

## **SPECIAL CONDITIONS APPLICABLE TO THE LICENSEE (DN): PART E – RDN**

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**Special Condition E1. Not Used**

**Special Condition E2A: Revenue restriction definitions in respect of the Distribution Network**

1. In this condition and in Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity):

commercial user quantity	means the aggregate quantity of gas in kilowatt hours, taken off the Distribution Network in respect of the formula year by persons other than the licensee supplied with at least 5,860,000 kilowatt hours of gas but less than 1,465,355,000 kilowatt hours of gas in the formula year;
connected system exit point	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;
deemed cost	means the cost of the actual quantity allocated to the licensee in each year, priced in accordance with paragraph 8(5)(c)(ii) and 8(5)(c)(iii) of Part 1 b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity);
Distribution Network	means each individual relevant gas distribution network owned by that licensee which is 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>
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North West	North West
East of England	East Midlands, Eastern
West Midlands	West Midlands
London	North Thames

For the avoidance of doubt, where the licensee also holds one or more individual relevant Distribution Networks under a single relevant gas transporters licence, nothing in this condition shall permit the licensee to consolidate or otherwise aggregate its individual Distribution Networks for the purpose of its reporting obligations under this licence and any reference to Distribution Network shall be construed as a reference to each individual Distribution Network owned by that licensee;

Distribution Network capacity

means LDZ capacity (having the meaning given to that term in the network code) within the relevant Distribution Network;

Distribution Network capacity curtailment rights

means exit capacity curtailment rights held by the licensee in respect of Distribution Network capacity within the relevant Distribution Network;

Distribution Network exit zone

has the meaning given to the term DN exit zone in the NTS gas transportation statement;

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;

Distribution Network transportation activity revenue

means the revenue derived by the licensee from the supply of Distribution Network services to gas shippers in respect of the Distribution Network transportation activity (such revenue to be measured on an accruals

	basis);
Distribution Network transportation quantity	means the aggregate quantity of gas in kilowatt hours introduced into the Distribution Network as a result of arrangements with gas shippers and DN operators in respect of formula year t less LDZ shrinkage calculated in accordance with 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 off-take 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;
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 2004 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 by Transco plc relating to the provision of entry capacity other than NTS SO baseline entry capacity;
incremental exit capacity services	means the undertaking of engagements by Transco plc relating to the provision of NTS incremental exit capacity;
initial NTS SO baseline	means in respect of each terminal and period the NTS

entry capacity	SO baseline entry capacity specified in table A2 of schedule A within Transco plc's NTS GT licence;
initial volume allocation	means the initial quantity in GWh/d allocated to the relevant Distribution Network by the NTS operator as set out in the Offtake Capacity Statement (having the meaning given to that term in the network code) as at 1 <sup>st</sup> May 2005 (or such later date as the Authority otherwise directs in writing);
interruptible entry capacity	has the meaning given to the term interruptible NTS Entry Capacity in the network code;
kilowatt hour or kWh	means 3,600,000 Joules;
large user quantity	means the sum of the commercial user quantity and the small interruptible user quantity;
LDZ shrinkage	means the sum of LDZ own use gas and LDZ unaccounted for gas (both having the meanings given to those terms in the network code);
maximum actual allocation	means the maximum quantity over the relevant formula year in GWh/d allocated to the relevant Distribution Network by the NTS operator;
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 within Transco plc's NTS GT licence 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 within Transco plc’s NTS GT licence 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 firm exit capacity	means NTS exit capacity other than NTS interruptible exit capacity;
NTS gas transportation statement	means that statement produced by Transco plc in accordance with Standard Special Condition A4 (Charging – General);
NTS incremental exit capacity	means that NTS exit capacity in excess of NTS baseline firm exit capacity and NTS baseline interruptible exit capacity;
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 Transco plc 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 transportation owner activity or NTS TO activity	means the activities of Transco plc connected with the development, administration and maintenance of the NTS and with the supply of NTS services;
NTS (TO) Exit capacity charge	means the charge in p/peak day kWh/d for NTS exit capacity as set out in the NTS gas transportation statement;
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 Transco plc 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) within Transco plc's NTS GT licence;
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 by Transco plc relating to the acquisition or disposal of gas to ensure the safe and efficient operation of the transportation system;
small interruptible user quantity	means the aggregate quantity of gas in kilowatt hours, taken off the Distribution Network in respect of formula year t by persons who are supplied through a supply point that is interruptible (in accordance with the network code) and who are supplied with less than 5,860,000 kilowatt hours of gas in that formula year;
small user quantity	means the Distribution Network transportation quantity less the sum of the very large user quantity and large user quantity;
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: <ul style="list-style-type: none"> <li>(a) in connection with the conveyance of gas through the transportation system;</li> </ul>

- (b) for the prevention of the escape of gas which has been taken off the transportation system; and
  - (c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:
    - (i) the balancing of the transportation system through the acquisition or disposal of gas to replace gas lost from the transportation system; and
    - (ii) facilitating constraint management;
- supply of NTS services means the undertaking and performance for gain and reward of engagements by Transco plc:
- (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;
- transportation system means the system (having the meaning given to that term in the network code) to which this licence relates; and
- very large user quantity means the aggregate quantity of gas in kilowatt hours, taken off the Distribution Network in a formula year by

persons other than the licensee supplied with at least  
1,465,355,000 kilowatt hours of gas in the formula year.

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 E2B: Restriction of revenue in respect of the Distribution Network transportation activity**

**Part 1 a [Paragraphs 1 – 5]: Not used**

**Part 1 b The Distribution Network transportation activity revenue restriction**

**(North West Distribution Network)**

**6. The principal restriction**

- (1) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year  $t$  the Distribution Network transportation activity revenue for the Distribution Network covered by this condition ( $DNR_t$ ) shall not exceed the maximum Distribution Network transportation activity revenue ( $DNMR_t$ ) in that year.
- (2) (a) If in respect of any formula year the Distribution Network transportation activity revenue in respect of a relevant Distribution Network exceeds the maximum Distribution Network transportation activity revenue in respect of that Distribution Network 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 relevant Distribution Network unless either:
  - (i) it has demonstrated to the reasonable satisfaction of the Authority that the Distribution Network transportation activity revenue in respect of the relevant Distribution Network would not be likely to exceed the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network 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 Distribution Network transportation activity revenue in respect of the relevant Distribution Network has exceeded the maximum Distribution Network transportation activity revenue is more than 6 per cent of the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network 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 in respect of the relevant Distribution Network such that the Distribution Network transportation activity revenue in respect of the relevant Distribution Network would not be likely in the judgement of the Authority to exceed maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network in that next following formula year.

## **7. Distribution Network transportation activity revenue ( $DNR_t$ )**

For the purposes of paragraph 6 of Part 1 b of this condition, the Distribution Network transportation activity revenue in respect of the relevant Distribution Network in formula year  $t$  ( $DNR_t$ ) shall have the meaning given to that term in Special Condition E2A (Revenue restriction definitions) (and for the avoidance of doubt shall exclude any revenues derived from excluded services).

## **8. Maximum Distribution Network transportation activity revenue $DNMR_t$**

### **(1) Principal formula**

For the purposes of paragraph 6 of Part 1 b of this condition the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network in formula year  $t$   $DNMR_t$  shall be an amount equal to that derived from the following formula:

For formula year  $t=1$

$$\text{DNMR}_t = \text{DNZ}_t + \text{DNF}_t - \text{DNMRA}_t - \text{DNK}_t$$

For formula year  $t=2$  and for each subsequent formula year

$$\text{DNMR}_t = \text{DNZ}_t + \text{DNF}_t + \text{DNE}_t + \text{DNIAE}_t - \text{DNMRA}_t - \text{DNK}_t$$

where:

$\text{DNZ}_t$  in respect of the relevant Distribution Network shall be derived in the following manner:

$$\text{DNZ}_t = \text{DNZ}_{t-1} \times \left[ 1 + \left( \frac{\text{RPI}_t - X}{100} \right) \right] \times Q_t$$

where in respect of the formula year commencing on 1 April 2004:

$$\text{DNZ}_{t-1} = \text{£}235,626,263$$

where:

$\text{RPI}_t$  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 relevant year  $t-2$ ;

$X$  has the value of two (2); and

$Q_t$  shall be derived from the following formula:

$$Q_t = \left( 0.65 + 0.35 \times \frac{W_t}{W_{t-1}} \right)$$

where:

$W_t$  means the composite user quantity in respect of the relevant Distribution Network in formula year t and shall be derived from the following formula:

$$W_t = B_t + (0.15 \times D_t) + (0.05 \times V_t)$$

where:

$B_t$  is the small user quantity in respect of the relevant Distribution Network in formula year t;

$D_t$  is the large user quantity in respect of the relevant Distribution Network in formula year t; and

$V_t$  is the very large user quantity in respect of the relevant Distribution Network in formula year t.

$DNF_t$  means the Distribution Network prescribed rates plus the Distribution Network licence fees in respect of the relevant Distribution Network in formula year t,

where:

Distribution Network 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 the licensee's Distribution Network transportation activity: in the event that the licensee is not Transco plc, and is not an affiliate of Transco plc, it will be the amount of the separate rating assessment for the licensee's Distribution Network transportation activity including (where relevant) metering: in the event that the licensee is Transco plc or an affiliate of Transco plc it shall be calculated as follows;

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

b) in the event that a separate rating assessment is not provided in respect of any of the Distribution Network transportation activities carried out by Transco plc or an affiliate of Transco plc, and of the NTS transportation owner activity carried out either by Transco plc or by an affiliate of Transco plc, and if each of the 8 Distribution Networks owned by Transco plc on 1 April 2004 continue to be owned by Transco plc or an affiliate of Transco plc, the total charge in respect of the licensee's Distribution Network transportation owner activity shall be 12.1314% of 83% of the prescribed rates or



equivalent tax replacing them levied in respect of the licensee and its affiliates' 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 Distribution Network transportation owner activity shall be 14.5918% 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 E3 (Allocation of revenues and costs for calculations

under the price control in respect of the Distribution Network).

