Special Condition C8B: Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity

Part 1 a The NTS transportation owner activity revenue restriction

1. The principal restriction

(1) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year the revenue which it derives from its NTS transportation owner activity (TOR_t) shall not exceed the maximum NTS transportation owner revenue ($TOMR_t$).

(2) (a) If in respect of any formula year the NTS transportation owner revenue exceeds the maximum NTS transportation owner revenue by more than 4 per cent of the latter, the licensee shall provide the Authority with a written explanation and, in the next following formula year, the licensee shall not effect any increase in prices for use of the NTS unless either:

    (i) it has demonstrated to the reasonable satisfaction of the Authority that the NTS transportation owner revenue would not be likely to exceed the maximum NTS transportation owner revenue in that next following formula year; or

    (ii) the Authority has, on the written application of the licensee, consented to such an increase in prices.

(b) If, in respect of any two successive formula years, the sums of the amounts by which the NTS transportation owner revenue has exceeded the maximum NTS transportation owner revenue are more than 6 per cent of the maximum NTS transportation owner revenue for the second of those formula years, then in the next following formula year the licensee shall if required by the Authority adjust its prices such that the NTS transportation owner revenue would not be likely in the judgement of the Authority to exceed maximum NTS transportation revenue in that next following formula year.

Version 2.0

2. **NTS transportation owner revenue (TOR_t)**

(1) **Principal formula**

For the purposes of paragraph 1 of Part 1 a of this Special Condition the NTS transportation owner revenue in respect of formula year t $(TOR_t$) shall be derived from the following formula:

$$TOR_t = TOREVBEC_t + TOExR_t + TORCOM_t$$

where:

$TOREVBEC_t$ means the NTS TO revenue derived by the licensee in respect of formula year t from the sale of NTS SO baseline entry capacity and shall be derived from the following formula:

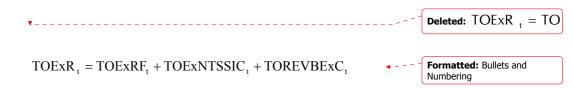$$TOREVBEC_t = REVBEC_t - DREVBEC_t$$

where:

$REVBEC_t$ means the revenue derived by the licensee in respect of formula year t from the sale of NTS SO baseline entry capacity and shall be derived in accordance with paragraph 14(5)(k)(i) of Part 2 of this Special Condition;

$DREVBEC_t$ means the revenue derived by the licensee in respect of formula year t from the on the day sale of NTS SO baseline entry capacity and shall be derived in accordance with paragraph 14(5)(l)(i) of Part 2 of this Special Condition;

$TOExR_t$ means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers that is allocated to the NTS transportation owner activity and the revenue

derived by the licensee in respect of formula year t from the sale of NTS baseline firm exit capacity and NTS flow flexibility and shall be derived in the following manner:

(a) In respect of formula years 1 and 2 and, unless the Authority otherwise directs, in each subsequent relevant formula year until the first complete formula year in which the licensee achieves universal firm registration:

$$\text{TOExR}_t = \text{TOExRF}_t + \text{TOExNTSSIC}_t + \text{TOREVBExC}_t$$

where:

TOExRF$_t$ means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers in respect of its provision of NTS firm baseline exit capacity and shall be derived from the following formula:

$$\text{TOExRF}_t = \text{TOEx}_t \times \text{Min}\left[\frac{\text{TOBFEx}_t}{\text{TOTFEx}_t},1\right]$$

where:

TOEx$_t$ means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers in respect of its provision of NTS firm exit capacity;

TOBFEx$_t$ means the NTS baseline firm exit capacity in respect of formula year t; and

TOTFEx$_t$ means the total volume in GWh/day of NTS firm exit capacity registered by gas shippers on 15 January in respect of formula year t;

TOExNTSSIC $_t$ means the accrued value in respect of charges foregone by the licensee as a result of NTS exit capacity curtailment rights and shall be derived from the following formula:

$$TOExNTSSIC_t = ExNTSSIC_t \times Min\left[\frac{SOBIEx_t}{SOTIEx_t}, 1\right]$$

where:

ExNTSSIC$_t$ has the meaning given to that term in paragraph 14(6)(h) of Part 2 of this Special Condition;

SOBIEx $_t$ means the NTS baseline interruptible exit capacity in respect of formula year t; and

SOTIEx $_t$ means the total volume in GWh/day of NTS capacity registered by gas shippers in respect of which the licensee has NTS exit capacity curtailment rights on 15 January of formula

               Version 2.0

year t; and

TOREVBExC_t means the NTS TO revenue derived by the licensee in respect of formula year t from the sale of NTS baseline firm exit capacity and NTS baseline flow flexibility and shall be derived from the following formula:

$$\text{TOREVBExC}_t = \text{REVBExC}_t - \text{DREVBExC}_t + \text{REVBFF}_t - \text{DREVBFF}_t$$

where:

REVBExC_t means the revenue derived by the licensee in respect of formula year t from the sale of NTS baseline firm exit capacity;

DREVBExC_t means the revenue derived by the licensee in respect of formula year t from the on the day sale of NTS baseline firm exit capacity;

REVBFF_t means the revenue derived by the licensee in respect of formula year t from the sale of NTS baseline flow flexibility;

DREVBFF_t means the revenue derived by the licensee in respect of formula year t from the on the day sale of NTS baseline flow flexibility.

(b)   Otherwise:

$$TOExR_t = TOExRF_t$$

TORCOM$_t$ means the revenue derived by the licensee in respect of NTS TO activities provided by the licensee in respect of formula year t from charges levied on gas shippers and Distribution Network Operators pursuant to Standard Special Condition A4 (Charging– General) or payments made by the licensee other than revenue earned by the licensee through (i) TOREVBEC$_t$ and (ii) TOExR$_t$

3.   Maximum NTS transportation owner revenue (TOMR$_t$)

(1)   Principal formula

For the purposes of paragraph 1 of Part 1 a of this Special Condition the maximum NTS transportation owner revenue in respect of formula year t (TOMR$_t$) shall be derived from the following formula:

$$TOMR_t = TOZ_t + TOF_t - TOK_t$$

where:

TOZ$_t$ shall be derived in the following manner:

     (i)   In respect of the formula year commencing on 1 April 2002:

$$TOZ_t = £336,560,000 \ x \left[1 + \left(\frac{RPI_0}{100} \right) \right]$$

     (ii)   Otherwise:

$$TOZ_t = TOZ_{t-1} \times \left[1 + \left(\frac{RPI_t - X}{100} \right) \right]$$

where:

RPI_0 means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from April to September (both inclusive) in the year 1999 and the arithmetic average of the retail price index numbers published or determined with respect to the six months from July to December in the year 2001;

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1 and the arithmetic average of the retail price index numbers published or determined with respect to the same months in formula year t-2; and

X   has the value of two (2); and

TOF_t means the NTS prescribed rates plus the NTS licence fees in respect of formula year t;

where:

NTS prescribed rates	Means the amount of the charge deemed to be incurred in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of its NTS transportation owner activity in respect of formula year t: it shall be calculated as follows;

a) in the event that separate rating assessments are provided in respect of each Distribution Network transportation activity carried out by Transco plc or an affiliate of Transco plc, and in respect of the NTS transportation owner activity carried out either by Transco plc or by an affiliate of Transco plc, the charge shall be the amount so assessed;

b) in the event that a separate rating assessment is not provided in respect of any of the Distribution Network transportation activities carried out by Transco plc or an affiliate of Transco plc, and of the NTS transportation owner activity carried out either by Transco plc or by an affiliate of Transco plc, and if each of the 8 Distribution Networks owned by Transco plc on 1st April 2004 continue to be owned by Transco plc or by an affiliate of Transco plc the total charge in respect of the NTS transportation owner activity shall be 17% of the prescribed rates or equivalent tax replacing them levied on the licensee and its affiliates in respect of its NTS transportation owner activity and the

Version 2.0

Distribution Network transportation activity;

c) In the event that a separate rating assessment is not provided in respect of any of the Distribution Network transportation activities carried out by Transco plc or an affiliate of Transco plc and of the NTS transportation owner activity carried out either by Transco plc or by an affiliate of Transco plc, and that neither Transco plc nor its affiliates own any of the Scotland Distribution Network, the North of England Distribution Network, the Wales & the West Distribution Network and the South of England Distribution Network, but continue to own the North West Distribution Network, the East of England Distribution Network, the West Midlands Distribution Network and the London Distribution Network and the NTS, the total charge in respect of the licensee's NTS transportation owner activity shall be all of the prescribed rates or equivalent tax replacing them levied in respect of the licensee and its affiliates' NTS transportation owner activity in Scotland and Wales, and [21.8385%] of the prescribed rates or equivalent tax replacing them levied in respect of the licensee and its affiliates' NTS transportation owner activity in England and Distribution Network Transportation activity in England; and

d) In any other circumstance the licensee shall perform attributions and allocations of cost

between the NTS Transportation owner activity, the Distribution Network Transportation activity, and (where relevant) Metering activities:

- on an objective basis;

- in a manner calculated not to benefit unduly the licensee or any other company or organisation;

- wherever practicable, on a consistent basis from one formula period to the next.

NTS licence fees	means payments made by the licensee in respect of the NTS transportation owner activity under standard condition 3 (Payments by the Licensee to the Authority) in respect of formula year t determined in accordance with the principles determined by the Authority for the purposes of that condition; and

TOK_t means the NTS TO revenue adjustment equal to the NTS TO over or under recovery in respect of formula year t-1 and shall be derived in accordance with paragraph 3(2) of Part 1 a of this Special Condition.

(2)   NTS transportation owner revenue adjustment $\left(\mathbf{TOK_t}\right)$

(a) For the purposes of paragraph 3(1) of Part 1 a of this Special Condition, the NTS TO revenue adjustment factor in respect of formula year t (TOK_t) shall be derived in the following manner:

(i) In respect of the formula year commencing on 1 April 2002:

$$TOK_t = -£6,480,000$$

(ii) In respect of the formula year commencing on 1 April 2007:

$$TOK_t = \left[(TOR_{t-1} - TOMR_{t-1}) + \left(£16,300,000 \text{ x CSN x} \left[1 + \left(\frac{RPI_{CSN}}{100}\right)\right]\right)\right] \times \left(1 + \frac{I_t}{100}\right)$$

where

TOR_{t-1} shall have the meaning given to that term in paragraph 2 of Part 1 a of this Special Condition where t equals t-1;

$TOMR_{t-1}$ shall have the meaning given to that term in paragraph 3(1) of Part 1 a of this Special Condition where t equals t-1;

CSN   equals one (1) in the event that:
(1) Transco plc sells only one of the companies to which each of :
    (a) the Scotland Distribution Network;
    (b) the North of England Distribution Network;
    (c) the Wales and the West Distribution Network; and

(d) the South of England Distribution Network

will be hived down from Transco plc respectively as part of the proposed sale of one or more of Transco's local gas distribution networks as announced by Transco plc in May 2003; or

(2) Transco plc sells any or all of the respective companies to which the networks listed in sub-paragraph (1)(a) to (1)(d) above will be hived down to only one buyer or members of only one corporate group;

Otherwise in the event that neither (1) nor (2) above is satisfied, it equals zero (0);

RPI_{CSN} means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from April to September (both inclusive) in the year 2003 and the arithmetic average of the retail price index numbers published or determined with respect to the six months from July to December in the year 2006; and

I_t means the percentage interest rate in respect of formula year t which is equal to, where TOK_t (taking no account of I_t for this purpose) has a positive value, the average specified rate plus 3 or, where TOK_t (taking no account of I_t for this purpose) has a negative value, the average specified rate.

(iii) Otherwise:

$$TOK_t = (TOR_{t-1} - TOMR_{t-1}) \times \left(1 + \frac{I_t}{100}\right)$$

4. Reporting obligations

(1) Where the licensee publishes any statement or revised or amended statement as to its NTS TO transportation charges under Standard Special Condition A4 (Charging - General), the licensee shall not later than twenty-eight days prior to the time of such publication provide the Authority with:-

(a) a written forecast of maximum NTS transportation owner revenue, together with its components, in respect of the formula year in which the change in such charges is to take effect and also in respect of the next following formula year; and

(b) a written estimate of the maximum NTS transportation owner revenue, together with its components, in respect of the formula year immediately preceding the formula year in which the change in such charges is to take effect unless a statement complying with paragraph 4 below in respect of that first mentioned formula year has been furnished to the Authority before the publication of the proposed change in such charges.

(2) If, within three months of the commencement of any formula year, the licensee has not published or effected any such change in its NTS TO transportation charges, the licensee shall provide the Authority with a written forecast of the maximum NTS transportation owner revenue, together with its components, in respect of that formula year.

(3)   Any forecasts as aforesaid shall be accompanied by such information as may be necessary to enable the Authority to be reasonably satisfied that the forecasts have been properly prepared on a consistent basis.

(4)   Not later than six weeks after the commencement of a formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion, paragraphs 1(1) and 1(2) of Part 1 a of this Special Condition apply in respect of that formula year and its best estimate of what TOK_t (as defined in paragraph 3(2) of Part 1 a of this Special Condition) is likely to be in that formula year.

(5)   The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement showing the NTS transportation owner revenue in respect of that formula year that shall be certified by a Director of the licensee on behalf of the licensee stating that the information is correct to the best of his knowledge and belief having made all reasonable enquiries.

(6)   The statement referred to in sub-paragraph (5) above shall be accompanied by a report from appropriate auditors that, in their opinion, that statement fairly presents the NTS transportation owner revenue in accordance with the requirements of this Special Condition.

5.   Disapplication of the NTS transportation owner activity revenue restriction

(1)   The NTS transportation owner activity revenue restriction conditions shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 5(2) to 5(7) of Part 1 a of this Special Condition.

(2)   The NTS transportation owner activity revenue restriction conditions shall cease to have effect (in whole or in part as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 5(3) of Part 1 a of this Special Condition or notice is given to the Authority by the licensee in accordance with either paragraph 5(6) or paragraph 5(7) of Part 1 a of this Special Condition.

(3) A disapplication request shall:

    (i) be in writing addressed to the Authority;

    (ii) specify the NTS transportation owner activity revenue restriction conditions (or any part or parts thereof) to which the request relates; and

    (iii) state the date (being not earlier than the date referred to in paragraph 5(5) of Part 1 a of this Special Condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect.

(4) The licensee may withdraw a disapplication request at any time.

(5) Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to paragraph 5 of Part 1 a of this Special Condition shall have effect until a date being the earlier of:

    (a) not less than 18 months after delivery of the disapplication request; and

    (b) 31st March 2007.

(6) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of Part 1 a of this Special Condition or the part or parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date and the licensee has not withdrawn the disapplication request, the licensee may deliver written notice to the Authority terminating the application of Part 1 a of this Special Condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.

(7) If the Competition Commission makes a report on a reference made by the Authority relating to the modification of Part 1 a of this Special Condition or the part or parts thereof specified in the disapplication request and such report does not include a conclusion that the cessation of such revenue restrictions in Special Condition C8B Part 1 a , in whole or in part, operates or may be expected to

operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of Part 1 a of this Special Condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or later.

Part 1 b [paragraphs 6 –11]: Not used

Part 2 The NTS system operation activity revenue restrictions

12.   Principal Restriction

(1)   The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year the revenue which it derives from its NTS system operation activity (SOR_t) shall not exceed the maximum NTS system operation revenue $(SOMR_t)$.

(2)   If in respect of any formula year the NTS system operation revenue (SOR_t) exceeds the maximum NTS system operation revenue $(SOMR_t)$ by more than 4 per cent of the latter, the licensee shall furnish an explanation to the Authority and, in the next following formula year, the licensee shall not effect any increase in prices in respect of services relating to the NTS SO activity unless either:

  (a)   it has demonstrated to the reasonable satisfaction of the Authority that the NTS system operation revenue would not be likely to exceed the maximum NTS system operation revenue in that next following formula year; or

  (b)   the Authority has, on the application of the licensee, consented to such an increase in prices.

(3)   If, in respect of any two successive financial years, the sums of the amounts by which the NTS system operation revenue (SOR_t) has exceeded the maximum NTS system operation revenue is more than 6 per cent of the maximum NTS system operation revenue $(SOMR_t)$ for the second of those years, then in the next following formula year the licensee shall if required by the Authority adjust its prices such that the NTS system operation revenue would not be likely in the judgement of the Authority to exceed maximum NTS system operation revenue in that next following formula year.

