

## Annex 1 Extracts from GD1 licence

### **Special Condition 1B. Restriction of revenue in respect of the Distribution Network Transportation Activity**

#### **Part B: Calculation of Maximum Distribution Network Transportation Activity Revenue ( $AR_t$ )**

1B.1 In respect of the relevant Distribution Network, Maximum Distribution Network Transportation Activity Revenue, in Formula Year  $t$ , is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$AR_t = BR_t + PT_t + Ex_t + BM_t + SHR_t + EEI_t + DRS_t + NIA_t - K_t$$

1B.2 In the Principal Formula:

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|---------|--|
| $AR_t$  | means the amount of Maximum Distribution Network Transportation Activity Revenue in Formula Year $t$ for the relevant Distribution Network.  |
| $BR_t$  | means the amount of Base Distribution Network Transportation Activity Revenue in Formula Year $t$ as derived in accordance with the formula set out in Part C of this condition for the relevant Distribution Network.   |
| $PT_t$  | means the allowed pass-through items revenue adjustment made in Formula Year $t$ as derived in accordance with Special Condition 1C (Distribution Network allowed pass-through items) for the relevant Distribution Network.   |
| $Ex_t$  | means the revenue adjustment made in Formula Year $t$ in respect of NTS Exit Capacity costs and incentives as derived in accordance with Special Condition 1D (NTS Exit Capacity Cost Adjustment) for the relevant Distribution Network.   |
| $BM_t$  | means the revenue adjustment made in Formula Year $t$ in respect of the Broad Measure of Customer Satisfaction as derived in accordance with Part B of Special Condition 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction) for the relevant Distribution Network. |
| $SHR_t$ | means the Shrinkage Allowance Revenue Adjustment made in Formula Year $t$ in respect of Shrinkage as derived in accordance with Part A of Special Condition 1F (Revenue adjustment for performance in respect of gas Shrinkage and environmental emissions) for the relevant Distribution Network. |
| $EEI_t$ | means the revenue adjustment made in Formula Year $t$ in respect of the Environment Emissions Incentive as derived in accordance with Part C of Special Condition 1F for the relevant Distribution Network.  |
| $DRS_t$ | means the revenue adjustment made in Formula Year $t$ in respect of the Licensees’ performance under the Discretionary Reward Scheme as derived in accordance with Special Condition 1G (Discretionary Reward Scheme revenue amounts) for the relevant Distribution Network.                       |

NIA<sub>t</sub> means the revenue adjustment made in Formula Year t in respect of the Network Innovation Allowance as derived in accordance with Special Condition 1H (The Network Innovation Allowance) for the relevant Distribution Network.

## **Special Condition 1G. Discretionary Reward Scheme revenue amounts**

### **Introduction**

1G.1 This condition sets out the calculation of the amount of the incentive that adjusts the Maximum Distribution Network Transportation Activity Revenue under Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) for the purpose of reflecting the Licensee's performance with respect to the Discretionary Reward Scheme (DRS<sub>t</sub>).

1G.2 This condition determines:

- (a) the discretionary reward amount (as represented by the DRSW<sub>t</sub> term) for each of Formula Years 2013/14 and 2014/15 (see Part B of condition); and
- (b) the discretionary reward amount (as represented by the DR SX<sub>t</sub> term) for each of Formula Years 2016/17 to 2019/20 (see Part A of this condition).

### **Part A: Formula for the calculation of the DRS<sub>t</sub> term**

1G.3 For the purposes of Part B of Special Condition 1B, DRS<sub>t</sub> is derived in accordance with the following formula:

$$DRS_t = (DRSW_t + DR SX_t) \times DR SSF_t$$

1G.4 In the above formula for DRS<sub>t</sub>:

DRS<sub>t</sub> means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue under Special Condition 1B, as may be determined by the Authority in respect of the Licensee's performance under the Discretionary Reward Scheme in relation to Formula Year t;

## **Special Condition 4C. Services treated as Excluded Services**

### **Introduction**

- 4C.1 The purpose of this condition is to set out the basis on which certain services provided by the Licensee may be treated as Excluded Services under the Special Conditions.
- 4C.2 Excluded Services are services that conform with the “General Principle” set out at Part B of this condition and that include, without limitation, those services listed at paragraph 4C.10 of this condition.
- 4C.3 Excluded Services are services provided by the Licensee for which revenue is derived but for which such revenue is excluded from the Maximum Distribution Network Transportation Activity Revenue as defined in Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity).