In the event that the licensee receives a separate rating assessment or assessments in respect of gas meters connected to the pipe-line system to which this licence relates in respect of periods from 1 April 2005 onwards, the resultant charges shall be deemed to constitute an element of the Distribution Network prescribed rates and shall be treated by the licensee in accordance with Special Condition E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

Distribution  
Network  
licence fee

means payments made by the licensee in respect of the Distribution Network transportation activity under standard condition 3 (Payments by the Licensee to the Authority) in respect of the relevant Distribution Network in formula year t determined in accordance with the methodology determined by the Authority for the purposes of that condition.

$DNEx_t$  means the DN exit capacity costs and incentive revenue in respect of formula year t and shall be derived from the following formula:

$$DNEx_t = DNExCIR_t + DNExIIC_t + DNExC_t$$

where

$DNExCIR_t$  means the DN exit capacity incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 8(5)(a) of Part 1 b of

this condition;

$DNExIIC_t$  means the costs incurred by the licensee in respect of the total payments made by the licensee to the relevant NTS operator in respect of formula year  $t$  in accordance with paragraph 8(5)(c) of Part 1 b of this condition in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days; and

$DNExC_t$  means in respect of formula year  $t$ , an amount equal to the actual payments made by the licensee in respect of NTS exit capacity and NTS exit flow flexibility in respect of the relevant Distribution Network and shall be derived from the following formula;

$$DNExC_t = DNExCC_t + DNExFFC_t$$

where

$DNExCC_t$  means in respect of formula year  $t$ , the total costs incurred by the licensee for NTS exit capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit capacity; and

$DNExFFC_t$  means in respect of formula year  $t$ , the total costs incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit flow flexibility.

For the avoidance of doubt, before 1 October 2008 (or such date that the Authority shall otherwise direct in writing),  $DNExC_t$  shall have the value zero (0).

$DNIAE_t$  means any allowance in respect of approved income adjusting events (whether of a positive or negative value) to be made in respect of formula year t and shall be derived in accordance with paragraph 8(6) of Part 1 b of this condition;

$DNMRA_t$  means the mains replacement expenditure adjustment (whether positive or negative value) in respect of the relevant Distribution Network in formula year t and shall be derived in accordance with paragraph 8(2) of Part 1 b of this condition; and

$DNK_t$  means the Distribution Network transportation activity revenue adjustment factor to the Distribution Network transportation activity revenue over or under recovery in respect of the relevant Distribution Network in formula year t-1 and shall be derived in accordance with paragraph 8(4) of Part 1 b of this condition.

**(2) Mains replacement expenditure adjustment ( $DNMRA_t$ )**

For the purposes of paragraph 8(1) of Part 1 b of this condition the mains expenditure adjustment in respect of the relevant Distribution Network in formula year t ( $DNMRA_t$ ) shall be derived from the following manner:

If  $E_t > AM_t$ , then:

$$DNMRA_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.5 \times E_t) - (0.5 \times AM_t)$$

Otherwise:

$$\text{DNMRA}_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.67 \times E_t) - (0.33 \times \text{AM}_t)$$

where:

$A_t$  means the mains RPI in respect of formula year  $t$ ;

$J_t$  means the price control initial projection allowance in respect of the relevant Distribution Network in formula year  $t$  and shall have the values set out in the following table:

Price control mains allowance £ million	Formula year $t$				
			$t=1$	$t=2$	$t=3$
			43.4	50.0	56.1

$E_t$  means the outturn mains costs in respect of the relevant Distribution Network in formula year  $t$ ;

$\text{AM}_t$  means the matrix mains cost in respect of the relevant Distribution Network in formula year  $t$  and shall be derived in accordance with paragraph 8(3) of Part 1 b of this condition.

where:

included mains means all mains which prior to decommissioning formed mains which operated at low, medium or intermediate distribution pressures;

mains RPI means the percentage change (whether of a positive or negative value) in the arithmetic average of the retail price index numbers published or determined with

respect to each of the twelve months April to March (both inclusive) in formula year t and the arithmetic average of the retail price index numbers published or determined with respect to the period from January to December (both inclusive) 2000;

outturn mains cost means the costs reasonably attributable to the replacement and decommissioning of included mains composed of non standard mains materials in respect of the relevant Distribution Network in formula year t excluding costs reasonably attributable to rechargeable diversions; and

non standard mains materials means mains which are not composed of polyethylene or a similar polymer based material (other than polyvinyl chloride (PVC)) or of steel provided with cathodic protection.

### (3) Matrix mains cost ( $AM_t$ )

- (a) For the purposes of paragraph 8(2) of Part 1 b of this Special Condition the matrix mains cost in respect of the relevant Distribution Network in formula year t ( $AM_t$ ) shall be derived in the following manner:

$$AM_t = \left(1 + \frac{A_t}{100}\right) \times \left[ \sum_{n=1}^6 (L_{nt} \times U_{nt}) \right] \times 1,000$$

where:

$A_t$  shall have the meaning given to that term in paragraph 8(2) of Part 1 b of this condition;

$L_{nt}$  means the length of mains in kilometres decommissioned in

respect of diameter band n, the relevant Distribution Network and formula year t where the diameter bands shall be defined as set out in the following table, save that in respect of any diameter of mains not covered by the table or mains measured in metric measurement shall be reported in the diameter band corresponding to the nearest imperial equivalent

<b>Diameter band n</b>	<b>Nominal internal diameter of mains decommissioned (inches)</b>
1	2 – 3
2	4 – 5
3	6 – 7
4	8 – 9
5	10 – 12
6	Greater than 12

$U_{nt}$  means the specific matrix costs in respect of diameter band n, the relevant Distribution Network and formula year t as set out in the following table

	<b>Specific matrix costs (£ per metre)</b>				
<b>Diameter band n</b>			<b>t=1</b>	<b>t=2</b>	<b>t=3</b>
1			52.4	49.6	47.9
2			66.8	65.2	63.3
3			101.8	95.5	91.8
4			137.7	129.2	124.2
5			204.3	191.7	183.7
6			351.6	329.1	316.1

$$\sum_{n=1}^6$$

Means the sum over the diameter bands n.

- (b) On or before 31 July in each formula year  $t$  in respect of the relevant Distribution Network, the licensee shall prepare and provide to the Authority a report providing details of:
  - (i) the mains replacement work completed in respect of the previous formula year in kilometres of length of mains decommissioned (excluding rechargeable diversions) by diameter band; and
  - (ii) detailing the outturn mains costs in respect of formula year  $t-1$ .
- (c) For the purposes of paragraph 8(3)(b) of Part 1 b of this condition, rechargeable diversions means mains decommissioned or replaced at the request of a party other than the licensee and where the cost of the work is recovered or is expected to be recovered from that party (or another) by the licensee.
- (d) The licensee shall allow the Authority or a duly authorised nominated representative of the Authority on the provision of reasonable prior written notice access to its staff, records and facilities as the Authority may reasonably require or as may be necessary for the purpose of enabling the Authority to establish to its reasonable satisfaction that the information to be provided by the licensee under paragraph 8(3)(b) of Part 1 b of this condition above fairly presents the outturn mains costs and lengths and diameters decommissioned in formula year  $t$ .

**(4) Distribution Network transportation activity revenue adjustment ( $DNK_t$ )**

- (a) For the purposes of paragraph 8(1) of Part 1 b of this condition the Distribution Network transportation activity revenue adjustment in respect of the relevant Distribution Network in formula year  $t$  ( $DNK_t$ ) shall be derived from the following manner:
  - (i) In respect of the formula year commencing on 1 April 2004:



$$DNK_t = £2,531,611$$

(ii) and thereafter

$$DNK_t = (DNR_{t-1} - DNMR_{t-1}) \times \left( 1 + \frac{I_t}{100} \right)$$

where:

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

**(5) Distribution Network Exit Capacity incentive revenue (DNExCIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 8(1) of Part 1 b of this condition, the maximum Distribution Network exit capacity incentive revenue allowed to the licensee in respect of formula year t (DNExCIR<sub>t</sub>) shall be derived from the following formula:

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

$$DNExCIR_t = 0$$

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

If  $DNE_{xIT_t} \geq DNE_{xCP_t}$ , then:

$$DNE_{xCIR_t} = \text{MIN} ((DNE_{xUSF_t} \times (DNE_{xIT_t} - DNE_{xCP_t})), DNE_{xCAP_t})$$

Otherwise:

$$DNE_{xCIR_t} = \text{MAX} ((DNE_{xDSF_t} \times (DNE_{xIT_t} - DNE_{xCP_t})), DNE_{xCOL_t})$$

Where:

$DNE_{xIT_t}$  means the Distribution Network exit incentive target in respect of formula year t and shall be derived in accordance with paragraph 8(5)(b) of Part 1 b of this condition;

$DNE_{xCP_t}$  means the Distribution Network exit performance measure in respect of formula year t, and shall be derived in accordance with paragraph 8(5)(c) of Part 1 b of this condition;

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

$DNE_{xUSF_t}$  means the Distribution Network exit upside sharing factor in respect of formula year t as set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b><math>t \geq 2</math></b>
$DNE_{xUSF_t}$	100%

$DNE_{xDSF_t}$  means the Distribution Network exit 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≥2</b>
DNE <sub>x</sub> DSF <sub>t</sub>	100%

DNE<sub>x</sub>CAP<sub>t</sub> means the maximum Distribution Network exit capacity revenue in respect of formula year t derived from the following formula:

$$\text{DNE}_{\text{x}}\text{CAP}_t = \text{DNE}_{\text{x}}\text{CAPP}_t \times \text{DNE}_{\text{x}}\text{IT}_t$$

where DNE<sub>x</sub>CAPP<sub>t</sub> is set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b>t≥2</b>
DNE <sub>x</sub> CAPP <sub>t</sub>	7.5%