13. NTS system operation revenue (SOR_t)

(1) Principal formula

For the purposes of paragraph 12 of Part 2 of this Special Condition the revenues which the licensee derives from its NTS system operation activity in respect of any formula year t (SOR_t) shall be derived from the following formula:

$$SOR_t = RCOM_t + SOExRF_t + SORCAP_t + SOROC_t$$

where:

$RCOM_t$ means the revenue derived by the licensee in respect of formula year t from charges levied on gas shippers and Distribution Network Operators pursuant to Standard Special Condition A4 (Charging– General) in respect of NTS SO activities provided by the licensee and shall include charges to recover both costs incurred by the licensee and net payments made to or by the licensee in respect of reducing the costs arising from system operation activities other than revenue earned by the licensee through (i) $SOExRF_t$ (ii) $SORCAP_t$ and (iii) $SOROC_t$.

$SOExRF_t$ means the revenue derived by the licensee in respect of formula year t from charges levied on gas shippers in respect of its provision of NTS incremental exit capacity and revenue from the sales of NTS incremental exit capacity and NTS incremental flow flexibility to gas shippers and Distribution Network Operators and shall be derived in accordance with the following formula:

$$SOExRF_t = TOEx_t - TOExRF_t + DREVBExC_t + REVIExC_t + DREVBFF_t + REVIFF_t$$

where:

TOEx_t shall be derived in accordance with paragraph 2 of Part 1 a of this Special Condition;

TOExRF_t shall be derived in accordance with paragraph 2 of Part 1 a of this Special Condition;

DREVBExC_t means the revenue derived by the licensee in respect of formula year t from on the day sales of NTS baseline firm exit capacity;

REVIExC_t means the revenue derived by the licensee in respect of formula year t from sales of NTS incremental exit capacity;

DREVBFF_t means the revenue derived by the licensee in respect of formula year t from on the day sales of NTS baseline flow flexibility;

REVIFF_t means the revenue derived by the licensee in respect of formula year t from sales of NTS incremental flow flexibility;

SORCAP_t means the NTS SO revenue derived by the licensee in respect of sales of entry capacity and shall be derived in accordance with paragraph 13(2) of Part 2 of this Special Condition; and

SOROC_t means the NTS SO revenue derived by the licensee in respect other defined SO charges and shall be derived in accordance with paragraph 13(3) of Part 2 of this Special Condition.

(2)   NTS SO revenue derived from the sales of entry capacity (SORCAP$_t$)

For the purposes of paragraph 13(1) of Part 2 of this Special Condition NTS SO revenue derived by the licensee in respect of sales of entry capacity in respect of formula year t $\left(\text{SORCAP}_t\right)$ shall be derived from the following formula:

$$\text{SORCAP}_t = \text{DREVBEC}_t + \text{REVOIEC}_t + \text{REVIEC}_t + \text{REVIC}_t + \text{REVIBEC}_t$$

where:

DREVBEC$_t$ means the revenue derived by the licensee in respect of formula year t from on the day sales of NTS SO baseline entry capacity and shall be derived in accordance with paragraph 14(5)(l)(i) of Part 2 of this Special Condition;

REVOIEC$_t$ means the revenue derived by the licensee in respect of formula year t from sales of obligated incremental entry capacity and shall be derived in accordance with paragraph 14(5)(k)(ii) of Part 2 of this Special Condition;

REVIEC$_t$ means the revenue derived by the licensee in respect of formula year t from sales of non-obligated incremental entry capacity and shall be derived in accordance with paragraph 14(5)(k)(iii) of Part 2 of this Special Condition;

REVIC$_t$ means the revenue derived by the licensee in respect of formula year t from sales of interruptible entry capacity; and

REVIBEC$_t$ means the revenues earned by the licensee in respect of formula year t from sales of permanent obligated incremental entry capacity relating to periods more than 5 years after the first day to which such capacity is related and shall be derived in accordance with paragraph 14(5)(k)(iv) of Part 2 of this Special Condition.

(3) Associated SO charges (SOROC_t)

For the purposes of paragraph 13(1) of Part 2 of this Special Condition NTS SO revenue derived by the licensee through associated SO charges in respect of formula year t (SOROC_t) shall be derived from the following formula:

In formula year $(t \leq 2)$

$$\text{SOROC}_t = \text{RNC}_t + \text{RCOR}_t + \text{FTI}_t$$

In formula year $(t \geq 3)$

$$\text{SOROC}_t = \text{RNC}_t + \text{RCOR}_t + \text{FTI}_t + \text{RLOC}_t$$

where:

RNC_t means the net revenue derived in respect of formula year t through balancing neutrality charges (having the meaning given to that term in the licensee's Network Code);

RCOR_t means revenue derived by the licensee in formula year t in respect of system entry overrun charges (having the meaning given to that term in the licensee's Network Code); and

FTI_t means revenue derived by the licensee in respect of formula year t from charges levied on gas shippers and Distribution Network Operators in respect of any failure to interrupt (having the meaning given to that term in the licensee's Network Code).

RLOC_t means the revenue derived by the licensee in respect of formula year t in respect of locational sell actions and physical renomination incentive charges (having the meaning given to that term in the licensee's Network Code) and shall be derived in accordance with paragraph 14(7)(b) of Part 2 of this Special

Condition

14. **Definition of maximum NTS system operation revenue (SOMR$_t$)**

(1) **Principal formula**

For the purposes of paragraph 12 of Part 2 of this Special Condition, the term maximum NTS system operation revenue in respect of formula year t (SOMR_t) shall be derived from the following formula:

$$\text{SOMR}_t = \text{SOIR}_t + \text{SOIC}_t + \text{SORA}_t$$

where:

SOIR_t means the NTS system operation incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(2) of Part 2 of this Special Condition;

SOIC_t means the NTS system operation revenue equal to the costs incurred by the licensee in respect of formula year t and shall be derived in accordance with paragraph 14(3) of Part 2 of this Special Condition; and

SORA_t means any allowance in respect of an approved income adjusting event (whether of a positive or negative value) to be made in respect of formula year t and shall be derived in accordance with paragraph 14(11) of Part 2 of this Special Condition.

(2) **NTS system operator incentive revenue $\left(\text{SOIR}_t\right)$**

For the purposes of paragraph 14(1) of Part 2 of this Special Condition, the NTS system operator incentive revenue in respect of formula year t $(SOIR_t)$ shall be derived from the following formula:

$$SOIR_t = ECIIR_t + ExCIIR_t + BBIR_t + SBIR_t + RBIR_t + ICIR_t$$

where:

$ECIIR_t$ means the entry capacity investment incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(5)(a) of Part 2 of this Special Condition;

$ExCIIR_t$ means the exit capacity investment incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(6)(a) of Part 2 of this Special Condition;

$BBIR_t$ means the buy back incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(7)(a) of Part 2 of this Special Condition;

$SBIR_t$ means the NTS system balancing incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(8)(a) of Part 2 of this Special Condition;

$RBIR_t$ means the residual gas balancing incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(9)(a) of Part 2 of this Special Condition; and

$ICIR_t$ means the internal costs incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(10)(a) of Part 2 of this Special Condition.

(3)   NTS system operation costs ($SOIC_t$)

For the purposes of paragraph 14(1) of Part 2 of this Special Condition, the term NTS system operation costs in respect of formula year t ($SOIC_t$) shall be derived from the following formula:

$$SOIC_t = ExCP_t + IECCC_t + CNIC_t + SBIC_t + RBIC_t + ICCP_t - SOK_t$$

where:

$ExCP_t$ means the revenue equivalent to the exit capacity costs incurred by the licensee in respect of formula year t and shall be derived in accordance with paragraph 14(6)(h) of Part 2 of this Special Condition;

$IECCC_t$ means the revenue equivalent to the total entry capacity constraint costs incurred in respect of formula year t and shall be derived in accordance with paragraph 14(7)(b) of Part 2 of this Special Condition;

$CNIC_t$ means the revenue equivalent to the total second capacity adjustment neutrality amount (having the meaning given to that term in the licensee's Network Code) incurred in respect of formula year t;

$SBIC_t$ means the revenue equivalent to the system balancing costs incurred by the licensee in respect of formula year t and shall be derived in accordance with paragraph 14(8)(f) of Part 2 of this Special Condition;

$RBIC_t$ means an amount 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 (both

having the meanings given to those terms in the licensee's Network Code) across all days in formula year t;

$ICCP_t$ means the revenue equivalent to the internal costs incurred by the licensee in respect of formula year t and shall be derived in accordance with paragraph 14(10)(b) of Part 2 of this Special Condition; and

SOK_t means the NTS SO revenue adjustment factor equal to NTS system operation maximum revenue under or over recovery in respect of formula year t-1 and shall be derived in accordance with paragraph 14(4) of Part 2 of this Special Condition.

(4) NTS SO revenue adjustment factor $\left(SOK_t\right)$

For the purposes of paragraph 14(3) of Part 2 of this Special Condition, the NTS system operation revenue adjustment factor (whether of a positive or negative value) in respect of formula year t $\left(SOK_t\right)$ shall be derived in the following manner:

In respect of the formula year commencing on 1 April 2002,

$$SOK_t = 0$$

Otherwise:

$$SOK_t = \left(SOR_{t-1} - SOMR_{t-1}\right) \times \left(1 + I_t/100\right)$$

where:

SOR_{t-1} shall have the meaning given to the term SOR_t in paragraph 13(1) of Part 2 of this Special Condition where t equals t-1;

$SOMR_{t-1}$ shall have the meaning given to the term $SOMR_t$ in paragraph 14(1) of Part 2 of this Special Condition where t equals t-1; and

I_t means the percentage interest rate in respect of formula year t which is equal to, where SOK_t (taking no account of I_t for this purpose) has a positive value, the average specified rate plus 3 or, where SOK_t (taking no account of I_t for this purpose) has a negative value, the average specified rate.

(5)   Entry capacity investment incentive revenue $\left(\text{ECIIR}_t\right)$

(a)   Principal formula

For the purposes of paragraph 14(2) of Part 2 of this Special Condition the maximum entry capacity investment incentive revenue allowed to the licensee in respect of formula year t $\left(\text{ECIIR}_t\right)$ shall be derived in the following manner:

If $t \le 5$ then:

$$\text{ECIIR}_t = \sum_{\text{all } j} \text{SOREVOIEC}_t^j$$

Otherwise:

$$\text{ECIIR}_t = \sum_{\text{all } j} \text{SOREVOIEC}_t^j + \frac{\text{RI}_t}{\text{RI}_0} \sum_{\text{all } j} \sum_{m=12t-11}^{12t} \text{SOREVIBEC}_m^j$$

where:

SOREVOIEC_t^j means the maximum NTS system operation incentive revenue from the sale of obligated incremental entry capacity in respect of formula year t at terminal j and shall be derived in accordance with paragraph 14(5)(d) of Part 2 of this Special Condition;

$\sum_{\text{all } j} \text{SOREVOIEC}_t^j$ means the sum across all terminals j of SOREVOIEC_t^j;

RI_t means the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1;

RI_0 means the arithmetic average of the retail price index published or determined with respect to each of the six months from April to September (both inclusive) in the year 1999;

$SOREVIBEC_m^j$ means the NTS system operator incentive revenue from the sales of permanent obligated incremental entry capacity in respect of periods where month m is more than 5 years after the first month to which capacity relates and in respect of terminal j that is included in the calculation of NTS SO baseline entry capacity pursuant to paragraph 14(5)(g) of Part 2 of this Special Condition and shall be derived from the following formula:

$$SOREVIBEC_m^j =$$
$$\sum_{p=60}^{(m-1)} \left[\left(\sum_{w=0}^{Q^1} IPOEC_{(m-p),w}^j \right) \times \frac{UCAG^j}{12} \times \left(OPEX + \frac{1}{UEL} + \frac{ARR}{2UEL} \left[2 \left[UEL - \beta - RND\left(\frac{p}{12}\right) \right] - 1 \right] \right) \right]$$

where:

Q^1 means the number of days between 1 April 2002 and the first day of month m (and for the avoidance of doubt when month m is April 2002 Q^1 shall have the value zero (0));

$IPOEC_{(m-p),w}^j$ shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;

$\sum_{p=60}^{(m-1)} \gamma_p$ means the sum calculated in the following manner:

$$\sum_{p=60}^{(m-1)} \gamma_p = \gamma_{60} + \gamma_{61} + \ldots + \gamma_{m-1}$$

where:

$$\gamma_p =$$

$$\left(\sum_{w=0}^{Q^1} IPOEC^j_{(m-p),w} \right) \times \frac{UCAG^j}{12} \times \left(OPEX + \frac{1}{UEL} + \frac{ARR}{2UEL} \left[2 \left[UEL - \beta - RND\left(\frac{p}{12}\right) \right] - 1 \right] \right)$$

where:

$\sum_{w=0}^{Q^1} \left(IPOEC^j_{(m-p),w} \right)$ means the sum calculated in the following manner:

$$\sum_{w=0}^{Q^1} \left(IPOEC^j_{(m-p),w} \right) = IPOEC^j_{(m-p),0} + IPOEC^j_{(m-p),1} + \ldots + IPOEC^j_{(m-p),Q^1}$$

$UCAG^j$ means the unit cost allowance in pounds per kilowatt hour in respect of terminal j and has the value set out in the following tables:

Terminal j	$UCAG^j$ (£/kWh)
Bacton	0.182
Barrow	0.014
Easington	0.034
St. Fergus	0.639
Teesside	0.059
Theddlethorpe	0.031
Glenmavis	0.532
Partington	0.009
Avonmouth	0.064
Isle of Grain	0.186
Dynevor Arms	0.000
Hornsea	0.153
Hatfield Moor	0.042

(storage)	
Hatfield Moor (onshore)	0.042
Cheshire	0.003
Hole House Farm	0.002
Wytch Farm	0.000
Burton Point	0.002
Barton Stacey	0.000
Garton	0.039

Terminal j	$UCAG^J$ (£/kWh)	$UCAG^J$ (£/kWh)
Milford Haven	0.343 where $PRIORCIOEC^j_m \leq$ 500 GWh/d	0.257 where $PRIORCIOEC^j_m > 500$ GWh/d

$PRIORCIOEC^j_m$ shall mean the cumulative obligated incremental entry capacity in respect of each day in month m at terminal j at a date to be determined by the Authority.

OPEX   has a value equal to 0.015;

UEL   has a value equal to 45;

ARR   has a value equal to 0.0625;

β has a value equal to 0.2; and

RND(x)   means the value of x rounded down to the next integer value; and

$\sum\limits_{all\,j} \sum\limits_{m=12t-11}^{12t} SOREVIBEC^j_m$ means the sum across all terminals j of $\sum\limits_{m=12t-11}^{12t} SOREVIBEC^j_m$;and

$\sum\limits_{m=12t-11}^{12t} SOREVIBEC^j_m$ means the sum across all months m in formula year t at terminal j of $SOREVIBEC^j_m$ calculated in the

following manner:

$$\sum_{m=12t-11}^{12t} SOREVIBEC_m^j =$$
$$SOREVIBEC_{(12t-11)}^j + SOREVIBEC_{(12t-10)}^j + ... + SOREVIBEC_{12t}^j$$

(b)   Determination of obligated incremental entry capacity

(i)   In this paragraph 14(5)(b) of Part 2 of this Special Condition:

proposal   means a proposal by the licensee to undertake to sell or to offer for sale entry capacity additional to the then current level of obligated entry capacity and for such entry capacity to be treated as obligated incremental entry capacity for the purposes of Part 2 of this Special Condition.

(ii)   Where the licensee reasonably believes that there is or will be demand for firm entry capacity additional to the then current level of obligated entry capacity as a result of calculations carried out in accordance with its prevailing incremental entry capacity release methodology, established pursuant to Special Condition 34, (Licensee's methodology for determining incremental entry capacity volumes), it may apply for that additional firm entry capacity to be treated as obligated incremental entry capacity for the purposes of Part 2 of this Special Condition in accordance with the following paragraphs.

(iii)   The licensee shall make a written application to the Authority in respect of each specific proposal to make available obligated incremental entry capacity for sale which shall include, in sufficient detail to enable the Authority to decide whether to make the direction referred to in sub-paragraph 14(5)(b)(vii) of Part 2 of this Special Condition, the following:

(aa)   The inputs that have been applied to the incremental entry capacity release methodology;

(bb)   The results of applying the incremental entry capacity release methodology and the rationale for why the licensee believes implementation of the proposal is justified;

(cc)   The terminal to which the proposal relates;

(dd)   The volume of firm entry capacity subject to the proposal;

(ee)   The duration for which the licensee will be obliged to offer for sale the firm entry capacity subject to the proposal (for the avoidance of doubt this must be at least one year);

(ff)   The first month in respect of which the firm entry capacity subject to the proposal would relate (for the avoidance of doubt, the capacity will be deemed to be available from the first day of this month);

(gg)   The amount of capital expenditure which the licensee reasonably expects to incur in implementing the proposal;

(hh)   A technical description of the manner in which the licensee proposes to provide the firm entry capacity subject to the proposal;

(ii)   The day on which the obligation to offer for sale such capacity would commence; and

(jj)   A statement from appropriate auditors that they have carried out an investigation, the scope and objectives of which shall have been established by the licensee and approved by the Authority, giving their opinion as to the extent to which the licensee has complied with its incremental entry capacity

release methodology specified and the reasonableness of the inputs used.