### **Part A: Structure of this condition**

- 4C.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the Licensee are to be treated as Excluded Services.
- 4C.5 Part C of this condition sets out, without limitation, certain categories of services provided by the Licensee that are to be treated as Excluded Services.
- 4C.6 Part D of this condition provides for the Authority to give directions in respect of services provided by the Licensee that are to be treated as Excluded Services, and provides for the Authority to direct that any service provided by the Licensee should not be treated as Excluded Services.

### **Part B: Statement of General Principle**

- 4C.7 The General Principle is that a service provided by the Licensee as part of its Distribution Network Transportation Activity is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 4C.8 of this condition.
- 4C.8 The charges referred to in paragraph 4C.7 of this condition are:
- (a) Distribution Network Transportation Charges in accordance with Special Condition 1B; and
  - (b) an activity carried out under any provision of Special Condition 1I (The Network Innovation Competition) which results in Returned Royalty Income as defined in Special Condition 1I.

### **Part C: Categories of Excluded Services**

- 4C.9 The descriptions of categories of Excluded Services set out at paragraph 4C.10 of this condition are to be read and given effect subject to any further clarification of any of those descriptions that might be set out in the RIGs.
- 4C.10 Subject to Part D of this condition, Excluded Services will include, but not be limited to, the following services:
- (a) ES1. Connection services: this category consists of the carrying out of entry and exit connection works (including any necessary reinforcement works or diversionary works) to

install, operate, repair, or maintain gas pipes, plant, meters or other equipment necessary to provide any new connection or modify any existing connection to the pipeline system to which this licence relates (but only to the extent that the service is not already remunerated under one of the charges mentioned in paragraph 4C.8 of this condition;

- (b) ES2. Diversionary works under an obligation: this category consists of the relocating of any gas pipes or plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the Licensee under section 9 (Powers and duties of gas transporters) of the Act;
- (c) ES3. Works required by any alteration of premises: this category consists of the moving of any gas pipes or plant that form part of the pipeline system to which this licence relates to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected;
- (d) ES4. Emergency services: this category consists of the provision of emergency services under contracts entered into pursuant to the provisions of Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter) of the licence;
- (e) ES5. User pays agency services: this category consists of the provision of “user pays” services or systems as set out in the Network Code, by the agency referred to in Standard Special Condition A15 (Agency) of the licence (for as long as that condition is in force); When Standard Special Condition A15A comes into force user pays agency services will no longer be categorised as Excluded Services<sup>1</sup>;
- (f) ES6. Independent system operation: this category consists of the operation of Independent Systems, within the meaning of Special Condition 4I (Gas conveyed to Independent Systems), of the licence applicable to the NTS Operator, on behalf of the NTS Operator;
- (g) ES7. Miscellaneous: this category consists of the provision of any other service (including the provision of gas pipes or plant) that:
  - (i) is for the specific benefit of any third party who requests it;
  - (ii) is not made available by the Licensee as a normal part of the activities of its Distribution Network Transportation Activity and Metering Business;
- (h) ES8: Payments made by the NTS Operator to the Licensee in respect of NIC Funding in accordance with Special Condition 1I.

## **Part D: Authority’s power to give directions**

4C.11 Where the Authority (having regard to the General Principle) is satisfied:

- (a) that any service treated by the Licensee as an Excluded Service should not be so treated; or
- (b) that any service not treated by the Licensee as an Excluded Service should be so treated,

it may issue to the Licensee a direction to that effect.

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<sup>1</sup> Modification from Kersti Berge dated 16.12.16 to modify SpC 4C.10 (e) with effect on and from 11.2.17

4C.12 Where a direction is given under paragraph 4C.11 of this condition, the Licensee must, in accordance with the direction, either:

- (a) stop treating the service or services specified in the direction as Excluded Services; or
- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

Discretionary Reward Scheme

means (as the context requires) either:

- (a) in relation to the calculation of the  $DRSW_t$  term in respect of Formula Years 2011/12 and 2012/13, the scheme of that name under which the Licensee may, at the Authority's discretion, be rewarded by way of a positive revenue adjustment in recognition of its adoption of best practice in reducing the environmental impact of gas distribution, facilitating network extensions, and promoting gas safety; or
- (b) in relation to the calculation of the  $DRSX$  term in respect of a Formula Year, the scheme of that name under which the Licensee may, at the Authority's discretion, be rewarded by way of a positive revenue adjustment in recognition of its performance in delivering additional environmental, safety and social outputs during the relevant Formula Year not funded under the Special Conditions;