

Special Condition E3: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network

1. Unless the Authority otherwise directs any allocation or attribution of revenues, costs, assets and liabilities performed by the licensee in order to calculate any of the values referred to in Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) shall conform to the following principles:

- (a) The licensee shall in so far as is reasonably practicable allocate or attribute revenues, costs, assets and liabilities in accordance with the activities which cause the revenues to be earned, costs to be incurred, the assets to be acquired or the liabilities to be incurred.
- (b) The licensee shall perform allocations and attributions:
 - (i) on an objective basis; and
 - (ii) in a manner calculated not to unduly benefit the licensee (and/or any other business held by Transco plc or its affiliates or related undertakings under a separate licence) or any other company or organisation.
- (c) The licensee shall perform, wherever practicable, all allocations and attributions on a consistent basis from one formula year to the next.

2. The licensee will allocate or attribute all revenue earned and costs incurred by the transportation business to the following activities:

- (a) the Distribution Network transportation activity;
- (b) the metering activities; or
- (c) excluded services in accordance with the principles set out in Special Condition E4 (Supplementary provisions of the revenue restrictions in respect of the Distribution Network).

3. The licensee shall on or before 1 October 2002 or such later date as the Authority may direct and thereafter before 1 July in each subsequent formula year (or such longer period as the Authority may approve) prepare and submit to the Authority a statement in a form approved by the Authority setting out (consistently with the licensee's duty under paragraph 1 and 2 of this condition and consistently with its other duties under the Act, and the standard, Standard Special and Special Conditions) the methods it intends to use in the allocation and attribution of revenues and costs. As a minimum, the statement shall distinguish from each other the allocation or attribution of, revenues, costs, assets and liabilities to each of the activities listed in paragraph 2 of this condition and where such allocations and attributions have changed from one year to the next, the licensee shall indicate how and why such basis has been changed.

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4. The licensee shall re-allocate or re-attribute revenues earned by the licensee and costs incurred by the licensee to the activities undertaken by the licensee listed in paragraph 2 of this condition in accordance with any direction made in writing by the Authority within three months of receipt of the statement prepared pursuant to paragraph 3 of this condition so as to bring such re-allocation or attribution into compliance with paragraph 1 of this condition.

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5. (a) The licensee shall no later than three months after the end of each formula year prepare and submit to the Authority a report on the manner in which and the extent to which the licensee has, during that formula year, complied with the statement prepared pursuant to paragraph 3 of this condition as modified pursuant to paragraph 4 of this condition and whether any modification should be made to that statement to reflect more closely the practice of the licensee.

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(b) The report shall be accompanied by 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, and giving their opinion as to the extent to which the licensee has properly prepared the report submitted pursuant to paragraph 5(a) in accordance with paragraphs 3 and 4 of this condition.

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6. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraphs 3 and 4 of this condition.

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7. To the extent the licensee earns revenues or incurs costs in the provision of de minimis activities in accordance with ~~Standard Special Condition A36~~ (Restriction on Activity and Financial Ring-fencing), the licensee shall report on these revenues and costs in accordance with this ~~condition~~.

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8. In this ~~condition~~:

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transportation business means any activity or engagement undertaken by the licensee or any affiliate or related undertaking of the licensee related to the operation, planning, expansion and maintenance of its transportation system and shall include the Distribution Network transportation activity, the metering and meter reading activity and excluded services;

Distribution Network transportation activity shall have the meaning given to that term in Special Condition ~~E2A~~ (Revenue restriction definitions in respect of the Distribution Network)

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metering activities shall have the meaning given to that term in Special Condition ~~A46~~ (Non-discrimination in the provision of metering activities);

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excluded services means any activity or engagement undertaken by the licensee or any affiliate or related undertaking of the licensee that has been determined by the Authority to be an excluded service in line with the principles outlined in Special Condition ~~E4~~ (Supplementary provisions of the revenue restrictions in respect of the Distribution Network).

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Special Condition E4: Supplementary provisions of the revenue restrictions in respect of the Distribution Network

1. There may be treated as excluded services services provided by the licensee in the provision of its Distribution Network transportation activity in respect of which charges are made which:

(a) do not fall within Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity); and

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(b) may be determined by the licensee as falling under one of the principles set out in paragraphs 2 to 4 of this condition.

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2. No service provided by the licensee as part of its Distribution Network transportation activity shall be treated as an excluded service in so far as it relates to the provision of services remunerated through charges levied pursuant to paragraph 7 of Part 1 b of Special Condition 28B (Restriction of revenue in respect of the Distribution Network transportation activity).

3. The whole or an appropriate proportion of the charges received for the following may be treated as excluded services:

(a) subject in each case to paragraphs 11 and 12 of standard condition 48 (Last Resort Supply: Payment Claims), an amount equal to the increases in its charges pursuant to paragraph 5 of said standard condition 48; or

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(b) derive from supplemental charges within the meaning of standard condition 4C (Charging Gas Shippers – Supplemental Connection Charges); or

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(c) derive from charges in respect of the provision of emergency services under contracts entered into pursuant to Standard Special Condition A41, (Emergency services to or on behalf of another gas transporter); or

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(d) represent revenue equal to any allowance made or charges (in respect of gas treated as not having been taken out of its pipeline system) required to be foregone

for the purpose of paragraphs 5 and 6 of standard condition 7 (Provision of Information Relating to Gas Illegally Taken); or

- (e) derive from the execution of works in connection with the provision of, or the carrying out of modifications to, points at which gas may be introduced into or taken off the transportation system.