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

DNE<sub>x</sub>COL<sub>t</sub> means the minimum Distribution Network exit capacity revenue in respect of formula year t derived from the following formula:

$$\text{DNE}_{\text{x}}\text{COL}_t = \text{DNE}_{\text{x}}\text{COLP}_t \times \text{DNE}_{\text{x}}\text{IT}_t$$

where DNE<sub>x</sub>COLP<sub>t</sub> is set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b>t≥2</b>
DNE <sub>x</sub> COLP <sub>t</sub>	-7.5%

**(b) The Distribution Network exit incentive target (DNExIT<sub>t</sub>)**

- (i) For the purpose of paragraph 8(5)(a) of Part 1 b of this condition the Distribution Network exit incentive target in respect of formula year t (DNExIT<sub>t</sub>) shall be derived from the following formula:

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

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

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

$$\text{DNExIT}_t = (\text{DNExCTC}_t + \text{DNExFFTC}_t + \text{DNExIIT}_t) \times 1,000,000$$

where:

$\text{DNExCTC}_t$  means the target cost in £million of the initial volume allocation of NTS exit capacity in respect of formula year t in accordance with sub-paragraph 8(5)(b)(ii) of Part 1 b of this condition in respect of the relevant Distribution Network;

$\text{DNExFFTC}_t$  means the target cost in £million of the initial volume allocation of NTS exit flow flexibility in respect of formula year t in accordance with sub-paragraph

8(5)(b)(iii) of Part 1 b of this condition in respect of the relevant Distribution Network; and

$DNE_{xIIT_t}$  means the incentive target in £million in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$  in accordance with subparagraph 8(5)(b)(iv) of Part 1 b of this condition.

- (ii) The target cost in £million of the initial volume allocation of NTS exit capacity  $DNE_{xCTC_t}$  shall be calculated as follows:

$$DNE_{xCTC_t} = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRE_{xCh_{v,t,d}} \times NTSBA_{ExC_{v,t}} \right]}{100}$$

where:

$NTSRE_{xCh_{v,t,d}}$  means the relevant NTS (TO) Exit capacity charge in p/peak day kWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network for day  $d$  in respect of formula year  $t$  as set out in the NTS gas transportation statement which applies for formula year  $t$ ;

$NTSBAExC_{v,t}$  means the initial volume allocation of NTS exit capacity in GWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$  as given in the following table:

Distribution Network exit zone $v$	NTSBAExC <sub>v,t</sub> (GWh/d)			
	$t=2$	$t=3$	$t=4$	$t=5$
NW1	335.28	340.13	347.80	348.01
NW2	210.02	211.87	216.63	219.04

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

$\sum_{all\ v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network.

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

- (iii) The target cost in £million of the initial volume allocation of NTS exit flow flexibility  $DNExFFTC_t$  shall be calculated as follows:

$$DNExFFTC_t = \frac{\sum_{all\ v} \left[ \sum_{all\ d} NTSRExCh_{v,t,d} \times NTSBAExFF_{v,t} \right]}{100}$$

where:

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

$NTSBAExFF_{v,t}$  means the initial volume allocation of NTS exit flow flexibility in GWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$  as given in the following table:

Distribution Network exit zone $v$	NTSBAExFF <sub>v,t</sub> (GWh/d)			
	$t=2$	$t=3$	$t=4$	$t=5$
NW1	6.30	8.19	8.71	9.31
NW2	8.32	8.45	8.74	8.79

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

$\sum_{all\ v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network.

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

- (iv) The incentive target  $DNExIIT_t$  in respect of payments made by the licensee (in accordance with sub-paragraph 8(5)(b)(vi) of Part 1 b of this condition) in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days subject to sub-paragraph 8(5)(b)(v) of Part 1 b of this condition is as set out in the following table (until such date as the Authority otherwise directs in writing):

	<b>Formula year</b>			
<b>Variable</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
DNExIIT <sub>t</sub> £million	0.08	0.08	0.09	0.09

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

(v) Unless the Authority otherwise directs in writing, in any formula year t DNExIIT<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 off-take gas from the Distribution Network on plus 15 curtailment days does not conform with subparagraph 8(5)(b)(vi) below; or

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

(vi) The licensee shall use all reasonable endeavours to ensure that the weighted average unit charge payable by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year t (ADNExIIC<sub>t</sub>) shall be equal to the value derived from the following formula:

$$ADNExIIC_t = \frac{DNSIC_t}{\left( \sum_{\text{all } z} DNExC_z^{\text{Jan15th}} \times 15 \right)}$$

where:

DNSIC<sub>t</sub> means the total value accrued in respect of formula year t of charges foregone by the



licensee in respect of Distribution Network capacity curtailment rights;

$DNExC_z^{Jan15th}$

means the volume of Distribution Network capacity within the relevant Distribution Network registered in respect of supply point, connected system exit point or storage connection point  $z$  in respect of which the licensee has Distribution Network capacity curtailment rights on 15 January in respect of formula year  $t$ ; and

$\sum_{all\ z}$

means the sum across all supply points, connected system exit points and storage connection points,  $z$ .

**(c) The Distribution Network exit performance measure ( $DNExCP_t$ )**

- (i) For the purposes of paragraphs 8(5)(a) of Part 1 b of this condition, the Distribution Network exit performance measure in respect of formula year  $t$  ( $DNExCP_t$ ) shall be derived from the following formula:

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

$$DNExCP_t = 0$$

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

$$DNExCP_t = (DNExCDC_t + DNExFFDC_t + DNExIIC_t) \times 1,000,000$$

where

$DNE_{x}CDC_t$  means the deemed costs in £million incurred by the licensee for NTS exit capacity in respect of all NTS offtakes within the relevant Distribution Network in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(ii) of Part 1 b of this condition;

$DNE_{x}FFDC_t$  means the deemed costs in £million incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(iii) of Part 1 b of this condition; and

$DNE_{x}IIC_t$  means the costs in £million incurred by the licensee in respect of total payments made by the licensee to the relevant NTS operator in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(iv) of Part 1 b of this condition.

- (ii) The deemed costs in £million incurred by the licensee for NTS exit capacity  $DNExCDC_t$  shall be calculated as follows:

$$DNExCDC_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRExCh_{v,t,d} \times NTSMAExC_{v,t} \right]}{100}$$

where:

$NTSMAExC_{v,t}$  means the maximum actual allocation of NTS exit capacity in GWh/d in respect of Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$ ;

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network;

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

- (iii) The deemed costs in £million incurred by the licensee for NTS exit flow flexibility  $DNExFFDC_t$  shall be calculated as follows:

$$DNExFFDC_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRExCh_{v,t,d} \times NTSMAExFF_{v,t} \right]}{100}$$

where:

$NTSMAExFF_{v,t}$  means the maximum actual allocation of NTS exit flow flexibility in GWh/d in respect of Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$ ;

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network;

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

- (iv) The costs in £million incurred by the licensee in respect of total payments made by the licensee to the relevant NTS operator in respect of curtailment of

rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year t  $DNExIIC_t$  shall be derived from the following formula:

$$DNExIIC_t = \sum_{\text{all } d} \sum_{\text{all } z} DNExIIC_{z,d}$$

where:

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

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

$DNExIIC_{z,d}$  means the total payments made by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days on day d in respect of formula year t to the extent that such amount relates to a plus 15 curtailment day in respect of supply point, connected system exit point or storage connection point z, until such date as the Authority otherwise directs in writing.

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

**(d) Statement of actual interruption**

- (i) The licensee shall publish by 12:00 hours each day a statement setting out in respect of the Distribution Network by each exit zone (having the meaning given to that term in the network code):
  - (aa) the volumes of Distribution Network capacity (in respect of which the licensee held exit capacity curtailment rights) 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 Distribution Network or (ii) for such other reason as the licensee shall specify.
- (ii) The licensee shall retain copies of each statement published pursuant to sub-paragraph 8(5)(d)(i) of Part 1 b of this condition for at least seven (7) years.

**(6) Determination of any adjustment factor to be applied to  $DNMR_t$  ( $DNIAE_t$ )**

- (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); and
  - (iii) 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 8(6)(i) of this condition,

where the event has, for relevant formula year  $t$ , increased or decreased the value of  $DNE_{xCP_t}$  (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) 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 8(6)(b) and 8(6)(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 sub-paragraphs 8(6)(d)(i) to 8(6)(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 8(6)(b) or 8(6)(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 8(6)(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 8(6)(b) or 8(6)(c) were caused or saved by an income adjusting event;
  - (ii) whether the event or circumstance has increased or decreased the value of  $DNE_{xCP_t}$  by more than the threshold amount, save in the case of sub-paragraph 8(6)(a)(ii) 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 ( $DNIAE_t$ ) shall be:
  - (i) the value determined by the Authority under paragraph 8(6)(i) above; or
  - (ii) if the Authority has not made a determination under paragraph 8(6)(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 8(6)(d)(iii); or
  - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 8(6)(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 8(6)(d) and/or 8(6)(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 8(6)(b) or 8(6)(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.

## **9. Calculation of quantities**

- (1) In Part 1 b of this condition in respect of the definitions of commercial user quantity, very large user quantity and small interruptible user quantity, the licensee shall determine loads attributable to the small interruptible user quantity, commercial user quantity and very large user quantity on the basis of volumes reasonably expected to have been off-taken from the relevant Distribution Network during the formula year having regard to daily meter reads or if these are not available the licensee shall use reasonable estimates of the volumes likely to be off-taken from the relevant Distribution Network in accordance with the process for determination of such volumes pursuant to the network code.

