitable form that addresses this timing issue, “agreed” in line 4 should be replaced with “required”</li> <li>Perfect foresight definition – we believe there is missing clarity in the algebra as to over which days the calculation should be made (e.g. all days in a year, in a week etc..),this needs clarifying</li> <li>Calculations required under 4.5.59, Part L and the definition of “Perfect Foresight” and “Prompt Costs” are not clear. The calculations required should be unambiguous and specified in the licence, not in definitions. We are happy to work with Ofgem on progressing these issues.</li> <li>Definition of “Perfect Foresight” includes a mix of volume and cost elements, these should be split out as perfect foresight element only appears to link to the costs of purchasing the FGVT volume</li> <li>Remove FGVT acronym from title of section and replace with “Forward Gas Volume Target (FGVT)”</li> <li>4.5.60 – should this not be a cost target rather than volume target?</li> <li>4.5.60 – replace Forecast with Foresight</li> <li>4.5.60 - FGVT is not defined anywhere. Whilst we understand the intent is for NG to produce a statement to show how FGVT is determined, we consider some regulatory guidance is required as to what the target should be based upon.</li> <li>4.5.60 defines FGVT as forward gas volume target. Should this be defined in the definitions section with an explanation of what the term means.</li> <li>In the definition of FGVT Independent Examiner in the GT annex, the words “for the purposes of this condition” should be deleted.</li> </ul>
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<b>FINANCE ISSUES</b>	
<b>SUPPORTING INFORMATION</b>	
<b>OFGEM ENGAGEMENT:</b>	