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**Special Condition C1. Amendments to Standard Special Conditions relating to LNG**

**1. Amendments to Standard Special Condition A3 (Definitions and Interpretation)**

Standard Special Condition A3 (Definitions and Interpretation) shall be amended by the addition of the following definitions which shall, where stated or where the context requires, replace or amend the relevant definition contained in Standard Special Condition A3 (Definitions and Interpretation) in this licence as follows:

““competition in relation to the storage of gas in LNG storage facilities” means effective competition in or to the storage service offered by the LNG storage facilities, taking account of the provision by other persons of goods or services of equivalent purpose or effect to such storage (including where appropriate supplies of peak gas and the interruption of supplies to customers in accordance with their terms of supply);”

““LNG” means liquefied natural gas;”

““LNG storage arrangements”	storage	means arrangements whereby gas shippers and / or DN operators may, from time to time and in different cases and circumstances, have gas stored in the LNG storage facilities;”
““LNG storage business”		means the activities of the licensee connected with the development, administration, maintenance and operation of the LNG storage facilities by the licensee for the storage of gas in Great Britain and with the supply of LNG storage services relating to those facilities;”
““LNG storage facilities”		means containers for the storage of LNG operated by the licensee and any other facilities used by the licensee in connection with the storage of LNG in Great Britain which both are operated by the person who holds this licence and were so operated at a time during the period of 12 months ending with 1 March 1996,”
““supply of LNG storage services”		means the undertaking and performance for gain or reward of engagements in connection with the storage of gas in the LNG storage facilities;”
““transportation and LNG storage business”		means the transportation business and the LNG storage business but excluding, for the avoidance of doubt, the metering business and the meter reading business;”

2. **Amendments to Standard Special Condition A4 (Charging– General)**

Standard Special Condition A4 (Charging – General) shall be amended by:-

- (a) the insertion of the following in paragraphs 6, 7, 9 and 10 in substitution for the words “NOT USED”:

“6. In any case in which the licensee is willing to enter into LNG storage arrangements -

(a) if the charges in pursuance of those arrangements are not governed by the methodology established under paragraph 5, the licensee shall avoid any undue preference or undue discrimination in the terms on which it enters into such arrangements; and

(b) if either those charges or any charges made in pursuance of transportation arrangements other than LNG storage arrangements are not governed as aforesaid, the licensee shall ensure so far as is reasonably practicable, that no unjustified cross-subsidy is involved between the terms on which it enters into the LNG storage arrangements and those on which it enters into other transportation arrangements.”

“7. Any question which arises under paragraph 6 as to whether a cross subsidy is unjustified, shall be determined by the Authority.”

“9. In this condition “transportation arrangements” shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that for the purposes of this condition shall also include LNG storage arrangements.”

“10. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and the Authority’s view on that question, considers it appropriate that this condition should be modified by the omission of

paragraph 9, then the paragraph shall be omitted with effect from a date specified in a notice published by the Authority for that purpose and the reference thereto in the definition of “transportation arrangements” in Standard Special Condition A3 (Definitions and Interpretation) shall cease to have effect.”; and

- (b) the addition of the words “subject to any amendments made by paragraph 9 hereof,” at the beginning of the definition of “transportation arrangements” in paragraph 11.

**3. Amendments to Standard Special Condition A5 (Obligations as Regard Charging Methodology)**

Standard Special Condition A5 (Obligations as Regard Charging Methodology) shall be amended by:

- (a) in addition to the definition set out in paragraph 11, the insertion of the following definition after “In this condition:”

“transportation business” shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) but for the purposes of this conditions shall also include the LNG Storage Business.

- (b) the insertion of the following new paragraph 12:

“12. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the definition of “transportation business” from paragraph 11, then the definition shall be omitted with effect from a date specified in a notice published by the Authority for that purpose and the definition of “transportation business” in Standard Special Condition A3 (Definitions and Interpretation) shall apply to this condition save that the reference to this condition in the definition of “transportation business” in Standard Special Condition A3 (Definitions and Interpretation) shall cease to have effect.”

4. **Amendments to Standard Special Condition A6 (Conduct of Transportation Business)**

Standard Special Condition A6 (Conduct of Transportation Business) shall be amended by:

- a) the insertion of the words “LNG storage arrangements,” at the start of paragraph 2(a); and
- b) the insertion of the following in paragraph 3 in substitution for the words “NOT USED”:

“3. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the reference to LNG storage arrangements in paragraph 2(a) then the reference shall be omitted with effect from a date specified in a notice published by the Authority for that purpose; and the definition of “transportation business” contained in Standard Special Condition A3 (Definitions and Interpretation) shall apply to this condition subject to any amendments made by the remaining sections of paragraph 2.”

5. **Amendments to Standard Special Condition A7 (Requirement to Enter into Transportation Arrangements in Conformity with the Network Code)**

Standard Special Condition A7 (Requirement to Enter into Transportation Arrangements in Conformity with the Network Code) shall be amended by the insertion of the following in paragraphs 2 and 3 in substitution for the words “NOT USED”:

“2. In this condition “transportation arrangements” shall have the meaning given in Standard Special Condition A3 (Definition and Interpretation) save that for the purposes of this condition it shall also include LNG storage arrangements.”

“3. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of paragraph 2, then the paragraph shall be omitted with effect from a date specified in a notice published by the Authority for that purpose; the definition of “transportation arrangements” contained in Standard Special Condition A3 shall apply to this condition; and the reference to this condition in the definition of “transportation arrangements” in Standard Special Condition A3 (Definitions and interpretation) shall cease to have effect”.

6. **Amendments to Standard Special Condition A11 (Network Code and Uniform Network Code)**

Standard Special Condition A11 (Network Code and Uniform Network Code) shall be amended by the insertion of the following in paragraphs 20 and 21 in substitution for the words “NOT USED”:

“20. In this condition “transportation arrangements” shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that for the purposes of this condition it shall also include LNG storage arrangements.”

“21. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of paragraph 20 then the paragraph shall be omitted with effect from a date specified in a notice published by the Authority for that purpose; the definition of “transportation arrangements” in Standard Special Condition A3 (Definitions and Interpretation) shall apply to this condition; and the reference to this condition in the definition of “transportation arrangements” in Standard Special Condition A3 (Definitions and Interpretation) shall cease to have effect.”



**7. Amendments to Standard Special Condition A27 (Disposal of Assets)**

Standard Special Condition A27 (Disposal of Assets) shall be amended by:

- (a) the insertion of the following definition of LNG storage asset in paragraph 6 between the definitions of “disposal” and “relevant premises”:

““LNG storage asset”	means any of the LNG storage facilities or anything used by the licensee in connection with the provision of such facilities;” and
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- (b) the insertion of the words “any LNG storage asset and/or” after the word “means” in the definition of “transportation asset” in paragraph 6; and
- (c) inserting the following new paragraph 7,

“7. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the definition of “LNG storage asset” from paragraph 6 and the words “any LNG storage asset and” where they occur in paragraph 6 of this condition then these omissions shall be made with effect from a date specified in a notice published by the Authority for that purpose.”

**8. Amendments to Standard Special Condition A30 (Regulatory Accounts)**

Standard Special Condition A30 (Regulatory Accounts) shall be amended by:

- (a) the insertion of the words “the LNG storage business” in sub-paragraph 1 (b) in substitution for the words “NOT USED”;
- (b) the insertion of the words “the LNG storage business,” after “regulatory accounts for” in paragraph 12; and
- (c) the insertion of the following in paragraph 14 in substitution for the words “NOT USED”:

“14. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition

in relation to the storage of gas in LNG storage facilities and the Authority's view on that question, considers it appropriate that this condition be modified by the omission of sub-paragraph 1(b) and references to "LNG storage business" then these omissions shall be made with effect from the date specified in a notice published by the Authority for that purpose."

9. **Amendments to Standard Special Condition A32 (Definition of Permitted Purpose)**

Standard Special Condition A32 (Definition of Permitted Purpose) shall be amended by the substitution in sub-paragraph (a) of the definition of "permitted purpose" of the words "the transportation and LNG storage business" for the words "the transportation business".

10. **Amendments to Standard Special Condition A33 (Restriction on Use of Certain Information and Independence of the Transportation Business)**

Standard Special Condition A33 (Restriction on Use of Certain Information and Independence of the Transportation Business) shall be amended:

(a) by the insertion of the words "LNG storage business and" between the words "also includes the licensee's" and "metering business other than its meter-related services business" in the definition of "transportation business" in paragraph 1; and

(b) by the insertion of the following new paragraph 10:

"10. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the reference to "LNG storage business" in the definition of "transportation business" in paragraph 1 of this condition, then that reference shall be omitted with effect from a date specified in a notice published by the Authority for that purpose."

11. **Amendments to Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing)**

Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing) shall be amended by:

- (a) the insertion of “the LNG storage business, ” after the words “the transportation business, ” in paragraph 4(b)(i); and
- (b) by the insertion of the following new paragraph 7:

“7. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the reference to “LNG storage business” in paragraph 4(b)(i) and shall be construed as if the definition of “permitted purpose” made no reference to “LNG storage business”, then for the purpose of this condition, that reference shall be omitted and the definition of “permitted purpose” shall be so construed with effect from a date specified in a notice published by the Authority for that purpose.”

12. **Amendments to Standard Special Condition A37 (Availability of Resources)**

Standard Special Condition A37 (Availability of Resources) shall be amended by the following:

- (a) in paragraph 1(a) by the substitution of the words “transportation and LNG storage business” for the words “transportation business”; and
- (b) by the addition of the following in paragraph 8 in substitution for the words “NOT USED”:

“8. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG

storage facilities and its view on that question, considers it appropriate that this condition should be construed as if the definition of “the transportation and LNG storage business” made no reference to the “LNG storage business” then for the purpose of this condition, with effect from the date specified in a notice published by the Authority for that purpose, the definition of “the transportation and LNG storage business” shall be so construed and shall be treated as being the “transportation business” only.”

13. **Amendments to Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter)**

Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter) shall be amended, at paragraph 3, by the substitution of the words “transportation and LNG storage business” for the words “transportation business” where they appear after the words “for the purposes of its”.

**Special Condition C1A. NTS definition of supply of transportation services**

**Amendments to Standard Special Condition A3 (Definitions and Interpretation)**

1. The definition of “supply of transportation services” in Standard Special Condition A3 (Definitions and Interpretation) shall be amended by the substitution of the following words in sub-paragraph (c) (i) for the existing wording in that paragraph:

“(i) facilitating balancing management; and”

**Special Condition C2. Long Term Development Statement**

1. The licensee shall comply with a direction given by the Authority to prepare an annual statement, in such form and at such a time as may be specified in the direction giving, with respect to each of the 10 succeeding years beginning with 1 October, such information by way of forecasts of -
  - (a) the use likely to be made of the pipe-line system to which this licence relates, of any such facilities as are mentioned in paragraph 6 and of any other pipe-line system directed by the Authority; and
  - (b) the likely developments of that system, those facilities and those other pipe-line systems which the licensee expects from time to time to be taken into account in determining the charges for making connections to that system and in pursuance of transportation arrangements,  
as it is reasonably practicable for the licensee to provide and which will assist a person who contemplates -
    - (i) seeking the connection of a pipe-line of his to the pipe-line system to which this licence relates or another gas transporter's pipe-line system;
    - (ii) entering into transportation arrangements with the licensee; or
    - (iii) seeking the connection of the pipe-line system to which this licence relates or another gas transporter's pipe-line system to premises which would reasonably be expected to be supplied with gas at a rate exceeding 2,196,000 kilowatt hours a year,  
in identifying and evaluating the opportunities for doing so.
2. Except in so far as the Authority consents to the licensee not doing so, the licensee shall use its reasonable endeavours to prepare a revision of any statement prepared under paragraph 1 so as to ensure that the information in the statement is up to date.
3. The licensee shall, subject to any requirement to comply with the listing rules (within the meaning of the Financial Services and Markets Act 2000) and with paragraph 4 below -

- (a) furnish the Authority with a copy of each statement prepared under paragraph 1 and of each revision of the statement prepared under paragraph 2;
  - (b) in such form and manner as the Authority may direct, publish such a summary of each statement or, as the case may be, of a revision of the statement as will assist a person in deciding whether to ask for a copy of the version mentioned in sub-paragraph (c); and
  - (c) prepare a version of each statement or revision which excludes, so far as is practicable, any such matter as is mentioned in paragraph 4 and send a copy thereof to any person who asks for one and makes such payment to the licensee in respect of the cost thereof as it may require not exceeding such amount as the Authority may from time to time approve for the purposes hereof.
4. In complying with the requirements of paragraph 3(b), the licensee shall have regard to the need for excluding, so far as is practicable, any matter which relates to the affairs of a person where the publication of that matter would or might seriously and prejudicially affect his interests.
5. Any question arising under paragraph 4 as to whether the publication of some matter which relates to the affairs of a person would or might seriously and prejudicially affect his interests shall be determined by the Authority.
6. In this condition “transportation arrangements” has the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that it shall also include LNG storage arrangements.
7. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of paragraph 6, then the paragraph shall be omitted with effect from a date specified in a notice relating thereto published by the Authority for that purpose and the reference to this condition in the definition of “transportation arrangements” in Standard Special Condition A3 (Definitions and Interpretation) shall cease to have effect.

**Special Condition C3. Restriction of Prices for LNG Storage Services**

1. (1) Except with the Authority's prior written consent, the licensee shall ensure that the charges made for the supply of LNG storage services in the formula year commencing on 1 April 1999 are the charges set out in Tables 1 and 2 below.

**TABLE 1**

LNG Facility	Reserved space (pence per kWh per annum)	Reserved deliverability (pence per peak day kWh per annum)	Storage injection (pence per kWh)	Storage withdrawal (pence per kWh)
Glenmavis	1.365	0.986	0.279	0.012
Dynevor Arms	2.272	1.452	0.198	0.017
Isle of Grain	0.957	0.730	0.290	0.019
Avonmouth	1.170	1.076	0.190	0.019
Partington	0.869	0.795	0.258	0.017

**TABLE 2**

TANKER CHARGES	
Glenmavis tanker filling slots	£2,750 per annum
Glenmavis tanker filling charge	£200 per tanker filled or partially filled

- (2) Except with the Authority's prior written consent, the licensee shall ensure that the charges made for the supply of LNG storage services in each formula year commencing on or after 1 April 2000 are the charges set out in the table in subparagraph 1(1) above.
- (3) For each formula year for which the licensee charges for the supply of LNG storage services in accordance with this paragraph 1 the licensee, so far as



concerns LNG storage arrangements, shall be deemed to have complied for that formula year with the provisions of Standard Special Conditions A4 (Charging - General) and A5 (Obligations as Regard Charging Methodology).

- 2 (1) This condition shall apply for so long as this licence continues in force, but shall cease to have effect if -
  - (a) the licensee delivers to the Authority a written request made in accordance with sub-paragraph (2) below (“disapplication request”) and the Authority agrees in writing to the disapplication request; or
  - (b) its application is terminated by notice given by the licensee in accordance with either sub-paragraph (3) or sub-paragraph (4) below.
- (2) Any disapplication request shall be in writing, addressed to the Authority, and shall state the date (“disapplication date”) from which the licensee wishes the Authority to agree that this condition shall cease to have effect, but the disapplication date therein shall not be before the later of any date which is not less than 18 months after the date upon which the disapplication request is delivered to the Authority. The licensee may at any time withdraw a disapplication request.
- (3) If
  - (a) the Authority has not made a reference to the Competition Commission under Section 24(1) of the Act relating to the modification of this condition before the beginning of the period of 12 months which will end with the disapplication date; and
  - (b) the licensee has not withdrawn the disapplication requestthe licensee may deliver written notice to the Authority terminating the application of this condition with effect from the disapplication date or a later date, save that no such notice may take effect before the end of a period of 12 months from the date of delivery of that notice to the Authority.
- (4) If the Competition Commission makes a report on a reference by the Authority relating to the modification of this condition after a disapplication request, and such report does not include a conclusion that the cessation of this condition, in whole or in part, operates, or may be expected to operate against the public

interest, the licensee may within thirty days after the publication of the report by the Authority deliver to it written notice terminating the application of the condition with effect from the disapplication date or a later date.

**Special Condition C4. Prohibited Procurement Activities**

1. ~~Subject to paragraph 2, the licensee shall not, either on its own account or on behalf of:~~

**Deleted:** Except with the prior written consent of the Authority, or in accordance with its functions under the network code,

- (a) any affiliate or related undertaking of the licensee; and/or
- (b) any other business operated by the holder of this licence or its affiliates or related undertakings under a separate gas transporter licence for a relevant gas transporter,

**Deleted:** and shall procure that

~~purchase, enter into agreements for or otherwise acquire capacity rights, gas or gas derivatives with the intention of subsequently selling, assigning or otherwise disposing of such assets to third parties, and the licensee shall procure that anyone specified in sub-paragraphs (a) and (b) shall not undertake such transactions on its own account, or on behalf of the licensee, or of anyone specified in sub-paragraphs (a) and (b).~~

**Deleted:** shall not, either on its own account or on behalf of anyone specified in sub-paragraphs (a) and (b)

**Deleted:** .

2. The prohibition in paragraph 1 of this condition shall not apply ~~if the transactions referred to in paragraph 1 are undertaken:~~

~~(a) by an affiliate or related undertaking of the licensee each on its own account or on behalf of affiliates or related undertakings specified in paragraphs 1(a) and 1(b) other than the licensee, provided that, in respect of each case, such affiliate or related undertaking holds a relevant licence, issued by the Authority, or is otherwise exempted from the requirement to hold such a licence, and that such licence or exemption does not prohibit such transactions;~~

~~(b) with the prior written consent of the Authority;~~

~~(c) in accordance with the licensee's functions under the network code; or~~

~~(d) by the licensee on its own account, for the purpose of facilitating balancing management and/or constraint management, provided that such transactions:~~

~~(i) are conducted on economic and efficient terms, and~~

~~(ii) facilitate the economic and efficient operation of the transportation system.~~

**Deleted:** to the purchase, entering into agreements for or acquisition by the licensee or any affiliate or related undertaking, including, for the avoidance of doubt, any other business operated by the holder of this licence or its affiliates or related undertakings under a separate gas transporter licence for a relevant gas transporter, on the account of the licensee of transportation commodities, gas or gas derivatives with the intention of selling, assigning or otherwise disposing of such transportation commodities, gas or gas derivatives

**Deleted:** so long as

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**Deleted:** 3. In this condition:¶  
 <#>"balancing trade" [1]

**Special Condition C5. Licensee's procurement and use of system management services**

1. The licensee shall operate the pipe-line system to which its licence relates in an efficient, economic and co-ordinated manner.
2. The licensee shall ensure that it and its affiliates or related undertakings (and/or any other business operated by the holder of this licence or its affiliates or related undertakings under a separate gas transporter licence for a relevant gas transporter) shall neither unduly discriminate nor unduly prefer in its procurement or use of system management services as between any persons or classes of persons.
3. The licensee shall before 1 October 2002 or such later date as the Authority may direct in writing and thereafter before 1 April in each subsequent formula year (or such longer period as the Authority may approve) prepare a statement in a form approved by the Authority setting out (consistently with the licensee's duties 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 kinds of system management services which it may be interested in purchasing in the period until the next statement is due, to be published pursuant to paragraph 11(a) in this condition and the mechanisms by which it envisages purchasing, entering into or otherwise acquiring them, and the licensee shall revise such statement during any such period if its intentions change during that period.
4. Within one month after the date on which each statement, prepared pursuant to paragraph 3 of this condition (other than the first one) is due to be published pursuant to paragraph 11(a) of this condition ("the due date"), the licensee shall prepare a report in a form approved by the Authority in respect of the system management services which the licensee has bought or acquired in the period of 12 months (or such longer period as the Authority may approve or require) ending on the due date.
5. The licensee shall before 1 October 2002 or such later date as the Authority may direct in writing, prepare a statement in a form approved by the Authority setting out the principles and criteria (consistent with the licensee's duties under paragraph 1

and 2 of this condition and consistent with its other duties under the Act, and the standard, Standard Special and Special Conditions) by which the licensee will determine, at different times and in different circumstances, which system management services the licensee will use to assist it in the operation of the NTS, and for what purpose, and when the licensee would resort to measures not involving the use of system management services in the operation of the NTS.