(iv) The licensee shall keep a record of each application made pursuant to paragraph 14(5)(b)(iii) of Part 2 of this Special Condition.

(v) The licensee shall provide the Authority with such additional information as the Authority requests for the purposes of ascertaining whether it is reasonable to conclude that there is sufficient demand to justify implementation of the proposal.

(vi) Where the licensee's calculations pursuant to its incremental entry capacity release methodology demonstrate that all the relevant criteria as specified in its incremental entry capacity release methodology for releasing incremental entry capacity have been met, the licensee shall implement the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition in accordance with the timetable set out in that proposal commencing 5 business days from receipt by the Authority of written application under paragraph 14(5)(b)(iii) in Part 2 of this Special Condition, unless the Authority notifies the licensee in writing before that date to suspend implementation of the proposal because in its opinion the application made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition contained insufficient information for it to determine whether all of the relevant criteria as specified in its incremental entry capacity release methodology have been met.

(vii) Where the Authority has notified the licensee under paragraph 14(5)(b)(vi) in Part 2 of this Special Condition to suspend implementation of the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition the licensee shall implement the proposal, subject to any amendments which may have been agreed between the licensee and the Authority, in accordance with the timetable set out in that proposal commencing 28 days from

receipt by the Authority of written application under paragraph 14(5)(b)(iii) in Part 2 of this Special Condition, unless the Authority directs the licensee in writing before that date not to implement the proposal or prior to the end of the 28 days the Authority directs the licensee in writing to implement the proposal (subject to any amendments as may have been agreed with the Authority) at an earlier date.

(viii) Pursuant to a proposal made by the licensee under paragraph 14(5)(b)(iii) in Part 2 of this Special Condition, and implemented in accordance with paragraph 14(5)(b)(vi) or (vii) in Part 2 of this Special Condition, as the case may be, the licensee shall treat as:

(aa) permanent obligated incremental entry capacity that capacity which it has proposed to offer for sale in respect of every day of a period of five years or more; and

(bb) annual obligated incremental capacity, that capacity which it has proposed to offer for sale in respect of every day of a period of less than five years

and shall be obliged to offer such capacity for sale from the date specified in such proposal (as may have been amended in accordance with paragraph 14(5)(b)(vii) in Part 2 of this Special Condition) in accordance with paragraphs 14(5)(c) and 14(5)(f) in Part 2 of this Special Condition;

(ix) The licensee may withdraw a proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition within 5 business days from receipt by the Authority of that proposal. Where the Authority has notified the licensee under paragraph 14(5)(b)(vi) in Part 2 of this Special Condition to suspend implementation of the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition, the licensee may withdraw such a proposal within 28 days from

receipt by the Authority of that proposal unless the Authority has otherwise directed the licensee to implement the proposal; and

(x)   For the avoidance of doubt where the Authority has made a direction not to implement the proposal under paragraph 14(5)(b)(vii) in Part 2 of this Special Condition the licensee shall remain entitled to make available firm entry capacity additional to the then current level of obligated entry capacity and any such additional firm entry capacity sold by the licensee shall be treated as non-obligated incremental entry capacity.

(c)   The allocation of firm entry capacity

(i)   The licensee shall use all reasonable endeavours to ensure that by 1 February 2003 it has offered for sale all long-term NTS SO baseline entry capacity available in respect of at least formula years 1 to 5 inclusive in one or more allocations, such allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this Special Condition.

(ii)   The licensee shall use all reasonable endeavours to offer for sale all obligated entry capacity in at least one clearing allocation such allocation or allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this Special Condition, for the avoidance of doubt where a clearing allocation would contravene the provisions of Standard Special Condition A4 (Charging - General) the licensee shall allocate such capacity in accordance with provisions of Standard Special Condition A5(5)(aa)(ii) (Charging - General).

(iii)   Where the licensee serves a termination notice (having the meaning given to that term in the licensee's Network Code) on a gas shipper (the terminated gas shipper), the licensee shall:

(aa) use all reasonable endeavours to offer for sale, in at least one clearing allocation (for the avoidance of doubt where a clearing allocation would contravene the provisions of Standard Special Condition A4 (Charging - General) the licensee shall allocate such capacity in accordance with provisions of Standard Special Condition A5(5)(aa)(ii) (Charging - General)), any such obligated entry capacity relating to any day that has not commenced that was held by the terminated gas shipper and which obligated capacity has not been registered to another gas shipper pursuant to section B (System use and capacity) of the licensee's Network Code, such clearing allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this Special Condition; and

(bb) at the earliest possible opportunity, submit a written proposal to the Authority, for approval by the Authority, in relation to the allocation of revenues derived from the sale of capacity pursuant to sub-paragraph (aa) of this paragraph, between $REVBEC^j_{m,d,w}$ and $REVOIEC^j_{m,d,w}$ (as the same are defined in paragraph 14(5)(i) of Part 2 of this Special Condition) for each day d of month m to which the capacity relates, for each of the allocations occurring w days prior to day d of month m which proposal shall be reviewed, revised (if necessary in the Authority's opinion) and, if approved by the Authority, implemented.

(iv) An allocation has been duly notified for the purposes of paragraphs 14(5)(c)(i), (ii) and (iii) of Part 2 of this Special Condition if the licensee has in accordance with the licensee's Network Code notified gas shippers of the allocations forthcoming occurrence.

(v) Revenue derived by the licensee from the sale of obligated incremental entry capacity may only be taken into account, except where the

Authority otherwise accepts, in the calculation of $ECIIR_t$ to the extent that the capacity to which it relates has been offered for sale by the licensee in accordance with paragraphs 14(5)(c) (ii) and where applicable (iii) above and paragraph 14(5)(f)(ii) in Part 2 of this Special Condition.

(vi) To the extent that any revenue derived by the licensee from the sale of obligated incremental entry capacity is not taken into account in the calculation of $REVOIEC_t$ or $SOREVOIEC_t$ pursuant to paragraph 14(5)(c)(v) above, in respect of formula year t, it shall be taken into account in the calculation of $REVBEC_t$.

(d) NTS system operation incentive revenue in respect of obligated incremental entry capacity $\left(\text{SOREVOIEC}_t^j\right)$

For the purposes of paragraph 14(5)(a) of Part 2 of this Special Condition, the maximum NTS system operation incentive revenue from the sale of obligated incremental entry capacity in respect of formula year t at terminal j $\left(SOREVOIEC_t^j\right)$ shall be derived from the following formula:

$$SOREVOIEC_t^j =$$

$$MIN\left[CAPOIEC_t^j , MAX\left(COLOIEC_t^j , \sum_{m=12t-11}^{12t} \left(\sum_{All\,d} \sum_{w=1}^{Q^d} REVOIEC_{m,d,w}^j \right) - DQREV_t^j \right) \right]$$

where:

MIN(x,y)	means the value equal to the lesser of x and y;
$CAPOIEC_t^j$	means the maximum entry capacity investment incentive revenue allowed to the licensee in respect of sales of obligated incremental entry capacity in respect of formula year t at terminal

j, and shall be derived in accordance with paragraph 14(5)(e) in Part 2 of this Special Condition;

MAX(x,y)   means the value equal to the greater of x and y;

$COLOIEC_t^j$ means the minimum entry capacity investment incentive revenue allowed to the licensee in respect of sales of obligated incremental entry capacity in respect of formula year t at terminal j, and shall be derived in accordance with paragraph 14(5)(h) in Part 2 of this Special Condition;

Q^d means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002 Q^d shall have the value zero (0));

$REVOIEC_{m,d,w}^j$ means the entry capacity incentive revenue derived by the licensee in respect of sales of obligated incremental entry capacity in respect of day d of month m for terminal j made w days in advance of day d and shall be derived in accordance with paragraph 14(5)(i) of Part 2 of this Special Condition; and

$\sum_{m=12t-11}^{12t}\left(\sum_{All\,d}\sum_{w=1}^{Q^d}REVOIEC_{m,d,w}^j\right)$ means the sum across all months m in formula year t of $\sum_{All\,d}\sum_{w=1}^{Q^d}REVOIEC_{m,d,w}^j$ and shall be calculated in the following manner:

$$\sum_{m=12t-11}^{12t}\left(\sum_{All\,d}\sum_{w=1}^{Q^d}REVOIEC_{m,d,w}^j\right)=$$

39

$$\sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC^j_{(12t-11),d,w} \; +$$

$$\sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC^j_{(12t-10),d,w} + ... + \sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC^j_{12t,d,w}$$

where:

$\displaystyle\sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC^j_{m,d,w}$	means the sum across all days d in month m of $\displaystyle\sum_{w=1}^{Q^d} REVOIEC^j_{m,d,w}$ for each terminal j and shall be calculated in the following manner:

$$\sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC^j_{m,d,w} =$$

$$\sum_{w=1}^{Q^d} REVOIEC^j_{m,1,w} + \sum_{w=1}^{Q^d} REVOIEC^j_{m,2,w} + ... + \sum_{w=1}^{Q^d} REVOIEC^j_{m,D,w}$$

where:

D	means the number of days in month m; and
$\displaystyle\sum_{w=1}^{Q^d} REVOIEC^j_{m,d,w}$	means the sum across all days w between day d of month m and 1 April 2002 of $REVOIEC^j_{m.d.w}$ and shall be calculated in the following manner:

$$\sum_{w=1}^{Q^d} REVOIEC^j_{m,d,w} =$$

$$REVOIEC^j_{m,d,1} + REVOIEC^j_{m,d,2} + ... + REVOIEC^j_{m,d,Q^d}$$

$DQREV_t^j$ means the sum of all revenue derived by the licensee in formula year t from the sale of obligated incremental entry capacity in respect of terminal j that has not been taken into account in the calculation of $REVOIEC_t$ pursuant to paragraph 14(5)(c)(vi) of Part 2 of this Special Condition.

(e)   The maximum entry capacity investment incentive revenue $\left(\mathbf{CAPOIEC_t^j}\right)$

For the purposes of paragraph 14(5)(d) of Part 2 of this Special Condition, the maximum entry capacity investment incentive revenue allowed to the licensee in respect of obligated incremental entry capacity in respect of formula year t at terminal j $\left(\mathbf{CAPOIEC_t^j}\right)$ shall be derived from the following formula:

$$CAPOIEC_t^j =$$

$$\frac{RI_t}{RI_0} \times \left(\sum_{m=12t-11}^{12t} \left(\sum_{all\ d} \left(MAX \left(CIOEC_{m,0}^j - OSELL_{m,d,0}^j, 0 \right) \right) \right) \right) \times UCACAP_t^j$$

where:

RI_t shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this Special Condition;

RI_0 shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this Special Condition;

MAX(x,y) means the value equal to the greater of x and y;

$CIOEC_{m,0}^j$ means the total obligated incremental entry capacity in

respect of month m at terminal j and shall be derived in accordance with paragraph 14(5)(g) of Part 2 of this Special Condition where w is equal to zero;

$OSELL_{m,d,0}^{j}$ means that obligated entry capacity in respect of day d of month m at terminal j which the licensee on day d continues to have an obligation to offer for sale and shall be derived in accordance with paragraph 14(5)(f) of Part 2 of this Special Condition where w is equal to zero; and

$UCACAP_{t}^{j}$ means the entry capacity unit cost multiplier relating to the maximum allowed entry capacity investment incentive revenue in respect of each day of formula year t and terminal j and shall be derived from the following formula:

$$UCACAP_{t}^{j} = UCAG^{j} \times \frac{UCACAPCONV}{y_{t}}$$

where:

$UCAG^{j}$ means the entry capacity unit cost allowance in respect of terminal j and has the value set out in paragraph 14(5)(a) in Part 2 of this Special Condition;

$UCACAPCONV$ has a value equal to 0.17438; and

y_{t} means the number of days in formula year t.

$\sum_{m=12t-11}^{12t} \left(\sum_{all\ d} \left(MAX \left(CIOEC_{m,0}^{j} - OSELL_{m,d,0}^{j}, 0 \right) \right) \right)$ means the sum across all months m in formula year t of

$$\sum_{\text{all } d} \left(\text{MAX} \left(\text{CIOEC}^{j}_{m,0} - \text{OSELL}^{j}_{m,d,0}, 0 \right) \right) \text{ and}$$

shall be calculated in the following manner:

$$\sum_{m=12t-11}^{12t} \left(\sum_{\text{all } d} \left(\text{MAX} \left(\text{CIOEC}^{j}_{m,0} - \text{OSELL}^{j}_{m,d,0}, 0 \right) \right) \right) =$$

$$\left(\sum_{\text{all } d} \left(\text{MAX} \left(\text{CIOEC}^{j}_{(12t-11),0} - \text{OSELL}^{j}_{(12t-11),d,0}, 0 \right) \right) \right)$$

$$+ \left(\sum_{\text{all } d} \left(\text{MAX} \left(\text{CIOEC}^{j}_{(12t-10),0} - \text{OSELL}^{j}_{(12t-10),d,0}, 0 \right) \right) \right)$$

$$+ ..... + \left(\sum_{\text{all } d} \left(\text{MAX} \left(\text{CIOEC}^{j}_{12t,0} - \text{OSELL}^{j}_{12t,d,0}, 0 \right) \right) \right)$$

where:

$\sum_{\text{all } d} \left(\text{MAX} \left(\text{CIOEC}^{j}_{m,0} - \text{OSELL}^{j}_{m,d,0}, 0 \right) \right)$ means the sum across all days d in month m of $\left(\text{MAX} \left(\text{CIOEC}^{j}_{m,0} - \text{OSELL}^{j}_{m,d,0}, 0 \right) \right)$ and shall be calculated in the following manner:

$$\sum_{\text{all } d} \left(\text{MAX} \left(\text{CIOEC}^{j}_{m,0} - \text{OSELL}^{j}_{m,d,0}, 0 \right) \right) =$$

$$\text{MAX} \left(\text{CIOEC}^{j}_{m,0} - \text{OSELL}^{j}_{m,1,0}, 0 \right)$$

$$+ \text{MAX} \left(\text{CIOEC}^{j}_{m,0} - \text{OSELL}^{j}_{m,2,0}, 0 \right) +$$

$$..... + \text{MAX} \left(\text{CIOEC}^{j}_{m,0} - \text{OSELL}^{j}_{m,D,0}, 0 \right)$$

where:

D   means the number of days in month m.

(f) **Obligated entry capacity for which the licensee still has an obligation to offer for sale**

(i) **Calculation of obligated entry capacity for which the licensee still has an obligation to offer for sale ($\text{OSELL}^j_{m,d,w}$)**

For the purposes of paragraph 14(5)(e) of Part 2 of this Special Condition, the obligated entry capacity which the licensee continues to have an obligation to offer for sale in respect of day d of month m at terminal j during the day that is w days in advance of day d $\left(\text{OSELL}^j_{m,d,w}\right)$ shall be derived from the following formula:

$$\text{OSELL}^j_{m,d,w} = \text{TOEC}^j_{m,w} - \sum_{W=w}^{Q^d} \text{OMET}^j_{m,d,W} - \text{Min}\left(\text{PRIORSELL}^j_{m,d}, \text{TOEC}^j_{m,w}\right)$$

where:

$\text{TOEC}^j_{m,w}$ shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;

Q^d means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002 Q^d shall have the value zero (0))

$\text{OMET}^j_{m,d,W}$ means the obligated entry capacity in respect of day d of month m at terminal j in respect of which the licensee has fulfilled its obligation to sell or offer for sale that obligated entry capacity in any allocations occurring W days in advance of day d of month m and shall be derived in the following manner:

44

On 1 April 2002:

$$\text{OMET}_{m,d,W}^{j} =$$
$$\text{MIN}\left(\left[\text{CAPOFFER}_{m,d,W}^{j} + \text{CAPSALE}_{m,d,W}^{j}\right],\right.$$
$$\left.\left[\text{TOEC}_{m,W}^{j} - \text{MIN}\left(\text{PRIORSELL}_{m,d}^{j}, \text{TOEC}_{m,W}^{j}\right)\right]\right)$$

Otherwise:

$$\text{OMET}_{m,d,W}^{j} =$$
$$\text{MIN}\left(\left[\text{CAPOFFER}_{m,d,W}^{j} + \text{CAPSALE}_{m,d,W}^{j}\right],\right.$$
$$\left.\left[\text{TOEC}_{m,W}^{j} - \sum_{\varpi=W+1}^{Q^{d}} \text{OMET}_{m,d,\varpi}^{j} - \text{MIN}\left(\text{PRIORSELL}_{m,d}^{j}, \text{TOEC}_{m,W}^{j}\right)\right]\right)$$

where:

$\text{CAPOFFER}_{m,d,W}^{j}$ means that entry capacity in respect of day d of month m and terminal j offered for sale in clearing allocations occurring W days in advance of day d of month m;

$\text{CAPSALE}_{m,d,W}^{j}$ means that entry capacity in respect of day d of month m and terminal j sold in allocations other than clearing allocations occurring W days in advance of day d of month m;

$\sum_{\varpi=W+1}^{Q^{d}} \text{OMET}_{m,d,\varpi}^{j}$ means the sum across all days ϖ between W+1 and Q^{d} of $\text{OMET}_{m,d,W}^{j}$ and shall be calculated in the following

45

manner:

$$\sum_{\varpi=W+1}^{Q^d} OMET^j_{m,d,\varpi} =$$

$$OMET^j_{m,d,(W+1)} + OMET^j_{m,d,(W+2)} + ... + OMET^j_{m,d,Q^d}$$

MIN (x,y)   means the value equal to the lesser of x and y; and

$PRIORSELL^j_{m,d}$ means that entry capacity, measured in kWh, in respect of day d of month m and terminal j allocated in any allocation occurring prior to 1 April 2002.