## **10. Reporting obligations**

- (1) Where the licensee publishes any statement or revised or amended statement as to its Distribution Network 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 Distribution Network transportation activity revenue together with its components, in respect of the relevant Distribution Network to which the statements referred to in paragraph 10(1) relate and 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 Distribution Network transportation activity revenue together with its components, in respect of the relevant Distribution Network to which the statements referred to in paragraph 10 (1) relate and 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 10(4) of Part 1 b of this condition in respect of the first mentioned formula year has been furnished to the Authority before publication of the proposed change to 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 Distribution Network transportation charges under Standard Special Condition A4 (Charging – General) the licensee shall provide the Authority with a written forecast of the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network and 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 the formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion,

paragraphs 6(1) and 6(2) of Part 1 b of this condition above apply in respect of that formula year and its best estimate of what  $DNK_t$  (as defined in paragraph 8(4) of Part 1 b of this condition) is likely to be in that formula year in respect of the relevant Distribution Network.

- (5) The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement in respect of the relevant Distribution Network showing the Distribution Network transportation activity revenue, the Distribution Network transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity in respect of that formula year which 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 an appropriate auditor that, in its opinion, that statement fairly presents the Distribution Network transportation activity revenue, the Distribution Network transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity, in relation to the relevant Distribution Network in accordance with the requirements of this condition.

#### **11. Disapplication of the Distribution Network transportation activity revenue restriction**

- (1) The Distribution Network transportation 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 11(2) to 11(7) of Part 1 b of this condition.
- (2) The Distribution Network transportation 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 11(3) of Part 1 b of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 11(6) or paragraph 11(7) of Part 1 b of this condition.

- (3) A disapplication request shall:
  - (i) be in writing addressed to the Authority;
  - (ii) specify the Distribution Network transportation activity revenue restriction conditions (or any part or parts thereof) to which the request relates;
  - (iii) specify the Distribution Network (or any part or parts thereof) to which the request relates; and
  - (iv) state the date (being not earlier than the date referred to in paragraph 11(5) of Part 1 b of this condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect, (the disapplication date).
- (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 11(6) of Part 1 b 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 b 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 this disapplication request, the licensee may deliver written notice to the Authority terminating the application of Part 1 b 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 b 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 E2B Part 1 b, 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 b of this condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or such a later date.

**Part 1 b The Distribution Network transportation activity revenue restriction**

**(East of England Distribution Network)**

**6. The principal restriction**

- (1) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year  $t$  the Distribution Network transportation activity revenue for the Distribution Network covered by this condition ( $\text{DNR}_t$ ) shall not exceed the maximum Distribution Network transportation activity revenue ( $\text{DNMR}_t$ ) in that year.
- (2)
  - (a) If in respect of any formula year the Distribution Network transportation activity revenue in respect of a relevant Distribution Network exceeds the maximum Distribution Network transportation activity revenue in respect of that Distribution Network 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 relevant Distribution Network unless either:
    - (i) it has demonstrated to the reasonable satisfaction of the Authority that the Distribution Network transportation activity revenue in respect of the relevant Distribution Network would not be likely to exceed the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network 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 Distribution Network transportation activity revenue in respect of the relevant Distribution Network has exceeded the maximum Distribution Network transportation activity revenue is more than 6 per cent of the maximum Distribution Network transportation activity revenue in respect of

the relevant Distribution Network 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 in respect of the relevant Distribution Network such that the Distribution Network transportation activity revenue in respect of the relevant Distribution Network would not be likely in the judgement of the Authority to exceed maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network in that next following formula year.

## **7. Distribution Network transportation activity revenue ( $DNR_t$ )**

For the purposes of paragraph 6 of Part 1 b of this condition, the Distribution Network transportation activity revenue in respect of the relevant Distribution Network in formula year  $t$  ( $DNR_t$ ) shall have the meaning given to that term in Special Condition E2A (Revenue restriction definitions) (and for the avoidance of doubt shall exclude any revenues derived from excluded services).

## **8. Maximum Distribution Network transportation activity revenue $DNMR_t$**

### **(1) Principal formula**

For the purposes of paragraph 6 of Part 1 b of this condition the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network in formula year  $t$   $DNMR_t$  shall be an amount equal to that derived from the following formula:

For formula year  $t=1$

$$DNMR_t = DNZ_t + DNF_t - DNMRA_t - DNK_t$$

For formula year  $t=2$  and for each subsequent formula year

$$DNMR_t = DNZ_t + DNF_t + DNEx_t + DNIAE_t - DNMRA_t - DNK_t$$



where:

$DNZ_t$  in respect of the relevant Distribution Network shall be derived in the following manner:

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

where in respect of the formula year commencing on 1 April 2004:

$$DNZ_{t-1} = £343,825,706$$

where:

$RPI_t$  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 relevant year t-2;

$X$  has the value of two (2); and

$Q_t$  shall be derived from the following formula:

$$Q_t = \left( 0.65 + 0.35 \times \frac{W_t}{W_{t-1}} \right)$$

where:

$W_t$  means the composite user quantity in respect of the relevant Distribution Network in formula year t and shall be derived from the following formula:

$$W_t = B_t + (0.15 \times D_t) + (0.05 \times V_t)$$

where:

$B_t$  is the small user quantity in respect of the relevant Distribution Network in formula year t;

$D_t$  is the large user quantity in respect of the relevant Distribution Network in formula year t; and

$V_t$  is the very large user quantity in respect of the relevant Distribution Network in formula year t.

$DNF_t$  means the Distribution Network prescribed rates plus the Distribution Network licence fees in respect of the relevant Distribution Network in formula year t,

where:

Distribution Network 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 the licensee's Distribution Network transportation activity: in the event that the licensee is not Transco plc, and is not an affiliate of Transco plc, it will be the amount of the separate rating assessment for the licensee's Distribution Network transportation activity including (where relevant) metering: in the event that the licensee is Transco plc or an affiliate of Transco plc it shall be calculated as follows;

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

b) in the event that a separate rating assessment is not provided in respect of any of the Distribution Network transportation activities carried out by Transco plc or an affiliate of Transco plc, and of the NTS transportation owner activity carried out either by Transco plc or by an affiliate of Transco plc, and if each of the 8 Distribution Networks owned by Transco plc on 1 April 2004 continue to be owned by Transco plc or an affiliate of Transco plc, the total charge in respect of the licensee's Distribution Network transportation owner activity shall be 19.8953% of 83% of the prescribed rates or equivalent tax replacing them levied in respect of the licensee and its affiliates' 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 Distribution Network transportation owner activity shall be 30.3646% 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 E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

In the event that the licensee receives a separate rating assessment or assessments in respect of gas meters connected to the pipe-line system to which this licence relates system in respect of periods from 1 April 2005 onwards, the resultant charges shall be deemed to constitute an element of the Distribution Network prescribed rates and shall be treated by the licensee in accordance with Special Condition E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

Distribution Network licence fee means payments made by the licensee in respect of the Distribution Network transportation activity under standard condition 3 (Payments by the Licensee to the Authority) in respect of the relevant Distribution Network in formula year t determined in accordance with the methodology determined by the Authority for the purposes of that condition.

$DNEx_t$  means the DN exit capacity costs and incentive revenue in respect of formula year t and shall be derived from the following formula:

$$DNEx_t = DNExCIR_t + DNExIIC_t + DNExC_t$$

where

$DNExCIR_t$  means the DN exit capacity incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 8(5)(a) of Part 1 b of this condition;

$DNExIIC_t$  means the costs incurred by the licensee in respect of the total payments made by the licensee to the relevant NTS operator in respect of formula year  $t$  in accordance with paragraph 8(5)(c) of Part 1 b of this condition in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days; and

$DNExC_t$  means in respect of formula year  $t$ , an amount equal to the actual payments made by the licensee in respect of NTS exit capacity and NTS exit flow flexibility in respect of the relevant Distribution Network and shall be derived from the following formula;

$$DNExC_t = DNExCC_t + DNExFFC_t$$

where

$DNExCC_t$  means in respect of formula year  $t$ , the total costs incurred by the licensee for NTS exit capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit capacity; and

$DNExFFC_t$  means in respect of formula year  $t$ , the total costs incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit flow flexibility.

For the avoidance of doubt, before 1 October 2008 (or such date that the Authority shall otherwise direct in writing),  $DNExC_t$  shall have the value zero (0).

$DNIAE_t$  means any allowance in respect of approved income adjusting events (whether of a positive or negative value) to be made in respect of formula year t and shall be derived in accordance with paragraph 8(6) of Part 1 b of this condition;

$DNMRA_t$  means the mains replacement expenditure adjustment (whether positive or negative value) in respect of the relevant Distribution Network in formula year t and shall be derived in accordance with paragraph 8(2) of Part 1 b of this condition; and

$DNK_t$  means the Distribution Network transportation activity revenue adjustment factor to the Distribution Network transportation activity revenue over or under recovery in respect of the relevant Distribution Network in formula year t-1 and shall be derived in accordance with paragraph 8(4) of Part 1 b of this condition.

**(2) Mains replacement expenditure adjustment ( $DNMRA_t$ )**

For the purposes of paragraph 8(1) of Part 1 b of this condition the mains expenditure adjustment in respect of the relevant Distribution Network in formula year t ( $DNMRA_t$ ) shall be derived from the following manner:

If  $E_t > AM_t$ , then:

$$DNMRA_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.5 \times E_t) - (0.5 \times AM_t)$$

Otherwise:

$$\text{DNMRA}_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.67 \times E_t) - (0.33 \times \text{AM}_t)$$

where:

$A_t$  means the mains RPI in respect of formula year t;

$J_t$  means the price control initial projection allowance in respect of the relevant Distribution Network in formula year t and shall have the values set out in the following table:

Price control mains allowance	Formula year t				
			t=1	t=2	t=3
£ million			47.4	42.9	43.6

$E_t$  means the outturn mains costs in respect of the relevant Distribution Network in formula year t;

$\text{AM}_t$  means the matrix mains cost in respect of the relevant Distribution Network in formula year t and shall be derived in accordance with paragraph 8(3) of Part 1 b of this condition.

where:

included mains means all mains which prior to decommissioning formed mains which operated at low, medium or intermediate distribution pressures;

mains RPI means the percentage change (whether of a positive or negative value) in the arithmetic average of the retail price index numbers published or determined with respect to each of the twelve months April to March (both inclusive) in formula year t and the arithmetic



average of the retail price index numbers published or determined with respect to the period from January to December (both inclusive) 2000;

outturn mains cost means the costs reasonably attributable to the replacement and decommissioning of included mains composed of non standard mains materials in respect of the relevant Distribution Network in formula year t excluding costs reasonably attributable to rechargeable diversions; and

non standard mains materials means mains which are not composed of polyethylene or a similar polymer based material (other than polyvinyl chloride (PVC)) or of steel provided with cathodic protection.