6. (a) This paragraph applies where the network code provides that any charge is to be determined (in whole or in part) by reference to the costs and volumes of relevant system management services.

(b) Where this paragraph applies the licensee shall:

- (i) before 1 October 2002, or such later date as the Authority may direct establish a system management services adjustment data methodology approved by the Authority;
- (ii) prepare a statement of the prevailing system management services adjustment data methodology as approved by the Authority;
- (iii) from time to time thereafter, when the licensee first buys, sells or acquires any relevant system management services of a kind or under a mechanism which is not covered by the prevailing system management services adjustment data methodology, promptly seek to establish a revised system management services adjustment data methodology approved by the Authority which covers those kinds of system management services mechanisms for buying, selling or acquiring them; and
- (iv) at all times determine and provide (for use under the relevant provisions of the network code) the costs and volumes of relevant system management services in compliance with the prevailing system management services adjustment data methodology, which are to be taken into account in determining charges relating to system management services under the network code.

- (c) Except where the Authority directs otherwise, before revising the system management services adjustment data methodology the licensee shall:
- (i) send a copy of the proposed revisions to the Authority and to any person who asks for one;
  - (ii) consult gas shippers and allow them a period of not less than 28 days in which to make representations;
  - (iii) consult DN operators where there is a potential impact upon NTS exit capacity or NTS exit flow flexibility and allow them a period of not less than 28 days in which to make representations;
  - (iv) within 7 days of the close of the consultation referred to in sub-paragraphs 6(c)(ii) and 6(c)(iii) of this condition submit to the Authority a report setting out:
    - the revisions originally proposed,
    - the representations (if any) made to the licensee,
    - any change to the revisions; and
  - (v) where the Authority directs that sub-paragraphs (i), (ii), (iii) and (iv) of this paragraph or any of them shall not apply, comply with such other requirements as are specified in the direction.
- (d) The licensee shall not revise the system management services adjustment data methodology:
- (i) where sub-paragraph 6 (c)(v) of this condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph;

- (ii) where there is no such direction, or no date is specified in such direction, until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph 6(c)(iv) in of this condition; or
  - (iii) if within the period referred to in sub-paragraph 6(d)(ii) of this condition the Authority directs the licensee not to make the revision.
  
- 7. (a) The licensee shall as soon as practicable after the end of each formula year prepare 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 5 of this condition and whether any modification should be made to that statement to reflect more closely the practice of the licensee.
  
- (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 complied with the statement prepared pursuant to paragraph 5 of this condition.
  
- 8. (a) The licensee shall if so directed by the Authority but in any event at least once a year review the statement prepared pursuant to paragraph 5 of this condition in consultation with gas shippers and/or DN operators and other interested persons likely to be affected thereby and allow them a period of not less than 28 days in which to make representations.
  
- (b) Within 7 days of the close of the consultation referred to in paragraph 8(a) of this condition, the licensee shall send to the Authority:
  - (i) a report on the outcome of the review;
  
  - (ii) any revision to the statement proposed (having regard to the outcome of the review) by the licensee in order to ensure that the statement remains consistent with the licensee's duties under the Act and the standard conditions, Standard Special Conditions and Special Conditions; and

(iii) any written representations or objections from gas shippers and/or DN operators and other interested parties, including proposals for revision not accepted by the licensee, arising during the consultation and subsequently maintained.

(c) The licensee may revise the statement only in accordance with any revision within sub-paragraph 8(b)(ii) of this condition, and only if the Authority consents to such revision.

9. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 5 of this condition.

10. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 3, 4, 5, 6, 7 and 8 of this condition and of all revisions to any such statements and reports.

11. The licensee shall:

(a) publish by such date (and in such manner) as the Authority may approve the statements prepared pursuant to paragraphs 3, 5 and 6 of this condition and each revision thereof; and

(b) send a copy of each statement and report prepared pursuant to paragraphs 3, 4, 5, 6, 7 and 8 of this condition or the latest revision of any such statement and report to any person who requests the same, 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,

and, for the purposes of paragraph 11(b) of this condition, the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).



12. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 11(b) of this condition of an amount reasonably reflecting the licensee’s reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purpose of this condition.
  
13. The licensee shall, unless the Authority otherwise consents, maintain for a period of seven years:
  - (a) particulars of all system management services offered to it;
  
  - (b) particulars of all contracts for system management services which it entered into;
  
  - (c) records of all system management services called for and provided; and
  
  - (d) records of quantities of gas transported through the NTS.
  
14. The licensee shall provide to the Authority such information as the Authority shall request concerning the procurement and use of system management services.
  
15. In this condition:

**“balancing trade”** means an eligible balancing action (having the meaning given to that term in the network code);

**“relevant system management services”** means system management services other than:

- (a) those which the licensee has acquired through a balancing trade, provided that such balancing trade was not made pursuant to any prior agreement;
  
- (b) those which the Authority directs the licensee not to treat as relevant system management services;

**“system management services”**

means services in relation to the balancing of gas inputs to and gas off takes from the NTS and includes balancing trades and balancing trade derivatives and constraint management services; and

**“system management services adjustment data methodology”**

means a methodology to be used by the licensee to determine what costs and volumes of relevant system management services are to be taken into account under the network code for the purposes of determining in whole or in part the charges in any period, which methodology shall cover each of the kinds of system management services which the licensee buys, sells or acquires, and the mechanisms by which the licensee buys, sells or acquires them, at the time at which the methodology is established.

### **Special Condition C6. Independent Market for balancing**

1. Standard Special Condition A11 (Network Code and Uniform Network Code) shall be amended by the insertion of the following paragraphs after paragraph 22:

“22A. Where the network code makes provision for energy balancing by the licensee, as the energy balancing gas transporter, of the total system through a market established by the operator of the independent market for balancing (as such terms are defined in Standard Special Condition A16 (Independence of the Independent Market for Balancing)) then the following paragraphs 22B, 22C and 22D shall apply.”

“22B. The licensee shall, in appointing any such operator as is mentioned in paragraph 22A, use all reasonable endeavours to appoint a person having:

- (a) financial resources,
- (b) skilled and experienced personnel, and
- (c) systems

adequate to ensure that the market is conducted in an orderly and proper manner according to clear and fair rules with a clearing function that enables the licensee and relevant shippers to offset any sale to any one participant in the market against any equivalent purchase from that or any other participant in the market.”

“22C. The requirement in paragraph 22B shall be treated as satisfied in respect of any appointment if the licensee appoints as operator of the independent market for balancing a person who, at the time of appointment, is:

- (a) a person recognised by the Financial Services Authority under the Financial Services and Markets Act 2000 as an investment exchange;  
or

- (b) a person designated by the Authority for the purposes of that paragraph and if that designation has not expired or been revoked.”

“22D. If a person appointed by the licensee in reliance on paragraph 22C ceases to be recognised as provided in sub-paragraph (a) or to be designated as provided in sub-paragraph (b) of that paragraph then the licensee shall use all reasonable endeavours to terminate the appointment of that person and, if the licensee elects that the market operated by that person shall continue to be established, to appoint another person in place of the first person in accordance with paragraph 22B.”

**Special Condition C7. Charging obligations**

**1. Amendments to Standard Special Condition A4 (Charging - General)**

Standard Special Condition A4 (Charging – General) shall be amended by:

- (a) the insertion of the words “and/or DN operators as appropriate” after “specified descriptions of gas shippers” in sub-paragraph (a) of paragraph 1; and
- (b) in paragraph 2, the insertion of the following at sub-paragraphs (a) and (b) in substitution for the words “NOT USED”:

“(a) use its reasonable endeavours:

- (i) not to make any changes to the charges or reserve prices mentioned in paragraph 1 more frequently than twice in each formula year and for such changes to take place on 1 April and/or 1 October in each formula year or at such other time as the Authority may by notice in writing direct; and
  - (ii) not to make any changes to charges or reserve prices in relation to NTS exit capacity and NTS exit flow flexibility more frequently than once in each formula year and for such changes to take place on 1 October in each formula year or at such other time as the Authority may by notice in writing direct;
- (b) subject to sub-paragraph (a) above, if the licensee makes changes to the charges or reserve prices mentioned in paragraph 1 on dates other than those specified in sub-paragraphs (a) (i) and (a) (ii), inform the Authority in writing as soon as is reasonably practicable after the decision is made to make such a change to charges, and, in any event, not later than three months after the charge change has been implemented:
- (i) stating the reasons for this change; and
  - (ii) clearly identifying whether any of the information provided as part of the statement of reasons for the change is of a confidential nature;”

**2. Amendments to Standard Special Condition A5 (Obligations as Regard Charging Methodology)**

Standard Special Condition A5 (Obligations as Regard Charging Methodology) shall be amended by:-

- (a) inserting the words “and/or DN operators as appropriate” after “consulted relevant shippers” in sub-paragraph (a) of paragraph 2 and after “made by relevant shippers” in sub-paragraph (b) (ii) of paragraph 2;
- (b) in paragraph 2A, the insertion of the following in sub-paragraph (b) in substitution for the words “NOT USED”:
  - “(b) use its reasonable endeavours:
    - (i) not to make any changes to the charging methodology more frequently than twice in each formula year and for such changes to take place on 1 April and/or 1 October in each formula year or at such other time as the Authority may by notice in writing direct; and
    - (ii) only to make changes to the charging methodology in relation to NTS exit capacity and NTS exit flow flexibility on 1 October in each formula year or at such other time as the Authority may by notice in writing direct”
- (c) In paragraph 11:
  - (i) the deletion of “and” at the end of the “transportation arrangements” definition;
  - (ii) the deletion of “thereof.” and replacement by “thereof; and” at the end of the “supply of transportation services” definition; and
  - (iii) the insertion of the following definition after the definition of “supply of transportation services”:

“**as appropriate**” means, in the context of consulting DN operators pursuant to sub-paragraphs (a) and (b) of paragraph 2, that DN operators shall be consulted if a modification to the

charging methodology in relation to NTS exit capacity  
and NTS exit flow flexibility is proposed by the licensee.

**Special Condition C8A: Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity**

1. In this condition and in Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity):

allocation	means any process by which entry capacity or NTS exit capacity may be allotted by or on behalf of the licensee in accordance with the network code;
annual obligated incremental entry capacity	means any obligated incremental entry capacity in respect of a given terminal which the licensee is required to offer for sale for a period of less than five years;
clearing allocation	means in respect of a terminal and period an allocation of entry capacity which either: - results in all the capacity offered for sale being sold; or - has a reserve price of zero;
connected system exit point	has the meaning given to that term in the network code;
constrained storage facility	has the meaning given to that term in the network code;
curtailment day	means any day in formula year t in respect of which rights to offtake gas at a given supply point, connected system exit point or storage connection point have been curtailed by the licensee;
day	has the meaning given to that term in the network code;



Distribution Network means the relevant gas distribution network defined with reference to the aggregate of its constituent Local Distribution Zones (LDZs) (having the meaning given to that term in the network code) as set out in the table below:

<b>Distribution Network</b>	<b>Local Distribution Zone (LDZ)</b>
Scotland	Scotland
North of England	Northern, North East
North West	North West
East of England	East Midlands, Eastern
West Midlands	West Midlands
Wales & West	Wales North, Wales South, South West
London	North Thames
South of England	South East, Southern

Distribution Network transportation activity means the activities of the licensee connected with the development, administration, maintenance and operation of the Distribution Network and with the supply of Distribution Network services;

DM connected system exit point means a daily metered connected system exit point;

DM supply meter point has the meaning given to that term in the network code;

entry capacity has the meaning given to the term NTS Entry Capacity in the network code;

exit capacity curtailment rights means rights held by the licensee to curtail rights to

offtake gas from the transportation system, other than rights conferred on the licensee solely for the purpose of taking emergency steps or force majeure (having the meanings given to those terms in the network code);

firm entry capacity

means ~~entry capacity other than interruptible entry capacity;~~

Deleted: that

formula year

means a period of twelve months commencing on 1 April at 06:00 hours, the first such formula year (t=1) commencing 1 April 2002 at 06:00 hours;

gigawatt hour or GWh

means one million kilowatt hours;

incremental entry capacity

means obligated incremental entry capacity and non-obligated incremental entry capacity;

incremental entry capacity services

means the undertaking of engagements relating to the provision of entry capacity other than NTS SO baseline entry capacity;

incremental exit capacity services

means the undertaking of engagements relating to the provision of NTS incremental exit capacity;

initial NTS SO baseline entry capacity

means in respect of each terminal and period the NTS SO baseline entry capacity specified in table A2 of schedule A;

interruptible entry capacity

has the meaning given to the term interruptible NTS Entry Capacity in the network code;

interruption

has the meaning given to that term in the network code;

kilowatt hour or kWh

means 3,600,000 Joules;

locational actions	means any action taken by the licensee where the action was taken in respect of a specific location and would therefore be coded with a locational reason code on the OCM. Locational buys will be treated as a cost to the licensee and locational sells will be treated as a revenue;
long-term NTS SO baseline entry capacity	means that proportion of the initial NTS SO baseline entry capacity in respect of each formula year that is available to be sold more than 548 days prior to the first day in respect of which such capacity relates;
<u>NDM connected system exit point</u>	<u>means a non-daily metered connected system exit point;</u>
<u>NDM supply meter point</u>	<u>has the meaning given to that term in the network code;</u>
non-obligated incremental entry capacity	means firm entry capacity other than obligated entry capacity;
NTS baseline firm exit capacity	means in respect of each period the NTS firm exit capacity specified in table A3 of schedule A or subsequently modified (subject to the prior written consent of the Authority) within the statement produced by Transco plc in accordance with Standard Special Condition A4 (Charging – General);
NTS baseline exit flow flexibility	means in respect of each period the NTS exit flow flexibility specified in table A5 of schedule A or subsequently modified (subject to the prior written consent of the Authority) within the statement produced by Transco plc in accordance with Standard Special Condition A4 (Charging – General);
NTS baseline interruptible exit capacity	means in respect of each period the NTS interruptible exit capacity specified in table A4 of schedule A or

	subsequently modified (subject to the prior written consent of the Authority) within the statement produced by Transco plc in accordance with Standard Special Condition A4 (Charging – General);
NTS exit capacity curtailment rights	means exit capacity curtailment rights held by the licensee in respect of NTS exit capacity;
NTS firm exit capacity	means NTS exit capacity other than NTS interruptible exit capacity;
NTS incremental exit capacity	means that NTS exit capacity in excess of NTS baseline firm exit capacity and NTS baseline interruptible exit capacity;
NTS incremental exit flow flexibility	means that NTS exit flow flexibility in excess of NTS baseline exit flow flexibility;
NTS interruptible exit capacity	means NTS exit capacity subject to exit capacity curtailment rights;
NTS SO baseline entry capacity	means in respect of each terminal and period that terminal's initial NTS SO baseline entry capacity and that terminal's permanent obligated incremental capacity for which the first day to which such capacity relates has occurred five or more years previously;
NTS system operation activity or NTS SO activity	means engagements undertaken by the licensee pursuant to the operation of the NTS, being the procuring and using of balancing services for the purpose of balancing the NTS and the arranging with the NTS TO activity for the delivery of incremental entry capacity and NTS incremental exit capacity, including:

- (i) incremental entry capacity services;
- (ii) incremental exit capacity services;
- (iii) residual gas balancing services;
- (iv) balancing management;
- (v) constraint management services; and
- (vi) the provision of services in relation to gas quality;

NTS system operator revenue or NTS SO revenue means the revenue derived by the licensee from the carrying on of the NTS SO activity, such revenues to be measured on an accruals basis;

NTS TO baseline entry capacity means in respect of each terminal and period that terminal's TO baseline firm entry capacity as specified in table A1 of schedule A;

NTS transportation owner activity or NTS TO activity means the activities of the licensee connected with the development, administration and maintenance of the NTS and with the supply of NTS services;

NTS transportation owner revenue or NTS TO revenue means the revenue derived by the licensee from the supply of NTS services to gas shippers and DN operators in respect of the NTS transportation owner activity (such revenue to be measured on an accruals basis);

obligated entry capacity means obligated incremental entry capacity and NTS SO baseline entry capacity;

obligated incremental entry capacity means that firm entry capacity in excess of NTS SO baseline entry capacity which the licensee is required to offer for sale in accordance with paragraph 14(5)(b) of Part 2 of Special Condition C8B (Restriction of revenue

	in respect of the NTS transportation owner activity and the NTS system operation activity);
permanent obligated incremental entry capacity	means any obligated incremental entry capacity in respect of a given terminal, which the licensee is required to offer for sale for a period of five years or more;
plus 15 curtailment day	means any curtailment day in formula year t at a given supply point, connected system exit point or storage connection point after the first 15 curtailment days in that formula year for the given supply point, connected system exit point or storage connection point connected to the transportation system to which this licence relates;
residual gas balancing services	means the undertaking of engagements relating to the acquisition or disposal of gas to ensure the safe and efficient operation of the transportation system;
short-term NTS SO baseline entry capacity	means initial NTS SO baseline entry capacity other than long term NTS SO baseline entry capacity;
specified rate	means the base rate of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made;
storage connection point	has the meaning given to that term in the network code;
subscript t	means the relevant formula year;
supply of Distribution Network services	means the undertaking and performance for gain or reward of engagements: a) in connection with the conveyance of gas through the Distribution Network;

b) for the prevention of the escape of gas which has been taken off the Distribution Network; and

c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:

(i) the balancing of the Distribution Network through the acquisition or disposal of gas to replace gas lost from the Distribution Network; and

(ii) facilitating constraint management;

supply of NTS services means the undertaking and performance for gain and reward of engagements:

(a) in connection with the conveyance of gas through the NTS other than engagements in connection with activities within the definition of the NTS SO activity; and

(b) for the prevention of the escape of gas, which has been taken off the NTS, other than to the Distribution Network or any pipe-line system operated by a person holding a gas transporter's licence or who is exempted from holding such a licence which but for such pipe-line not being operated by the licensee, would fall within the definition of the Distribution Network;

supply point has the meaning given to that term in the network code;

terminal means an aggregate system entry point (having the meaning given to that term in the network code); and

transportation system means the system (having the meaning given to that term in the network code) to which this licence relates.

2. Any values derived by reference to the value of revenues accrued, received or paid by or to the licensee shall be the actual sum accrued, received or paid by or to the licensee on the date of such accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.