(ii) Obligation to offer for sale obligated entry capacity

(a)   In respect of any terminal j the licensee has an obligation to offer for sale obligated entry capacity at the commencement of the day to which it relates (that is, $OSELL^j_{m,d,0} > 0$ at 06:00 on day d) the licensee shall use all reasonable endeavours to offer for sale all such capacity to gas shippers such that $OSELL^j_{m,d,0} = 0$ at the end of day d of month m, for the avoidance of doubt, where such an allocation would contravene the provisions of Standard Special Condition A4 (Charging– General) the licensee shall allocate such capacity in accordance with the provisions of Standard Special Condition A5(5)(aa)(ii) (Charging– General);

(b)   Where the licensee has complied with its obligations pursuant to paragraph 14(5)(f)(ii)(a) of Part 2 of this Special Condition then at the end of day d of month m $OSELL^j_{m,d,0}$ shall have a value equal to zero.

Deleted: amended standard condition 4

Deleted: Gas Shippers

Deleted: amended standard condition 4A

Deleted: Gas Shippers

(g) Calculation of obligated entry capacity $\left(\text{TOEC}^j_{m,w}\right)$

For the purposes of paragraph 14(5)(f) of Part 2 of this Special Condition, the obligated entry capacity in respect of month m at terminal j as at w days in advance of the first day of month m $\left(\text{TOEC}^j_{m,w}\right)$ shall be derived from the following formula:

$$\text{TOEC}^j_{m,w} = \text{MOEC}^j_{m,w} + \text{CIOEC}^j_{m,w}$$

where:

$\text{MOEC}^j_{m,w}$ means the NTS SO baseline entry capacity in respect of month m at terminal j as at w days in advance of the first day of month m (for the avoidance of doubt m=1 is April 2002) and shall be derived in the following manner:

If m > 60:
$$\text{MOEC}^j_{m,w} = \text{LBEC}^j_m + \alpha(\text{SBEC}^j_m) + \left(\sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^1} \text{IPOEC}^j_{(m-p),W} \right)$$

Otherwise:
$$\text{MOEC}^j_{m,w} = \text{LBEC}^j_m + \alpha(\text{SBEC}^j_m)$$

where:

LBEC^j_m means the long-term NTS SO baseline entry capacity measured in kWh in respect of month m at terminal j and shall be derived from the following formula:

$$\text{LBEC}^j_m = \left(1 - \text{STR}^j_m\right) \times \text{IBEC}^j_m \times 1{,}000{,}000$$

where:

STR^j_m has the value 0.2; and

$IBEC_m^j$ means the initial NTS SO baseline entry capacity in respect of month m at terminal j and shall have the value set out in table A2 of schedule A;

α equals one (1) if w < 548, otherwise it equals zero (0);

$SBEC_m^j$ means the short-term NTS SO baseline entry capacity measured in kWh in respect of month m at terminal j and shall be derived from the following formula:

$$SBEC_m^j = STR_m^j \times IBEC_m^j \times 1,000,000$$

where:

STR_m^j has the meaning given above; and

$IBEC_m^j$ has the meaning given above;

Q^1 means the number of days between 1 April 2002 and the first day of month m (and for the avoidance of doubt when month m is April 2002 Q^1 shall have the value zero (0));

$IPOEC_{(m-p),W}^j$ means that permanent obligated incremental entry capacity, measured in kWh, in respect of terminal j which is first delivered in month (m-p) and in respect of which the obligation to offer such capacity for sale commenced as at W days in advance of the first day of the

first month to which such capacity relates; and

$\sum\limits_{p=60}^{(m-1)} \sum\limits_{W=0}^{Q^1} \left(IPOEC^{j}_{(m-p),W} \right)$ means the sum across all permanent obligated incremental entry capacity in respect of terminal j, for which the first month to which it relates is month (m-p), that the licensee has undertaken to offer for sale or sell as at W days prior to the first day of month m (provided that month (m-p) is not prior to April 2002) and shall be calculated in the following manner:

$$\sum\limits_{p=60}^{(m-1)} \sum\limits_{W=0}^{Q^1} \left(IPOEC^{j}_{(m-p),W} \right) =$$
$$\sum\limits_{W=0}^{Q^1} \left(IPOEC^{j}_{(m-60),W} \right) + \sum\limits_{W=0}^{Q^1} \left(IPOEC^{j}_{(m-61),W} \right)$$
$$+ \ldots + \sum\limits_{W=0}^{Q^1} \left(IPOEC^{j}_{1,W} \right)$$

where:

$\sum\limits_{W=0}^{Q^1} \left(IPOEC^{j}_{(m-p),W} \right)$ means the sum across all days W between the first day of the first month to which such capacity relates and 1 April 2002 of $IPOEC^{j}_{(m-p),W}$ and shall be calculated in the following manner:

$$\sum_{W=0}^{Q^1}\left(IPOEC_{(m-p),W}^{j}\right)=$$

$$IPOEC_{(m-p),0}^{j}+IPOEC_{(m-p),1}^{j}+.....+IPOEC_{(m-p),Q^1}^{j}$$

$CIOEC_{m,w}^{j}$ means the cumulative obligated incremental entry capacity in respect of every day in month m at terminal j as at w days in advance of the first day of month m and is derived from the following formula:

$$CIOEC_{m,w}^{j}=$$

$$\sum_{p=0}^{MIN((m-1),59)}\sum_{W=w}^{Q^1}\left(IPOEC_{(m-p),W}^{j}\right)+\sum_{p=0}^{MIN((m-1),11)}\sum_{W=w}^{Q^1}\left(IAOEC_{(m-p),W}^{j}\right)$$

where:

MIN (x,y) means the value equal to the lesser of x and y;

$IPOEC_{(m-p),W}^{j}$ has the meaning given above

$IAOEC_{(m-p),W}^{j}$ means that annual obligated incremental entry capacity, measured in kWh in respect of terminal j which is first delivered in month (m-p) and in respect of which the obligation to offer such capacity for sale commenced as at W days in advance of the first day of the first month to which such capacity relates.

$\displaystyle\sum_{p=0}^{MIN((m-1),\,\varphi)}\sum_{W=w}^{Q^1}\left(\lambda_{(m-p),W}^{j}\right)$ means the sum across all incremental obligated entry capacity $\lambda_{(m-p),W}^{j}$ (where λ equals

IPOEC or IAOEC as the case may be) for which the first month to which it relates is month (m-p), that the licensee has undertaken to offer for sale or sell as at W days prior to the first day of month m (provided that month (m-p) is not prior to April 2002) and shall be calculated in the following manner:

$$\sum_{p=0}^{MIN\ ((m-1),\ \phi)} \sum_{W=w}^{Q^1} \left(\lambda_{(m-p),\,W}^{j} \right) =$$

$$\sum_{W=w}^{Q^1} \left(\lambda_{m,\,W}^{j} \right) + \sum_{W=w}^{Q^1} \left(\lambda_{(m-1),\,W}^{j} \right)$$

$$+ \ldots + \sum_{W=w}^{Q^1} \left(\lambda_{(m-MIN\ ((m-1),\,\phi)),\,W}^{j} \right)$$

where:

ϕ takes a value of 59 where λ equals IPOEC and a value of 11 where λ equals IAOEC;

$\sum_{W=w}^{Q^1} \left(\lambda_{(m-p),W}^{j} \right)$ means the sum across all days W between w and 1 April 2002 of $\lambda_{(m-p),W}^{j}$ and shall be calculated in the following manner:

$$\sum_{W=w}^{Q^1} \left(\lambda_{(m-p),\,W}^{j} \right) =$$

$$\lambda_{(m-p),\,w}^{j} + \lambda_{(m-p),\,(w+1)}^{j} + \ldots + \lambda_{(m-p),\,Q^1}^{j}$$

51

(h) **The minimum entry capacity investment incentive revenue ($COLOIEC_t^j$)**

For the purposes of paragraph 14(5)(d) of Part 2 of this Special Condition, the minimum entry capacity investment incentive revenue allowed to the licensee in respect of formula year t at terminal j ($COLOIEC_t^j$) shall be derived from the following formula:

$$COLOIEC_t^j = \frac{RI_t}{RI_0} \times \left(\sum_{m=12t-11}^{12t} \left(\sum_{all\,d} \left(MAX\left(CIOEC_{m,0}^j - OSELL_{m,d,0}^j, 0 \right) \right) \right) \right) \times UCACOL_t^j$$

where:

RI_t	shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this Special Condition;
RI_0	shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this Special Condition;
MAX(x,y)	means the value equal to the greater of x and y;
$CIOEC_{m,0}^j$	shall have the meaning given to the term $CIOEC_{m,w}^j$ in paragraph 14(5)(g) of Part 2 of this Special Condition where w is equal to zero;
$OSELL_{m,d,0}^j$	shall have the meaning given to the term $OSELL_{m,d,w}^j$ in paragraph 14(5)(f) of Part 2 of this Special Condition where w is equal to zero;

$$\sum_{m=12t-11}^{12t}\left(\sum_{all\ d}\left(MAX\left(CIOEC_{m,0}^{j}-OSELL_{m,d,0},0\right)\right)\right)$$ shall have the meaning given to that term in paragraph 14(5)(e) of Part 2 of this Special Condition; and

$UCACOL_t^j$ means the entry capacity unit cost multiplier relating to the entry capacity investment incentive revenue collar in respect of each day of formula year t and terminal j and shall be derived from the following formula:

$$UCACOL_t^j = UCAG^j \times \frac{UCACOLCONV}{y_t}$$

where:

$UCAG^j$ means the entry capacity unit cost allowance in respect of terminal j and has the value set out in paragraph 14(5)(a) in Part 2 of this Special Condition;

y_t means the number of days in formula year t; and

$UCACOLCONV$ has a value equal to 0.09661.

(i) **Calculation of entry capacity incentive revenue ($REVOIEC_{m,d,w}^j$)**

(i) Except where paragraph 14(5)(c)(vi) of Part 2 of this Special Condition or sub-paragraph (aa) below applies, the entry capacity incentive revenue in respect of sales of obligated incremental entry capacity in respect of day d of month m and terminal j made w days in advance of day d $\left(REVOIEC_{m,d,w}^j\right)$ shall be derived in the manner set out in sub-paragraphs (ii), (iii) and (iv);

(aa)   In the case of revenues from the sales of obligated incremental entry capacity which have been sold pursuant to paragraph 14(5)(c)(iii)(aa) of Part 2 of this Special Condition, then, for the purposes of this paragraph only, such revenues shall only be included in the calculation of entry capacity incentive revenue where the Authority has so agreed, pursuant to paragraph 14(5)(c)(iii)(bb) of Part 2 of this Special Condition.

(ii)   Firm entry capacity in respect of day d of month m at terminal j allocated w days in advance of day d shall be defined as either $SOLDBEC_{m,d,w}^{j}$, $SOLDOIEC_{m,d,w}^{j}$ or $SOLDIEC_{m,d,w}^{j}$ in accordance with the following sub-paragraphs of this paragraph 14(5)(i)(ii) of Part 2 of this Special Condition;

   (aa)   Allocated volumes of NTS SO baseline entry capacity $\left(SOLDBEC_{m,d,w}^{j}\right)$

          The NTS SO baseline entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

          $$SOLDBEC_{m,d,w}^{j} =$$

          $$MIN\left(CAPSOLD_{m,d,w}^{j} , \left(MOEC_{m,w}^{j} - \sum_{W=w+1}^{Q^d} SOLDBEC_{m,d,W}^{j} \right) \right)$$
          where:

MIN(x, y)	means the value equal to the lesser of x and y;
$CAPSOLD_{m,d,w}^{j}$	means that entry capacity in respect of day d of month m and terminal j sold in allocations occurring w days

in advance of day d of month m;

$MOEC^j_{m,w}$ shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;

Q^d means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002 Q^d shall have the value zero (0)); and

$\sum\limits_{W=w+1}^{Q^d} SOLDBEC^j_{m,d,W}$ means the sum across days W between (w+1) and 1 April 2002 of $SOLDBEC^j_{m,d,W}$ and shall be calculated in the following manner:

$$\sum_{W=w+1}^{Q^d} SOLDBEC^j_{m,d,W} =$$

$$SOLDBEC^j_{m,d,(w+1)} + SOLDBEC^j_{m,d,(w+2)}$$

$$+ ..... + SOLDBEC^j_{m,d,Q^d}$$

Where more than one allocation occurs on day w, values for $SOLDBEC^j_{m,d,W}$, shall be separately calculated in chronological order of the allocations, for each allocation.

(bb) Allocated volumes of obligated incremental entry capacity $\left(SOLDOIEC^j_{m,d,w}\right)$

The obligated incremental entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

$$\mathrm{SOLDOIEC}^{j}_{m,d,w} =$$

$$\mathrm{MIN}\left(\mathrm{CAPSOLD}^{j}_{m,d,w} - \mathrm{SOLDBEC}^{j}_{m,d,w}, \left(\mathrm{CIOEC}^{j}_{m,w} - \sum_{W=w+1}^{Q^d} \mathrm{SOLDOIEC}^{j}_{m,d,W} \right) \right)$$

where:

$\mathrm{MIN}(x,y)$	means the value equal to the lesser of x and y;
$\mathrm{CAPSOLD}^{j}_{m,d,w}$	shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition;
$\mathrm{SOLDBEC}^{j}_{m,d,w}$	shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition;
$\mathrm{CIOEC}^{j}_{m,w}$	shall have the meaning given to that term in paragraph 14(5)(g) of Part2 of this Special Condition;
Q^d	means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002 Q^d shall have the value zero (0)); and
$\sum_{W=w+1}^{Q^d} \mathrm{SOLDOIEC}^{j}_{m,d,W}$	means the sum across days W between (w+1) and 1 April 2002 of $\mathrm{SOLDOIEC}^{j}_{m,d,W}$ and shall be calculated in the following manner:

$$\sum_{W=w+1}^{Q^d} SOLDOIEC_{m,d,W}^j =$$

$$SOLDOIEC_{m,d,(w+1)}^j + SOLDOIEC_{m,d,(w+2)}^j$$
$$+ ..... + SOLDOIEC_{m,d,Q^d}^j$$

Where more than one allocation occurs on day w, values for $SOLDOIEC_{m,d,W}^j$, shall be separately calculated in chronological order of the allocations, for each allocation.

(cc) Allocated volumes of non-obligated incremental entry capacity $\left(SOLDIEC_{m,d,w}^j\right)$

The non-obligated incremental entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

$$SOLDIEC_{m,d,w}^j =$$

$$\left(CAPSOLD_{m,d,w}^j - SOLDBEC_{m,d,w}^j - SOLDOIEC_{m,d,w}^j\right)$$

where:

$CAPSOLD_{m,d,w}^j$	shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition;
$SOLDBEC_{m,d,w}^j$	shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition; and

$$\text{SOLDOIEC}_{m,d,w}^{j}$$ shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this Special Condition.

Where more than one allocation occurs on day w, values for $\text{SOLDIEC}_{m,d,W}^{j}$, shall be separately calculated in chronological order of the allocations, for each allocation.