### (3) Matrix mains cost ( $AM_t$ )

- (a) For the purposes of paragraph 8(2) of Part 1 b of this Special Condition the matrix mains cost in respect of the relevant Distribution Network in formula year t ( $AM_t$ ) shall be derived in the following manner:

$$AM_t = \left(1 + \frac{A_t}{100}\right) \times \left[ \sum_{n=1}^6 (L_{nt} \times U_{nt}) \right] \times 1,000$$

where:

$A_t$  shall have the meaning given to that term in paragraph 8(2) of Part 1 b of this condition;

$L_{nt}$  means the length of mains in kilometres decommissioned in respect of diameter band n, the relevant Distribution Network and formula year t where the diameter bands shall be defined as

set out in the following table, save that in respect of any diameter of mains not covered by the table or mains measured in metric measurement shall be reported in the diameter band corresponding to the nearest imperial equivalent

<b>Diameter band n</b>	<b>Nominal internal diameter of mains decommissioned (inches)</b>
1	2 – 3
2	4 – 5
3	6 – 7
4	8 – 9
5	10 – 12
6	Greater than 12

$U_{nt}$  means the specific matrix costs in respect of diameter band n, the relevant Distribution Network and formula year t as set out in the following table

	<b>Specific matrix costs (£ per metre)</b>				
<b>Diameter band n</b>			<b>t=1</b>	<b>t=2</b>	<b>t=3</b>
1			50.6	52.3	50.9
2			57.1	57.8	56.4
3			89.8	91.5	88.9
4			136.9	141.6	140.0
5			181.0	186.2	180.7
6			245.3	279.3	274.1

$$\sum_{n=1}^6$$

Means the sum over the diameter bands n.

- (b) On or before 31 July in each formula year  $t$  in respect of the relevant Distribution Network the licensee shall prepare and provide to the Authority a report providing details of:
  - (i) the mains replacement work completed in respect of the previous formula year in kilometres of length of mains decommissioned (excluding rechargeable diversions) by diameter band; and
  - (ii) detailing the outturn mains costs in respect of formula year  $t-1$ .
- (c) For the purposes of paragraph 8(3)(b) of Part 1 b of this condition, rechargeable diversions means mains decommissioned or replaced at the request of a party other than the licensee and where the cost of the work is recovered or is expected to be recovered from that party (or another) by the licensee.
- (d) The licensee shall allow the Authority or a duly authorised nominated representative of the Authority on the provision of reasonable prior written notice access to its staff, records and facilities as the Authority may reasonably require or as may be necessary for the purpose of enabling the Authority to establish to its reasonable satisfaction that the information to be provided by the licensee under paragraph 8(3)(b) of Part 1 b of this condition above fairly presents the outturn mains costs and lengths and diameters decommissioned in formula year  $t$ .

**(4) Distribution Network transportation activity revenue adjustment ( $DNK_t$ )**

- (a) For the purposes of paragraph 8(1) of Part 1 b of this condition the Distribution Network transportation activity revenue adjustment in respect of the relevant Distribution Network in formula year  $t$  ( $DNK_t$ ) shall be derived from the following manner:
  - (i) In respect of the formula year commencing on 1 April 2004:

$$DNK_t = £3,694,125$$

(ii) and thereafter

$$DNK_t = (DNR_{t-1} - DNMR_{t-1}) \times \left( 1 + \frac{I_t}{100} \right)$$

where:

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

**(5) Distribution Network Exit Capacity incentive revenue (DNExCIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 8(1) of Part 1 b of this condition, the maximum Distribution Network exit capacity incentive revenue allowed to the licensee in respect of formula year t (DNExCIR<sub>t</sub>) shall be derived from the following formula:

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

$$DNExCIR_t = 0$$

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

If  $DNE_{xIT_t} \geq DNE_{xCP_t}$ , then:

$$DNE_{xCIR_t} = \text{MIN} ((DNE_{xUSF_t} \times (DNE_{xIT_t} - DNE_{xCP_t})), DNE_{xCAP_t})$$

Otherwise:

$$DNE_{xCIR_t} = \text{MAX} ((DNE_{xDSF_t} \times (DNE_{xIT_t} - DNE_{xCP_t})), DNE_{xCOL_t})$$

Where:

$DNE_{xIT_t}$  means the Distribution Network exit incentive target in respect of formula year t and shall be derived in accordance with paragraph 8(5)(b) of Part 1 b of this condition;

$DNE_{xCP_t}$  means the Distribution Network exit performance measure in respect of formula year t, and shall be derived in accordance with paragraph 8(5)(c) of Part 1 b of this condition;

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

$DNE_{xUSF_t}$  means the Distribution Network exit upside sharing factor in respect of formula year t as set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b><math>t \geq 2</math></b>
$DNE_{xUSF_t}$	100%

$DNE_{xDSF_t}$  means the Distribution Network exit 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≥2</b>
DNExDSF <sub>t</sub>	100%

DNExCAP<sub>t</sub> means the maximum Distribution Network exit capacity revenue in respect of formula year t derived from the following formula:

$$\text{DNExCAP}_t = \text{DNExCAPP}_t \times \text{DNExIT}_t$$

where DNExCAPP<sub>t</sub> is set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b>t≥2</b>
DNExCAPP <sub>t</sub>	7.5%

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

DNExCOL<sub>t</sub> means the minimum Distribution Network exit capacity revenue in respect of formula year t derived from the following formula:

$$\text{DNExCOL}_t = \text{DNExCOLP}_t \times \text{DNExIT}_t$$

where DNExCOLP<sub>t</sub> is set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b>t≥2</b>
DNExCOLP <sub>t</sub>	-7.5%

**(b) The Distribution Network exit incentive target (DNExIT<sub>t</sub>)**

- (i) For the purpose of paragraph 8(5)(a) of Part 1 b of this condition the Distribution Network exit incentive target in respect of formula year *t* (DNExIT<sub>t</sub>) shall be derived from the following formula:

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

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

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

$$\text{DNExIT}_t = (\text{DNExCTC}_t + \text{DNExFFTC}_t + \text{DNExIIT}_t) \times 1,000,000$$

where:

DNExCTC<sub>t</sub> means the target cost in £million of the initial volume allocation of NTS exit capacity in respect of formula year *t* in accordance with sub-paragraph 8(5)(b)(ii) of Part 1 b of this condition in respect of the relevant Distribution Network;

DNExFFTC<sub>t</sub> means the target cost in £million of the initial volume allocation of NTS exit flow flexibility in respect of formula year *t* in accordance with sub-paragraph

8(5)(b)(iii) of Part 1 b of this condition in respect of the relevant Distribution Network; and

$DNE_{xIIT_t}$  means the incentive target in £million in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$  in accordance with subparagraph 8(5)(b)(iv) of Part 1 b of this condition.

- (ii) The target cost in £million of the initial volume allocation of NTS exit capacity  $DNE_{xCTC_t}$  shall be calculated as follows:

$$DNE_{xCTC_t} = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRE_{xCh_{v,t,d}} \times NTSBA_{ExC_{v,t}} \right]}{100}$$

where:

$NTSRE_{xCh_{v,t,d}}$  means the relevant NTS (TO) Exit capacity charge in p/peak day kWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network for day  $d$  in respect of formula year  $t$  as set out in the NTS gas transportation statement which applies for formula year  $t$ ;



$NTSBAExC_{v,t}$  means the initial volume allocation of NTS exit capacity in GWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$  as given in the following table:

Distribution Network exit zone $v$	NTSBAExC <sub>v,t</sub> (GWh/d)			
	$t=2$	$t=3$	$t=4$	$t=5$
EM1	87.61	90.11	92.09	92.92
EM2	95.43	96.25	97.03	98.22
EM3	285.35	290.08	294.18	297.55
EM4	19.09	19.42	19.50	19.63
EA1	37.66	38.80	39.70	40.28
EA2	41.60	42.59	43.32	43.82
EA3	62.21	63.96	65.16	66.09
EA4	224.16	229.55	233.68	236.33

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network.

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

- (iii) The target cost in £million of the initial volume allocation of NTS exit flow flexibility  $DNExFFTC_t$  shall be calculated as follows:

$$\text{DNExFFTC}_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} \text{NTSRExCh}_{v,t,d} \times \text{NTSBAExFF}_{v,t} \right]}{100}$$

where:

$\text{NTSRExCh}_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

$\text{NTSBAExFF}_{v,t}$  means the initial volume allocation of NTS exit flow flexibility in GWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$  as given in the following table:

Distribution Network exit zone $v$	NTSBAExFF <sub><math>v,t</math></sub> (GWh/d)			
	$t=2$	$t=3$	$t=4$	$t=5$
EM1	1.54	1.98	1.33	1.57
EM2	0.76	0.77	0.78	0.79
EM3	6.30	7.66	5.74	6.45
EM4	1.22	1.24	1.26	1.28
EA1	5.08	5.25	5.36	5.45
EA2	5.62	5.76	5.86	5.92
EA3	-0.64	-0.36	-0.14	0.07
EA4	-1.00	-0.43	0.02	0.44

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network.