**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.

**2. NTS transportation owner revenue (TOR<sub>t</sub>)**

**(1) Principal formula**

For the purposes of paragraph 1 of Part 1 a of this condition the NTS transportation owner revenue in respect of formula year t (TOR<sub>t</sub>) shall be derived from the following formula:

$$TOR_t = TOREVBEC_t + TOExR_t + TORCOM_t$$

where:

TOREVBEC<sub>t</sub> 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<sub>t</sub> 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 condition;

DREVBEC<sub>t</sub> 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 condition;

TOExR<sub>t</sub> 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 in t ≥ 4 the

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

- (i) In respect of formula years  $t \leq 3$ :

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

- (ii) otherwise

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

where, in respect of (i) and (ii):

$\text{TOExRF}_t$  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:

$\text{TOEx}_t$  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, but for all days from 1 October 2008 (or such date that the Authority otherwise directs in writing),  $\text{TOEx}_t$  shall have the value zero (0);

$\text{TOBFEx}_t$  means the NTS baseline firm exit capacity in respect of formula year

t; and

TOTFEx<sub>t</sub> 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<sub>t</sub> means the accrued value in respect of charges foregone by the licensee in respect of formula year t as a result of NTS exit capacity curtailment rights and shall be derived from the following formula:

$$\text{TOExNTSSIC}_t = \text{ExNTSSIC}_t \times \text{Min} \left[ \frac{\text{SOBIEx}_t}{\text{SOTIEx}_t}, 1 \right]$$

where:

ExNTSSIC<sub>t</sub> has the meaning given to that term in paragraph 14(6)(h) of Part 2 of this condition;

SOBIEx<sub>t</sub> means the NTS baseline interruptible exit capacity in respect of formula year t; and

SOTIEx<sub>t</sub> 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

year t.

However, for all days from 1 October 2008 (or such date that the Authority otherwise directs in writing),  $TOExNTSSIC_t$  shall have the value zero (0); and

Deleted: zero(0)

$TORVBExC_t$  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 exit flow flexibility and shall be derived from the following formula:

$$TORVBExC_t = REVExC_t - DREVBExC_t + REVBF_t - DREVBFF_t$$

where:

$REVExC_t$  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;

$REVBF_t$  means the revenue derived by the licensee in respect of formula year t from the sale of NTS baseline exit 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 exit flow flexibility.

$TORCOM_t$  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 DN 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 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:

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

- (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 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 1<sup>st</sup> 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 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 29.2729% 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/or

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 a basis consistent with Special Condition C9 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity).

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 condition.

**(2) NTS transportation owner revenue adjustment ( $TOK_t$ )**

(a) For the purposes of paragraph 3(1) of Part 1 a of this 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:

$$\text{TOK}_t = -£6,480,000$$

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

$$\text{TOK}_t = \left[ (\text{TOR}_{t-1} - \text{TOMR}_{t-1}) + \left( £16,300,000 \times \text{CSN} \times \left[ 1 + \left( \frac{\text{RPI}_{\text{CSN}}}{100} \right) \right] \right) \right] \times \left( 1 + \frac{I_t}{100} \right)$$

where

$\text{TOR}_{t-1}$  shall have the meaning given to that term in paragraph 2 of Part 1 a of this condition where t equals t-1;

$\text{TOMR}_{t-1}$  shall have the meaning given to that term in paragraph 3(1) of Part 1 a of this condition where t equals t-1;

$\text{CSN}$  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 one or more of the respective companies to which the networks listed in subparagraph (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 (28) 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 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 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 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 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 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 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 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 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 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 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 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 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<sub>t</sub>)**

**(1) Principal formula**

For the purposes of paragraph 12 of Part 2 of this condition the revenues which the licensee derives from its NTS system operation activity in respect of any formula year t (SOR<sub>t</sub>) shall be derived from the following formula:

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

where:

RCOM<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from charges levied on gas shippers and DN 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<sub>t</sub> (ii) SORCAP<sub>t</sub> and (iii) SOROC<sub>t</sub>.

SOExRF<sub>t</sub> means  
 (a) in respect of formula year t ≤ 3 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 shall be derived in accordance with the following formula:

$$SOExRF_t = TOEx_t - TOExRF_t$$

(b) otherwise, 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 exit

flow flexibility to gas shippers and DN 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 condition, but for all days from 1 October 2008 (or such date that the Authority otherwise directs in writing),  $TOEx_t$  shall have the value zero (0);

$TOExRF_t$  shall be derived in accordance with paragraph 2 of Part 1 a of this condition but for all days from 1 October 2008 (or such date that the Authority otherwise directs in writing),  $TOExRF_t$  shall have the value zero (0);

$DREVBExC_t$  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 exit flow flexibility;

$REVIFF_t$  means the revenue derived by the licensee in respect of formula year t from sales of NTS

incremental exit 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 condition; and

$SOROC_t$  means the NTS SO revenue derived by the licensee in respect of other defined SO charges and shall be derived in accordance with paragraph 13(3) of Part 2 of this 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 condition NTS SO revenue derived by the licensee in respect of sales of entry capacity in respect of formula year t ( $SORCAP_t$ ) shall be derived from the following formula:

$$SORCAP_t = DREVBEC_t + REVOIEC_t + REVIEC_t + REVIC_t + REVIBEC_t$$

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 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 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 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 condition.

**(3) Associated SO charges ( $SOROC_t$ )**

For the purposes of paragraph 13(1) of Part 2 of this 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 ( $t \leq 2$ )

$$SOROC_t = RNC_t + RCOR_t + FTI_t$$

In formula year ( $t \geq 3$ )

$$SOROC_t = RNC_t + RCOR_t + FTI_t + RLOC_t$$

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 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 network code);

$FTI_t$  means revenue derived by the licensee in respect of formula year  $t$  from charges levied on gas shippers and DN operators in respect of any failure to interrupt (having the meaning given to that term in the network code); and

$RLOC_t$  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 network code) and shall be derived in accordance with paragraph 14(7)(b) of Part 2 of this 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 condition, the term maximum NTS system operation revenue in respect of formula year  $t$  ( $SOMR_t$ ) shall be derived from the following formula:

$$SOMR_t = SOIR_t + SOIC_t + SORA_t$$

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 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 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 condition.

**(2) NTS system operator incentive revenue ( $SOIR_t$ )**

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

Deleted:  $SOIR_t = ECIIR_t$

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

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 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 condition;

$ExCBBIIIR_t$  means the NTS exit capacity buy-back and interruptions incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(12)(a) of Part 2 of this condition;

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$BBIR_t$  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 condition;

Deleted: buy back

SBIR<sub>t</sub> 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 condition;

RBIR<sub>t</sub> 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 condition; and

ICIR<sub>t</sub> 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 condition.

**(3) NTS system operation costs (SOIC<sub>t</sub>)**

For the purposes of paragraph 14(1) of Part 2 of this condition, the term NTS system operation costs in respect of formula year t (SOIC<sub>t</sub>) shall be derived from the following formula:

Deleted: SOIC<sub>t</sub> = ExCP<sub>t</sub>

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

where:

ExCP<sub>t</sub> 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 condition;

ExCBBICP<sub>t</sub> means the revenue equivalent to the NTS exit capacity buy-back and interruption costs incurred by the licensee in respect of formula

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year t and shall be derived in accordance with paragraph 14(12)(c) of Part 2 of this condition;

IECC<sub>t</sub> 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 condition;

CNIC<sub>t</sub> means the revenue equivalent to the total second capacity adjustment neutrality amount (having the meaning given to that term in the network code) incurred in respect of formula year t;

SBIC<sub>t</sub> 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 condition;

RBIC<sub>t</sub> 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 network code) across all days in formula year t;

ICCP<sub>t</sub> 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 condition; and

SOK<sub>t</sub> 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 condition.



**(4) NTS SO revenue adjustment factor (SOK<sub>t</sub>)**

For the purposes of paragraph 14(3) of Part 2 of this condition, the NTS system operation revenue adjustment factor (whether of a positive or negative value) in respect of formula year t (SOK<sub>t</sub>) shall be derived in the following manner:

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

$$SOK_t = 0$$

Otherwise:

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

**Deleted:** SOK<sub>t</sub> = (SOR<sub>t-1</sub>)

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where:

SOR<sub>t-1</sub> shall have the meaning given to the term SOR<sub>t</sub> in paragraph 13(1) of Part 2 of this condition where t equals t-1;

SOMR<sub>t-1</sub> shall have the meaning given to the term SOMR<sub>t</sub> in paragraph 14(1) of Part 2 of this condition where t equals t-1; and

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

**(5) Entry capacity investment incentive revenue (ECIIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this condition the maximum entry capacity investment incentive revenue allowed to the licensee in respect of formula year t (ECIIR<sub>t</sub>) shall be derived in the following manner:

If  $t \leq 5$  then:

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

Otherwise:

$$ECIIR_t = \sum_{\text{all } j} \text{SOREVOIEC}_t^j + \frac{RI_t}{RI_0} \sum_{\text{all } j, m=12t-11}^{12t} \text{SOREVIBEC}_m^j$$

where:

$\text{SOREVOIEC}_t^j$  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 condition;

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

$RI_t$  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 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 condition;

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

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

where:

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

where:

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

$$\sum_{w=0}^{Q^1} (\text{IPOEC}_{(m-p),w}^j) = \text{IPOEC}_{(m-p),0}^j + \text{IPOEC}_{(m-p),1}^j + \dots + \text{IPOEC}_{(m-p),Q^1}^j$$

$\text{UCAG}^j$  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 <sup>j</sup> (£/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 <sup>j</sup> (£/kWh)	UCAG <sup>j</sup> (£/kWh)
Milford Haven	0.343 where PRIORCIOEC <sub>m</sub> <sup>j</sup> ≤ 500 GWh/d	0.257 where PRIORCIOEC <sub>m</sub> <sup>j</sup> > 500 GWh/d

PRIORCIOEC<sub>m</sub><sup>j</sup> 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;

$\beta$  has a value equal to 0.2; and

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

$\sum_{\text{all } j} \sum_{m=12t-11}^{12t} \text{SOREVIBEC}_m^j$  means the sum across all terminals j of  $\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_m^j$ ; and

$\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_m^j$  means the sum across all months m in formula year t at terminal j of SOREVIBEC<sub>m</sub><sup>j</sup> calculated in the following manner:

$$\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m}^j = \text{SOREVIBEC}_{(12t-11)}^j + \text{SOREVIBEC}_{(12t-10)}^j + \dots + \text{SOREVIBEC}_{12t}^j$$

**(b) Determination of obligated incremental entry capacity**

(i) In this paragraph 14(5)(b) of Part 2 of this 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 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 C15 (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 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 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 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 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 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 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 condition to suspend implementation of the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this 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 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 condition, and implemented in accordance with paragraph 14(5)(b)(vi) or (vii) in Part 2 of this 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 condition) in accordance with paragraphs 14(5)(c) and 14(5)(f) in Part 2 of this condition;

(ix) The licensee may withdraw a proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this 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 condition to suspend implementation of the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this 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 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 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 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) (Obligations as Regard Charging Methodology).
- (iii) Where the licensee serves a termination notice (having the meaning given to that term in the 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) (Obligations as Regard Charging Methodology)), 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 network code, such clearing allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this 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  $REVBEC_{m,d,w}^j$  and  $REVOIEC_{m,d,w}^j$  (as the same are defined in paragraph 14(5)(i) of Part 2 of this 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 condition if the licensee has in accordance with the 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 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 ( $SOREVOIEC_t^j$ )**

For the purposes of paragraph 14(5)(a) of Part 2 of this 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 ( $SOREVOIEC_t^j$ ) shall be derived from the following formula:

$$SOREVOIEC_t^j = \text{MIN} \left[ \text{CAPOIEC}_t^j, \text{MAX} \left( \text{COLOIEC}_t^j, \sum_{m=12t-11}^{12t} \left( \sum_{\text{All } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j \right) - \text{DQREV}_t^j \right) \right]$$

where:

$\text{MIN}(x,y)$  means the value equal to the lesser of x and y;

$\text{CAPOIEC}_t^j$  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 condition;

$\text{MAX}(x,y)$  means the value equal to the greater of x and y;

$\text{COLOIEC}_t^j$  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 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 condition; and

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

$$\sum_{m=12t-11}^{12t} \left( \sum_{\text{All } d} \sum_{w=1}^{Q^d} REVOIEC_{m,d,w}^j \right) = \sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC_{(12t-11),d,w}^j + \sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC_{(12t-10),d,w}^j + \dots + \sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC_{12t,d,w}^j$$

where:

$\sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC_{m,d,w}^j$  means the sum across all days d in month m of

$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j$  for each terminal  $j$  and shall be calculated in the following manner:

$$\sum_{\text{all } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j = \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,1,w}^j + \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,2,w}^j + \dots + \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,D,w}^j$$

where:

$D$  means the number of days in month  $m$ ; and

$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j$  means the sum across all days  $w$  between day  $d$  of month  $m$  and 1 April 2002 of  $\text{REVOIEC}_{m,d,w}^j$  and shall be calculated in the following manner:

$$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j = \text{REVOIEC}_{m,d,1}^j + \text{REVOIEC}_{m,d,2}^j + \dots + \text{REVOIEC}_{m,d,Q^d}^j$$

$\text{DQREV}_t^j$  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  $\text{REVOIEC}_t$  pursuant to paragraph 14(5)(c)(vi) of Part 2 of this condition.

**(e) The maximum entry capacity investment incentive revenue (CAPOIEC<sub>t</sub><sup>j</sup>)**

For the purposes of paragraph 14(5)(d) of Part 2 of this 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 (CAPOIEC<sub>t</sub><sup>j</sup>) shall be derived from the following formula:

$$\text{CAPOIEC}_t^j =$$

$$\frac{RI_t}{RI_0} \times \left( \sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0)) \right) \right) \times \text{UCACAP}_t^j$$

where:

RI<sub>t</sub> shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

RI<sub>0</sub> shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

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

CIOEC<sub>m,0</sub><sup>j</sup> 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 condition where w is equal to zero;

OSELL<sub>m,d,0</sub><sup>j</sup> 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 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 condition;

$UCACAPCONV$  has a value equal to 0.17438; and

$y_t$  means the number of days in formula year t.

$\sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0)) \right)$  means the sum across all months m in formula year t of  $\sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0))$  and shall be calculated in the following manner:



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

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

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

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

where:

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

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

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

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

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

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 ( $\text{OSELL}_{m,d,w}^j$ )**

For the purposes of paragraph 14(5)(e) of Part 2 of this 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 ( $OSELL_{m,d,w}^j$ ) shall be derived from the following formula:

$$OSELL_{m,d,w}^j = TOEC_{m,w}^j - \sum_{W=w}^{Q^d} OMET_{m,d,W}^j - \text{Min}(\text{PRIORSELL}_{m,d}^j, TOEC_{m,w}^j)$$

where:

$TOEC_{m,w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this 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))

$OMET_{m,d,W}^j$  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:

On 1 April 2002:

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

Otherwise:

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

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;

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

$$\sum_{\sigma=W+1}^{Q^d} \text{OMET}_{m,d,\sigma}^j = \text{OMET}_{m,d,(W+1)}^j + \text{OMET}_{m,d,(W+2)}^j + \dots + \text{OMET}_{m,d,Q^d}^j$$

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

PRIORSELL<sub>m,d</sub><sup>j</sup> 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,  $OSELL_{m,d,0}^j > 0$  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  $OSELL_{m,d,0}^j = 0$  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) (Obligations as Regard Charging Methodology);
- (b) Where the licensee has complied with its obligations pursuant to paragraph 14(5)(f)(ii)(a) of Part 2 of this condition then at the end of day d of month m  $OSELL_{m,d,0}^j$  shall have a value equal to zero.

**(g) Calculation of obligated entry capacity (TOEC<sub>m,w</sub><sup>j</sup>)**

For the purposes of paragraph 14(5)(f) of Part 2 of this 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 ( $TOEC_{m,w}^j$ ) shall be derived from the following formula:

$$TOEC_{m,w}^j = MOEC_{m,w}^j + CIOEC_{m,w}^j$$

where:

$MOEC_{m,w}^j$  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  $m > 60$ :

$$MOEC_{m,w}^j = LBEC_m^j + \alpha(SBEC_m^j) + \left( \sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^1} IPOEC_{(m-p),W}^j \right)$$

Otherwise:

$$MOEC_{m,w}^j = LBEC_m^j + \alpha(SBEC_m^j)$$

where:

$LBEC_m^j$  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:

$$LBEC_m^j = (1 - STR_m^j) \times IBEC_m^j \times 1,000,000$$

where:

$STR_m^j$  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;

$\alpha$  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

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

$$\sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j) = \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-60),W}^j) + \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-61),W}^j) + \dots + \sum_{W=0}^{Q^1} (\text{IPOEC}_{1,W}^j)$$

where:

$\sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j)$  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  $\text{IPOEC}_{(m-p),W}^j$  and shall be calculated in the following manner:

$$\sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j) = \text{IPOEC}_{(m-p),0}^j + \text{IPOEC}_{(m-p),1}^j + \dots + \text{IPOEC}_{(m-p),Q^1}^j$$

$\text{CIOEC}_{m,w}^j$  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:

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

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

where:

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

IPOEC<sub>(m-p),W</sub><sup>j</sup> has the meaning given above

IAOEC<sub>(m-p),W</sub><sup>j</sup> 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.

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

means the sum across all incremental obligated entry capacity  $\lambda_{(m-p),W}^j$  (where  $\lambda$  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:

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

where:

$\phi$  takes a value of 59 where  $\lambda$  equals IPOEC and a value of 11 where  $\lambda$  equals IAEOC;

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

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

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

**(h) The minimum entry capacity investment incentive revenue (COLOIEC<sub>t</sub><sup>j</sup>)**

For the purposes of paragraph 14(5)(d) of Part 2 of this condition, the minimum entry capacity investment incentive revenue allowed to the licensee in respect of formula year t at terminal j (COLOIEC<sub>t</sub><sup>j</sup>) shall be derived from the following formula:

$$\text{COLOIEC}_t^j = \frac{RI_t}{RI_0} \times \left( \sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0) \right) \right) \right) \times \text{UCACOL}_t^j$$

where:

RI<sub>t</sub> shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

RI<sub>0</sub> shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

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

CIOEC<sub>m,0</sub><sup>j</sup> shall have the meaning given to the term CIOEC<sub>m,w</sub><sup>j</sup> in paragraph 14(5)(g) of Part 2 of this condition where w is equal to zero;

OSELL<sub>m,d,0</sub><sup>j</sup> shall have the meaning given to the term OSELL<sub>m,d,w</sub><sup>j</sup> in paragraph 14(5)(f) of Part 2 of this condition where w is equal to zero;

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

$\text{UCACOL}_t^j$  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:

$$\text{UCACOL}_t^j = \text{UCAG}^j \times \frac{\text{UCACOLCONV}}{y_t}$$

where:

$\text{UCAG}^j$  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 condition;

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

$\text{UCACOLCONV}$  has a value equal to 0.09661.