(iii) The NTS SO baseline entry capacity revenue in respect of sales of NTS SO baseline entry capacity in respect of day d of month m and terminal j as at w days in advance of day d $\left(\text{REVBEC}_{m,d,w}^{j}\right)$ shall be the revenue allocated in respect of $\text{SOLDBEC}_{m,d,w}^{j}$ where it is assumed that firm entry capacity allocated on day d of month m was allocated to gas shippers in descending order of price accepted to be paid in respect of each allocation of firm entry capacity in chronological order throughout day d of month m starting with the highest paid in the amount applied for allocating first up to total volume of $\text{SOLDBEC}_{m,d,w}^{j}$ then up to total volume of $\text{SOLDOIEC}_{m,d,w}^{j}$ then up to total volume of $\text{SOLDIEC}_{m,d,w}^{j}$;

where:

$\text{SOLDBEC}_{m,d,w}^{j}$ shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition;

$\text{SOLDOIEC}_{m,d,w}^{j}$ shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this Special Condition; and

$\text{SOLDIEC}_{m,d,w}^{j}$ shall have the meaning given to that term in paragraph 14(5)(i)(ii)(cc) of Part 2 of this Special Condition.

(iv) The obligated incremental entry capacity revenue derived by the licensee in respect of sales of obligated incremental entry capacity in respect of day d $\left(\text{REVOIEC}_{m.d,w}^{j}\right)$ of month m and terminal j, as at w days in advance of d shall be the revenue allocated in respect of $\text{SOLDOIEC}_{m,d,w}^{j}$ where it is assumed that firm entry capacity allocated on day d of month m was allocated to gas shippers in descending order of price accepted to be paid in respect of each allocation of firm entry capacity in chronological order throughout day d of month m starting with the highest paid in the amount applied for, allocating first up to the total volume of $\text{SOLDBEC}_{m,d,w}^{j}$ then up to the total volume of $\text{SOLDOIEC}_{m,d,w}^{j}$ then up to the total volume of $\text{SOLDIEC}_{m,d,w}^{j}$;

where:

$\text{SOLDBEC}_{m,d,w}^{j}$	shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition;
$\text{SOLDOIEC}_{m,d,w}^{j}$	shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this Special Condition; and
$\text{SOLDIEC}_{m,d,w}^{j}$	shall have the meaning given to that term in paragraph 14(5)(i)(ii)(cc) of Part 2 of this Special Condition.

(j) **Non-obligated incremental entry capacity revenue $\left(\text{REVIEC}_{m,d,w}^{j}\right)$**

The revenue in respect of non-obligated incremental entry capacity in respect of day d of month m and terminal j as at w days in advance of day d

$\left(\text{REVIEC}_{m,d,w}^{j}\right)$ shall be the revenue derived by the licensee from sales of firm entry capacity other than $\text{REVOIEC}_{m,d,w}^{j}$ and $\text{REVBEC}_{m,d,w}^{j}$.

where:

$\text{REVOIEC}_{m,d,w}^{j}$ shall have the meaning given to that term in paragraph 14(5)(i)(iv) of Part 2 of this Special Condition; and

$\text{REVBEC}_{m,d,w}^{j}$ shall have the meaning given to that term in paragraph 14(5)(i)(iii) of Part 2 of this Special Condition;

(k) Annual revenues from entry capacity sales

(i) For the purposes of paragraph 2(1) of Part I a of this Special Condition, the total revenues derived by the licensee from sales of baseline entry capacity in respect of formula year t shall be derived from the following formula:

$\text{REVBEC}_{t} =$

$$\sum_{\text{all } j}\left\{\sum_{m=12t-11}^{12t}\left[\sum_{\text{all } d}\sum_{w=0}^{Q^{d}}\left(\text{REVBEC}_{m,d,w}^{j} \times \frac{\text{IBEC}_{m}^{j} \times 1{,}000{,}000}{\text{MOEC}_{m,0}^{j}}\right)\right] + \text{DQREV}_{t}^{j}\right\} + \text{PRIORREV}_{t}$$

where:

$\displaystyle\sum_{\text{all } j}$ is the sum across all terminals j;

Q^{d} means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002 Q^{d} shall have the value zero (0));

$REVBEC_{m,d,w}^{j}$	shall have the meaning given to that term in paragraph 14(5)(i)(iii) of Part 2 of this Special Condition;
$IBEC_{m}^{j}$	shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;
$MOEC_{m,0}^{j}$	shall have the meaning given to the term $MOEC_{m,w}^{j}$ in paragraph 14(5)(g) of Part 2 of this Special Condition where w is equal to zero;
$DQREV_{t}^{j}$	shall have the meaning given to that term in paragraph 14(5)(d) of Part 2 of this Special Condition; and
$PRIORREV_{t}$	means the sum of all revenue derived by the licensee from the sale of NTS SO baseline entry capacity in respect of formula year t occurring in any allocations taking place prior to 1 April 2002; and
$\displaystyle\sum_{m=12t-11}^{12t}\left[\sum_{all\,d}\sum_{w=0}^{Q^{d}}\gamma_{m,d,w}^{j}\right]$	is the sum across all months m in formula year t of $\displaystyle\sum_{all\,d}\sum_{w=0}^{Q^{d}}\gamma_{m,d,w}^{j}$ where $\gamma_{m,d,w}^{j}=$ $REVBEC_{m,d,w}^{j}\times\dfrac{IBEC_{m}^{j}\times 1,000,000}{MOEC_{m,0}^{j}}$ and shall be calculated in the following manner:

$$\sum_{m=12t-11}^{12t}\left[\sum_{all\ d}\sum_{w=0}^{Q^d}\gamma^{\,j}_{m,d,w}\right]=$$

$$\sum_{all\ d}\sum_{w=0}^{Q^d}\gamma^{\,j}_{(12t-11),d,w}+\sum_{all\ d}\sum_{w=0}^{Q^d}\gamma^{\,j}_{(12t-10),d,w}$$

$$+\ .....\ +\sum_{all\ d}\sum_{w=0}^{Q^d}\gamma^{\,j}_{12t,d,w}$$

where:

$\sum_{all\ d}\sum_{w=0}^{Q^d}\gamma^{\,j}_{m,d,w}$ is the sum across all days d in month m of $\sum_{w=0}^{Q_d}\gamma^{\,j}_{m,d,w}$

where:

$\sum_{w=0}^{Q_d}\gamma^{\,j}_{m,d,w}$ shall be calculated in the following manner:

$$\sum_{w=0}^{Q_d}\gamma^{\,j}_{m,d,w}=\gamma^{\,j}_{m,d,0}+\gamma^{\,j}_{m,d,1}+\ .....\ +\gamma^{\,j}_{m,d,Q_d}$$

(ii)   For the purposes of paragraph 13(2) of Part 2 of this Special Condition, the total revenues derived by the licensee from sales of obligated incremental entry capacity in respect of formula year t shall be derived from the following formula:

$$REVOIEC_t=\sum_{all\ j}\left\{\sum_{m=12t-11}^{12t}\left[\sum_{all\ d}\sum_{w=0}^{Q^d}REVOIEC^{\,j}_{m,d,w}\right]-DQREV^{\,j}_t\right\}$$

where:

$\sum_{all\ j}$ is the sum across all terminals j;

$REVOIEC^{\,j}_{m,d,w}$ shall have the meaning given to that term

in paragraph 14(5)(i)(iv) of Part 2 of this Special Condition;

$$\sum_{m=12t-11}^{12t} \left[\sum_{all\ d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^{j} \right]$$

shall have the meaning given to that term in paragraph 14(5)(k)(i) of Part 2 of this Special Condition where $\gamma_{m,d,w}^{j} = REVOIEC_{m,d,w}^{j}$; and

$$DQREV_{t}^{j}$$

shall have the meaning given to that term in paragraph 14(5)(d) of Part 2 of this Special Condition.

(iii) For the purposes of paragraph 13(2) and 14(7)(b) of Part 2 of this Special Condition, the total revenues derived by the licensee from sales of non-obligated incremental entry capacity in respect of formula year t shall be derived from the following formula:

$$REVIEC_{t} = \sum_{all\ j} \sum_{m=12t-11}^{12t} \left[\sum_{all\ d} \sum_{w=0}^{Q^d} REVIEC_{m,\ d,\ w}^{j} \right]$$

where:

$$\sum_{all\ j}$$

is the sum across all terminals j;

$$REVIEC_{m,d,w}^{j}$$

shall have the meaning given to that term in paragraph 14(5)(j) of Part 2 of this Special Condition; and

$$\sum_{m=12t-11}^{12t} \left[\sum_{all\ d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^{j} \right]$$

shall have the meaning given to that term in paragraph 14(5)(k)(i) of Part 2 of this Special Condition where $\gamma_{m,d,w}^{j} = REVIEC_{m,d,w}^{j}$.

(iv)   For the purposes of paragraph 13(2) of Part 2 of this Special Condition, the total revenues derived by the licensee in respect of formula year t from sales of permanent obligated incremental entry capacity in respect of periods more than 5 years after the first day to which such capacity relates shall be derived from the following formula:

$$\text{REVIBEC}_t = \sum_{\text{all } j} \sum_{m=12t-11}^{12t} \left[\sum_{\text{all } d} \sum_{w=0}^{Q^d} \left(\text{REVBEC}_{m,d,w}^j \times \left(1 - \frac{\text{IBEC}_m^j \times 1,000,000}{\text{MOEC}_{m,0}^j} \right) \right) \right]$$

where:

$\displaystyle\sum_{\text{all } j}$	is the sum across all terminals j;
$\text{REVBEC}_{m,d,w}^j$	shall have the meaning given to that term in paragraph 14(5)(i)(iii) of Part 2 of this Special Condition;
IBEC_m^j	shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;
$\text{MOEC}_{m,0}^j$	shall have the meaning given to the term $\text{MOEC}_{m,w}^j$ in paragraph 14(5)(g) of Part 2 of this Special Condition where w is equal to zero;
$\displaystyle\sum_{m=12t-11}^{12t} \left[\sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right]$	shall have the meaning given to that term in paragraph 14(5)(k)(i) of Part 2 of this Special Condition where $\gamma_{m,d,w}^j = \text{REVBEC}_{m,d,w}^j \times \left(1 - \frac{\text{IBEC}_m^j \times 1,000,000}{\text{MOEC}_{m,0}^j} \right)$.

(l) **Revenues from on the day sales of entry capacity**

(i) For the purposes of paragraph 13(2) and 14(7)(b) of Part 2 of this Special Condition, the revenues derived by the licensee from sales of daily baseline entry capacity in respect of formula year t shall be derived from the following formula:

$$DREVBEC_t = \sum_{all\,j} \sum_{m=12t-11}^{12t} \left[\sum_{all\,d} REVBEC_{m,d,0}^{j} \times \frac{IBEC_m^j \times 1,000,000}{MOEC_{m,0}^j} \right]$$

where:

$REVBEC_{m,d,0}^{j}$ — shall have the meaning given to the term $REVBEC_{m,d,w}^{j}$ in paragraph 14(5)(i)(iii) of Part 2 of this Special Condition where w=0;

$IBEC_m^j$ — shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;

$MOEC_{m,0}^j$ — shall have the meaning given to the term $MOEC_{m,w}^j$ in paragraph 14(5)(g) of Part 2 of this Special Condition where w is equal to zero;

$\sum_{all\,j} \sum_{m=12t-11}^{12t} \left[\sum_{all\,d} \gamma_{m,d,0}^{j} \right]$ — is the sum across all terminals j of $\sum_{m=12t-11}^{12t} \left[\sum_{all\,d} \gamma_{m,d,0}^{j} \right]$ where $\gamma_{m,d,0}^{j} = REVBEC_{m,d,0}^{j}$ and shall be calculated in the following manner:

$$\sum_{m=12t-11}^{12t} \left[\sum_{all\,d} \gamma_{m,d,0}^{j} \right] =$$

$$\sum_{\text{all d}} \gamma^{j}_{(12t-11),d,0} + \sum_{\text{all d}} \gamma^{j}_{(12t-10),d,0}$$

$$+ \ldots + \sum_{\text{all d}} \gamma^{j}_{12t,d,0}$$

where:

$$\sum_{\text{all d}} \gamma^{j}_{m,d,0}$$ is the sum across all days d in month m of $\gamma^{j}_{m,d,0}$.

(ii) For the purposes of paragraph 14(7)(b) of Part 2 of this Special Condition, the revenues derived by the licensee from sales of daily obligated incremental entry capacity in respect of formula year t shall be derived from the following formula:

$$DREVOIEC_t = \sum_{\text{all j}} \sum_{m=12t-11}^{12t} \left[\sum_{\text{all d}} REVOIEC^{j}_{m,d,0} \right]$$

where:

$REVOIEC^{j}_{m,d,0}$ shall have the meaning given to the term $REVOIEC^{j}_{m,d,w}$ in paragraph 14(5)(i)(iv) of Part 2 of this Special Condition where w=0;

$\sum_{\text{all j}} \sum_{m=12t-11}^{12t} \left[\sum_{\text{all d}} \gamma^{j}_{m,d,0} \right]$ shall have the meaning given to that term in paragraph 14(5)(l)(i) of Part 2 of this Special Condition where $\gamma^{j}_{m,d,0} = REVOIEC^{j}_{m,d,0}$.

(6) Exit capacity investment incentive revenue

(a) Principal formula

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum exit capacity investment incentive revenue allowed to the licensee in respect of formula year t ($ExCIIR_t$) shall be derived from the following formula:

If $ExIT_t - ExCIT_t \geq ExCP_t - ExCC_t$, then:

$ExCIIR_t =$

$MIN \, ((ExUSF_t \times ((ExIT_t - ExCP_t) - (ExCIT_t - ExCC_t))), ExCAP_t) + (ExCIT_t - ExCC_t)$

Otherwise:

$ExCIIR_t =$

$MAX \, ((ExDSF_t \times ((ExIT_t - ExCP_t) - (ExCIT_t - ExCC_t))), ExCOL_t) + (ExCIT_t - ExCC_t)$

Where:

$ExIT_t$ means the exit incentive target in respect of formula year t and shall be derived in accordance with paragraph 14(6)(d) of Part 2 of this Special Condition;

$ExCIT_t$ means the incentive target for costs incurred by the licensee in respect of formula year t in respect of its use of constrained storage facilities to avoid transportation constraints (all having the meanings given to those in the licensee's Network Code) as set out in the following table:

	Formula year				
Variable	t = 1	t = 2	t = 3	t = 4	t≥5
$ExCIT_t$ £ million	5.9	6.2	6.6	6.6	6.6

$ExCP_t$ means the exit performance measure in respect of formula year t, and shall be derived in accordance with paragraph 14(6)(h) of Part 2 of this Special Condition;

$ExCC_t$ means the payments made by the licensee in respect of costs incurred by the licensee in respect of formula year t in respect of its use of constrained storage facilities to avoid transportation constraints (all having the meanings given to those terms in the licensee's Network Code);

MIN (x,y)   means the value equal to the lesser of x and y;

$ExUSF_t$ means the exit upside sharing factor in respect of formula year t as set out in the following table:

	Formula year	
Variable	t = 1	t≥2
$ExUSF_t$	50%	50%

ExDSF$_t$ means the exit downside sharing factor in respect of formula year t as set out in the following table:

	Formula year	
Variable	**t = 1**	**t≥2**
ExDSF$_t$	25%	25%

ExCAP$_t$ means the maximum exit capacity investment revenue in respect of formula year t as set out in the following table:

	Formula year		
Variable	**t = 1**	**t = 2**	**t≥3**
ExCAP$_t$ £million	10	10	1

MAX (x,y) means the value equal to the greater of x and y; and

ExCOL$_t$ means the minimum exit capacity investment revenue in respect of formula year t as set out in the following table:

	Formula year		
Variable	**t = 1**	**t=2**	**t≥3**
ExCOL$_t$ £million	-2.5	-2.5	-1

(b)   Statement of NTS incremental firm exit capacity

(i)   By 1 June 2003, and by 1 June in each subsequent formula year, (or in each case, such other date as the Authority may direct in writing), the licensee shall provide the Authority with a written statement of any NTS incremental firm exit capacity or any proposed NTS incremental firm exit capacity in respect of which the licensee has incurred depreciation or capital expenditure or financing costs during the previous formula year;

(ii)   The statement referred to in sub-paragraph 14(6)(b)(i) of Part 2 of this Special Condition shall include the following:

   (aa)   The NTS exit point(s) (having the meaning given to that term in the licensee's Network Code) to which the NTS incremental firm exit capacity relates or will relate;

   (bb)   The volume of such NTS incremental firm exit capacity in GWh per day by NTS exit point;

   (cc)   The date from which such NTS incremental firm exit capacity was capable or is reasonably expected to be capable of being registered pursuant to the licensee's Network Code;

   (dd)   The amount of capital expenditure incurred by the licensee in respect of such NTS incremental firm exit capacity and the depreciation and financing costs deemed to be incurred in respect of formula year t-1 in respect of such capital expenditure incurred since 1 April 2002. For the purpose of this sub-paragraph, depreciation shall be calculated on a straight line basis using an asset life of forty-five (45) years and financing costs shall be calculated using a rate of return of 6.25% on the average asset value (which shall be calculated in

accordance with regulatory accounting principles agreed with the Authority);

(ee) The basis upon which the licensee has reached the view that there is or will be demand sufficient to justify the provision of such NTS incremental firm exit capacity; and

(ff) As far as it is reasonably possible to ascertain, whether such NTS incremental firm exit capacity has or is to be provided as a result of (i) demand for additional NTS exit capacity or (ii) as a substitute for NTS exit capacity curtailment rights or (iii) as a substitute for storage rights.