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

- (iv) The incentive target  $DNExIIT_t$  in respect of payments made by the licensee (in accordance with sub-paragraph 8(5)(b)(vi) of Part 1 b of this condition) in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days subject to sub-paragraph 8(5)(b)(v) of Part 1 b of this condition is as set out in the following table (until such date as the Authority otherwise directs in writing):

	<b>Formula year</b>			
<b>Variable</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
$DNExIIT_t$ £million	0.82	0.87	0.89	0.96

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

- (v) Unless the Authority otherwise directs in writing, in any formula year  $t$   $DNExIIT_t$  shall be equal to zero if:

- (a) the weighted average charge payable by the licensee to gas shippers in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days does not conform with sub-paragraph 8(5)(b)(vi) below; or
- (b) no charge is payable by the licensee to gas shippers in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$ .

- (vi) The licensee shall use all reasonable endeavours to ensure that the weighted average unit charge payable by the licensee in respect of the curtailment of

rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year t ( $ADNExIIC_t$ ) shall be equal to the value derived from the following formula:

$$ADNExIIC_t = \frac{DNSIC_t}{\left( \sum_{\text{all } z} DNExC_z^{\text{Jan15th}} \times 15 \right)}$$

where:

$DNSIC_t$  means the total value accrued in respect of formula year t of charges foregone by the licensee in respect of Distribution Network capacity curtailment rights;

$DNExC_z^{\text{Jan15th}}$  means the volume of Distribution Network capacity within the relevant Distribution Network registered in respect of supply point, connected system exit point or storage connection point z in respect of which the licensee has Distribution Network capacity curtailment rights on 15 January in respect of formula year t; and

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

**(c) The Distribution Network exit performance measure ( $DNExCP_t$ )**

- (i) For the purposes of paragraphs 8(5)(a) of Part 1 b of this condition, the Distribution Network exit performance measure in respect of formula year t ( $DNExCP_t$ ) shall be derived from the following formula:

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

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

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

$$\text{DNExCP}_t = (\text{DNExCDC}_t + \text{DNExFFDC}_t + \text{DNExIIC}_t) \times 1,000,000$$

where

$\text{DNExCDC}_t$  means the deemed costs in £million incurred by the licensee for NTS exit capacity in respect of all NTS offtakes within the relevant Distribution Network in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(ii) of Part 1 b of this condition;

$\text{DNExFFDC}_t$  means the deemed costs in £million incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(iii) of Part 1 b of this condition; and

$\text{DNExIIC}_t$  means the costs in £million incurred by the licensee in respect of total

payments made by the licensee to the relevant NTS operator in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year t in accordance with sub-paragraph 8(5)(c)(iv) of Part 1 b of this condition.

- (ii) The deemed costs in £million incurred by the licensee for NTS exit capacity  $DNExCDC_t$  shall be calculated as follows:

$$DNExCDC_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRExCh_{v,t,d} \times NTSMAExC_{v,t} \right]}{100}$$

where:

$NTSMAExC_{v,t}$  means the maximum actual allocation of NTS exit capacity in GWh/d in respect of Distribution Network exit zone v within the relevant Distribution Network in respect of formula year t;

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

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

$$\sum_{\text{all } v}$$

means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network;

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

- (iii) The deemed costs in £million incurred by the licensee for NTS exit flow flexibility  $\text{DNExFFDC}_t$  shall be calculated as follows:

$$\text{DNExFFDC}_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} \text{NTSRExCh}_{v,t,d} \times \text{NTSMAExFF}_{v,t} \right]}{100}$$

where:

$\text{NTSMAExFF}_{v,t}$  means the maximum actual allocation of NTS exit flow flexibility in GWh/d in respect of Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$ ;

$\text{NTSRExCh}_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

$$\sum_{\text{all } d}$$

means the sum across all days  $d$  in formula year  $t$ ; and

$$\sum_{\text{all } v}$$

means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network;

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

- (iv) The costs in £million incurred by the licensee in respect of total payments made by the licensee to the relevant NTS operator in respect of curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$   $\text{DNExIIC}_t$  shall be derived from the following formula:

$$\text{DNExIIC}_t = \sum_{\text{all } d} \sum_{\text{all } z} \text{DNExIIC}_{z,d}$$

where:

$$\sum_{\text{all } d}$$

means the sum across all days  $d$  in formula year  $t$ ;

$$\sum_{\text{all } z}$$

means the sum across all supply points, connected system exit points and storage connection points  $z$ ; and

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

means the total payments made by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days on day  $d$  in respect of



formula year  $t$  to the extent that such amount relates to a plus 15 curtailment day in respect of supply point, connected system exit point or storage connection point  $z$ , until such date as the Authority otherwise directs in writing.

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

**(d) Statement of actual interruption**

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

(aa) the volumes of Distribution Network capacity (in respect of which the licensee held exit capacity curtailment rights) 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 Distribution Network or (ii) for such other reason as the licensee shall specify.

(ii) The licensee shall retain copies of each statement published pursuant to sub-paragraph 8(5)(d)(i) of Part 1 b of this condition for at least seven (7) years.

**(6) Determination of any adjustment factor to be applied to  $DNMR_t$  ( $DNIAE_t$ )**

- (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); and
  - (iii) 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 8(6)(i) of this condition,

where the event has, for relevant formula year  $t$ , increased or decreased the value of  $DNExCP_t$  (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) 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 8(6)(b) and 8(6)(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 8(6)(d)(i) to 8(6)(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 8(6)(b) or 8(6)(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 8(6)(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 8(6)(b) or 8(6)(c) were caused or saved by an income adjusting event;
  - (ii) whether the event or circumstance has increased or decreased the value of  $DNExCP_t$  by more than the threshold amount, save in the case of sub-paragraph 8(6)(a)(ii) 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 ( $DNIAE_t$ ) shall be:
- (i) the value determined by the Authority under paragraph 8(6)(i) above;
- or

- (ii) if the Authority has not made a determination under paragraph 8(6)(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 8(6)(d)(iii); or
  - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 8(6)(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 8(6)(d) and/or 8(6)(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 8(6)(b) or 8(6)(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.

## **9. Calculation of quantities**

- (1) In Part 1 b of this condition in respect of the definitions of commercial user quantity, very large user quantity and small interruptible user quantity, the licensee shall determine loads attributable to the small interruptible user quantity,

commercial user quantity and very large user quantity on the basis of volumes reasonably expected to have been off-taken from the relevant Distribution Network during the formula year having regard to daily meter reads or if these are not available the licensee shall use reasonable estimates of the volumes likely to be off-taken from the relevant Distribution Network in accordance with the process for determination of such volumes pursuant to the network code.

## **10. Reporting obligations**

- (1) Where the licensee publishes any statement or revised or amended statement as to its Distribution Network 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 Distribution Network transportation activity revenue together with its components, in respect of the relevant Distribution Network to which the statements referred to in paragraph 10(1) relate and 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 Distribution Network transportation activity revenue together with its components, in respect of the relevant Distribution Network to which the statements referred to in paragraph 10 (1) relate and 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 10(4) of Part 1 b of this condition in respect of the first mentioned formula year has been furnished to the Authority before publication of the proposed change to 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 Distribution Network transportation charges under Standard Special Condition A4 (Charging – General) the licensee shall provide the Authority with a written forecast of the maximum Distribution Network transportation activity revenue in respect of the relevant

Distribution Network and 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 the formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion, paragraphs 6(1) and 6(2) of Part 1 b of this condition above apply in respect of that formula year and its best estimate of what  $DNK_t$  (as defined in paragraph 8(4) of Part 1 b of this condition) is likely to be in that formula year in respect of the relevant Distribution Network.
- (5) The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement in respect of the relevant Distribution Network showing the Distribution Network transportation activity revenue, the Distribution Network transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity in respect of that formula year which 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 an appropriate auditor that, in its opinion, that statement fairly presents the Distribution Network transportation activity revenue, the Distribution Network transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity, in relation to the relevant Distribution Network in accordance with the requirements of this condition.

**11. Disapplication of the Distribution Network transportation activity revenue restriction**

- (1) The Distribution Network transportation 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 11(2) to 11(7) of Part 1 b of this condition.
- (2) The Distribution Network transportation 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 11(3) of Part 1 b of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 11(6) or paragraph 11(7) of Part 1 b of this condition.
- (3) A disapplication request shall:
  - (i) be in writing addressed to the Authority;
  - (ii) specify the Distribution Network transportation activity revenue restriction conditions (or any part or parts thereof) to which the request relates;
  - (iii) specify the Distribution Network (or any part or parts thereof) to which the request relates; and
  - (iv) state the date (being not earlier than the date referred to in paragraph 11(5) of Part 1 b of this condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect, (the disapplication date).
- (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 11(6) of Part 1 b 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 b 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 this disapplication request, the licensee may deliver written notice to the Authority terminating the application of Part 1 b 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 b 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 E2B Part 1 b, 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 b of this condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or such a later date.

**Part 1 b The Distribution Network transportation activity revenue restriction**

**(West Midlands Distribution Network)**

**6. The principal restriction**

- (1) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year  $t$  the Distribution Network transportation activity revenue for the Distribution Network covered by this condition ( $\text{DNR}_t$ ) shall not exceed the maximum Distribution Network transportation activity revenue ( $\text{DNMR}_t$ ) in that year.
- (2) (a) If in respect of any formula year the Distribution Network transportation activity revenue in respect of a relevant Distribution Network exceeds the maximum Distribution Network transportation activity revenue in respect of that Distribution Network 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 relevant Distribution Network unless either:
  - (i) it has demonstrated to the reasonable satisfaction of the Authority that the Distribution Network transportation activity revenue in respect of the relevant Distribution Network would not be likely to exceed the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network 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 Distribution Network transportation activity revenue in respect of the relevant Distribution Network has exceeded the maximum Distribution Network transportation activity revenue is more than 6 per cent of the maximum Distribution Network transportation activity revenue in respect of

the relevant Distribution Network 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 in respect of the relevant Distribution Network such that the Distribution Network transportation activity revenue in respect of the relevant Distribution Network would not be likely in the judgement of the Authority to exceed maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network in that next following formula year.