**(i) Calculation of entry capacity incentive revenue ( $\text{REVOIEC}_{m,d,w}^j$ )**

- (i) Except where paragraph 14(5)(c)(vi) of Part 2 of this 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 ( $\text{REVOIEC}_{m,d,w}^j$ ) 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 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 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 condition;

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

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:

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

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

where:

$\text{MIN}(x, y)$  means the value equal to the lesser of x and y;

$\text{CAPSOLD}_{m,d,w}^j$  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;

$MOEC_{m,w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this 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

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

$$\sum_{W=w+1}^{Q^d} SOLDBEC_{m,d,W}^j = SOLDBEC_{m,d,(w+1)}^j + SOLDBEC_{m,d,(w+2)}^j + \dots + SOLDBEC_{m,d,Q^d}^j$$

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

- (bb) Allocated volumes of obligated incremental entry capacity ( $SOLDOIEC_{m,d,w}^j$ )

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:

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

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

where:

$\text{MIN}(x,y)$  means the value equal to the lesser of x and y;

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

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

$\text{CIOEC}_{m,w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this 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

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

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

$$\text{SOLDOIEC}_{m,d,(w+1)}^j + \text{SOLDOIEC}_{m,d,(w+2)}^j$$

$$+ \dots + \text{SOLDOIEC}_{m,d,Q^d}^j$$

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

- (cc) Allocated volumes of non-obligated incremental entry capacity ( $\text{SOLDIEC}_{m,d,w}^j$ )

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:

$$\text{SOLDIEC}_{m,d,w}^j =$$

$$\left( \text{CAPSOLD}_{m,d,w}^j - \text{SOLDBEC}_{m,d,w}^j - \text{SOLDOIEC}_{m,d,w}^j \right)$$

where:

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

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

$SOLDOIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this condition.

Where more than one allocation occurs on day w, values for  $SOLDIEC_{m,d,w}^j$ , 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 ( $REVBEC_{m,d,w}^j$ ) shall be the revenue allocated in respect of  $SOLDBEC_{m,d,w}^j$  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 the total volume of  $SOLDBEC_{m,d,w}^j$  then up to the total volume of  $SOLDOIEC_{m,d,w}^j$  then up to the total volume of  $SOLDIEC_{m,d,w}^j$  ;

where:

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

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

$SOLDIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(cc) of Part 2 of this 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 ( $REVOIEC_{m,d,w}^j$ ) of month m and terminal j, as at w days in advance of d shall be the revenue allocated in respect of  $SOLDOIEC_{m,d,w}^j$  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  $SOLDBEC_{m,d,w}^j$  then up to the total volume of  $SOLDOIEC_{m,d,w}^j$  then up to the total volume of  $SOLDIEC_{m,d,w}^j$  ;

where:

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

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

$SOLDIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(cc) of Part 2 of this condition.

**(j) Non-obligated incremental entry capacity revenue ( $REVIEC_{m,d,w}^j$ )**

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

$(\text{REVIEC}_{m,d,w}^j)$  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 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 condition;

**(k) Annual revenues from entry capacity sales**

(i) For the purposes of paragraph 2(1) of Part I a of this 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:

$\sum_{\text{all } j}$  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 condition;

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

$\sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right]$  is the sum across all months m in formula year t of  $\sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j$  where  $\gamma_{m,d,w}^j = REVBEC_{m,d,w}^j \times \frac{IBEC_m^j \times 1,000,000}{MOEC_{m,0}^j}$  and

shall be calculated in the following manner:

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

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

where:

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

where:

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

$$\sum_{w=0}^{Q_d} \gamma_{m,d,w}^j = \gamma_{m,d,0}^j + \gamma_{m,d,1}^j + \dots + \gamma_{m,d,Q_d}^j$$

- (ii) For the purposes of paragraph 13(2) of Part 2 of this 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:

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

where:

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

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

$\sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right]$  shall have the meaning given to that term in paragraph 14(5)(k)(i) of Part 2 of this condition where  $\gamma_{m,d,w}^j = \text{REVOIEC}_{m,d,w}^j$  ;  
and

$\text{DQREV}_t^j$  shall have the meaning given to that term in paragraph 14(5)(d) of Part 2 of this condition.

- (iii) For the purposes of paragraph 13(2) and 14(7)(b) of Part 2 of this 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:

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

where:

$\sum_{\text{all } j}$  is the sum across all terminals j;  
 $\text{REVIEC}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(j) of Part 2 of this condition; and

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

- (iv) For the purposes of paragraph 13(2) of Part 2 of this 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:

$\sum_{\text{all } j}$  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 condition;

$\text{IBEC}_m^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this 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 condition where w is equal to zero;

$\sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right]$  shall have the meaning given to that term in paragraph 14(5)(k)(i) of Part 2 of this 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 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:

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

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 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 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 condition where  $w$  is equal to zero;

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

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

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

where:

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

- (ii) For the purposes of paragraph 14(7)(b) of Part 2 of this 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:

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

where:

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

$\sum_{\text{all } j} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \gamma_{m,d,0}^j \right]$  shall have the meaning given to that term in paragraph 14(5)(1)(i) of Part 2 of this condition where  $\gamma_{m,d,0}^j = \text{REVOIEC}_{m,d,0}^j$ .



**(6) Exit capacity investment incentive revenue (ExCIIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this condition, the maximum exit capacity investment incentive revenue allowed to the licensee in respect of formula year t (ExCIIR<sub>t</sub>) shall be derived from the following formula:

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

ExCIIR<sub>t</sub> =

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

Otherwise:

ExCIIR<sub>t</sub> =

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

Where:

ExIT<sub>t</sub> 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 condition;

ExCIT<sub>t</sub> 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 network code) as set out in the following table:

	Formula year						
Variable	t=1	t=2	t=3	t=4	<del>t=5</del>	<del>t=6</del>	<del>t≥7</del>
ExCIT <sub>t</sub>	5.9	6.2	6.6	6.6	6.6	<u>2.6</u>	<u>2.1</u>
£ million							

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ExCP<sub>t</sub> 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 condition;

ExCC<sub>t</sub> 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 network code);

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

ExUSF<sub>t</sub> 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 <sub>t</sub>	50%	50%

ExDSF<sub>t</sub> 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 <sub>t</sub>	25%	25%

ExCAP<sub>t</sub> 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 <sub>t</sub> £million	10	10	1

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

ExCOL<sub>t</sub> 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 <sub>t</sub> £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 condition shall include the following:
  - (aa) The NTS exit point(s) (having the meaning given to that term in the 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 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 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 condition to justify incurring the costs referred to in sub-paragraph 14(6)(b)(ii)(dd) of Part 2 this 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 condition:
- |                                       |   |
|---------------------------------------|---|
| NTS incremental<br>firm exit capacity | means NTS firm exit capacity additional to<br>the NTS baseline firm exit capacity set out in<br>table A3 of schedule A. |
|---------------------------------------|---|
- (c) **Not used**

**(d) The exit incentive target (ExIT<sub>t</sub>)**

- (i) For the purpose of paragraph 14(6)(a) of Part 2 of this condition the exit incentive target in respect of formula year t (ExIT<sub>t</sub>) shall be derived from the following formula:

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

where:

ExNTSIT<sub>t</sub> 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 as follows:

for all days until 1 June 2005 (or such date that the Authority otherwise directs in writing)

$$\text{ExNTSIT}_t = \text{ExNTSSIT}_t + \text{ExNTSIT}_t$$

and for all days from and including 1 June 2005 (or such date that the Authority otherwise directs in writing):

$$\text{ExNTSIT}_t = \text{ExNTSSIT}_t$$

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where:

ExNTSSIT<sub>t</sub> 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	<del>t=5</del>	<del>t=6</del>	<del>t≥7</del>
ExNTSSIT <sub>t</sub> £million	33.5	35.9	36.6	37.2	37.9	<u>42.3</u>	<u>41.2</u>

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ExNTSII<sub>t</sub> 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) of Part 2 of this condition in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days subject to sub-paragraph 14(6)(d)(ii) of Part 2 of this condition as set out in the following table:

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Variable	Formula year						
	t=1	t=2	t=3	t=4	<del>t=5</del>	<del>t=6</del>	<del>t≥7</del>
ExNTSII <sub>t</sub> £million	1.42	1.47	1.51	1.59	1.68	<u>1.73</u>	<u>1.68</u>

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However, for all days from 1 October 2008 (or such date that the Authority otherwise directs in writing), ExNTSII<sub>t</sub> shall have the value zero (0);

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ExCIT<sub>t</sub> shall have the meaning given to that term in paragraph 14(6)(a) of Part 2 of this condition; and

IExR<sub>t</sub> 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 condition.

(ii) Unless the Authority otherwise directs in writing, in any formula year t ExNTSIT<sub>t</sub> 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 offtake gas from the NTS on plus 15 curtailment days does not conform with sub-paragraph 14(6)(d)(iii) below; or

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

(iii) 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 offtake gas from NTS on plus 15 curtailment days in respect of formula year t (AExNTSIIC<sub>t</sub>) shall be equal to the value derived from the following formula:

$$AExNTSIIC_t = \frac{ExNTSSIC_t}{\left( \sum_{\text{all } z} ExNTSC_z^{\text{Jan15th}} \times 15 \right)}$$



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 condition;

$ExNTSC_z^{Jan15th}$  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 ~~z~~.

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**(e) NTS incremental exit capacity revenue (IExR<sub>t</sub>)**

For the purposes of paragraph 14(6)(d) of Part 2 of this condition, the maximum NTS incremental exit capacity revenue in respect of formula year t (IExR<sub>t</sub>) shall be derived in the following manner:

If

$TExC_t \geq TExCO_t$ , then:

$$IExR_t = \frac{R_t}{R_{l0}} \times ExUCA \times (TExC_t - TExCO_t)$$

Otherwise:

$$\text{IExR}_t = 0$$

where:

$\text{TExC}_t$  means the actual NTS exit capacity in GWh/day in respect of formula year t and shall be derived from the following formula:

$$\text{TExC}_t = \text{DMExC}_t + \text{NDMExC}_t;$$

where:

$\text{DMExC}_t$  means the NTS exit capacity in GWh/day for DM supply meter points, DM connected system exit points and storage connection points in respect of formula year t and shall be calculated in accordance with paragraph 14(6)(f) of Part 2 of this condition; and

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$\text{NDMExC}_t$  means the NTS exit capacity in GWh/day for NDM supply meter points and NDM connected system exit points in respect of formula year t and shall be calculated in accordance with paragraph 14(6)(g) of Part 2 of this condition.

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$TE_{xCO_t}$  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
$TE_{xCO_t}$ 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;

$RI_0$  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; 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<sub>t</sub>)**

For the purposes of paragraph 14(6)(e) of Part 2 of this 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<sub>t</sub>) shall be derived from the following formula:

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

where:

DMExC<sub>s,t</sub> means the NTS exit capacity registered for supply meter point s in accordance with the 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 offtake of gas at that supply meter point, connected system exit point or storage connection point is daily metered; and

$\sum_{\text{alls}}$  means the sum across all DM supply meter points, DM connected system exit points and storage connection points s.

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**(g) NTS exit capacity for NDM supply meter points and NDM connected system exit points (NDMExC<sub>t</sub>)**

For the purposes of paragraph 14(6)(e) of Part 2 of this condition, the NTS exit capacity for NDM supply meter points and NDM connected system exit points in respect of formula year t (NDMExC<sub>t</sub>) shall be derived from the following formula:

$$\text{NDMExC}_t = \frac{\text{TNDMT}_t}{\text{LF}}$$

where:

**TNDMT<sub>t</sub>** 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 (ExCP<sub>t</sub>)**

For the purposes of paragraphs 14(3) and 14(6)(a) of Part 2 of this condition, the exit performance measure in respect of formula year t (ExCP<sub>t</sub>) shall be derived from the following formula:

$$\text{ExCP}_t = \text{ExNTSIC}_t + \text{ExCC}_t + \text{RExCP}_t$$

where:

**ExNTSIC<sub>t</sub>** 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:

For all days until 1 June 2005 (or such date that the Authority otherwise directs in writing):

$$\text{ExNTSIC}_t = \text{ExNTSSIC}_t + \text{ExNTSIIC}_t$$

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and for all days from and including 1 June 2005 (or such date that the Authority otherwise directs in writing):

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$$\text{ExNTSIC}_t = \text{ExNTSSIC}_t$$

where:

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ExNTSSIC<sub>t</sub> 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:

$\sum_{\text{all } d}$  means the sum across all days d in formula year t;

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$\sum_{\text{all } z}$  means the sum across all supply points, connected system exit points and storage connection points  $z_i$  and

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$\text{ExC}_{z,d}$  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

$\text{ExIPK}_{z,d}$  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  $\text{ExC}_{z,d}$  and shall be derived from the

following formula:

$$\text{ExIPK}_{z,d} = \text{ExUCC}_{z,d} - \text{ExFC}_{z,d}$$

where:

$\text{ExUCC}_{z,d}$  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  $ExC_{z,d}$ .

$ExNTSIIC_t$  means in respect of formula year t the total payments made by the licensee in accordance with paragraph 14(6)(d)(iii) of Part 2 of this condition in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days and shall be derived from the following formula:

Deleted: (a)

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

where:

$\sum_{\text{all } d}$  means the sum across all days d in formula year t;

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

Deleted: of  $ExNTSIIC_{z,d}$

$ExNTSIIC_{z,d}$  means the amount

paid by the licensee in respect of the curtailment of rights to offtake 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.

However, for all days from 1 October 2008 (or such date that the Authority otherwise directs in writing),  $ExNTSIC_t$  shall have the value zero (0).

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$ExCC_t$  shall have the meaning given to that term in paragraph 14(6)(a) of Part 2 of this 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 subparagraph 14(6)(b)(dd) of Part 2 of this 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 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 why it initiated such use of exit capacity curtailment rights which shall be for one 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 offtakes 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.

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

**(7) Entry capacity buy-back incentive revenue (BBIR<sub>t</sub>)****(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this 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:

$$BBIR_t = \text{MIN} [BBUSF_t \times (BBIT_t^L - BBCP_t), BBCAP_t]$$

If  $BBIT_t^U < BBCP_t$ , then:

$$BBIR_t = \text{MAX} [BBDSF_t \times (BBIT_t^U - BBCP_t), BBCOL_t]$$

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:

Variable	Formula year		
	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 condition;

$\text{MIN}(x,y)$  means the value equal to the lesser of x and y;

$\text{BBUSF}_t$  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
$\text{BBUSF}_t$	50%	50%

$\text{BBCAP}_t$  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
$\text{BBCAP}_t$ £million	30	30

$\text{BBIT}_t^u$  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
$\text{BBIT}_t^u$ £million	35	20	18

$\text{MAX}(x,y)$  means the value equal to the greater of x and y;

$\text{BBDSF}_t$  is the buy-back downside sharing factor in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
BBDSF <sub>t</sub>	35%	35%

BBCOL<sub>t</sub> means the minimum buy-back incentive revenue in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
BBCOL <sub>t</sub> £million	-12.5	-12.5

**(b) The entry capacity buy-back performance measure (BBCP<sub>t</sub>)**

For the purposes of paragraph 14(7)(a) of Part 2 of this condition, the entry capacity buy-back performance measure in respect of formula year t (BBCP<sub>t</sub>) shall be derived in the following manner:

In formula year (t ≤ 2)

$$\text{BBCP}_t = \text{IECCC}_t - \text{DDCR}_t - \text{REVIC}_t - \text{REVIEC}_t - \text{RCOR}_t$$

In formula year (t ≥ 3)

$$\text{BBCP}_t = \text{IECCC}_t - \text{DDCR}_t - \text{REVIC}_t - \text{REVIEC}_t - \text{RCOR}_t - \text{RLOC}_t$$

where:

IECCC<sub>t</sub> 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:

$$\text{IECCC}_t = \sum_{\text{all } d} \text{BBC}_{d,t} + \sum_{\text{all } d} \text{ECCC}_{d,t}$$

where:

d means a day in formula year t;

$\sum_{\text{all } d}$  means the sum across all days d in formula year t;

Deleted: 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 (less any revenues received from DN operators in respect of the curtailment of capacity rights to put gas into their 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 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  $BBC_{d,t}$ ; 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  $BBC_{d,t}$  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:

$$DDCR_t = DREVBEC_t + DREVOIEC_t$$

where:

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

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

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

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

$RCOR_t$  shall have the meaning given to that term in paragraph 13(3) of Part 2 of this 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 network code) and shall be derived from the following formula:

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

$RLSA_{d,t}$  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 network code) in respect of day d of formula year t.

**(8) System balancing incentive revenue (SBIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this 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 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 condition.

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

For the purposes of paragraph 14(8)(a) of Part 2 of this 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:

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

Otherwise:

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

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 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 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:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$GCUSF_t$	25%	25%

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

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$GCCAP_t$ £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:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>

$GCDSF_t$	20%	20%
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$GCCOL_t$  means the minimum gas cost incentive revenue in respect of formula year t as set out in the following table:

Variable	Formula year	
	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 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:

Variable	Formula year	
	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 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 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 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 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:

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

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

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

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;

$\sum_{\text{all } q}$  means the sum across all quarters  $q$  in formula year  $t$ ;

$\sum_{\text{all } d}$  means the sum of across all days  $d$  in quarter  $q$ ;

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

$$NTST_{t-2,q,d} = UDQI_{t-2,q,d} + \sum_{\text{all } S} \text{Max}[UDQI_{t-2,q,d}^S - UDQO_{t-2,q,d,0}^S]$$

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 network code) at the terminals at each of Bacton, Barrow, Easington, St Fergus, Teesside, Theddlethorpe, Isle of Grain and Milford Haven on day  $d$  of quarter  $q$  of formula year  $t-2$ ;

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 or  $\sum_{\text{all } d} NTST_{t-2,q,d}$  as the case may be  
**Deleted:** of  $(NTST_{t-2,q,d} \times FQRP_{t,q})$   
 or  $NTST_{t-2,q,d}$  as the case may be

**Deleted:** and

$UDQI_{t-2,q,d}^S$  means the sum of gas shippers' user daily quantity input (having the meaning given to that term in the network code) in respect of storage connection point S on day d of quarter q of formula year t-2;

$UDQQ_{t-2,q,d}^S$  means the sum of gas shippers' user daily quantity outputs (having the meaning given to that term in the 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 S.

$FQRP_{t,q}$  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 - 1) and in respect of formula years ( $t \geq 4$ ) 1 April in formula year (t - 1);



b In respect of formula years (t ≤ 3) means 20 March in formula year (t - 1) and in respect of formula years (t ≥ 4) 31 March in formula year (t - 1);

$\sum_{d=a}^b$  means the sum of all business days d between day a and day b (both inclusive);

FP<sub>t,q,d</sub> 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.

- (iii) 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<sub>t</sub>)**

For the purposes of paragraph 14(3) of Part 2 of this condition, the NTS SO system balancing costs in respect of formula year t (SBIC<sub>t</sub>) shall be derived from the following formula:

$$SBIC_t = GCCP_t + SRCP_t$$

where:

GCCP<sub>t</sub> means the NTS SO gas cost performance measure and shall be calculated in accordance with paragraph 14(8)(g) of Part 2 of this condition; and

SRCP<sub>t</sub> shall have the meaning given to that term in paragraph 14(8)(c) of Part 2 of this condition.