(iii) The licensee shall keep a record of the statement made pursuant to paragraph 14(6)(b)(i) of Part 2 of this Special Condition for seven (7) years;

(iv) The licensee shall provide the Authority with such additional information as the Authority requests for the purposes of ascertaining the reason or reasons why the licensee considered that there was or would be sufficient demand of the type specified pursuant to sub-paragraph 14(6)(b)(ii)(ff) of Part 2 of this Special Condition to justify incurring the costs referred to in sub-paragraph 14(6)(b)(ii)(dd) of Part 2 this Special Condition;

(v) The licensee shall publish the statement within twenty-eight (28) days of making it available to the Authority unless the Authority otherwise directs the licensee in writing provided that the licensee shall exclude therefrom, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests.

(vi) For the purposes of this paragraph 14(6)(b) of Part 2 of this Special Condition:

NTS incremental   means NTS firm exit capacity additional to

| firm exit capacity | the NTS baseline firm exit capacity set out in table A3 of schedule A. |

(c) The registration of firm exit capacity

(i) The licensee shall use all reasonable endeavours to ensure universal firm registration of NTS exit capacity with effect from 1 April 2004;

(ii) If after 1 April 2004 for whatever reason the licensee is unable to ensure universal firm registration of NTS exit capacity the licensee shall use all reasonable endeavours to ensure that universal firm registration is achieved as soon as is reasonably practicable thereafter; and

(iii) For the avoidance of doubt, the obligation contained in paragraph 14(6)(c)(i) of Part 2 of this Special Condition shall not prohibit the licensee from purchasing exit capacity curtailment rights.

(d) The exit incentive target (ExIT_t)

(i) For the purpose of paragraph 14(6)(a) of Part 2 of this Special Condition the exit incentive target in respect of formula year t (ExIT_t) shall be derived from the following formula:

$$\text{ExIT}_t = \text{ExNTSIT}_t + \text{ExCIT}_t + \text{IExR}_t$$

where:

ExNTSIT_t means the incentive target in respect of formula year t for payments made by the licensee or charges foregone by the licensee in respect of NTS exit capacity curtailment rights and shall be derived in the following manner:

(a) In respect of formula years 1 and 2 and in each subsequent relevant formula year until the first complete formula year in which the licensee achieves universal firm registration, $ExNTSIT_t$ shall be derived from the following formula:

$$ExNTSIT_t = ExNTSSIT_t + ExNTSIIT_t$$

(b) Otherwise $ExNTSIT_t$ shall have the value set out in the following table:

Variable	Formula year		
	t=3	t=4	t≥5
$ExNTSIT_t$ £million	36.6	37.2	37.9

where:

$ExNTSSIT_t$ means the incentive target in respect of formula year t for charges foregone by the licensee in respect of NTS exit capacity curtailment rights, as set out in the following table:

Variable	Formula year				
	t=1	t=2	t=3	t=4	t≥5
$ExNTSSIT_t$ £million	33.5	35.9	36.6	37.2	37.9

$ExNTSIIT_t$ means the incentive target in respect of formula year t for

payments made by the licensee in accordance with sub-paragraph 14(6)(d)(iii)(a) of Part 2 of this Special Condition in respect of the curtailment of rights to off-take gas from the NTS on plus 15 curtailment days subject to sub-paragraph 14(6)(d)(ii) of Part 2 of this Special Condition as set out in the following table:

Variable	Formula year				
	t=1	t=2	t=3	t=4	t≥5
ExNTSIIT_t £million	1.42	1.47	1.51	1.59	1.68

ExCIT_t shall have the meaning given to that term in paragraph 14(6)(a) of Part 2 of this Special Condition; and

IExR_t Means the incremental exit capacity revenue to be applied in formula year t and shall be derived in accordance with paragraph 14(6)(e) of Part 2 of this Special Condition.

(ii) Unless the Authority otherwise directs in writing, in any formula year t ExNTSIIT_t shall be equal to zero if:

(a) the weighted average charge payable by the licensee to gas shippers in respect of the curtailment of rights to off-take gas

from the NTS on plus 15 curtailment days does not conform with sub-paragraph 14(6)(d)(iii)(a) below; or

(b)   no charge is payable by the licensee to gas shippers in respect of the curtailment of rights to off-take gas from the NTS on plus 15 curtailment days in respect of formula year t.

(iii) (a)   In respect of formula years 1 and 2 and in each subsequent formula year until the first full formula year in which the licensee achieves universal firm registration the licensee shall use all reasonable endeavours to ensure that the weighted average charge payable by the licensee in respect of the curtailment of rights to off-take gas from NTS on plus 15 curtailment days in respect of formula year t $\left(\text{AExNTSIIC}_t\right)$ shall be equal to the value derived from the following formula:

$$\text{AExNTSIIC}_t = \frac{\text{ExNTSSIC}_t}{\left(\sum_{\text{all } z} \text{ExNTSC}_z{}^{\text{Jan15th}} \times 15\right)}$$

where:

ExNTSSIC_t means the total value accrued in respect of formula year t of charges foregone by the licensee as a result of NTS exit capacity curtailment rights and shall be derived in accordance with paragraph 14(6)(h) of Part 2 of this Special Condition;

$\text{ExNTSC}_z{}^{\text{Jan15th}}$ means the volume of NTS exit capacity registered in respect of supply point,

connected system exit point or storage connection point z in respect of which the licensee has NTS exit capacity curtailment rights on 15 January of formula year t; and

$$\sum_{all\ z}$$ means the sum across all supply points, connected system exit points and storage connection points of $ExNTSC_z^{Jan15th}$.

(e) **NTS incremental exit capacity revenue ($IExR_t$)**

For the purposes of paragraph 14(6)(d) of Part 2 of this Special Condition, the maximum NTS incremental exit capacity revenue in respect of formula year t ($IExR_t$) shall be derived in the following manner:

If

$$TExC_t \geq TExCO_t, \quad then:$$

$$IExR_t = \frac{RI_t}{RI_0} \times ExUCA \times (TExC_t - TExCO_t)$$

Otherwise:

$$IExR_t = 0$$

where:

$TExC_t$	means the actual NTS exit capacity in GWh/day in respect of formula year t and shall be derived from the following formula:

$$TExC_t = DMExC_t + NDMExC_t;$$

where:

$DMExC_t$	Means the NTS exit capacity in GWh/day for DM supply meter points, DM connected system exit points and storage connection points (having the meanings given to those terms in the licensee's Network Code) in respect of formula year t and shall be calculated in accordance with paragraph 14(6)(f) of Part 2 of this Special Condition; and
$NDMExC_t$	means the NTS exit capacity in GWh/day for NDM supply meter points and NDM connected system exit points (having the meanings given to those terms in the licensee's Network Code) in respect of formula year t and shall be calculated in accordance with paragraph 14(6)(g) of Part 2 of this Special Condition.

TExCO_t means the NTS exit capacity output measure in respect of formula year t as set out in the following table:

	Formula year				
	t=1	t=2	t=3	t=4	t≥5
TExCO_t GWh/day	7,715	7,930	8,091	8,239	8,355

RI_t means the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1;

RI_o means the arithmetic average of the retail price index published or determined with respect to each of the six months from April to September (both inclusive) in the year 1999; and

ExUCA means the exit unit cost multiplier and is derived from the following formula:

$$ExUCA = ExUCAG \times ExUCACONV$$

where:

ExUCAG means the exit capacity unit cost allowance and shall have the value 0.322 £m/GWh day; and

ExUCACONV means the exit capacity adjustment factor and shall be equal to 0.10772.

(f) **NTS exit capacity for DM supply meter points, DM connected system exit points and storage connection points ($DMExC_t$)**

For the purposes of paragraph 14(6)(e) of Part 2 of this Special Condition the NTS exit capacity for DM supply meter points, DM connected system exit points and storage connection points in respect of formula year t ($DMExC_t$) shall be derived from the following formula:

$$DMExC_t = \sum_{all\ s} DMExC_{s,t}$$

where:

$DMExC_{s,t}$ means the NTS exit capacity registered for supply meter point s in accordance with the licensee's Network Code or calculated in accordance with a

methodology approved by the Authority for connected system exit point or storage connection point s as at 15 January in formula year t where the off-take of gas at that supply meter point, connected system exit point or storage connection point is daily metered; and

$$\sum_{all\,s}$$

means the sum across all DM supply meter points, DM connected system exit points and storage connection points s of $DMExC_{s,t}$.

(g)   NTS exit capacity for NDM supply meter points and NDM connected system exit points $\left(\mathbf{NDMExC_t}\right)$

For the purposes of paragraph 14(6)(e) of Part 2 of this Special Condition, the NTS exit capacity for NDM supply meter points and NDM connected system exit points in respect of formula year t $\left(NDMExC_t\right)$ shall be derived from the following formula:

$$NDMExC_t = \frac{TNDMT_t}{LF}$$

where:

$TNDMT_t$

means the total volume of gas deemed to be transported from the NTS to NDM supply meter points and NDM connected system exit points in respect of formula year t in accordance with a methodology proposed by the licensee and approved by the Authority; and

LF   has a value equal to 128.71.

(h) The exit performance measure ($\mathbf{ExCP_t}$)

For the purposes of paragraphs 14(3) and 14(6)(a) of Part 2 of this Special Condition, the exit performance measure in respect of formula year t ($\mathrm{ExCP_t}$) shall be derived from the following formula:

$$\mathrm{ExCP_t = ExNTSIC_t + ExCC_t + RExCP_t}$$

where:

$\mathrm{ExNTSIC_t}$ means the total accrued value in respect of formula year t of payments made by the licensee or charges foregone by the licensee in respect of NTS exit capacity curtailment rights and shall be derived in the following manner:

    (i) In respect of formula years 1 and 2 and in each subsequent formula year until the first full formula year in which the licensee achieves universal firm registration $\mathrm{ExNTSIC_t}$ shall be derived from the following formula:

$$\mathrm{ExNTSIC_t = ExNTSSIC_t + ExNTSIIC_t}$$

    (ii) Otherwise $\mathrm{ExNTSIC_t}$ shall be the total accrued value of the charges foregone by the licensee or payments made by the licensee in respect of NTS exit capacity curtailment rights.

where:

ExNTSSIC_t means the payments made by the licensee or the total accrued value in respect of formula year t of charges foregone by the licensee as a result of NTS exit capacity curtailment rights which shall be derived from the following formula:

$$\text{ExNTSSIC}_t = \sum_{\text{all d}} \left(\sum_{\text{all z}} \text{ExC}_{z,d} \times \text{ExIPK}_{z,d} \right)$$

where:

$\sum\limits_{\text{all d}}$ means the sum across all days d in formula year t of $\text{ExC}_{z,d} \times \text{ExIPK}_{z,d}$;

$\sum\limits_{\text{all z}}$ means the sum across all supply points, connected system exit points and storage connection points z of $\text{ExC}_{z,d} \times \text{ExIPK}_{z,d}$; and

$\text{ExC}_{z,d}$ means the volume of NTS exit capacity in respect of day d and supply point, connected system

exit point or storage connection point z for which the licensee has NTS exit capacity curtailment rights; and

$ExIPK_{z,d}$ means the notional unpaid NTS exit capacity charge in respect of day d and supply point, connected system exit point or storage connection point z for a volume of NTS exit capacity equal to $ExC_{z,d}$ and shall be derived from the following formula:

$$ExIPK_{z,d} = ExUCC_{z,d} - ExFC_{z,d}$$

where:

$ExUCC_{z,d}$ means the NTS exit capacity charge per unit of capacity that would be payable in respect of day

d and supply point, connected system exit point or storage connection point z for a volume of NTS exit capacity equal to $\text{ExC}_{z,d}$ that was not subject to NTS exit capacity curtailment rights; and

$\text{ExFC}_{z,d}$ means the NTS exit capacity charge per unit of capacity that is otherwise payable in respect of day d and supply point, connected system exit point or storage connection point z in respect of $\text{ExC}_{z,d}$.

ExNTSIIC_t means in respect of formula year t the total payments made by the licensee in accordance with paragraph 14(6)(d)(iii)(a) of Part 2 of this Special Condition in respect of the curtailment of

rights to off-take gas from the NTS on plus 15 curtailment days less any payments from Distribution Network Operators in respect of curtailment of rights to off-take gas from their Distribution Network on plus 15 curtailment days and shall be derived from the following formula:

$$\mathrm{ExNTSIIC_t} = \sum_{\mathrm{all\,d}} \left(\sum_{\mathrm{all\,z}} \mathrm{ExNTSIIC_{z,d}} \right) - \mathrm{ExDNIIC_t}$$

where:

$\sum_{\mathrm{all\,d}}$ means the sum across all days d in formula year t of $\mathrm{ExNTSIIC_{z,d}}$;

$\sum_{\mathrm{all\,z}}$ means the sum across all supply points, connected system exit points and storage connection points z of $\mathrm{ExNTSIIC_{z,d}}$;

$\mathrm{ExNTSIIC_{z,d}}$ means the amount paid by the licensee in respect of the curtailment of rights to off-take gas from the NTS at supply point, connected

system exit point or storage connection point z on day d in respect of formula year t to the extent that such amount relates to a plus 15 curtailment day; and

$ExDNIIC_t$ means the amount paid by the Distribution Network Operators in respect of curtailment of rights to off-take gas from their Distribution Network on plus 15 curtailment days.

$ExCC_t$ shall have the meaning given to that term in paragraph 14(6)(a) of Part 2 of this Special Condition; and

$RExCP_t$ means in respect of formula year t depreciation and financing costs in respect of NTS incremental firm exit capacity as calculated in accordance with sub-paragraph 14(6)(b)(dd) of Part 2 of this Special Condition.

(i) **Statement of actual interruption**

(i) The licensee shall publish by 12:00 hours each day a statement setting out in respect of the NTS by each exit zone (having the meaning given to that term in the licensee's Network Code):

    (aa) the volumes of NTS exit capacity which were curtailed on the previous day; and

    (bb) in respect of sub-paragraph (aa) above it initiated such use of exit capacity curtailment rights for which of the following reasons: (i) for the purposes of managing capacity rights within the NTS, (ii) for the purposes of balancing the inputs of gas to and the off-takes of gas from the NTS, (iii) for a specified combination of the reasons (i) and (ii), or (iv) for such other reason as the licensee shall specify.

(ii) The licensee shall retain copies of each statement published pursuant to sub-paragraph 14(6)(i)(i) of Part 2 of this Special Condition for at least seven (7) years.