4. There may with the approval of the Authority be treated as an excluded service any service of a type not referred to which:

- (a) consists in the provision of services for the specific benefit of a third party requesting the same; and
- (b) is not made available by the licensee as a normal part of its Distribution Network transportation activity.

5. Where the Authority is satisfied that in light of the principles set out in paragraphs 2 to 4 inclusive ~~of this condition~~ any service treated by the licensee as an excluded service should not be so treated, the Authority shall issue directions to that effect and such service shall cease to be treated as an excluded service with effect from the date of issue of such directions or such earlier date as specified in the directions being not earlier than the commencement of the relevant year to which the statement last furnished to the Authority pursuant to paragraph 3 of Special Condition ~~E3~~ (Allocation of Revenues and Costs ~~for~~ Calculations under the Price Control in respect of the Distribution Network) prior to issue of such directions related, unless such statement or the accompanying report or certificate referred to in paragraph 5 of that ~~condition~~ or any earlier such statement, report or certificate was incorrect or misleading in any material aspect.

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Special condition E6: Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the Distribution Network

1. The licensee shall provide statements to the Authority of the information specified in the following table for each of the licensee's Distribution Networks for the periods identified in that table and by the dates specified in that table. Where information is derived from a formula defined in the licence, the component parameters of that formula shall also be reported. Where information is requested in respect of periods of less than a full formula year, the licensee shall provide such information on a reasonable endeavours basis. All revenue and information provided shall comply with Special Condition E3 (Allocation of revenue and costs for calculations under the price control in respect of the Distribution Network).

| Description | Licence definition | Period | Reporting deadline |
|---|--|---------------|--------------------------------|
| Distribution Network transportation activity | | | |
| DNR_t | Distribution Network transportation activity revenue | Formula years | By 30 June in formula year t+1 |
| E_t | Out-turn mains costs | Formula years | By 31 July in formula year t+1 |
| $L_{n,t}$ | Lengths of included mains decommissioned by diameter band | Formula years | By 31 July in formula year t+1 |
| DNK_t | Distribution Network transportation activity revenue adjustment factor | Formula years | By 30 June in formula year t+1 |
| | Distribution Network | Formula years | By 30 June |

| | | | |
|----------------------------|---|----------------------|---------------------------------------|
| | transportation quantity | | in formula year t+1 |
| | Commercial user quantity | Formula years | By 30 June in formula year t+1 |
| V_t | Very large user quantity | Formula years | By 30 June in formula year t+1 |
| | Small interruptible user quantity | Formula years | By 30 June in formula year t+1 |
| <u>DNExCC_t</u> | <u>Total costs for NTS exit capacity</u> | <u>Formula years</u> | <u>By 30 June in formula year t+1</u> |
| <u>DNExFFC_t</u> | <u>Total costs for NTS flow flexibility</u> | <u>Formula years</u> | <u>By 30 June in formula year t+1</u> |

| Emergency Services | | | |
|---------------------------|--|---------------|--------------------------------|
| | Revenues earned and costs incurred in the provision of emergency services to other gas transporters, by gas transporter, including a description of the services provided. | Formula years | By 30 June in formula year t+1 |

| Exit Information Reporting | | | |
|-----------------------------------|--|---------------|-----------------------|
| | Volumes, prices paid and charges forgone in respect of <u>Distribution</u> | Formula years | By 30 June in formula |

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| | | | |
|--|--|---------------|--------------------------------|
| | <u>Network</u> capacity curtailment rights, by Distribution Network | | year t+1 |
| | Volumes and payments made in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days. | Formula years | By 30 June in formula year t+1 |

2. If, prior to the fulfilment of its obligations under paragraph 3 of this condition, the licensee becomes aware of any inaccuracies in respect of information it has provided to the Authority in pursuance of its obligations under paragraph 1 of this condition it shall notify such inaccuracies to the Authority together with details of why such information is inaccurate and of the correct information.

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3. As soon as reasonably practical after the end of each formula year and in any event no later than three months after the end of the formula year the licensee shall send to the Authority a reconciliation of the information provided in accordance with paragraph 1 of this condition for periods of less than the formula year with that provided for the full formula year together with a written explanation of any discrepancies.

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4. The reconciliations provided by the licensee under paragraph 3 of this condition shall be accompanied by a report prepared by appropriate auditors addressed to the Authority which indicates whether, in their opinion:

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- that statement fairly presents so far as is reasonably possible to do so the licensee's performance against each of the performance measures provided for in Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) in respect of the formula year to which the statement relates; and

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- that statement used data compiled in accordance with Special Condition E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network) and is consistent with the licensee's accounting records; and

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- any explanations given by the licensee under paragraphs 2 and 3 of this condition in respect of the formula year in question were reasonable and consistent with the information supplied.

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Special Condition **E8**: Not used

Schedule A [Tables A1 – A4]: Not used