## **7. Distribution Network transportation activity revenue ( $DNR_t$ )**

For the purposes of paragraph 6 of Part 1 b of this condition, the Distribution Network transportation activity revenue in respect of the relevant Distribution Network in formula year  $t$  ( $DNR_t$ ) shall have the meaning given to that term in Special Condition E2A (Revenue restriction definitions) (and for the avoidance of doubt shall exclude any revenues derived from excluded services).

## **8. Maximum Distribution Network transportation activity revenue $DNMR_t$**

### **(1) Principal formula**

For the purposes of paragraph 6 of Part 1 b of this condition the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network in formula year  $t$   $DNMR_t$  shall be an amount equal to that derived from the following formula:

For formula year  $t=1$

$$DNMR_t = DNZ_t + DNF_t - DNMRA_t - DNK_t$$

For formula year  $t=2$  and for each subsequent formula year

$$DNMR_t = DNZ_t + DNF_t + DNEx_t + DNIAE_t - DNMRA_t - DNK_t$$

where:

$DNZ_t$  in respect of the relevant Distribution Network shall be derived in the following manner:

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

where in respect of the formula year commencing on 1 April 2004:

$$DNZ_{t-1} = £178,499,957$$

where:

$RPI_t$  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 relevant year t-2;

$X$  has the value of two (2); and

$Q_t$  shall be derived from the following formula:

$$Q_t = \left( 0.65 + 0.35 \times \frac{W_t}{W_{t-1}} \right)$$

where:

$W_t$  means the composite user quantity in respect of the relevant Distribution Network in formula year t and shall be derived from the following formula:

$$W_t = B_t + (0.15 \times D_t) + (0.05 \times V_t)$$

where:

$B_t$  is the small user quantity in respect of the relevant Distribution Network in formula year t;

$D_t$  is the large user quantity in respect of the relevant Distribution Network in formula year t; and

$V_t$  is the very large user quantity in respect of the relevant Distribution Network in formula year t.

$DNF_t$  means the Distribution Network prescribed rates plus the Distribution Network licence fees in respect of the relevant Distribution Network in formula year t,

where:

Distribution means the amount of the charge deemed to be incurred

Network prescribed rates in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of the licensee's Distribution Network transportation activity: in the event that the licensee is not Transco plc, and is not an affiliate of Transco plc, it will be the amount of the separate rating assessment for the licensee's Distribution Network transportation activity including (where relevant) metering: in the event that the licensee is Transco plc or an affiliate of Transco plc it shall be calculated as follows;

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

b) in the event that a separate rating assessment is not provided in respect of any of the Distribution Network transportation activities carried out by Transco plc or an affiliate of Transco plc, and of the NTS transportation owner activity carried out either by Transco plc or by an affiliate of Transco plc, and if each of the 8 Distribution Networks owned by Transco plc on 1 April 2004 continue to be owned by Transco plc or an affiliate of Transco plc, the total charge in respect of the licensee's Distribution Network transportation owner activity shall be 9.6348% of 83% of the prescribed rates or equivalent tax replacing them levied in respect of the licensee and its affiliates' 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 Distribution Network transportation owner activity shall be 11.5621% 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 E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

In the event that the licensee receives a separate rating

assessment or assessments in respect of gas meters connected to the pipe-line system to which this licence relates in respect of periods from 1 April 2005 onwards, the resultant charges shall be deemed to constitute an element of the Distribution Network prescribed rates and shall be treated by the licensee in accordance with Special Condition E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

Distribution  
Network  
licence fee

means payments made by the licensee in respect of the Distribution Network transportation activity under standard condition 3 (Payments by the Licensee to the Authority) in respect of the relevant Distribution Network in formula year t determined in accordance with the methodology determined by the Authority for the purposes of that condition.

$DNEx_t$  means the DN exit capacity costs and incentive revenue in respect of formula year t and shall be derived from the following formula:

$$DNEx_t = DNExCIR_t + DNExIIC_t + DNExC_t$$

where

$DNExCIR_t$  means the DN exit capacity incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 8(5)(a) of Part 1 b of this condition;

$DNExIIC_t$  means the costs incurred by the licensee in respect



of the total payments made by the licensee to the relevant NTS operator in respect of formula year  $t$  in accordance with paragraph 8(5)(c) of Part 1 b of this condition in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days; and

$DNExC_t$  means in respect of formula year  $t$ , an amount equal to the actual payments made by the licensee in respect of NTS exit capacity and NTS exit flow flexibility in respect of the relevant Distribution Network and shall be derived from the following formula:

$$DNExC_t = DNExCC_t + DNExFFC_t$$

where

$DNExCC_t$  means in respect of formula year  $t$ , the total costs incurred by the licensee for NTS exit capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit capacity; and

$DNExFFC_t$  means in respect of formula year  $t$ , the total costs incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit flow flexibility.

For the avoidance of doubt, before 1 October 2008 (or such date that the Authority shall otherwise direct in writing),  $DNExC_t$  shall have the value zero (0).

$DNIAE_t$  means any allowance in respect of approved income adjusting events (whether of a positive or negative value) to be made in respect of formula year t and shall be derived in accordance with paragraph 8(6) of Part 1 b of this condition;

$DNMRA_t$  means the mains replacement expenditure adjustment (whether positive or negative value) in respect of the relevant Distribution Network in formula year t and shall be derived in accordance with paragraph 8(2) of Part 1 b of this condition; and

$DNK_t$  means the Distribution Network transportation activity revenue adjustment factor to the Distribution Network transportation activity revenue over or under recovery in respect of the relevant Distribution Network in formula year t-1 and shall be derived in accordance with paragraph 8(4) of Part 1 b of this condition.

**(2) Mains replacement expenditure adjustment ( $DNMRA_t$ )**

For the purposes of paragraph 8(1) of Part 1 b of this condition the mains expenditure adjustment in respect of the relevant Distribution Network in formula year t ( $DNMRA_t$ ) shall be derived from the following manner:

If  $E_t > AM_t$ , then:

$$DNMRA_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.5 \times E_t) - (0.5 \times AM_t)$$

Otherwise:

$$\text{DNMRA}_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.67 \times E_t) - (0.33 \times \text{AM}_t)$$

where:

$A_t$  means the mains RPI in respect of formula year t;

$J_t$  means the price control initial projection allowance in respect of the relevant Distribution Network in formula year t and shall have the values set out in the following table:

Price control mains allowance	Formula year t				
			t=1	t=2	t=3
£ million			29.3	30.1	30.0

$E_t$  means the outturn mains costs in respect of the relevant Distribution Network in formula year t;

$\text{AM}_t$  means the matrix mains cost in respect of the relevant Distribution Network in formula year t and shall be derived in accordance with paragraph 8(3) of Part 1 b of this condition.

where:

included mains means all mains which prior to decommissioning formed mains which operated at low, medium or intermediate distribution pressures;

mains RPI means the percentage change (whether of a positive or negative value) in the arithmetic average of the retail price index numbers published or determined with respect to each of the twelve months April to March (both inclusive) in formula year t and the arithmetic

average of the retail price index numbers published or determined with respect to the period from January to December (both inclusive) 2000;

outturn mains cost means the costs reasonably attributable to the replacement and decommissioning of included mains composed of non standard mains materials in respect of the relevant Distribution Network in formula year t excluding costs reasonably attributable to rechargeable diversions; and

non standard mains materials means mains which are not composed of polyethylene or a similar polymer based material (other than polyvinyl chloride (PVC)) or of steel provided with cathodic protection.

### (3) Matrix mains cost ( $AM_t$ )

- (a) For the purposes of paragraph 8(2) of Part 1 b of this Special Condition the matrix mains cost in respect of the relevant Distribution Network in formula year t ( $AM_t$ ) shall be derived in the following manner:

$$AM_t = \left(1 + \frac{A_t}{100}\right) \times \left[ \sum_{n=1}^6 (L_{nt} \times U_{nt}) \right] \times 1,000$$

where:

$A_t$  shall have the meaning given to that term in paragraph 8(2) of Part 1 b of this condition;

$L_{nt}$  means the length of mains in kilometres decommissioned in respect of diameter band n, the relevant Distribution Network and formula year t where the diameter bands shall be defined as

set out in the following table, save that in respect of any diameter of mains not covered by the table or mains measured in metric measurement shall be reported in the diameter band corresponding to the nearest imperial equivalent

<b>Diameter band n</b>	<b>Nominal internal diameter of mains decommissioned (inches)</b>
1	2 – 3
2	4 – 5
3	6 – 7
4	8 – 9
5	10 – 12
6	Greater than 12

$U_{nt}$  means the specific matrix costs in respect of diameter band n, the relevant Distribution Network and formula year t as set out in the following table

	<b>Specific matrix costs (£ per metre)</b>				
<b>Diameter band n</b>			<b>t=1</b>	<b>t=2</b>	<b>t=3</b>
1			54.7	52.9	52.4
2			65.9	62.9	61.6
3			99.4	95.0	94.0
4			155.5	148.6	146.9
5			215.4	205.8	203.7
6			309.4	294.0	288.0

$$\sum_{n=1}^6$$

Means the sum over the diameter bands n.

