

CROSS SECTOR	
REFERENCE NUMBER:	CATEGORY: Amendment
LICENCE CONDITION NUMBER: <i>(if relevant):</i>	ET and GT SpC 6.1
TITLE:	Pass-through items (PTt)
RELEVANT LICENCE CONSULTATION QUESTIONS <i>(if any):</i>	
RELEVANT ISSUES LOG:	
POLICY ISSUES	
<ul style="list-style-type: none"> SpC 6.1.4, SpC 6.1.6 SpC 6.1.6 (and GT SpC 6.1.10) 	<ul style="list-style-type: none"> In SpC 6.1.4 and SpC 6.1.6, we do not consider that the provision meets Ofgem's stated policy intent in para 4.57 of the consultation: <ul style="list-style-type: none"> SpC 6.1.4 introduces a licence obligation on licensees to engage with the valuation agency and use reasonable endeavours to minimise the prescribed rates payable. This is different from the stated intention, which is that Ofgem should be able to adjust the amount of prescribed rates passed through where the licensee has not used reasonable endeavours to minimise rates payable. The effect of the drafting of SpC 6.1.6 is that Ofgem would need to go through a full enforcement process and find the licensee in breach of licence before adjusting the value of RBt. We do not consider this is intended or that such a process would be proportionate. We suggest that SpC 6.1.4 should be removed and SpC 6.1.6 should state that that Ofgem may make a direction "...where it considers that the licensee has not used reasonable endeavours to minimise the amount of Prescribed Rates to which it is liable". There is no justification for a licence obligation here. In SpC 6.1.6 (and GT SpC 6.1.10): <ul style="list-style-type: none"> Ofgem is proposing to introduce a large number of provisions allowing it to make directions as part of this consultation. The power to direct is accompanied by a provision requiring that Ofgem will first publish the proposed direction and reasons and allowing a period of not less than 28 days for representations. A consistent approach should be taken here and a consultation provision added in.

	<ul style="list-style-type: none"> ○ We also consider that these provisions are vague and that the licence condition should set out the matters that Ofgem will consider in making such a direction.
DRAFTING ISSUES	
<ul style="list-style-type: none"> • SpC 6.1.2 • SpC 6.1.5 	<p><u>NGG and NGET Licence</u></p> <ul style="list-style-type: none"> • We suggest that SpC 6.1.2 should refer to “<i>customers</i>”, rather than “<i>users</i>” (e.g. as set out in GT SpC 6.3.2) • Since the content of this is included within SpC 6.1.6, we suggest that SpC 6.1.5 can be deleted. <p><u>The following comments are in relation to the NGG licence:</u></p> <ul style="list-style-type: none"> • In SpC 6.1.3: <ul style="list-style-type: none"> ○ The references within the definition of IS_t need to be updated to SpC 6.2 – “<i>is derived in accordance with paragraph 3 of Special Condition 6.2 (Gas Conveyed to Independent Systems)</i>”; and ○ 6.1.3 refers to PTV. It should be made clear that this is zero in the absence of any direction. • In SpC 6.1.7: <ul style="list-style-type: none"> ○ The BDA_t definition includes bad debt relating to System Operator Transportation Charges, System Operator bad debt should not sit within the TO bad debt term, instead there should be a separate BD_t term within SOPT (SpC 6.3). SpC 6.1 should deal with NTS TO charges only. ○ There is no definition in the licence consultation definitions spreadsheet provided by Ofgem of System Operator Transportation Charges, instead there is a definition of NTS System Operation Charges. <p>6.1.8 ‘<i>The values for BDA_t and BDA_t are to be reported in accordance with the PCFM Guidance</i>’</p> <ul style="list-style-type: none"> • this should refer to terms BDA_t and RBD_t. • PCFM Guidance has not yet been issued therefore we cannot comment on the reporting requirements. <ul style="list-style-type: none"> • In SpC 6.1.10, we understand that the reference should be to SpC 6.1.9. • The definition of Bad Debt does not explicitly state the inclusion of RIIO-1 bad debts, we believe Ofgem’s intention is that this recovery mechanism will allow for recovery of both RIIO-1 and RIIO-2 bad debts. Please can these be confirmed.
<ul style="list-style-type: none"> • SpC 6.1.3 	
<ul style="list-style-type: none"> • SpC 6.1.7 	
<ul style="list-style-type: none"> • SpC 6.1.8 	
<ul style="list-style-type: none"> • SpC 6.1.10 	
<ul style="list-style-type: none"> • Definitions 	
<ul style="list-style-type: none"> • SpC 6.1.3 	

	<p><u>The following comment relates to the NGET licence:</u></p> <ul style="list-style-type: none"> In SpC 3.13.2 Visual Impact Mitigation Re-opener and Price Control Deliverable, the calculation of the term NTMP (the Non-Technical Mitigation Projects pass-through term) is provided. The paragraph states that this term contributes to the calculation of the pass-through term, however there is no such term in the PT calculation in SpC 6.1.3.
FINANCE ISSUES	
<ul style="list-style-type: none"> SpC 6.1.8 PCFM inputs PCFM inputs 	<p><u>The following comments are in relation to the NGG licence:</u></p> <ul style="list-style-type: none"> In SpC 6.1.8, we prefer this statement to refer to PCFM Handbook rather than Guidance in line with our expressed desire to have the PCFM Guidance and Handbook combined into one document to promote transparency and clarity. This comment has been reflected in the PCFH response template. The licence defines the passthrough term, TOPTt (SpC 6.1.3), as $TOPT_t = RB_t + LF_t + EDE_t + BD_t + OPTC_t + IS_t + PTV_t$. Only the RBt, Lft and EDEt terms are captured as separate blue box variable inputs within the PCFM. The other terms are potentially captured within “Other Pass Through costs” (row 63). We consider the remaining terms should be input as individual items. <p><u>The following comment relates to the NGET licence:</u></p> <ul style="list-style-type: none"> The licence defines the passthrough term, PTt (SpC 6.1.3), as $PT_t = RB_t + EDE_t + TPD_t + CPMR_t + SHCP_t$. Only the RBt and EDEt terms are captured as separate blue box variable inputs within the PCFM. The other terms are potentially captured within “Other Pass Through costs” (row 61). We consider the remaining terms should be input as individual variable input items.
SUPPORTING INFORMATION	
OFGEM ENGAGEMENT:	