**(g) The NTS SO gas cost performance measure (GCCP<sub>t</sub>)**

For the purposes of paragraph 14(8)(b) of Part 2 of this condition, the NTS SO gas cost performance measure in respect of formula year t (GCCP<sub>t</sub>) shall be derived from the following formula:

$$GCCP_t = GC_t + ECC_t$$

where:

GC<sub>t</sub> means the payments made by the licensee in respect of the total costs incurred by the licensee (less any revenues received from DN operators) in respect of formula year t in the provision of NTS Shrinkage other than ECC<sub>t</sub>; and

ECC<sub>t</sub> 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 revenue (RBIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this condition, the maximum residual gas balancing incentive revenue allowed to the licensee in respect of formula year t (RBIR<sub>t</sub>) shall be derived from the following formula:

$$RBIR_t = \text{MIN}[RBCAP_t, \text{MAX}[STIP_t, RBCOL]]$$

where:

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

RBCAP<sub>t</sub> 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 <sub>t</sub> £million	3.5	3.5

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

STIP<sub>t</sub> 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 condition; and

RBCOL<sub>t</sub> 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 <sub>t</sub> £million	-3.5	-3.5

**(b) The sum of the total daily incentive payments under the residual gas balancing incentive (STIP<sub>t</sub>)**

For the purposes of paragraph 14(9)(a) of Part 2 of this condition, the sum of the total daily incentive payments under the residual gas balancing incentive in respect of formula year t (STIP<sub>t</sub>) shall be derived from the following formula:

$$STIP_t = SDPIP_t + SDLIP_t$$

where:

SDPIP<sub>t</sub> means the sum of daily price incentive payments and shall be calculated in accordance with paragraph 14(9)(c) of Part 2 of this condition; and

SDLIP<sub>t</sub> means the sum of daily linepack incentive payments and shall be calculated in accordance with paragraph 14(9)(d) of Part 2 of this condition.

**(c) The sum of daily price incentive payments (SDPIP<sub>t</sub>)**

For the purposes of paragraph 14(9)(b) of Part 2 of this condition, the sum of the daily price incentive payments in respect of formula year t (SDPIP<sub>t</sub>) shall be derived from the following formula:

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

where:

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

Deleted: of DPIP<sub>d,t</sub>

DPIP<sub>d,t</sub> means the daily price incentive payment and shall be calculated in accordance with paragraph 14(9)(e) of Part 2 of this condition.

**(d) The sum of daily linepack incentive payments (SDLIP<sub>t</sub>)**

For the purposes of paragraph 14(9)(b) of Part 2 of this condition, the sum of daily linepack incentive payments in respect of formula year t (SDLIP<sub>t</sub>) shall be derived from the following formula:

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

where:

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

Deleted: of DPIP<sub>d,t</sub>

DLIP<sub>d,t</sub> means the sum of daily linepack incentive payment and shall be calculated in accordance with paragraph 14(9)(g) of Part 2 of this condition.

**(e) The daily price incentive payment (DPIP<sub>d,t</sub>)**

For the purposes of paragraph 14(9)(c) of Part 2 of this 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:

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

Otherwise:

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

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 condition;

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

Variable	Formula years	
	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:

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

$\text{MAX}(x,y)$  is the value equal to the greater of x and y;

$\text{PIMUL}_t$  means the price incentive measure upper limit in respect of formula year t as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$\text{PIMUL}_t$	0%	0%

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

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$\text{DPMCOL}_t$	-30,000	-30,000
£		

$\text{MIN}(x,y)$  is the value equal to the lesser of x and y; and

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

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$\text{PIMLL}_t$	85%	85%

**(f) The daily residual balancing price performance measure ( $\text{PPM}_{d,t}$ )**

For the purposes of paragraph 14(9)(e) of Part 2 of this condition, the licensee’s daily residual balancing price performance measure in respect of day d in formula year t ( $\text{PPM}_{d,t}$ ) 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  $t \geq 3$

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

where:

$TMIBP_{d,t}$  means in formula year ( $t \leq 2$ ) 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 network code) in relation to a eligible balancing action (having the meaning given to that term in the 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 ( $t \geq 3$ ) 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 network code) in relation to a eligible balancing action (having the meaning given to that term in the 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 ( $t \leq 2$ ) 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 network code) in relation to a eligible balancing action (having the meaning given to that term in the 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 network code) in relation to a eligible balancing action (having the meaning given to that term in the 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 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 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:

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

Otherwise:

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

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 condition;

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

Variable	Formula year	
	$t=1$	$t \geq 2$
$LIR_t$	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:

Variable	Formula year	
	$t=1$	$t \geq 2$
$DLMCAP_t$ £	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:

Variable	Formula year	
	$t=1$	$t \geq 2$
$LIMUL_t$	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:

Variable	Formula year	
	t=1	t≥2
DLMCOL <sub>t</sub> £	-30,000	-30,000

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

LIMLL<sub>t</sub> means the linepack incentive measure lower limit in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
LIMLL <sub>t</sub>	20.4 mcm	20.4 mcm

**(h) The linepack performance measure (LPM<sub>d,t</sub>)**

For the purposes of paragraph 14(9)(g) of Part 2 of this condition, the linepack performance measure, in respect of day d of formula year t (LPM<sub>d,t</sub>) shall be derived from the following formula:

$$LPM_{d,t} = \text{MAX}[(OLP_{d,t} - CLP_{d,t}), (CLP_{d,t} - OLP_{d,t})]$$

where:

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

OLP<sub>d,t</sub> means the total NTS linepack in respect of day d of formula year t as at 06:00 hours on day d;

CLP<sub>d,t</sub> 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.

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**(10) Internal cost incentive revenue (ICIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this condition, the maximum internal costs incentive revenue allowed to the licensee in respect of formula year t (ICIR<sub>t</sub>) shall be derived in the following manner:

If  $\frac{RI_t}{RI_0} \times ICIT_t \geq ICCP_t$ , then:

$$ICIR_t = ICUSF_t \times \left( \frac{RI_t}{RI_0} \times ICIT_t - ICCP_t \right)$$

Otherwise:

$$ICIR_t = ICDSF_t \times \left( \frac{RI_t}{RI_0} \times ICIT_t - ICCP_t \right);$$

where:

ICIT<sub>t</sub> means the internal cost incentive target in respect of formula year t as set out in the following table:

	Formula years				
Variable	t=1	t=2	t=3	t=4	t≥5
ICIT <sub>t</sub> £ million	29.9	28.2	28.1	28.0	26.6

$ICCP_t$  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 condition;

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

Variable	Formula years	
	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 condition;

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

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

Variable	Formula years	
	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 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 C9 (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 C9 (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 C9 (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 may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the network code;

- (ii) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code);
- (iii) where the revenues derived by the licensee from the sale of obligated entry capacity pursuant to sub-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 network code); and
- (iv) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 14(11)(i) of this condition,

where the event has, for relevant formula year t, increased or decreased the value of SOIC<sub>t</sub> (having the meaning given to that term in paragraph 14(3) of Part 2 of this condition) by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraphs 14(11)(a)(ii) or 14(11)(a)(iii) above.

- (b) Where the licensee considers, and can provide supporting evidence that, in respect of relevant formula year t, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.
- (c) Where any shipper considers, and can provide supporting evidence that, in respect of formula year t, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then that shipper may give notice of this event to the Authority.
- (d) A notice provided to the Authority under paragraphs 14(11)(b) and 14(11)(c) shall, in the case of the licensee, and should, in so far as is practicable in the case of any shipper, give particulars of:

- (i) the event to which the notice relates and the reason(s) why the person giving the notice considers this event to be an income adjusting event;
  - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the person giving the notice to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
  - (iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
  - (iv) any other analysis or information which the person submitting the notice considers to be sufficient to enable the Authority and shippers to fully assess the event to which the notice relates.
- (e) If the Authority considers that the analysis or information provided in subparagraphs 14(11)(d)(i) to 14(11)(d)(iv) above is insufficient to enable both the Authority and shippers to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional material that it considers appropriate.
- (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, in any event, not later than three months after the end of the relevant formula year t in which it occurs.
- (g) The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
- (h) Any notice submitted to the Authority under either paragraphs 14(11)(b) or 14(11)(c) above should clearly identify whether any of the information



contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:

- (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
  - (ii) the extent to which the disclosure of the information mentioned in sub-paragraph 14(11)(h)(i) is necessary for the purpose of enabling shippers to fully assess the event to which the notice relates.
- (i) Following consultation with relevant parties, including the licensee and shippers, the Authority shall determine:
- (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraphs 14(11)(b) or 14(11)(c) were caused or saved by an income adjusting event;
  - (ii) whether the event or circumstance has increased or decreased the value of SOIC<sub>t</sub> by more than the threshold amount, save in the case of sub-paragraphs 14(11)(a)(ii) and 14(11)(a)(iii) where the threshold amount 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.
- (j) In relation to formula year  $t$ , the approved allowance in respect of an income adjustment (SORA<sub>t</sub>) shall be:
- (i) the value determined by the Authority under paragraph 14(11)(i) above; or

- (ii) if the Authority has not made a determination under paragraph 14(11)(i) above within three months of the date on which the notice of an income adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the notice given to the Authority under sub-paragraph 14(11)(d)(iii); or
  - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 14(11)(i) above within three months of the date on which notice of an income adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the relevant parties that the Authority considers that the analysis or information provided in accordance with paragraphs 14(11)(d) and/or 14(11)(e) is insufficient to enable the Authority and shippers to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.
- (k) The Authority's decision in relation to any notice given under paragraphs 14(11)(b) or 14(11)(c) shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (l) The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and shippers. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

**(12) NTS exit capacity buy-back and interruption incentive revenue (ExCBBIR)**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this condition, the maximum NTS exit capacity buy-back and investment incentive revenue

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allowed to the licensee in respect of formula year t (ExCBBIR<sub>t</sub>) shall be derived in the following manner:

For all days until 1 June 2005 (or such date that the Authority otherwise directs in writing):

$$\underline{\text{ExCBBIR}_t} = 0$$

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and for all days from and including 1 June 2005 (or such date that the Authority otherwise directs in writing):

If ExCBBIT<sub>t</sub> ≥ ExCBBICP<sub>t</sub>, then:

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$$\text{ExCBBIR}_t = \text{MIN} \left[ \text{ExCBBIUSF}_t \times (\text{ExCBBIT}_t - \text{ExCBBICP}_t), \text{ExCBBICAP}_t \right]$$

Otherwise:

$$\text{ExCBBIR}_t = \text{MAX} \left[ \text{ExCBBIDSF}_t \times (\text{ExCBBIT}_t - \text{ExCBBICP}_t), \text{ExCBBICOL}_t \right]$$

where:

ExCBBIT<sub>t</sub> means the NTS exit capacity buy-back and interruption incentive target in respect of formula year t and shall be calculated in accordance with paragraph 14(12)(b) of Part 2 of this condition;

ExCBBICP<sub>t</sub> means the NTS exit capacity buy-back and interruption performance measure in respect of formula year t and shall be calculated in accordance with paragraph 14(12)(c) of Part 2 of this condition;

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

$ExCBBIUSt_t$  is the NTS exit capacity buy-back and interruption upside sharing factor in respect of formula year t as set out in the following table:

	<u>Formula year</u>
<u>Variable</u>	<u><math>t \geq 4</math></u>
$ExCBBIUSt_t$	<u>75%</u>

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$ExCBBICAP_t$  means the maximum NTS exit capacity buy-back and interruption incentive revenue in respect of formula year t as set out in the following table:

	<u>Formula year</u>			
<u>Variable</u>	<u><math>t=4</math></u>	<u><math>t=5</math></u>	<u><math>t=6</math></u>	<u><math>t \geq 7</math></u>
$ExCBBICAP_t$ <u>£million</u>	<u>1.59</u>	<u>1.68</u>	<u>1.73</u>	<u>1.68</u>

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

$ExCBBIDSt_t$  is the NTS exit capacity buy-back and interruption downside sharing factor in respect of formula year t as set out in the following table:

	<u>Formula year</u>
<u>Variable</u>	<u><math>t \geq 4</math></u>
$ExCBBIDSt_t$	<u>50%</u>

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$ExCBBICOL_t$  means the minimum NTS exit capacity buy-back and

interruption incentive revenue in respect of formula year t as set out in the following table:

	<u>Formula year</u>
<u>Variable</u>	<u><math>t \geq 4</math></u>
<u>ExCBBICOL<sub>t</sub></u>	<u>-7</u>
<u>£million</u>	

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(b) The NTS exit capacity buy-back and interruption incentive target (ExCBBIIIT<sub>t</sub>)

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For the purpose of paragraph 14(12)(a) of Part 2 of this condition the exit incentive target in respect of formula year t (ExCBBIIIT<sub>t</sub>) shall be derived from the following formula:

For all days until 1 June 2005 (or such date that the Authority otherwise directs in writing):

$$\underline{\text{ExCBBIIIT}_t = 0}$$

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and for all days from and including 1 June 2005 (or such date that the Authority otherwise directs in writing):

$$\underline{\text{ExCBBIIIT}_t = \text{ExCBBIT}_t + \text{ExNTSIIIT}_t}$$

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where

ExCBBIT<sub>t</sub> means the NTS exit capacity buy-back incentive target in respect of formula year t as set out in the following table:

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<u>Variable</u>	<u>Formula year</u>			
	<u>t=4</u>	<u>t=5</u>	<u>t=6</u>	<u>t≥7</u>
<u>ExCBBIT<sub>t</sub></u> <u>£million</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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and

ExNTSIT<sub>t</sub> shall have the meaning given to that term in paragraph 14(6)(d)(i) of Part 2 of this condition.

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However, for all days from 1 October 2008 (or such date that the Authority otherwise directs in writing), ExCBBIT<sub>t</sub> shall have the value zero (0).

**(c) The NTS exit capacity buy-back and interruption performance measure (ExCBBICP<sub>t</sub>)**

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For the purposes of paragraphs 14(3) and 14(12)(a) of Part 2 of this condition, the NTS exit capacity buy-back and interruption performance measure in respect of formula year t (ExCBBICP<sub>t</sub>) shall be derived in the following manner:

For all days until 1 June 2005 (or such date that the Authority otherwise directs in writing):

$$\text{ExCBBICP}_t = 0$$

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and for all days from and including 1 June 2005 (or such date that the Authority otherwise directs in writing):

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$$\text{ExCBBICP}_t = \text{ExCCMC}_t + \text{ExNTSIC}_t$$

where:

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

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$$ExCCMC_t = \sum_{\text{all } d} ExBBC_{d,t} + \sum_{\text{all } d} ExCCC_{d,t}$$

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where:

d means a day in formula year t;

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$\sum_{\text{all } d}$  means the sum across all days d in formula year t;

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$ExBBC_{d,t}$  means the costs incurred by the licensee in the curtailment of rights to offtake gas from the transportation system in respect of day d of formula year t excluding those included within  $ExNTSIIC_t$ ;

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$ExCCC_{d,t}$  means the costs incurred by the licensee in respect of any payments made by the licensee to gas shippers or DN operators in exchange for agreeing to put gas into 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 exit capacity excluding those covered by  $ExBBC_{d,t}$  or

those included within either ExNTSIIC<sub>t</sub> or  
ExCC<sub>t</sub> ; and

ExNTSIIC<sub>t</sub> shall have the meaning given to that term  
in paragraph 14(6)(h) of Part 2 of this  
condition.

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However, for all days from 1 October 2008 (or such date that the Authority  
otherwise directs in writing), ExCBBICP<sub>t</sub> shall have the value zero (0).

## 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 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 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 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 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 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 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 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 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 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)  $STR_m^i$  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<sub>t</sub> and ICDSF<sub>t</sub> 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 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 2 of this 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 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 condition or the part or parts thereof with effect from the disapplication date or later.

**Special Condition C9: Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity**

1. Unless the Authority otherwise directs in writing 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 C8B (Restriction of revenue in respect of the NTS transportation owner activity, and the NTS system operation 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:
      - (aa) the licensee;
      - (bb) any other business held by Transco plc or its affiliates or related undertakings under a separate licence (whether or not held within the same legal entity);
      - (cc) the business of any individual Distribution Network; and/or
      - (dd) 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 NTS transportation owner activity;
  - (b) the NTS system operation activity;
  - (c) the metering activities; or
  - (d) excluded services in accordance with the principles set out in Special Condition C10 (Supplementary provisions of the revenue restrictions in respect of the NTS transportation owner activity and NTS system operation activity).
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.
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.
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.

- (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.
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.
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.
8. In this condition:

**“NTS transportation owner activity”** shall have the meaning given to that term in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation activity and NTS system operation activity);

**“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 C10 (Supplementary provisions of the revenue restrictions in respect of the NTS transportation owner activity and NTS system operation activity).

**“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 Transco’s transportation system and shall include the NTS transportation owner activity, the NTS system operation activity, the metering and meter reading activity and excluded services;

**Special Condition C10: Supplementary provisions of the revenue restrictions in respect of the NTS transportation owner activity and NTS system operation activity**

1. There may be treated as excluded services, services provided by the licensee in the provision of its NTS TO activity or its NTS SO activity in respect of which charges are made which:
  - (a) do not fall within Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity); and
  - (b) may be determined by the licensee as falling under one of the principles set out in paragraphs 2 to 4 of this condition.
  
2. No service provided by the licensee as part of its NTS TO activity or NTS SO 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:
  - (a) paragraph 2 of Part 1 a of Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity); and
  - (b) paragraph 13 of Part 2 of Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation 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 Special Condition A48 (Last Resort Supply: Payment Claims), an amount equal to the increases in its charges pursuant to paragraph 5 of said Standard Special Condition A48; or
  - (b) derive<sup>d</sup> 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



- (c) represent~~ing~~ revenue equal to any allowance made or charges (in respect of gas treated as not having been taken out of its pipe-line 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
  - (d) deriv~~ed~~ 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 NTS TO activity or NTS SO 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 C9 (Allocation of revenues and costs for calculations under the Price Control in respect of the NTS transportation owner activity and NTS system operation activity) prior to issue of such directions related, unless such statement or the accompanying report or certificate referred to in paragraph 5 of that Special Condition or any earlier such statement, report or certificate was incorrect or misleading in any material aspect.

**Special Condition C11. Not Used**

**Special Condition C12: Restriction of prices in respect of tariff capped metering activities**

**1. Principal restriction**

The licensee in setting its charges for each of its tariff-capped metering activities in any formula year shall not exceed the maximum tariff cap in respect of that metering activity in respect of that formula year  $t$  ( $M_t^A$ ).

**2. Maximum tariff caps ( $M_t^A$ )**

For the purposes of paragraph 1 of this condition the maximum tariff cap for each tariff-capped metering activity in respect of formula year  $t$  ( $M_t^A$ ) shall be derived in the following manner:

- (1) In respect of the formula year commencing on 1 April 2002 ( $t=1$ ), the maximum tariff caps shall have the values set out in the following table:

<b>Activity</b>	<b>Description</b>	<b>Maximum tariff caps (<math>M_t^A</math>)</b>
1	Annual charge for providing and maintaining the assets that form a domestic credit meter installation, per meter per annum	£12.29 $\times (1 + RPI_0)$
2	Annual charge for providing and maintaining the assets that form a prepayment meter installation, per meter per annum	£27.29 $\times (1 + RPI_0)$
3	Annual charge for providing a daily meter reading for daily metered supply meter points, per supply meter point per annum	£340.00 $\times (1 + RPI_0)$

- 4 Carrying out the work to replace a domestic credit meter with a prepayment meter, per job undertaken £46.00  $\times (1 + RPI_0)$

(2) Otherwise, prior to the formula year commencing 1 April 2005:

$$M_t^A = M_{t-1}^A + (M_{t-1}^A \times RPI_t) \text{ (rounded up or down to the nearest penny).}$$

where:

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

$RPI_t$  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 June to November (both inclusive) in formula year t-1 and the arithmetic average of retail price index numbers published or determined with respect to the same months in formula year t-2.