(7) Entry capacity buy-back incentive

(a) Principal formula

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum buy-back incentive revenue allowed to the licensee in respect of formula year t ($BBIR_t$) shall be derived in the following manner:

If $BBIT_t^L > BBCP_t$, then:

$$BBIR_t = MIN\left[BBUSF_t \times (BBIT_t^L - BBCP_t), BBCAP_t\right]$$

If $BBIT_t^U < BBCP_t$, then:

$$BBIR_t = MAX\left[BBDSF_t \times (BBIT_t^U - BBCP_t), BBCOL_t\right]$$

Otherwise:

$$BBIR_t = 0$$

where:

$BBIT_t^L$ means the lower buy-back incentive target in respect of formula year t as set out in the following table:

	Formula year		
Variable	**t=1**	**t=2**	**t≥3**
$BBIT_t^L$ £million	35	10	18

$BBCP_t$ means the entry capacity buy-back performance measure in respect of formula year t and shall be calculated in

accordance with paragraph 14(7)(b) of Part 2 of this Special Condition;

MIN(x,y)   means the value equal to the lesser of x and y;

$BBUSF_t$ is the buy-back upside sharing factor in respect of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
$BBUSF_t$	50%	50%

$BBCAP_t$ means the maximum buy-back incentive revenue in respect of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
$BBCAP_t$ £million	30	30

$BBIT_t^U$ means the upper buy-back incentive target in respect of formula year t as set out in the following table:

	Formula year		
Variable	t=1	t=2	t≥3
$BBIT_t^U$ £million	35	20	18

MAX(x,y)   means the value equal to the greater of x and y;

$BBDSF_t$ is the buy-back downside sharing factor in respect of formula year t as set out in the following table:

| | Formula year | |
Variable	t=1	t≥2
BBDSF$_t$	35%	35%

BBCOL$_t$ means the minimum buy-back incentive revenue in respect of formula year t as set out in the following table:

| | Formula year | |
Variable	t=1	t≥2
BBCOL$_t$ £million	-12.5	-12.5

(b) **The entry capacity buy-back performance measure (BBCP$_t$)**

For the purposes of paragraph 14(7)(a) of Part 2 of this Special Condition, the entry capacity buy-back performance measure in respect of formula year t $(BBCP_t)$ shall be derived in the following manner:

In formula year $(t \leq 2)$

$$BBCP_t = IECCC_t - DDCR_t - REVIC_t - REVIEC_t - RCOR_t$$

In formula year $(t \geq 3)$

$$BBCP_t = IECCC_t - DDCR_t - REVIC_t - REVIEC_t - RCOR_t - RLOC_t$$

where:

IECCC$_t$ means an amount equal to the costs incurred by the licensee in respect of formula year t in respect of entry capacity constraint management and shall be derived from the following formula:

$$IECCC_t = \sum_{all\,d} BBC_{d,t} + \sum_{all\,d} ECCC_{d,t}$$

90

where:

d   means a day in formula year t;

$\sum_{all\ d}$ means the sum across all days d in formula year t of $BBC_{d,t}$ or $ECCC_{d,t}$;

$BBC_{d,t}$ means the costs incurred by the licensee in the curtailment of capacity rights to put gas into the transportation system in respect of day d of formula year t (including costs incurred in respect of any acquisitions from gas shippers of capacity rights); and

$ECCC_{d,t}$ Means in formula year $(t \leq 2)$ the costs incurred by the licensee in respect of any payments made by the licensee to gas shippers in exchange for agreeing to off-take gas from the NTS at the licensee's request on day d in respect of formula year t and in respect of any costs incurred by the licensee undertaking any other commercial or physical action to manage entry capacity excluding those covered by $BBC_{d,t}$; and

means in formula year $(t \geq 3)$ the costs incurred by the licensee in respect of any payments made by the licensee to gas shippers in exchange for agreeing to offtake gas from the NTS at the licensee's request on day d in respect of formula year t and in respect of any costs incurred by the licensee undertaking any other

commercial or physical action to manage entry capacity excluding those covered by $\text{BBC}_{d,t}$ including any locational buy actions.

DDCR_t means the revenue derived by the licensee in respect of on-the-day sales of obligated entry capacity in respect of formula year t and shall be derived from the following formula:

$$\text{DDCR}_t = \text{DREVBEC}_t + \text{DREVOIEC}_t$$

where:

DREVBEC_t shall have the meaning given to that term in paragraph 14(5)(l)(i) of Part 2 of this Special Condition; and

DREVOIEC_t shall have the meaning given to that term in paragraph 14(5)(l)(ii) of Part 2 of this Special Condition;

REVIC_t shall have the meaning given to that term in paragraph 13(2) of Part 2 of this Special Condition;

REVIEC_t shall have the meaning given to that term in paragraph 14(5)(k)(iii) of Part 2 of this Special Condition; and

RCOR_t shall have the meaning given to that term in paragraph 13(3) of Part 2 of this Special Condition.

RLOC_t means the revenue derived by the licensee in respect of formula year t in respect of locational sell actions and physical renomination incentive charges (having the

meaning given to that term in the licensee's Network Code) and shall be derived from the following formula:

$$RLOC_t = \sum_{all\,d} RLSA_{d,t} + \sum_{all\,d} RPIC_{d,t}$$

$RLSA_{d,t}$ means the revenue derived by the Licensee in respect of locational sell actions in respect of day d of formula year t; and

$RPIC_{d,t}$ means the revenue derived by the licensee in respect of a physical renomination incentive charge (having the meaning given to that term in the licensee's Network Code) in respect of day d of formula year t.

(8) System balancing incentive

(a) Principal formula

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum total system balancing incentive revenue allowed to the licensee in respect of formula year t $(SBIR_t)$ shall be derived in the following manner:

$$SBIR_t = GCIR_t + SRIR_t$$

where:

$GCIR_t$ means the maximum gas cost incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with paragraph 14(8)(b) of Part 2 of this Special Condition; and

$SRIR_t$ means the maximum system reserve incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with paragraph 14(8)(c) of Part 2 of this Special Condition.

(b)   The maximum gas cost incentive revenue ($GCIR_t$)

For the purposes of paragraph 14(8)(a) of Part 2 of this Special Condition, the maximum gas cost incentive revenue allowed to the licensee in respect of formula year t $(GCIR_t)$ shall be derived in the following manner:

If $GCIT_t \geq GCCP_t$, then:

$$GCIR_t = MIN[GCUSF_t \times (GCIT_t - GCCP_t), GCCAP_t]$$

Otherwise:

$$GCIR_t = MAX[GCDSF_t \times (GCIT_t - GCCP_t), GCCOL_t]$$

where:

$GCIT_t$ means the NTS SO gas cost incentive target in respect of formula year t and shall be calculated in accordance with

paragraph 14(8)(d) of Part 2 of this Special Condition;

$GCCP_t$ means the NTS SO gas cost incentive performance measure in respect of formula year t and shall be calculated in accordance with paragraph 14(8)(g) of Part 2 of this Special Condition;

MIN (x,y)   is the value which is the lesser of x and y;

$GCUSF_t$ means the gas cost upside sharing factor in respect of formula year t as set out in the following table:

	Formula year	
Variable	**t=1**	**t≥2**
$GCUSF_t$	25%	25%

$GCCAP_t$ means the maximum gas cost incentive revenue in respect of formula year t as set out in the following table:

	Formula year	
Variable	**t=1**	**t≥2**
$GCCAP_t$ £million	4	4

MAX(x,y)   is the value which is the greater of x and y;

$GCDSF_t$ means the gas cost downside sharing factor in respect of formula year t as set out in the following table:

	Formula year	
Variable	**t=1**	**t≥2**
$GCDSF_t$	20%	20%

$GCCOL_t$ means the minimum gas cost incentive revenue in respect of formula year t as set out in the following table:

	Formula year	
Variable	**t=1**	**t≥2**
$GCCOL_t$ £million	-3	-3

(c) The maximum system reserve incentive revenue ($SRIR_t$)

For the purposes of paragraph 14(8)(a) of Part 2 of this Special Condition, the maximum system reserve incentive revenue allowed to the licensee in respect of formula year t $(SRIR_t)$ shall be derived in the following manner:

If $SRIT_t \geq SRCP_t$, then:

$$SRIR_t = SRUSF_t \times (SRIT_t - SRCP_t)$$

Otherwise:

$$SRIR_t = SRDSF_t \times (SRIT_t - SRCP_t)$$

where:

$SRIT_t$ means the system reserve incentive target in respect of formula year t as set out in the following table:

	Formula year	
Variable	**t=1**	**t≥2**
$SRIT_t$ £million	16.8	16.6

$SRCP_t$ means the system reserve performance measure in respect of formula year t and shall be the total payments made by the licensee in respect of costs incurred by the licensee in respect of storage capacity or LNG Importation capacity that has been paid for or gas delivery service fee that has

been paid for the purposes of satisfying operating margins requirements (having the meaning given to that term in the licensee's Network Code);

SRUSF$_t$ means the system reserve upside sharing factor in respect of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
SRUSF$_t$	100%	100%

SRDSF$_t$ means the system reserve downside sharing factor in respect of formula year t as set out in the following the following table:

	Formula year	
Variable	t=1	t≥2
SRDSF$_t$	100%	100%

(d)   The NTS SO gas cost incentive target ($GCIT_t$)

For the purposes of paragraph 14(8)(b) of Part 2 of this Special Condition, the NTS SO gas cost incentive target in respect of formula year t ($GCIT_t$) shall be derived from the following formula:

$$GCIT_t = (GCRP_t \times GVTP_t \times 10,000) + ECT_t$$

where:

GCRP$_t$ means the NTS SO gas cost reference price in respect of formula year t and shall be calculated in accordance with paragraph 14(8)(e) of Part 2 of this Special Condition;

$GVTP_t$ means the NTS SO gas target volumes in respect of formula year t as set out in the following table:

	Formula Year				
	t=1	t=2	t=3	t=4	t≥5
$GVTP_t$ GWh/year	8,265	8,618	8,929	8,976	9,161

ECT_t means the target electric compression costs in respect of formula year t as set out in the following table:

	Formula Year				
	t=1	t=2	T=3	t=4	t≥5
ECT_t £million	0.5	0.5	0.5	0.5	0.5

(e) **The NTS SO gas cost reference price ($GCRP_t$)**

For the purposes of paragraph 14(8)(d) of Part 2 of this Special Condition, the NTS SO gas cost reference price in respect of formula year t $(GCRP_t)$ shall be derived in the following manner:

(i) In respect of formula years 1 and 2, $GCRP_t$ shall have the values set out in the following table:

	Formula year	
Variable	**t=1**	**t=2**
$GCRP_t$ pence per kWh	0.702	0.712

In respect of all subsequent formula years, $GCRP_t$ shall be derived from the following formula:

$$GCRP_t = \frac{\sum_{all\,q} \sum_{all\,d} \left[NTST_{t-2,q,d} \times FQRP_{t,q} \right]}{\sum_{all\,q} \sum_{all\,d} NTST_{t-2,q,d}} + 0.055\,p/kWh$$

where:

q Means each quarter in formula year t where a quarter is a continuous period of three calendar months and where q=1 covers the days between 1 April and 30 June inclusive;

$\sum_{all\,q}$ means the sum across all quarters q in formula year t of $\sum_{all\,d}\left(NTST_{t-2,q,d}\times FQRP_{t,q}\right)$ or $\sum_{all\,d}NTST_{t-2,q,d}$ as the case may be;

$\sum_{all\,d}$ means the sum of across all days in quarter q of $\left(NTST_{t-2,q,d}\times FQRP_{t,q}\right)$ or $NTST_{t-2,q,d}$ as the case may be;

$NTST_{t-2,q,d}$ shall be calculated from the following formula:

$$NTST_{t-2,q,d}=$$

$$UDQI_{t-2,q,d}+\sum_{all\,S}Max\left[UDQI^{S}_{t-2,q,d}-UDQO^{S}_{t-2,q,d},0\right]$$

where

$UDQI_{t-2,q,d}$ means the sum of gas shippers' user daily quantity inputs (having the meaning given to that term in the licensee's Network Code) at the terminals at each of Bacton, Barrow, Easington, St Fergus, Teeside and Theddlethorpe on day d of quarter q of formula year t-2;

$UDQI^{S}_{t-2,q,d}$ means the sum of gas shippers' user daily quantity input (having the meaning given to that term in the licensee's Network Code) in

99

respect of storage connection point S on day d of quarter q of formula year t-2;

$UDQO^S_{t-2,q,d}$ means the sum of gas shippers' user daily quantity outputs (having the meaning given to that term in the licensee's Network Code) in respect of storage connection point S on day d of quarter q of formula year t-2; and

$\sum_{\text{all S}}$ means the sum over all storage connection points.

$FQRP_{t,q}$ means the forward quarterly reference price in respect of quarter q of formula year t and shall be derived from the following formula:

$$FQRP_{t,q} = \frac{\sum_{d=a}^{b} FP_{t,q,d}}{n}$$

where:

a   In respect of formula years $(t \leq 3)$ means 1 March in formula year $(t\text{-}1)$ and in respect of formula years $(t \geq 4)$ 1 April in formula year $(t\text{-}1)$;

b   In respect of formula years $(t \leq 3)$ means 20 March in formula year $(t\text{-}1)$ and in respect of formula years $(t \geq 4)$

$$\sum_{d=a}^{b}$$

means the sum of all business days d between day a and day b (both inclusive);

$FP_{t,q,d}$

means the forward price quoted in an approved published price reporting service on day d for a gas contract for delivery at the national balancing point (having the meaning given to that term in the published price reporting service approved in accordance with sub-paragraph (iii) below) in respect of quarter q of formula year t, measured in p/kWh; and

n

means the number of business days between a and b inclusive.

For the purposes of this paragraph, a published price reporting service will be proposed by the licensee prior to 1 March in each formula year t. If after 30 days from the receipt of such a proposal the Authority has not disallowed the proposal, the proposed published price reporting service will be deemed to be approved.

(f)   **The NTS SO system balancing costs ($SBIC_t$)**

For the purposes of paragraph 14(3) of Part 2 of this Special Condition, the NTS SO system balancing costs in respect of formula year t ($SBIC_t$) shall be derived from the following formula:

$$SBIC_t = GCCP_t + SRCP_t$$

where:

GCCP$_t$ means the NTS SO gas cost performance measure and shall be calculated in accordance with paragraph 14(8)(g) of Part 2 of this Special Condition; and

SRCP$_t$ shall have the meaning given to that term in paragraph 14(8)(c) of Part 2 of this Special Condition.

(g)   The NTS SO gas cost performance measure ($GCCP_t$)

For the purposes of paragraph 14(8)(b) of Part 2 of this Special Condition, the NTS SO gas cost performance measure in respect of formula year t ($GCCP_t$) shall be derived from the following formula:

$$GCCP_t = GC_t + ECC_t$$

where:

GC$_t$ means the payments made by the licensee in respect of the total costs incurred by the licensee in respect of formula year t in the provision of NTS Shrinkage other than ECC_t; and

ECC$_t$ means the payments made by the licensee in respect of the total costs incurred by the licensee in respect of formula year t in procuring and purchasing fuel for the purposes of operating electric compressors on the NTS.

(9) Residual gas balancing incentive

(a) Principal formula

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum residual gas balancing incentive revenue allowed to the licensee in respect of formula year t ($RBIR_t$) shall be derived from the following formula:

$$RBIR_t = MIN[RBCAP_t, MAX[STIP_t, RBCOL]]$$

where:

MIN (x, y) means the value equal to the lesser of x and y;

$RBCAP_t$ means the maximum residual gas balancing incentive revenue in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
$RBCAP_t$ £million	3.5	3.5

MAX (x, y) means the value equal to the greater of x and y;

$STIP_t$ means the sum of the total daily incentive payments under the residual gas balancing incentive in respect of formula year t and shall be calculated in accordance with paragraph 14(9)(b) of Part 2 of this Special Condition; and

RBCOL$_t$ means the minimum residual gas balancing incentive revenue in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
RBCOL$_t$ £million	-3.5	-3.5

(b) The sum of the total daily incentive payments under the residual gas balancing incentive (STIP$_t$)

For the purposes of paragraph 14(9)(a) of Part 2 of this Special Condition, the sum of the total daily incentive payments under the residual gas balancing incentive in respect of formula year t $(STIP_t)$ shall be derived from the following formula:

$$STIP_t = SDPIP_t + SDLIP_t$$

where:

SDPIP$_t$ means the sum of daily price incentive payments and shall be calculated in accordance with paragraph 14(9)(c) of Part 2 of this Special Condition; and

SDLIP$_t$ means the sum of daily linepack incentive payments and shall be calculated in accordance with paragraph 14(9)(d) of Part 2 of this Special Condition.

(c) The sum of daily price incentive payments (SDPIP$_t$)

For the purposes of paragraph 14(9)(b) of Part 2 of this Special Condition, the sum of the daily price incentive payments in respect of formula year t $(SDPIP_t)$ shall be derived from the following formula:

$$SDPIP_t = \sum_{all\,d} DPIP_{d,t}$$

where:

$\sum_{all\,d}$ means the sum across all days d in formula year t of $DPIP_{d,t}$; and

$DPIP_{d,t}$ means the daily price incentive payment and shall be calculated in accordance with paragraph 14(9)(e) of Part 2 of this Special Condition.

(d) **The sum of daily linepack incentive payments ($SDLIP_t$)**

For the purposes of paragraph 14(9)(b) of Part 2 of this Special Condition, the sum of daily linepack incentive payments in respect of formula year t $(SDLIP_t)$ shall be derived from the following formula:

$$SDLIP_t = \sum_{all\,d} DLIP_{d,t}$$

where:

$\sum_{all\,d}$ means the sum across all days d in formula year t of $DPIP_{d,t}$; and

$DLIP_{d,t}$ means the sum of daily linepack incentive payment and shall be calculated in accordance with paragraph 14(9)(g) of Part 2 of this Special Condition.