(3) In respect of the formula year commencing 1 April 2005 and subsequent formula years the value of  $M_t^A$  shall be determined using the following formulae:

(i) For Activity 1 and 2 the value of  $M_t^A$  will be calculated using the following formula:

$$M_t^A = (M_{t-1}^A + (M_{t-1}^A \times RPI_t)) - R_t$$

- (ii) For Activity 3 and 4 the value of  $M^A_t$  will be calculated using the following formula:

$$M^A_t = M^A_{t-1} + (M^A_{t-1} \times RPI_t)$$

- (4) In respect to the formula year commencing 1 April 2005, the value for  $R_t$  shall be calculated using the following formula:

$$R_t = \pounds 1.10 + (\pounds 1.10 \times RPIr_t) \text{ (rounded up or down to the nearest penny)}$$

- (i) Where:

$RPIr_t$  means the percentage change (whether of a positive or negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from June to November (both inclusive) in the year 2001 and of the arithmetic average of the retail price index numbers published or determined in each of the six months from June to November (both inclusive) in the year 2004.

- (ii) In respect of the formula year commencing 1 April 2006 and subsequent formula years the value for  $R_t$  shall be zero.

### 3. Definitions

In this condition:

**“daily metered supply meter points”** means a supply meter point which is read on a daily basis in accordance with section M paragraph 1.3.1 or section G 1.5.1(b) or section G paragraph 1.5.3 of Transco plc’s Network Code having effect as such on 1 April 2002 as defined within Amended Standard Condition 9 (Network

Code) of Transco plc's gas transporter licence on that date.

**“domestic credit meter installation”** means a domestic sized meter and associated equipment and installations (excluding housing) within the definition of a supply meter installation (having the meaning given to that term in the network code) that is not a prepayment meter installation;

**“domestic sized”** means designed for a maximum rate of gas flow which does not exceed six (6) cubic metres per hour;

**“tariff capped metering activities”** means those activities provided by the licensee listed in paragraph 2 of this condition; and

**“prepayment meter installation”** means a domestic sized meter and associated equipment and installations (excluding housing) within the definition of a supply meter installation (having the meaning given to that term in the network code) through which gas, which is charged for as it is used, is supplied.

**4. Departures from published statements of charges in respect of tariff-capped metering activities**

(1) Where the licensee wishes to depart from its published statement of charges prepared in accordance with Standard Special Condition A43 (Provision of Metering and Metering Reading Services) in respect of the provision of tariff capped metering activities by increasing its charges to a supplier to a level which would result in any given formula year in a breach of its obligations under paragraph 1 of this condition:

- (a) in consequence of that supplier having unbundled part of its supplier's metering portfolio; or

- (b) where it reasonably considers that the departure is necessary to comply with its duty in paragraph 1A of Standard Special Condition A43 (Provision of Metering and Meter Reading Services),

the licensee shall make a written application to the Authority specifying why the change is requested, providing specification of the metering activities to be provided to that supplier, the proposed level of charge broken down between the different types of metering activities to be provided to that supplier together with such other information to support its application as the Authority may reasonably specify in writing.

- (2) The licensee may, with effect from the date of the application, levy the charges specified in that application in respect of that supplier if:
  - (a) the Authority confirms in writing that it consents to such charges with or without amendment and to such extent and on the basis of such terms and conditions as the Authority may specify; or
  - (b) if the Authority has not issued a direction to the licensee requiring the licensee not to exceed the maximum tariff cap within 90 days after receipt of the application.

**5. Disapplication of the maximum tariff caps**

- (1) The maximum tariff caps 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(8) of this condition.
- (2) The maximum tariff caps 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 this condition and notice is given to the Authority by the licensee in accordance with either paragraph 5(6) or paragraph 5(7) of this condition.
- (3) A disapplication request shall:

- (i) be in writing addressed to the Authority;
  - (ii) specify the maximum tariff cap or caps to which the request relates; and
  - (iii) state the date (being not earlier than the date referred to in paragraph 5(5) of this condition) from which the licensee wishes the Authority to agree that the maximum tariff cap or caps 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(3) of this condition shall have effect until a date being not less than 18 months after delivery of the disapplication request ("the disapplication date").
- (6) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of the maximum tariff cap or caps 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 the maximum tariff cap or caps as 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 the maximum tariff cap or caps specified in the disapplication request and such report does not include a conclusion that the cessation of such maximum tariff caps, 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 the maximum tariff cap or caps specified in the disapplication request with effect from the disapplication date or later.



- (8) A disapplication request or notice served under this condition may be served in respect of a specified geographic area.

**Special Condition C13. Not Used**

**Special condition C14: Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS transportation owner activity and NTS system operation activity**

1. The licensee shall provide statements to the Authority of the information specified in the following table, in respect of the activities covered by this licence, 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 C9 (Allocation of revenue and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) and terms used in the following tables shall have the meaning given to those terms in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity) and/or Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity).

Description	Licence definition	Period	Reporting deadline
<b>NTS transportation owner activity</b>			
$TOMR_t$	<u>Maximum NTS transportation owner revenue</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
$TOR_t$	NTS transportation owner revenue	Formula years	By 30 June in formula year t+1
$TOREVBEC_t$	Revenue derived from the sale of NTS SO baseline entry capacity	Formula years	By 30 June in formula year t +1
$TOExRF_t$	Revenue derived in respect of the	Formula years	By 30 June

	provision of NTS firm baseline exit capacity		in formula year t+1
TOEx <sub>t</sub>	Revenue derived in respect of the provision of NTS firm exit capacity	Formula years	By 30 June in formula year t+1
TOTFEx <sub>t</sub>	Volume of NTS firm exit capacity	Formula years	By 30 June in formula year t+1
REVBExC <sub>t</sub>	Revenue derived from the sale of NTS baseline exit capacity	Formula years	By 30 June in formula year t +1
REVBFF <sub>t</sub>	Revenue derived from the sale of NTS baseline exit flow flexibility	Formula years	By 30 June in formula year t +1
TOK <sub>t</sub>	NTS TO revenue adjustment	Formula years	By 30 June in formula year t+1
<u>DREVBEC<sub>t</sub></u>	<u>Revenue from on the day sale of NTS SO baseline entry capacity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>PRIORREV<sub>t</sub></u>	<u>Revenue from the sale of NTS SO baseline entry capacity occurring in any allocations taking place prior to 1 April 2002</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>TORCOM<sub>t</sub></u>	<u>NTS TO revenue not covered in TOREVBEC<sub>t</sub> or TOExR<sub>t</sub></u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>

<u>SOTIEx<sub>t</sub></u>	<u>Total volume of interruptible capacity registered by shippers on 15 January</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>NTS prescribed rates</u>	<u>Amount of the charge incurred in respect of the prescribed rates or equivalent tax or duty in respect of the NTS TO activity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>TOREVBExC<sub>t</sub></u>	<u>Revenue from the sale of NTS baseline firm exit capacity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>

<b>Emergency Services</b>			
	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

<b>NTS system operation revenue information</b>			
SOMR <sub>t</sub>	Maximum NTS system operation revenue	Formula years	By 30 June in formula year t+1
SOIR <sub>t</sub>	NTS system operation incentive revenue	Formula years	By 30 June in formula year t+1

$SOIC_t$	NTS system operation costs	Formula years	By 30 June in formula year t+1
$SORA_t$	Any allowance in respect of approved income adjusting events (whether of a positive or negative volume)	Formula years	By 30 June in formula year t+1
$SOK_t$	NTS SO revenue adjustment factor	Formula years	By 30 June in formula year t+1
<u><math>CNIC_t</math></u>	<u>Total second capacity adjustment neutrality amount</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>DQREV_{j,t}</math></u>	<u>Revenue from the sale of obligated incremental entry capacity at terminal j that is not included in REVOIEC<sub>t</sub></u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>DREVBExC_t</math></u>	<u>Revenue from on the day sales of NTS baseline firm exit capacity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>DREVBFF_t</math></u>	<u>Revenue from sales of NTS incremental exit capacity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>FTI_t</math></u>	<u>Revenue from charges levied on gas shippers and DN operators in respect of failure to interrupt</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>PRIORSELL_{m,d}^j</math></u>	<u>Entry capacity allocated in any allocation occurring prior to 1</u>	<u>For each day in the month</u>	<u>Two weeks after month</u>

	<u>April 2002</u>	<u>in question</u>	<u>end</u>
<u>RBIC<sub>t</sub></u>	<u>Sum of the basic net neutrality amount and the adjustment neutrality amount</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>RCOM<sub>t</sub></u>	<u>NTS SO Revenue not covered in SOExRF<sub>t</sub>, SORCAP<sub>t</sub> or SOROC<sub>t</sub></u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>REVIExC<sub>t</sub></u>	<u>Revenue from sales of NTS incremental exit capacity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>REVIFF<sub>t</sub></u>	<u>Revenue from sales of NTS incremental flow flexibility</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>RNC<sub>t</sub></u>	<u>Net revenue from balancing neutrality charges</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ECIIR<sub>t</sub></u>	<u>Entry capacity incentive revenue</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>SBIC<sub>t</sub></u>	<u>System balancing costs</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>REVOIEC<sub>t</sub></u>	<u>Revenue from sales of obligated incremental entry capacity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>REVIBEC<sub>t</sub></u>	<u>Revenue from sales of permanent obligated incremental entry capacity relating to periods more</u>	<u>Formula years</u>	<u>By 30 June in formula</u>

	<u>than 5 years</u>		<u>year t+1</u>
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<b>Exit capacity investment incentive information</b>			
ExCIIR <sub>t</sub>	Exit capacity investment incentive revenue	Formula years	By 30 June in formula year t+1
ExCP <sub>t</sub>	Exit performance measure	Formula years	By 30 June in formula year t+1
ExCC <sub>t</sub>	Costs incurred in use of constrained storage facilities to avoid transportation constraints	Formula years	By 30 June in formula year t+1
	Volumes, prices paid and charges forgone in respect of NTS exit capacity curtailment rights for all NTS connected sites, aggregated by exit zone	Formula years	By 30 June in formula year t+1
	Volumes and payments made in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days, for all NTS connected sites, aggregated by exit zone	Formula years	By 30 June in formula year t+1
	Volume and price of capacity bookings in constrained storage facilities	Monthly	2 weeks after month end
IExR <sub>t</sub>	Incremental exit capacity revenue	Formula years	By 30 June in formula



			year t+1
$TExC_t$	Actual NTS exit capacity	Formula years	By 30 June in formula year t+1
$AExNTSIIC_t$	Weighted average charge payable in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days	Formula years	By 30 June in formula year t+1
<u><math>DMExC_t</math></u>	<u>NTS exit capacity for DM supply meter points, DM connected system exit points and storage connection points</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>ExC_{z,d}</math></u>	<u>Volume of capacity at supply point, connected system exit point or storage connection point z which is interruptible</u>	<u>For each day in the year</u>	<u>By 30 June in formula year t+1</u>
<u><math>ExFC_{z,d}</math></u>	<u>NTS exit capacity charge per unit payable in respect of <math>ExC_{z,d}</math></u>	<u>For each day in the year</u>	<u>By 30 June in formula year t+1</u>
<u><math>ExUCC_{z,d}</math></u>	<u>NTS exit capacity charge per unit that would be payable in respect of <math>ExC_{z,d}</math> if that capacity were not interruptible</u>	<u>For each day in the year</u>	<u>By 30 June in formula year t+1</u>
<u><math>ExNTSC_z^{Jan 15th}</math></u>	<u>Interruptible NTS exit capacity registered at point z on 15 January</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>ExNTSIIC_{z,d}</math></u>	<u>Payments made in respect of plus 15 curtailment days at point z</u>	<u>For each day in the year</u>	<u>By 30 June in formula</u>

			<u>year t+1</u>
<u>RExCP<sub>t</sub></u>	<u>Depreciation and financing costs of NTS incremental firm exit capacity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>TNDMT<sub>t</sub></u>	<u>Total volume of gas deemed to be transported from the NTS to NDM points</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ExIT<sub>t</sub></u>	<u>Exit incentive target</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ExNTSIT<sub>t</sub></u>	<u>Incentive target for charges foregone</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ExNTSSIC<sub>t</sub></u>	<u>Payments made or value accrued in respect of charges foregone as a result of exit capacity curtailment rights</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ExNTSIC<sub>t</sub></u>	<u>Payments made in respect of plus 15 curtailment days</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>

<b>Entry capacity buy-back incentive information</b>			
IECCC <sub>t</sub>	Total entry capacity constraint management costs	Formula years	By 30 June in formula year t+1
IECCC <sub>t</sub>	Total entry capacity constraint management costs	Year to date	Monthly 2 weeks after month end

BBIR <sub>t</sub>	Entry capacity buy-back incentive revenue	Formula years	By 30 June in formula year t+1
BBIR <sub>t</sub>	Cumulative balance and end of year forecast of entry capacity buy-back incentive revenue	Year to date	Monthly 4 weeks after month end
BBCP <sub>t</sub>	Entry capacity buy-back performance measure	Formula years	By 30 June in formula year t+1
BBCP <sub>t</sub>	Entry capacity buy-back performance measure	Year to date	Monthly 4 weeks after month end
BBC <sub>d,t</sub>	Entry capacity <del>buy-back</del> costs	<del>For each day in the month</del>	<del>Monthly 2 weeks after month end</del>
	Volume and prices of entry capacity buy-backs by terminal	<del>For each day in the month</del>	<del>Monthly 2 weeks after month end</del>
ECCC <sub>d,t</sub>	Entry capacity constraint payments	<del>For each day in the month</del>	<del>Monthly 2 weeks after month end</del>
	Revenue from daily sales of obligated entry capacity	<del>For each day in the month</del>	<del>Monthly 2 weeks after month end</del>
	Volumes and prices of obligated entry capacity sold daily by terminal	<del>For each day in the month</del>	<del>Monthly 2 weeks after month end</del>

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	Revenue from sales of interruptible entry capacity	<u>For each day in the month</u>	<u>Monthly 2 weeks after month end</u>	Deleted: D+1
	Volumes and prices of sales of interruptible entry capacity identifying volumes of use it or lose it entry capacity by terminal	<u>For each day in the month</u>	<u>Monthly 2 weeks after month end</u>	Deleted: D+1
	Revenue from sales of non-obligated incremental system entry capacity	<u>For each day in the month</u>	<u>Monthly 2 weeks after month end</u>	Deleted: D+1
	Volumes and prices of non-obligated incremental system entry capacity by terminal	<u>For each day in the month</u>	<u>Monthly 2 weeks after month end</u>	Deleted: D+1
RLOC <sub>t</sub>	Revenue from locational sell actions	Formula years	For formula years $t \geq 3$ by 30 June in formula year $t + 1$	
	Volumes, locations and prices of locational actions by trade	day	For formula years $t \geq 3$ D + 1	
RCOR <sub>t</sub>	Revenue from system entry overrun charges	Monthly	4 weeks after month end	
	Volume and prices of system entry capacity overruns by terminal	Monthly	4 weeks after month end	
	Volume of system entry capacity terminal flow advice issued by Transco plc and any associated	Monthly	4 weeks after month end	

	costs		
<u>RPIC<sub>d,t</sub></u>	<u>Revenue from a physical renomination incentive charge</u>	<u>For each day in the year</u>	<u>By 30 June in formula year t+1</u>
<u>DDCR<sub>t</sub></u>	<u>Revenue from on-the-day sales of obligated entry capacity</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>

<b>Residual balancing incentive information</b>			
STIP <sub>t</sub>	Sum of total daily residual balancing incentive payments	Formula years	By 30 June in formula year t+1
STIP <sub>t</sub>	Sum of total daily residual balancing incentive payments	Year to date	Monthly 2 weeks after month end
RBIR <sub>t</sub>	Residual gas balancing incentive revenue	Formula years	By 30 June in formula year t+1
RBIR <sub>t</sub>	Cumulative balance and end of year forecast of residual gas balancing incentive revenue	Year to date	Monthly 2 weeks after month end
SDPIP <sub>t</sub>	Sum of daily price incentive payments	Formula years	By 30 June in formula year t+1
SDPIP <sub>t</sub>	Sum of daily price incentive payments	Year to date	Monthly 2 weeks after month end

SPECIAL CONDITIONS APPLICABLE TO THE LICENSEE (NTS): PART C

SDLIP <sub>t</sub>	Sum of daily linepack incentive payments	Formula years	By 30 June in formula year t+1
SDLIP <sub>t</sub>	Sum of daily linepack incentive payments	Year to date	Monthly 2 weeks after month end
DPIP <sub>d,t</sub>	Daily price incentive payment	For each day in the month in question	2 weeks after month end
DLIP <sub>d,t</sub>	Daily linepack incentive payment	For each day in the month in question	2 weeks after month end
PPM <sub>d,t</sub>	Daily residual balancing price performance measure	For each day in the month in question	2 weeks after month end
LPM <sub>d,t</sub>	Linepack performance measure	For each day in the month in question	2 weeks after month end
OLP <sub>d,t</sub>	Opening linepack levels  NTS linepack at 06:00 hours on day D	For each day in the month in question	2 weeks after month end
CLP <sub>d,t</sub>	Closing linepack levels  NTS linepack at 06:00 hours on day D+1	For each day in the month in question	2 weeks after month end
SAP <sub>d,t</sub>	System average price	Daily	D+1
TMIBP <sub>d,t</sub>	Highest market offer price in relation to an eligible market	Daily	D+1

	balancing action		
TMISP <sub>d,t</sub>	Lowest market offer price in relation to an eligible market balancing action	Daily	D+1

<b>System balancing incentive information</b>			
SBIR <sub>t</sub>	System balancing incentive revenue	Formula years	By 30 June in formula year t+1
SBIR <sub>t</sub>	Cumulative balance and end of year forecast of system balancing incentive revenue	Year to date	Monthly 4 weeks after month end
GCIR <sub>t</sub>	Gas cost incentive revenue	Formula years	By 30 June in formula year t+1
GCIR <sub>t</sub>	Cumulative balance and end of year forecast of gas cost incentive revenue	Year to date	Monthly 4 weeks after month end
	Daily system gas balancing volumes	For each day in the month in question	2 weeks after month end
SRIR <sub>t</sub>	System reserve incentive revenue	Formula years	By 30 June in formula year t+1
SRIR <sub>t</sub>	Cumulative balance and end of year forecast of system reserve incentive revenue	Year to date	Monthly 4 weeks after month end

SPECIAL CONDITIONS APPLICABLE TO THE LICENSEE (NTS): PART C

$GCCP_t$	Gas cost incentive performance measure	Formula years	By 30 June in formula year t+1
$GCCP_t$	Gas cost incentive performance measure	Year to date	Monthly 4 weeks after month end
$SRCP_t$	System reserve performance measure	Formula years	By 30 June in formula year t+1
$SRCP_t$	System reserve performance measure	Year to date	Monthly 4 weeks after month end
	Volume and price of Transco plc's storage bookings by storage facility	For each day in the month in question	2 weeks after month end
<u><math>GC_t</math></u>	<u>Costs incurred in the provision of NTS shrinkage other than <math>ECC_t</math></u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>ECC_t</math></u>	<u>Costs incurred in purchasing and procuring fuel for electric compressors on the NTS</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u><math>UDQI_{t-2,q,d}</math></u>	<u>Sum of gas shippers' user daily quantity inputs at Bacton, Barrow, Easington, St Fergus, Teesside, Theddlethorpe, Isle of Grain and Miford Haven</u>	<u>For each day of the year for formula year t-2</u>	<u>By 30 June in formula year t+1</u>
<u><math>UDQI^S_{t-2,q,d}</math></u>	<u>Sum of gas shippers' user daily quantity input at storage</u>	<u>For each day of the year for</u>	<u>By 30 June in formula</u>



	<u>connection point S</u>	<u>formula year</u> <u>t-2</u>	<u>year t+1</u>
<u>UDQO<sup>S</sup><sub>t-2,q,d</sub></u>	<u>Sum of gas shippers' user daily quantity output at storage connection point S</u>	<u>For each day of the year for formula year t-2</u>	<u>By 30 June in formula year t+1</u>
<u>GCI<sub>t</sub></u>	<u>NTS SO gas cost incentive target</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>GCRP<sub>t</sub></u>	<u>NTS SO gas cost reference price</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>

<b>Internal cost incentive information</b>			
<u>ICIR<sub>t</sub></u>	<u>Internal cost incentive revenue</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ICCP<sub>t</sub></u>	<u>Internal costs performance measure</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>SOOC<sub>t</sub></u>	<u>NTS SO operating cost</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>SODCP<sub>t</sub></u>	<u>Depreciation on the NTS SO regulatory asset base</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>SORCP<sub>t</sub></u>	<u>Deemed return on the NTS SO regulatory asset base</u>	<u>Formula years</u>	<u>By 30 June in formula</u>

			year t+1
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<b>NTS exit capacity buy-back and interruption incentive information</b>			
<u>ExCBBIR<sub>t</sub></u>	<u>NTS exit capacity buy-back and interruption incentive revenue</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ExCBBIT<sub>t</sub></u>	<u>NTS exit capacity buy-back and interruption incentive target</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ExCBBICP<sub>t</sub></u>	<u>NTS exit capacity buy-back and interruption performance measure</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ExCCMC<sub>t</sub></u>	<u>Total NTS exit capacity constraint management costs</u>	<u>Formula years</u>	<u>By 30 June in formula year t+1</u>
<u>ExBBC<sub>d,t</sub></u>	<u>Entry capacity buy-back costs</u>	<u>For each day of the year</u>	<u>By 30 June in formula year t+1</u>
<u>ExCCC<sub>d,t</sub></u>	<u>NTS Exit capacity constraint payments</u>	<u>For each day of the year</u>	<u>By 30 June in formula year t+1</u>

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<b>Other information required for general market monitoring</b>			
	Daily system demand	Daily	D+1
	Daily interconnector flows at Bacton and at Moffat	For each day in the month in question	Two weeks after month end

	Daily system allocations by entry terminal by gas shipper	For each day in the month in question	Four weeks after month end
	Daily gas shipper imbalances	For each day in the month in question	Four weeks after month end
	Gas shipper system entry capacity holdings excluding daily sales by gas shipper by terminal by day	For each day in the week in question	One week after week end

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.
  
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.
  
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:
  - that statement fairly presents so far as it reasonably possible to do so the licensee’s performance against each of the performance measures provided for in Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity) in respect of the formula year to which the statement relates; and

- that statement used data compiled in accordance with Special Condition C9 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) and is consistent with the licensee's accounting records; and
  - 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.
5. The licensee shall provide a statement of the following information to the Authority and publish that statement not later than seven (7) days prior to the start of any allocation of entry capacity rights in respect of capacity rights offered for sale for a consecutive period of more than one (1) day:
- (a) the terminal to which such allocation relates;
  - (b) the amount of unallocated NTS SO baseline entry capacity and unallocated obligated incremental entry capacity at the terminal (both as defined in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity)) that is available on the day that the statement is published which the licensee will offer for sale in the allocation and the period to which such capacity relates;
  - (c) the reserve price if any to be applied to such allocations;
  - (d) the licensee's opinion as to future levels of entry capacity at the terminal to which the allocation relates accompanied by background information (if any) in support of such opinion including the licensee's opinion as to future aggregate volumes of gas to be transported through the NTS;
  - (e) the commencement time and date of the allocation; and
  - (f) when the gas shippers shall be informed of the outcome of the allocation;

6. The licensee shall provide a statement of the following information, by terminal and by the month to which it relates, to the Authority and publish that statement not later than fourteen (14) days after the close of any allocation of entry capacity rights in respect of capacity rights offered for sale for a consecutive period of more than one (1) day:
  - (a) the volume of NTS SO baseline entry capacity, obligated incremental entry capacity and non-obligated incremental entry capacity allocated;
  - (b) the total amount of the revenue derived and to be derived by the licensee in respect of the NTS SO baseline entry capacity, obligated incremental entry capacity and non-obligated incremental entry capacity allocated;
  - (c) the highest price accepted by the licensee for a unit of entry capacity allocated;
  - (d) the lowest price accepted by the licensee for a unit of entry capacity allocated; and
  - (e) the weighted average price accepted by the licensee for a unit of entry capacity allocated.

**Special Condition C15: Licensee’s methodology for determining incremental entry capacity volumes**

1. In this condition:

“incremental entry capacity” means capacity that is in excess of the obligated entry capacity current at that time as determined in line with paragraph 14(5)(g) of Part 2 of Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity).

2. The licensee shall 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 later date in each formula year as the Authority may approve) prepare and submit for approval by the Authority an incremental entry capacity release methodology statement setting out (consistently with the licensee’s duty under the Act, and the standard, Standard Special and Special Conditions) the methodology by which it will determine whether to make incremental entry capacity available for sale to gas shippers.

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3. The statement shall be accompanied by a statement from appropriate auditors confirming 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 developed a methodology that is in line with the licensee’s duty under the Act, and the standard, Standard Special and Special Conditions.

4. Unless the Authority otherwise directs, such direction to be made within 2 months of the receipt by the Authority of a statement prepared pursuant to paragraph 2 of this condition, the licensee shall take all reasonable steps to apply the methodology set out in such statement in making any decisions made after the earlier of: the date of receipt of a notice from the Authority approving the statement; or the expiry of that two month period on whether to release incremental entry capacity for sale to gas shippers.

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5. Except where the Authority directs otherwise or paragraph 7 applies, before revising the incremental entry capacity release methodology statement the licensee shall:

- (i) send a copy of the proposed revisions to the Authority and to any person who asks for one;
- (ii) consult gas shippers and allow them a period of not less than 28 days in which to make representations;
- (iii) within 7 days of the close of the consultation referred to in sub-paragraph 5(ii) of this condition submit to the Authority a report setting out:
  - the revisions originally proposed,
  - the representations (if any) made to the licensee,
  - any change to the revisions; and
- (iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) of this paragraph or any of them shall not apply, comply with such other requirements as are specified in the direction.

6. The licensee shall be entitled to revise the incremental entry capacity release methodology statement at any time pursuant to paragraph 5, save that it shall not revise such statement:

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- (i) where paragraph 5(iv) in this condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph;
- (ii) where there is no such direction, or no date is specified in such direction, until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph 5(iii) in this condition; or
- (iii) if within the period referred to in paragraph 5(ii) of this condition the Authority directs the licensee not to make the revision.

7. (a) The licensee shall, if so directed by the Authority but in any event at least once a year, review the statement prepared pursuant to paragraph 2 of this condition in consultation with gas shippers and other interested persons likely to be affected thereby and allow them a period of not less than 28 days in which to make representations.
  - (b) Within 7 days of the close of the consultation referred to in paragraph 7(a) of this condition, the licensee shall send to the Authority:
    - (i) a report on the outcome of the review;
    - (ii) any revision to the statement proposed (having regard to the outcome of the review) by the licensee in order to ensure that the statement remains consistent with the licensee's duties under the Act and the standard, Standard Special and Special Conditions; and
    - (iii) any written representations or objections from gas shippers and other interested parties, including proposals for revision not accepted by the licensee, arising during the consultation and subsequently maintained.
  - (c) The licensee may revise the statement only in accordance with any revision within paragraph 7(b)(ii) of this condition and only if the Authority consents to such revision.
8. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 2 of this condition.
  9. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 2, 3, 4, 5, 6 and 7 of this condition and of all revisions to any such statements and reports.
  10. The licensee shall:
    - (a) publish (in such manner as the Authority may approve) the statements prepared pursuant to paragraph 2 of this condition and each revision thereof, and



- (b) send a copy of each statement and report prepared pursuant to paragraphs 2, 3, 4, 5, 6 and 7 of this condition or the latest revision of any such statement and report to any person who requests the same, 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,

and, for the purposes of paragraph 10(b) of this condition, the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).

11. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 10(b) of this condition of an amount reasonably reflecting the licensee's reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purpose of this condition.

**Special Condition C16: NTS performance reporting**

1. The principal purpose of this condition is to secure the collection of information to an appropriate degree of accuracy, by the licensee so as to monitor the environmental performance of the NTS.
2. The licensee shall establish appropriate systems, processes and procedures to measure and record specified information from the dates specified in paragraph 4 of this condition and in accordance with regulatory instructions and guidance (including any associated information specified therein).
3. For the purposes of this condition:

**“charging review date”** means any date from which modifications to Special Condition C8B Part 1 a (The NTS transportation owner activity revenue restriction) relating to the NTS have effect:

- (a) whether before or after the date upon which the modifications are made; and
- (b) where such modifications have been proposed by the Authority following a review by the Authority of the revenue restrictions in Special Condition C8B Part 1 a (The NTS transportation owner activity revenue restriction) (or that Part to which the modifications relate) in relation to the licensee;

**“revenue restriction”** means the NTS TO activity revenue restriction in Special Condition C8B Part 1 a (The NTS transportation owner activity revenue restriction).

**“regulatory instructions and guidance”**

means any instructions and guidance issued by the Authority for the purposes of this condition as modified from time to time by notice under paragraph 9 and may include:

- (a) instructions and guidance as to the establishment of different systems, processes, procedures and manners for providing and recording information and of standards for different classes of information;
- (b) a timetable for the development of the systems, processes and procedures required to achieve the appropriate standards of accuracy and reliability with which specified information shall be recorded;
- (c) the meaning of words and phrases used in defining specified information;
- (d) requirements for the recording of information associated with specified information which is reasonably necessary to enable an examiner to determine the accuracy and reliability of specified information;
- (e) requirements as to the form and manner in which specified information shall be provided to the Authority; and
- (f) requirements as to the manner in which specified information shall be recorded and as to the

standards of accuracy and reliability with which it shall be recorded;

“specified information” means:

- (a) information regarding environmental measures including:
  - (i) methane emissions from the NTS in each formula year measured in kilograms per gigawatt hour in the form and manner specified in the regulatory instructions and guidance;
  - (ii) carbon dioxide emissions from gas powered compressor stations in each formula year measured in kilograms per gigawatt hour in the form and manner specified in the regulatory instructions and guidance; and
  - (iii) nitrogen oxide emissions from gas powered compressor stations in each formula year in the form and manner specified in the regulatory instructions and guidance.
- (b) an analysis of trends observable from the NTS environment measures.
- (c) supporting information including:
  - (i) information regarding all new connections from the NTS to premises or pipe-line systems operated by an authorised gas transporter to the NTS in the form and manner specified in the regulatory instructions and guidance;

(ii) information regarding all rechargeable diversions from the NTS in the form and manner specified in the regulatory instructions and guidance;

(iii) information regarding the accuracy of one and three-year ahead annual demand forecasts in the form and manner specified in the regulatory instructions and guidance; and,

(d) such other information as may from time to time be specified by the Authority, by notice to the licensee in accordance with paragraph 9

4. The licensee shall collect specified information in respect of:

(a) the matters specified in sub-paragraphs (a) – (c) of the definition of specified information from and including 1 April 2002; and

(b) any matter specified under sub-paragraph (d) of that definition from the date specified in a notice given in accordance with paragraph 9.

5. (a) The licensee shall provide to the Authority the information referred to in sub-paragraphs (a) – (c) of the definition of specified information on or before 31 July 2003 and 31 July in each succeeding year (or such later date as the Authority may by notice specify) in respect of the period of 12 months ending on the preceding 31 March; and

(b) the information referred to in sub-paragraph (d) of the definition of specified information in respect of such period and by such date as shall be specified in the relevant notice in accordance with that sub-paragraph.

6. The licensee shall permit a person or persons nominated by the Authority (in each case “an examiner”) to examine the systems, processes and procedures referred to in paragraph

- 2 and their operation, the specified information and the extent to which each complies, and is in accordance, with regulatory instructions and guidance.
7. The licensee shall (and shall procure, insofar as it is able to do so, that any affiliate of the licensee, any person by whom it procures the performance of the obligation in paragraph 2 and any auditor of such person or of the licensee shall) cooperate fully with an examiner so as to enable him to carry out, complete and report to the Authority on any examination carried out in accordance with paragraph 6.
8. The licensee's obligation under paragraph 7 to cooperate or procure cooperation with an examiner shall include, without limitation and insofar as necessary or expedient for such purpose, in each case subject to reasonable prior notice to the licensee:
- (a) providing access to management, employees, agents or independent contractors of the licensee sufficient to enable the examiner to make any enquiries and to discuss any matters which he reasonably considers to be relevant to the carrying out of the examination;
  - (b) giving to the examiner access at reasonable hours to any premises occupied by the licensee or any other person in performing the obligations set out in this condition; and
  - (c) allowing the examiner at reasonable hours:
    - (i) to inspect and make copies of, and take extracts from, any documents and records of the licensee maintained in relation to specified information (other than information which is subject to legal privilege);
    - (ii) to carry out inspections, measurements and tests on or in relation to any systems maintained and operated for or in relation to the requirements of this condition; and
    - (iii) to take onto such premises or onto or into any assets used for the purpose of the NTS such other persons and such equipment as may be necessary or expedient for the purpose of carrying out the examination.

9. Where the Authority considers that the regulatory instructions and guidance should be modified to:

- (a) improve the presentation or style of the requirements of those regulatory instructions and guidance;
- (b) further clarify the meaning of words and phrases used within such requirements to define the information to be provided;
- (c) improve the form or manner in which such information is to be provided under such requirements; or
- (d) introduce additional categories of specified information or enlarge existing categories of specified information

in such ways as the Authority may reasonably require so as more effectively to achieve the principal purpose of this condition, the Authority may, subject to paragraphs 10 to 13, modify the regulatory instructions and guidance by issuing a direction for that purpose to the licensee.

10. Before issuing a direction under paragraph 9, the Authority, by notice given to the licensee, must:

- (a) state that it proposes to make a modification and set out the date on which it proposes that this should take effect;
- (b) set out the text of the modification, the purpose and the effect of the modification, and the reasons for proposing it; and
- (c) specify the time (not being less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modifications may be made

and must consider any representations or objections which have been duly made and are not withdrawn, and give reasons for its decision.

11. Where any proposed modification of the regulatory instructions and guidance relates:

- (a) to a requirement under those regulatory instructions and guidance to provide specified information to a greater level of accuracy; or
- (b) to the introduction into those regulatory instructions and guidance of an additional category of specified information

the Authority may not make that modification except in accordance with the procedure under section 23 of the Act which would apply to the modification if it were a modification of this condition.

12. Any modification to the regulatory instructions and guidance made under paragraph 9 to enlarge an existing category of information may not include information that the licensee could not be required to provide to the Authority under paragraph 1 of standard special condition A26 (Provision of Information to the Authority), excluding the effects of paragraph 8 of that condition.

13. The provision of the regulatory instructions and guidance may not exceed what may be reasonably required to achieve the purpose of this condition or purport to have effect with respect to the interpretation of any other condition of this licence or the fulfilment by the licensee of any obligation imposed in respect of any matter which is the subject of any such condition.

14. Nothing in this condition shall require the licensee to produce any documents or give information which it could not be compelled to produce or give in evidence in civil proceedings before a court.



**Special Condition C17. Exit Code Statement**

1. By 30 June 2003 and by 30 June in each subsequent formula year (or such other date as the Authority may direct in writing), the licensee shall prepare and submit to the Authority an exit code statement (“the exit code statement”).
2. Except to the extent the Authority shall otherwise specify, the exit code statement referred to in paragraph 1 shall include:
  - (i) a description of the services which have been provided to (1) the NTS TO activity and/or the NTS SO activity by the Distribution Network transportation activity; and (2) the Distribution Network transportation activity by the NTS TO activity and/or the NTS SO activity in the previous formula year; and
  - (ii) provide details of any revenue received or charges made by (1) the Distribution Network transportation activity from the NTS TO activity and/or NTS SO activity; and (2) the NTS SO activity and/or the NTS TO activity from the Distribution Network transportation activity in respect of each of the services referred to in sub-paragraph (i) above in the previous formula year.
3. The terms “**NTS TO activity**”, “**NTS SO activity**”, “**Distribution Network transportation activity**” and “**Distribution Network**” shall have the meaning given in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity).

**Special Condition C18: Licensee's methodology for determining incremental exit capacity volumes**

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1. In this condition:

“incremental exit capacity” means capacity that is in excess of the initial volume allocation. The types of capacity that are included in references to incremental exit capacity include NTS exit capacity and NTS exit flow flexibility; and

“initial volume allocation” means for an NTS exit point (having the meaning given to that term in the network code), either the aggregate quantity of NTS exit capacity that gas shippers are registered as holding pursuant to the network code on 1 May 2005 (or such later date as the Authority otherwise directs in writing) or the aggregate quantity of NTS exit capacity or the aggregate quantity of NTS exit flow flexibility as set out in the Offtake Capacity Statements (having the meaning given to that term in the network code) as at 1 May 2005 (or such later date as the Authority otherwise directs in writing).

2. The licensee shall before 1 June 2005 or such later date as the Authority may direct and thereafter before 1 July in each subsequent formula year (or such later date in each formula year as the Authority may approve) prepare and submit for approval by the Authority an incremental exit capacity release methodology statement setting out (consistently with the licensee's duty under the Act, and the standard, Standard Special and Special Conditions) the methodology by which it will determine whether to make incremental exit capacity available for sale to gas shippers or DN operators.

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3. Unless the Authority otherwise consents in writing, the statement shall be accompanied by a statement from appropriate auditors confirming 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 developed a methodology that is in line with the licensee's duty under the Act, and the standard, Standard Special and Special Conditions.

4. Unless the Authority otherwise directs, such direction to be made within 2 months of the receipt by the Authority of a statement prepared pursuant to paragraph 2 of this condition, the licensee shall take all reasonable steps to apply the methodology set out in such statement in making any decisions made after the earlier of: the date of receipt of a notice from the Authority approving the statement; or the expiry of that two month period on whether to release incremental exit capacity for sale to gas shippers or DN operators.