(e) **The daily price incentive payment ($DPIP_{d,t}$)**

For the purposes of paragraph 14(9)(c) of Part 2 of this Special Condition, the daily price incentive payment in respect of day d of formula year t $(DPIP_{d,t})$ shall be derived in the following manner:

If $PPM_{d,t} < PIR_t$, then:

$$DPIP_{d,t} = DPMCAP_t \times \frac{(PIR_t - MAX\,(PPM_{d,t}, PIMUL_t))}{(PIR_t - PIMUL_t)}$$

Otherwise:

$$DPIP_{d,t} = DPMCOL_t \times \frac{(PIR_t - MIN\,(PPM_{d,t}, PIMLL_t))}{(PIR_t - PIMLL_t)}$$

where:

$PPM_{d,t}$ means the daily residual balancing price performance measure and shall be calculated in accordance with paragraph 14(9)(f) of Part 2 of this Special Condition;

PIR_t means the price incentive reference measure in respect of formula year t as set out in the following table:

	Formula years	
Variable	**t=1**	**t≥2**
PIR_t	10%	10%

$DPMCAP_t$ means the daily price incentive cap in respect of formula year t as set out in the following table:

	Formula years	
Variable	**t=1**	**t≥2**
$DPMCAP_t$ £	5,000	5,000

MAX (x,y)   is the value equal to the greater of x and y;

$PIMUL_t$ means the price incentive measure upper limit in respect of formula year t as set out in the following table:

	Formula years	
Variable	**t=1**	**t≥2**
PIMUL$_t$	0%	0%

DPMCOL$_t$ means the daily price measure incentive collar in respect of formula year t as set out in the following table:

	Formula years	
Variable	**t=1**	**t≥2**
DPMCOL$_t$ £	-30,000	-30,000

MIN (x,y) is the value equal to the lesser of x and y; and

PIMLL$_t$ means the price incentive measure lower limit in respect of formula year t as set out in the following table:

	Formula years	
Variable	**t=1**	**t≥2**
PIMLL$_t$	85%	85%

(f) The daily residual balancing price performance measure ($PPM_{d,t}$)

For the purposes of paragraph 14(9)(e) of Part 2 of this Special Condition, the licensee's daily residual balancing price performance measure in respect of day d in formula year t $(PPM_{d,t})$ shall be derived from the following formula:

In formula year $t \leq 2$

$$PPM_{d,t} = \frac{1}{2} \times \left(\frac{(TMIBP_{d,t} - TMISP_{d,t})}{SAP_{d,t}} \right) \times 100$$

In formula year t≥3

$$PPM_{d,t} = \left(\frac{\left(TMIBP_{d,t} - TMISP_{d,t} \right)}{SAP_{d,t}} \right) \times 100$$

where:

$TMIBP_{d,t}$ means in formula year $(t \le 2)$ the price in pence per kilowatt hour which is equal to the highest market offer price (having the meaning given to that term in the licensee's Network Code) in relation to a eligible balancing action (having the meaning given to that term in the licensee's Network Code) taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case $TMIBP_{d,t}$ will equal $SAP_{d,t}$; and

                       means in formula year $(t \ge 3)$ the price in pence per kilowatt hour which is equal to the highest market offer price (having the meaning given to that term in the licensee's Network Code) in relation to a eligible balancing action (having the meaning given to that term in the licensee's Network Code) excluding any locational actions taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case $TMIBP_{d,t}$ will equal $SAP_{d,t}$;

$TMISP_{d,t}$ means in formula year $(t \le 2)$ the price in pence per kilowatt hour which is equal to the lowest market offer price (having the meaning given to that term in the licensee's Network Code) in relation to a eligible balancing action (having the meaning given to that term in the licensee's Network Code) taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case $TMISP_{d,t}$ will equal $SAP_{d,t}$;

and

means in formula year $(t \geq 3)$ the price in pence per kilowatt hour which is equal to the lowest market offer price (having the meaning given to that term in the licensee's Network Code) in relation to a eligible balancing action (having the meaning given to that term in the licensee's Network Code) excluding any locational actions taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case $TMISP_{d,t}$ will equal $SAP_{d,t}$;

$SAP_{d,t}$ means the system average price (having the meaning given to that term in the licensee's Network Code) in respect of day d of formula year t

(g)   The daily linepack incentive payment ($DLIP_{d,t}$)

For the purposes of paragraph 14(9)(d) of Part 2 of this Special Condition, the daily linepack incentive payment in respect of day d of formula year t $(DLIP_{d,t})$ shall be derived from the following formula:

If $LPM_{d,t} < LIR_t$, then:

$$DLIP_{d,t} = DLMCAP_t \times \frac{(LIR_t - MAX[LPM_{d,t}, LIMUL_t])}{(LIR_t - LIMUL_t)}$$

Otherwise:

$$DLIP_{d,t} = DLMCOL_t \times \frac{(LIR_t - MIN[LPM_{d,t}, LIMLL_t])}{(LIR_t - LIMLL_t)}$$

where:

LPM$_{d,t}$ means the linepack performance measure in respect of day
d of formula year t and shall be calculated in accordance
with paragraph 14(9)(h) of Part 2 of this Special Condition;

LIR$_t$ means the linepack incentive reference measure in respect
of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
LIR$_t$	2.4 mcm	2.4 mcm

DLMCAP$_t$ means the daily linepack maximum incentive cap in respect
of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
DLMCAP$_t$ £	5,000	5,000

MAX (x,y)   is the value equal to the greater of x and y;

LIMUL$_t$ means the linepack incentive measure upper limit, in
respect of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
LIMUL$_t$	0 mcm	0 mcm

DLMCOL$_t$ means the daily linepack measure incentive collar, in
respect of formula year t as set out in the following table:

	Formula year	
Variable	**t=1**	**t≥2**
DLMCOL$_t$ £	-30,000	-30,000

MIN (x,y)   is the value equal to the lesser of x and y; and

LIMLL$_t$ means the linepack incentive measure lower limit in respect of formula year t as set out in the following table:

	Formula year	
Variable	**t=1**	**t≥2**
LIMLL$_t$	20.4 mcm	20.4 mcm

(h)   The linepack performance measure $\left(\text{LPM}_{d,t}\right)$

For the purposes of paragraph 14(9)(g) of Part 2 of this Special Condition, the linepack performance measure, in respect of day d of formula year t $\left(\text{LPM}_{d,t}\right)$ shall be derived from the following formula:

$$\text{LPM}_{d,t} = \text{MAX}\left[\left(\text{OLP}_{d,t} - \text{CLP}_{d,t}\right),\left(\text{CLP}_{d,t} - \text{OLP}_{d,t}\right)\right]$$

where:

MAX (x,y)   is the value equal to the greater of x and y;

OLP$_{d,t}$ means the total NTS linepack in respect of day d of formula year t as at 06:00 hours on day d;

CLP$_{d,t}$ means the NTS linepack in respect of day d of formula year t as at 06:00 hours on day d+1; and

NTS   means the volume of gas within the NTS as calculated by the licensee in accordance with the methodology proposed

linepack   by the licensee for that purpose from time to time and approved by the Authority.

(10) Internal cost incentive scheme

(a) Principal formula

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum internal costs incentive revenue allowed to the licensee in respect of formula year t (ICIR_t) shall be derived in the following manner:

If $\dfrac{\text{RI}_t}{\text{RI}_0} \times \text{ICIT}_t \geq \text{ICCP}_t$, then:

$$\text{ICIR}_t = \text{ICUSF}_t \times \left(\frac{\text{RI}_t}{\text{RI}_0} \times \text{ICIT}_t - \text{ICCP}_t \right)$$

Otherwise:

$$\text{ICIR}_t = \text{ICDSF}_t \times \left(\frac{\text{RI}_t}{\text{RI}_0} \times \text{ICIT}_t - \text{ICCP}_t \right);$$

where:

ICIT_t means the internal cost incentive target in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t≥5
ICIT_t £ million	29.9	28.2	28.1	28.0	26.6

112

$ICCP_t$ means the internal cost performance measure in respect of formula year t and shall be calculated in accordance with paragraph 14(10)(b) of Part 2 of this Special Condition;

$ICUSF_t$ means the internal cost upside sharing factor in respect of formula year t as set out in the following table:

	Formula years	
Variable	t=1	t≥2
$ICUSF_t$	40%	40%

RI_t shall have the meaning given to that term in paragraph 14(5)(a) in Part 2 of this Special Condition;

RI_0 shall have the meaning given to that term in paragraph 14(5)(a) in Part 2 of this Special Condition; and

$ICDSF_t$ means the internal cost downside sharing factor in respect of formula year t as set out in the following table:

	Formula years	
Variable	t=1	t≥2
$ICDSF_t$	35%	35%

(b)   The internal cost performance measure ($ICCP_t$)

For the purposes of paragraph 14(10)(a) of Part 2 of this Special Condition, the internal cost performance measure in respect of formula year t $(ICCP_t)$ shall be derived from the following formula:

$$ICCP_t = SOOC_t + SODCP_t + SORCP_t$$

where:

$SOOC_t$ means the operating costs incurred in respect of formula year t attributable to the provision of NTS SO activity in accordance with Special Condition 29 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) other than $ExCP_t$, $IECCC_t$, $CNIC_t$, $SBIC_t$ and $RBIC_t$;

$SODCP_t$ means the depreciation on the NTS SO regulatory asset base in respect of formula year t calculated on a straight-line basis in accordance with Special Condition 29 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity);

$SORCP_t$ means the return on the NTS SO regulatory asset base in respect of formula year t at a rate of 6.25%; and

NTS SO regulatory asset base means the allocation of assets to the NTS SO activity in accordance with Special Condition 29 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity).

(11) Determination of any adjustment factor to be applied to $SOMR_t$ ($SORA_t$)

(a) An income adjusting event is any event or circumstance:

(i) constituting force majeure under the licensee's Network Code;

(ii) resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the licensee's Network Code);

(iii) where the revenues derived by the licensee from the sale of obligated entry capacity pursuant to paragraph 14(5)(c)(iii) are less than the revenues that would have been derived from the original sale of that capacity had the original purchaser of the capacity not been served with a termination notice (having the meaning given to that term in the licensee's Network Code) and in respect of this sub-paragraph only, the threshold specified in paragraphs 14(11)(c)(ii), (d)(ii) and (g)(ii) shall not apply; and

(iv) that is, in the opinion of the Authority, an income adjusting event and approved by it as such.

(b) The Authority's approval of an income adjusting event shall be in writing and shall be in the public domain and the Authority may revoke this approval with the consent of the licensee.

(c) Where it appears to the licensee that there have been in respect of formula year t costs and/or expenses which:

(i) have been caused or saved by an income adjusting event; and

(ii) have, in respect of formula year t, increased or decreased by more than £2,000,000 the value of $SOIC_t$ (having the meaning given to that term in paragraph 14(3) of Part 2 of this Special Condition) (for the avoidance of doubt, in the case of paragraph 14(11)(a)(iii) only the threshold of £2,000,000 shall not apply),

then the licensee shall give notice thereof to the Authority.

(d) Where it appears to any gas shipper or Distribution Network Operator that there have been in respect of formula year t costs and/or expenses which:

(i) have been caused or saved by an income adjusting event; and

(ii) have, in respect of formula year t, increased or decreased by more than £2,000,000 the value of SOIC_t (having the meaning given to that term in paragraph 14(3) of Part 2 of this Special Condition) (for the avoidance of doubt, in the case of paragraph 14(11)(a)(iii) only the threshold of £2,000,000 shall not apply),

then that gas shipper or Distribution Network Operator may give notice thereof to the Authority.

(e) The notice provided for in paragraphs 14(11)(a) and 14(11)(b) of Part 2 of this Special Condition shall give particulars of:

(i) the income adjusting event to which the notice relates;

(ii) the amount of any change in costs and/or expenses which appear to the person giving the notice to have been caused or saved by the event and the method of calculating such costs and/or expenses; and

(iii) the amount of any allowed income adjustment proposed as a consequence of that income adjusting event.

(f) A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and may not be given more than 3 months after the end of the relevant formula year in which it occurs.

(g) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):

(i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 14(11)(c) or 14(11)(d) of Part 2 of this Special Condition are caused or saved by an income adjusting event;

(ii) whether the amount specified for the purpose of paragraph 14(11)(e)(iii) of Part 2 of this Special Condition has increased or

decreased the value of $SOIC_t$ by more than £2,000,000 (for the avoidance of doubt, in the case of paragraph 14(11)(a)(iii) only the threshold of £2,000,000 shall not apply); and

(iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.

(h) In respect of formula year t, the approved allowance in respect of an income adjustment $(SORA_t)$ shall be:

(i) the value determined by the Authority under paragraph 14(11)(g) of Part 2 of this Special Condition;

(ii) if the Authority has not made a determination in accordance with paragraph 14(11)(a) of Part 2 of this Special Condition within 3 months of the date of the notice under paragraph 14(11)(c) or 14(11)(d) of Part 2 of this Special Condition, the respective values given to them in that notice; or

(iii) in any other case, zero.

15. Reporting obligations

(1) Where the licensee publishes any statement or revised or amended statement as to its NTS SO transportation charges under Standard Special Condition A4 (Charging - General), the licensee shall not later than twenty-eight days prior to the time of such publication provide the Authority with:-

(a) a written forecast of maximum NTS system operation revenue, together with its components, in respect of the formula year in which the change in such

charges is to take effect and also in respect of the next following formula year; and

(b)   a written estimate of the maximum NTS system operation revenue, together with its components, in respect of the formula year immediately preceding the formula year in which the change in such charges is to take effect unless a statement complying with paragraph 15(4) of Part 2 of this Special Condition in respect of that first mentioned formula year has been furnished to the Authority before the publication of the proposed change in such charges.

(2)   If, within three months of the commencement of any formula year, the licensee has not published or effected any such change in its NTS SO transportation charges, the licensee shall provide the Authority with a written forecast of the maximum NTS system operation revenue, together with its components, in respect of that formula year.

(3)   Any forecasts as aforesaid shall be accompanied by such information as may be necessary to enable the Authority to be reasonably satisfied that the forecasts have been properly prepared on a consistent basis.

(4)   Not later than six weeks after the commencement of a formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion, paragraphs 12(1) to 12(3) inclusive of Part 2 of this Special Condition above apply in respect of that formula year and its best estimate of what SOK_t (as defined in paragraph 14(4) of Part 2 of this Special Condition) is likely to be in that formula year.

(5)   The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement showing the NTS system operation revenue in respect of that formula year that shall be certified by a Director of the licensee on behalf of the licensee stating that the information is correct to the best of his knowledge and belief having made all reasonable enquiries.

(6)   The statement referred to in sub-paragraph (5) above shall be accompanied by a report from the appropriate auditors that, in their opinion, that statement fairly presents the NTS system operation revenue in accordance with the requirements of this Special Condition.

16.   Disapplication of the NTS SO activity revenue restriction

(1)   The NTS SO activity revenue restriction conditions shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 16(2)to 16(7) of Part 2 of this Special Condition.

(2)   The NTS SO revenue restrictions conditions shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 16(3) of Part 2 of this Special Condition or notice is given to the Authority by the licensee in accordance with either paragraph 16(6) or paragraph 16(7) of Part 2 of this Special Condition.

(3)   A disapplication request shall

   (i)   be in writing addressed to the Authority;

   (ii)   specify NTS SO revenue restriction conditions (or any part or parts thereof) to which the request relates; and

   (iii)   state the date (being not earlier than the date referred to in paragraph 16(5) of Part 2 of this Special Condition) from which the licensee wishes the Authority to agree that those conditions shall cease to have effect.

(4)   The licensee may withdraw a disapplication request at any time.

(5)   No disapplication following delivery of a disapplication request pursuant to paragraph 16 of Part 2 of this Special Condition shall have effect until a date being the earlier of:

(i)   not less than 18 months after delivery of the disapplication request; and

(ii)   31 March 2004 in the case of a disapplication request which relates to the following parts of the NTS SO revenue restriction set out in Part 2 of Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity):

    (aa) STR_m^j having the meaning given to that term in paragraph 14(5)(g);

    (bb) $ExUSF_t, ExDSF_t, EXCAP, ExCOL_t$ having the meanings given to those terms in paragraph 14(6)(a);

    (cc)   paragraph 14(7);

    (dd)   paragraph 14(9); and

    (ee) $ICUSF_t$ and $ICDSF_t$ having the meanings given to those terms in paragraph 14(10)(a); and

(iii)   31 March 2007 in the case of a disapplication request relating to any other Part of the NTS SO revenue restriction.

(6)   If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of Part 2 of this Special Condition or the part of parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date, and the licensee has not withdrawn the disapplication request the licensee may deliver written notice to the Authority terminating the application of Part 2 of this Special Condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.

(7)   If the Competition Commission makes a report on a reference made by the Authority relating to the modification of Part 2 of this Special Condition or the part or parts thereof specified in the disapplication request and such report does

not include a conclusion that the cessation of such charge restrictions, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to him written notice terminating the application of Part 2 of this Special Condition or the part or parts thereof with effect from the disapplication date or later.