5. Except where the Authority directs otherwise or paragraph 7 applies, before revising the incremental exit capacity release methodology statement the licensee shall:

(i) send a copy of the proposed revisions to the Authority and to any person who asks for one;

(ii) consult gas shippers and DN operators and allow them a period of not less than 28 days in which to make representations;

(iii) within 7 days of the close of the consultation referred to in sub-paragraph 5(ii) of this condition submit to the Authority a report setting out:

- the revisions originally proposed,

- the representations (if any) made to the licensee,

- any change to the revisions; and

(iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) of this paragraph or any of them shall not apply, comply with such other requirements as are specified in the direction.

6. The licensee shall be entitled to revise the incremental exit capacity release methodology statement at any time pursuant to paragraph 5, save that it shall not revise such statement:

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- (i) where paragraph 5(iv) in this condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph;
- (ii) where there is no such direction, or no date is specified in such direction, until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph 5(iii) in this condition; or
- (iii) if within the period referred to in paragraph 5(ii) of this condition the Authority directs the licensee not to make the revision.

7. (a) The licensee shall, if so directed by the Authority but in any event at least once a year, review the statement prepared pursuant to paragraph 2 of this condition in consultation with gas shippers, DN operators and other interested persons likely to be affected thereby and allow them a period of not less than 28 days in which to make representations.

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(b) Within 7 days of the close of the consultation referred to in paragraph 7(a) of this condition, the licensee shall send to the Authority:

(i) a report on the outcome of the review;

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(ii) the report prepared pursuant to sub-paragraph (i) 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 complied with the statement prepared pursuant to paragraph 2 of this condition;

(iii) any revision to the statement proposed (having regard to the outcome of the review) by the licensee in order to ensure that the statement remains consistent with the licensee's duties under the Act and the standard, Standard Special and Special Conditions; and

(iv) any written representations or objections from gas shippers, DN operators and other interested parties, including proposals for revision not accepted by the licensee, arising during the consultation and subsequently maintained.

(c) The licensee may revise the statement only in accordance with any revision within paragraph 7(b)(iii) of this condition and only if the Authority consents to such revision.

8. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 2 of this condition.

9. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 2, 3, 4, 5, 6 and 7 of this condition and of all revisions to any such statements and reports.

10. The licensee shall:

(a) publish (in such manner as the Authority may approve) the statements prepared pursuant to paragraph 2 of this condition and each revision thereof, and

(b) send a copy of each statement and report prepared pursuant to paragraphs 2, 3, 4, 5, 6 and 7 of this condition or the latest revision of any such statement and report to any person who requests the same, 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,

and, for the purposes of paragraph 10(b) of this condition, the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).

11. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 10(b) of this condition of an amount reasonably reflecting the

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licensee's reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purpose of this condition.

**Special Condition C19. Undertaking from ultimate controller concerning non-discrimination between the NTS transportation activity and the Distribution Network transportation activity.**

1. The licensee shall procure from each company or other person which is at any time an ultimate controller of the licensee a legally enforceable undertaking in favour of the licensee in the form specified by the Authority that the ultimate controller (the “covenantor”) will instruct, direct and procure the licensee to conduct its transportation business in respect of the NTS in a manner best calculated to secure that the businesses of DN operators, the licences for which are held by the holder of this licence in the same legal entity, do not obtain any unfair commercial advantage (including any such advantage from a preferential or discriminatory arrangement). In particular the licensee shall enter into arrangements, which, if the businesses of such DN operators were not held within the same legal entity, would be contractual arrangements on terms which do not unduly differ from corresponding contractual arrangements entered into between the licensee and any other relevant gas transporter and the undertaking shall state that the covenantor will instruct, direct and procure that licensee to do so.
2. The licensee shall:
  - (a) deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with its obligation to procure undertakings pursuant to paragraph 1;
  - (b) inform the Authority immediately in writing if the directors of the licensee become aware that any such undertaking has ceased to be legally enforceable or that its terms have been breached; and
  - (c) comply with any direction from the Authority to enforce any such undertaking;

and shall not, save with the consent in writing of the Authority, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or any of the subsidiaries of any such corporate ultimate controller (other than the subsidiaries of the licensee) at a time when –

- (i) an undertaking complying with paragraph 1 is not in place in relation to that ultimate controller; or
  - (ii) there is an unremedied breach of such undertaking; or
  - (iii) the licensee is in breach of the terms of any direction issued by the Authority under paragraph 2 of this condition.
3. In this condition, “relevant gas transporter” shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that it shall exclude Transco plc both in its capacity as the licensee and in its capacity as a DN operator.



**Special Condition C20. Separation of NTS and Distribution Network Businesses**

1. The licensee, in carrying out its gas transportation business in respect of the NTS, shall forthwith put in place and at all times maintain such managerial and operational systems which are necessary to ensure that the licensee complies with the obligations contained in Standard Special Condition A6 (Conduct of the Transportation Business) and Standard Special Condition A35 (Prohibition of Cross-Subsidies).
2. Unless otherwise directed by the Authority, the licensee shall by no later than 1 May 2005 have in place a statement (“**the statement**”), approved by the Authority, describing the practices, procedures and systems which the licensee has adopted (or intends to adopt) to secure compliance with paragraph 1.
3. Where the Authority does not indicate otherwise within 60 days of receipt of the statement, the statement shall be deemed to be approved by the Authority.
4. The statement shall in particular (but without prejudice to the generality of paragraph 1) set out how the licensee shall:
  - (a) maintain appropriate managerial and operational independence of the transportation business in respect of the NTS from any associated gas transporter business;
  - (b) secure that no breach of the requirements of paragraph 1 shall occur as a result of any arrangements for access by any associated gas transporter business or by any person engaged in, or in respect of, the associated gas transporter business with respect to:
    - (i) premises or parts of premises occupied by persons engaged in, or engaged in respect of, the management or operation of the transportation business in respect of the NTS;
    - (ii) systems for the recording, processing or storage of data to which persons engaged in, or engaged in respect of, the management or operation of the transportation business in respect of the NTS have access;
    - (iii) equipment, facilities or property employed for the management or operation of the transportation business in respect of the NTS; or

- (iv) the services of persons who are (whether or not as their principal occupation) engaged in, or in respect of, the management or operation of the transportation business in respect of the NTS; and
  - (c) manage the transfer of employees from the transportation business in respect of the NTS to any associated gas transporter business.
- 5. The managerial and operational independence referred to in paragraph 4(a) above shall include the establishment of separate managerial boards for each of:
  - (a) the transportation business in respect of the NTS; and
  - (b) the associated gas transporter businesses, taken as a whole, as defined in this condition.

Such managerial boards shall be bodies consisting of at least two members, two of whom shall be directors of Transco plc. These managerial boards shall be responsible for directing the affairs and taking all substantial decisions relating to the business in respect of which they have been established. Each member of such managerial boards who is also a director of Transco plc shall fulfil their role in relation to the taking of such decisions as if he or she were a director of a legally incorporated company whose sole business is the business in respect of which the managerial board he or she is a member of has been established.

- 6. The licensee shall revise the statement prepared in accordance with paragraph 2 when circumstances change so that the statement prepared in accordance with paragraph 2 no longer secures compliance with paragraph 1. Such revision of the statement shall only become effective once the Authority has approved the revised statement in accordance with paragraphs 2 or 3.
- 7. The licensee shall use its best endeavours to ensure compliance with the terms of the statement as from time to time revised and approved by the Authority.
- 8. The licensee shall publish a copy of the approved statement prepared in accordance with paragraph 2 (or the latest approved revision) on its company website within five working days of its approval by the Authority.
- 9. In this condition “**associated gas transporter business**” means an affiliate, related undertaking, or business unit of the licensee which is a DN operator.

**Special Condition C21. Appointment and duties of the business separation compliance officer**

1. The licensee shall ensure, following consultation with the Authority that a competent person (who shall be known as the “business separation compliance officer”) shall be appointed for the purpose of facilitating compliance by the licensee with Standard Special Condition A6 (Conduct of Transportation Business), Special Condition C20 (Separation of NTS and Distribution Network Businesses), Special Condition C19 (Undertaking from ultimate controller concerning non-discrimination between the NTS transportation activity and the Distribution Network transportation activity) and Standard Special Condition A35 (Prohibition of Cross Subsidies) (together, the “**relevant duties**”). The business separation compliance officer may be the same person as is appointed as compliance officer under Standard Special Condition A34 (Appointment of Compliance Officer).
2. The licensee shall at all times ensure that the business separation compliance officer is engaged for the performance of such duties and tasks as are appropriate for the purpose specified in paragraph 1, which duties and tasks shall include those set out at paragraph 6.
3. The licensee shall establish a compliance committee (being a sub-committee of the board of directors of the licensee) for the purpose of overseeing and ensuring the performance of the duties and tasks of the business separation compliance officer set out in paragraph 2 and the compliance of the licensee with its relevant duties. Such compliance committee shall report to the audit committee of the ultimate controller and shall include among its members such person in the licensee’s business as is responsible for the management of regulatory issues relating to the licensee.
4. The licensee shall procure that the business separation compliance officer:
  - (a) is provided with such staff, premises, equipment, facilities and other resources; and
  - (b) has such access to the licensee’s premises, systems, information and documentation

as, in each case, he might reasonably expect to require for the fulfilment of the duties and tasks assigned to him.

5. The licensee shall make available to the business separation compliance officer a copy of any complaint or representation received by it from any person in respect of a matter arising under or by virtue of the relevant duties.
6. The duties and tasks assigned to the compliance officer shall include:
  - (a) providing advice and information to the licensee (including individual directors of the licensee) and the compliance committee established under paragraph 3 of this condition for the purpose of ensuring the licensee's compliance with the relevant duties;
  - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee in accordance with the statement referred to at paragraph 2 of Special Condition C20 (Separation of NTS and Distribution Network Businesses);
  - (c) advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to admit the required co-operation;
  - (d) investigating any complaint or representation made available to him in accordance with paragraph 5;
  - (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;
  - (f) providing relevant advice and information to the licensee (including individual directors of the licensee) and the compliance committee established under paragraph 3 of this condition, for the purpose of ensuring its implementation of:
    - (i) the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 2 of Special Condition C20 (Separation of NTS and Distribution Network Businesses); and
    - (ii) any remedial action recommended in accordance with sub-paragraph (e);
  - (g) reporting to the compliance committee any instances which come to his attention, relating to a member of either of the management boards established under paragraph 5 of Special Condition C20 (Separation of NTS and Distribution

Network Businesses), taking into account the interests of a business other than that in respect of which the managerial board of which he is a member of has been established. All such reports shall be copied to the members of the audit committee of the ultimate controller; and

- (h) reporting annually to the compliance committee established under paragraph 3 of this condition, in respect of each year after this condition comes into force, as to his activities during the period covered by the report, including the fulfilment of the other duties and tasks assigned to him by the licensee.
7. As soon as is reasonably practicable following each annual report of the business separation compliance officer, the licensee shall produce a report:
- (a) as to its compliance during the relevant year with the relevant duties; and
  - (b) as to its implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 2 of Special Condition C20 (Separation of NTS and Distribution Network Businesses).
8. The report produced in accordance with paragraph 7 shall in particular:
- (a) detail the activities of the business separation compliance officer during the relevant year;
  - (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the statement at paragraph 2 of Special Condition C20 (Separation of NTS and Distribution Network Businesses); and
  - (c) set out the details of any investigations conducted by the business separation compliance officer, including:
    - (i) the number, type and source of the complaints or representations on which such were based;
    - (ii) the outcome of such investigations; and
    - (iii) any remedial action taken by the licensee following such investigations.
9. The licensee shall, as soon as reasonably practicable, submit to the Authority a copy of the report produced in accordance with paragraph 7 of this condition, and shall publish the report on its website.

**Schedule A: NTS output measures for the price control**

1. With regard to the maximum revenue allowances provide to the licensee pursuant to Part I a and Part 2 of Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity), the following baseline output measures shall apply.

**Table A1: NTS TO baseline entry capacity (GWh/day)**

<b>Terminal</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
Bacton	1527	1646	1839	1939	1939
Barrow	812	790	790	791	791
Easington	1105	985	1141	1180	1180
St. Fergus	1689	1721	1809	1831	1863
Teesside	910	823	834	845	845
Theddlethorpe	758	628	879	942	942
Glenmavis	110	110	110	110	110
Partington	239	239	239	239	239
Avonmouth	165	165	165	165	165
Isle of Grain	243	243	243	243	243
Dynevor Arms	55	55	55	55	55
Hornsea	195	195	195	195	195
Hatfield Moor (storage)	60	60	60	60	60
Hatfield Moor (onshore)	1.1	1.1	1.1	1.1	1.1
Cheshire	0	0	119	179	238
Hole House Farm	29	29	29	29	29
Wytech Farm	3.6	3.6	3.6	3.6	3.6
Burton Point	61.3	61.3	61.3	61.3	61.3
Milford Haven	0	0	0	0	0
Barton Stacey	0	0	0	0	0
Garton	0	0	0	0	0

**Table A2: Initial NTS SO baseline entry capacity (GWh/day)**

	MONTH				
	1≤m≤12	13≤m≤24	25≤m≤36	37≤m≤48	m≥49
<b>Terminal</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
Bacton	1374	1481	1655	1745	1745
Barrow	731	711	711	712	712
Easington	995	887	1027	1062	1062
St. Fergus	1520	1549	1628	1648	1677
Teesside	819	741	751	761	761
Theddlethorpe	682	565	791	848	848
Glenmavis	99	99	99	99	99
Partington	215	215	215	215	215
Avonmouth	149	149	149	149	149
Isle of Grain	218	218	218	218	218
Dynevor Arms	50	50	50	50	50
Hornsea	175	175	175	175	175
Hatfield Moor (storage)	54	54	54	54	54
Hatfield Moor (onshore)	1	1	1	1	1
Cheshire	0	0	107	161	214
Hole House Farm	26	26	26	26	26
Wytch Farm	3.2	3.2	3.2	3.2	3.2
Burton Point	55	55	55	55	55
Milford Haven	0	0	0	0	0
Barton Stacey	0	0	0	0	0
Garton	0	0	0	0	0

**Table A3: NTS baseline firm exit capacity (GWh/day)**

	2002/3	2003/4	2004/5	2005/6	2006/7
<b>Firm exit capacity by LDZs</b>					
Scotland	343	348	355	362	367
Northern	265	271	278	283	287
North West	538	550	557	563	568
North East	279	283	287	290	293
East Midlands	464	470	477	483	488
West Midlands	454	459	464	470	475
Wales North	51	52	54	55	57
Wales South	198	201	204	208	211
Eastern	359	366	372	377	382
North Thames	508	512	516	520	525
South East	516	523	526	529	532
Southern	380	394	402	409	414
South West	279	284	290	295	299
Total firm exit capacity for LDZ loads	4633	4713	4782	4844	4897
Firm exit capacity for NTS loads	1488	1529	1592	1653	1691
<b>Total firm baseline NTS exit capacity</b>	<b>6121</b>	<b>6241</b>	<b>6374</b>	<b>6497</b>	<b>6588</b>



**Table A4: NTS baseline interruptible exit capacity (GWh/day)**

	2002/3	2003/4	2004/5	2005/6	2006/7
<b>Interruptible exit capacity by LDZs</b>					
Scotland	47	54	56	58	60
Northern	33	34	37	38	39
North West	72	75	77	78	78
North East	38	40	41	42	43
East Midlands	75	77	89	93	99
West Midlands	35	36	37	37	37
Wales North	7	7	8	8	9
Wales South	28	29	31	32	32
Eastern	36	36	37	37	37
North Thames	40	45	47	48	49
South East	40	44	44	51	61
Southern	36	37	38	38	40
South West	32	33	34	34	34
Total interruptible exit capacity for LDZ loads	521	548	576	595	619
Interruptible exit capacity for NTS loads	1073	1141	1142	1147	1148
<b>Total interruptible NTS baseline exit capacity</b>	<b>1594</b>	<b>1689</b>	<b>1718</b>	<b>1742</b>	<b>1767</b>

**Table A5: NTS baseline exit flow flexibility**

	2002/3	2003/4	2004/5	2005/6	2006/7
<b>Flow Flexibility</b>					

**Schedule 1: Specified Area**

Great Britain

**Schedule 2: Revocation of Licence**

1. The Authority may at any time revoke the licence by giving no less than 30 days' notice (24 hours' notice, in the case of a revocation under sub-paragraph 1(f)) in writing to the licensee:

- (a) if the licensee agrees in writing with the Authority that the licence should be revoked;
- (b) if any amount payable under standard condition 3 (Payments by licensee to the Authority) is unpaid 30 days after it has become due and remains unpaid for a period of 14 days after the Authority has given the licensee notice that the payment is overdue - provided that no such notice shall be given earlier than the sixteenth day after the day on which the amount payable became due;
- (c)

if the licensee fails:

- (i) to comply with a final order (within the meaning of section 28 of the Act) or with a provisional order (within the meaning of that section) which has been confirmed under that section and (in either case) such failure is not rectified to the satisfaction of the Authority within three months after the Authority has given notice in writing of such failure to the licensee - provided that no such notice shall be given by the Authority before the expiration of the period within which an application under section 30 of the Act could be made questioning the validity of the final or provisional order or before the proceedings relating to any such application are finally determined; or
- (ii) to pay any financial penalty (within the meaning of section 30A of the Act) by the due date for such payment and such payment is not made to the Authority within three months after the Authority has given notice in writing of such failure to the licensee - provided that no such notice shall be given by the Authority before the expiration

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of the period within which an application under section 30E of the Act could be made questioning the validity or effect of the financial penalty or before the proceedings relating to any such application are finally determined;

(d)

if the licensee fails to comply with:

- (i) an order made by the Secretary of State under section 56, 73, 74 or 89 of the Fair Trading Act 1973; or
- (ii) an order made by the court under section 34 of the Competition Act 1998;

(e)

if the licensee:

- (i) shall not have commenced business as a gas transporter within a period of 3 years from the date on which this licence takes effect; or
- (ii) ceases to carry on its business as a gas transporter; or

(f)

if the licensee:

- (i) is unable to pay its debts (within the meaning of section 123(1) or (2) of the Insolvency Act 1986, but subject to paragraphs 2 and 3 of this schedule) or has any voluntary arrangement proposed in relation to it under section 1 of that Act or enters into any scheme of arrangement (other than for the purpose of reconstruction or amalgamation upon terms and within such period as may previously have been approved in writing by the Authority);
- (ii) has a receiver (which expression shall include an administrative receiver within the meaning of section 251 of the Insolvency Act 1986) of the whole or any material part of its assets or undertaking appointed;

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- (iii) has an administration order under section 8 of the Insolvency Act 1986 made in relation to it;
  - (iv) passes any resolution for winding-up other than a resolution previously approved in writing by the Authority; or
  - (v) becomes subject to an order for winding-up by a court of competent jurisdiction; or
- (g) if the licensee is convicted of having committed an offence under section 43 of the Act in making its application for the licence.
2. For the purposes of sub-paragraph 1(f)(i), section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for “£750” there was substituted “£250,000” or such higher figure as the Authority may from time to time determine by notice in writing to the licensee.
  3. The licensee shall not be deemed to be unable to pay its debts for the purposes of sub-paragraph 1(f)(i) if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the licensee with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Authority under paragraph 1.

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**Schedule 3: Transportation Services Area**

Great Britain

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3. In this condition:
- “balancing trade”** means an eligible balancing action (having the meaning given to that term in the network code;
- “transportation commodities”** means (including derivatives of such commodities) balancing trades and capacity rights.