- (b) On or before 31 July in each formula year  $t$  in respect of the relevant Distribution Network the licensee shall prepare and provide to the Authority a report providing details of:
  - (i) the mains replacement work completed in respect of the previous formula year in kilometres of length of mains decommissioned (excluding rechargeable diversions) by diameter band; and
  - (ii) detailing the outturn mains costs in respect of formula year  $t-1$ .
- (c) For the purposes of paragraph 8(3)(b) of Part 1 b of this condition, rechargeable diversions means mains decommissioned or replaced at the request of a party other than the licensee and where the cost of the work is recovered or is expected to be recovered from that party (or another) by the licensee.
- (d) The licensee shall allow the Authority or a duly authorised nominated representative of the Authority on the provision of reasonable prior written notice access to its staff, records and facilities as the Authority may reasonably require or as may be necessary for the purpose of enabling the Authority to establish to its reasonable satisfaction that the information to be provided by the licensee under paragraph 8(3)(b) of Part 1 b of this condition above fairly presents the outturn mains costs and lengths and diameters decommissioned in formula year  $t$ .

**(4) Distribution Network transportation activity revenue adjustment ( $DNK_t$ )**

- (a) For the purposes of paragraph 8(1) of Part 1 b of this condition the Distribution Network transportation activity revenue adjustment in respect of the relevant Distribution Network in formula year  $t$  ( $DNK_t$ ) shall be derived from the following manner:
  - (i) In respect of the formula year commencing on 1 April 2004:

$$DNK_t = £1,917,836$$

(ii) and thereafter

$$DNK_t = (DNR_{t-1} - DNMR_{t-1}) \times \left( 1 + \frac{I_t}{100} \right)$$

where:

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

**(5) Distribution Network Exit Capacity incentive revenue (DNExCIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 8(1) of Part 1 b of this condition, the maximum Distribution Network exit capacity incentive revenue allowed to the licensee in respect of formula year t (DNExCIR<sub>t</sub>) shall be derived from the following formula:

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

$$DNExCIR_t = 0$$

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

If  $DNE_{xIT_t} \geq DNE_{xCP_t}$ , then:

$$DNE_{xCIR_t} = \text{MIN} ((DNE_{xUSF_t} \times (DNE_{xIT_t} - DNE_{xCP_t})), DNE_{xCAP_t})$$

Otherwise:

$$DNE_{xCIR_t} = \text{MAX} ((DNE_{xDSF_t} \times (DNE_{xIT_t} - DNE_{xCP_t})), DNE_{xCOL_t})$$

Where:

$DNE_{xIT_t}$  means the Distribution Network exit incentive target in respect of formula year t and shall be derived in accordance with paragraph 8(5)(b) of Part 1 b of this condition;

$DNE_{xCP_t}$  means the Distribution Network exit performance measure in respect of formula year t, and shall be derived in accordance with paragraph 8(5)(c) of Part 1 b of this condition;

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

$DNE_{xUSF_t}$  means the Distribution Network exit upside sharing factor in respect of formula year t as set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b><math>t \geq 2</math></b>
$DNE_{xUSF_t}$	100%

$DNE_{xDSF_t}$  means the Distribution Network exit 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≥2</b>
DNE <sub>x</sub> DSF <sub>t</sub>	100%

DNE<sub>x</sub>CAP<sub>t</sub> means the maximum Distribution Network exit capacity revenue in respect of formula year t derived from the following formula:

$$\text{DNE}_{\text{x}}\text{CAP}_t = \text{DNE}_{\text{x}}\text{CAPP}_t \times \text{DNE}_{\text{x}}\text{IT}_t$$

where DNE<sub>x</sub>CAPP<sub>t</sub> is set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b>t≥2</b>
DNE <sub>x</sub> CAPP <sub>t</sub>	7.5%

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

DNE<sub>x</sub>COL<sub>t</sub> means the minimum Distribution Network exit capacity revenue in respect of formula year t derived from the following formula:

$$\text{DNE}_{\text{x}}\text{COL}_t = \text{DNE}_{\text{x}}\text{COLP}_t \times \text{DNE}_{\text{x}}\text{IT}_t$$

where DNE<sub>x</sub>COLP<sub>t</sub> is set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b>t≥2</b>
DNE <sub>x</sub> COLP <sub>t</sub>	-7.5%

**(b) The Distribution Network exit incentive target (DNExIT<sub>t</sub>)**

- (i) For the purpose of paragraph 8(5)(a) of Part 1 b of this condition the Distribution Network exit incentive target in respect of formula year t (DNExIT<sub>t</sub>) shall be derived from the following formula:

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

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

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

$$\text{DNExIT}_t = (\text{DNExCTC}_t + \text{DNExFFTC}_t + \text{DNExIIT}_t) \times 1,000,000$$

where:

DNExCTC<sub>t</sub> means the target cost in £million of the initial volume allocation of NTS exit capacity in respect of formula year t in accordance with sub-paragraph 8(5)(b)(ii) of Part 1 b of this condition in respect of the relevant Distribution Network;

DNExFFTC<sub>t</sub> means the target cost in £million of the initial volume allocation of NTS exit flow flexibility in respect of formula year t in accordance with sub-paragraph

8(5)(b)(iii) of Part 1 b of this condition in respect of the relevant Distribution Network; and

$DNE_{xIIT_t}$  means the incentive target in £million in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$  in accordance with subparagraph 8(5)(b)(iv) of Part 1 b of this condition.

- (ii) The target cost in £million of the initial volume allocation of NTS exit capacity  $DNE_{xCTC_t}$  shall be calculated as follows:

$$DNE_{xCTC_t} = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRE_{xCh_{v,t,d}} \times NTSBA_{ExC_{v,t}} \right]}{100}$$

where:

$NTSRE_{xCh_{v,t,d}}$  means the relevant NTS (TO) Exit capacity charge in p/peak day kWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network for day  $d$  in respect of formula year  $t$  as set out in the NTS gas transportation statement which applies for formula year  $t$ ;

$NTSBAExC_{v,t}$  means the initial volume allocation of NTS exit capacity in GWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$  as given in the following table:

Distribution Network exit zone $v$	NTSBAExC <sub>v,t</sub> (GWh/d)			
	$t=2$	$t=3$	$t=4$	$t=5$
WM1	74.90	76.17	77.52	80.48
WM2	246.32	250.53	254.96	255.06
WM3	129.59	131.79	134.14	134.67

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

$\sum_{all\ v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network.

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

- (iii) The target cost in £million of the initial volume allocation of NTS exit flow flexibility  $DNExFFTC_t$  shall be calculated as follows:

$$DNExFFTC_t = \frac{\sum_{all\ v} \left[ \sum_{all\ d} NTSRExCh_{v,t,d} \times NTSBAExFF_{v,t} \right]}{100}$$

where:

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

$NTSBAExFF_{v,t}$  means the initial volume allocation of NTS exit flow flexibility in GWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$  as given in the following table:

Distribution Network exit zone $v$	NTSBAExFF <sub>v,t</sub> (GWh/d)			
	$t=2$	$t=3$	$t=4$	$t=5$
WM1	1.44	1.61	1.81	1.74
WM2	4.88	5.35	5.92	6.06
WM3	-5.06	-4.86	-4.56	-4.13

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network.

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

- (iv) The incentive target  $DNExIIT_t$  in respect of payments made by the licensee (in accordance with sub-paragraph 8(5)(b)(vi) of Part 1 b of this condition) in respect of the curtailment of rights to off-take gas from the Distribution

Network on plus 15 curtailment days subject to sub-paragraph 8(5)(b)(v) of Part 1 b of this condition is as set out in the following table (until such date as the Authority otherwise directs in writing):

	<b>Formula year</b>			
<b>Variable</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
$\text{DNExIIT}_t$ £million	0.00	0.00	0.00	0.00

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

(v) Unless the Authority otherwise directs in writing, in any formula year  $t$   $\text{DNExIIT}_t$  shall be equal to zero if:

(a) the weighted average charge payable by the licensee to gas shippers in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days does not conform with sub-paragraph 8(5)(b)(vi) below; or

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

(vi) The licensee shall use all reasonable endeavours to ensure that the weighted average unit charge payable by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$  ( $\text{ADNExIIC}_t$ ) shall be equal to the value derived from the following formula:

$$\text{ADNExIIC}_t = \frac{\text{DNSIC}_t}{\left( \sum_{\text{all } z} \text{DNExC}_z^{\text{Jan15th}} \times 15 \right)}$$

where:

$DNSIC_t$  means the total value accrued in respect of formula year t of charges foregone by the licensee in respect of Distribution Network capacity curtailment rights;

$DNExC_z^{Jan15th}$  means the volume of Distribution Network capacity within the relevant Distribution Network registered in respect of supply point, connected system exit point or storage connection point z in respect of which the licensee has Distribution Network capacity curtailment rights on 15 January in respect of formula year t; and

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

**(c) The Distribution Network exit performance measure ( $DNExCP_t$ )**

- (i) For the purposes of paragraphs 8(5)(a) of Part 1 b of this condition, the Distribution Network exit performance measure in respect of formula year t ( $DNExCP_t$ ) shall be derived from the following formula:

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

$$DNExCP_t = 0$$

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

$$\text{DNExCP}_t = (\text{DNExCDC}_t + \text{DNExFFDC}_t + \text{DNExIIC}_t) \times 1,000,000$$

where

$\text{DNExCDC}_t$  means the deemed costs in £million incurred by the licensee for NTS exit capacity in respect of all NTS offtakes within the relevant Distribution Network in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(ii) of Part 1 b of this condition;

$\text{DNExFFDC}_t$  means the deemed costs in £million incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(iii) of Part 1 b of this condition; and

$\text{DNExIIC}_t$  means the costs in £million incurred by the licensee in respect of total payments made by the licensee to the relevant NTS operator in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$  in accordance with sub-paragraph



8(5)(c)(iv) of Part 1 b of this condition.

- (ii) The deemed costs in £million incurred by the licensee for NTS exit capacity  $DNExCDC_t$  shall be calculated as follows:

$$DNExCDC_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRExCh_{v,t,d} \times NTSMAExC_{v,t} \right]}{100}$$

where:

$NTSMAExC_{v,t}$  means the maximum actual allocation of NTS exit capacity in GWh/d in respect of Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$ ;

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network;

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

- (iii) The deemed costs in £million incurred by the licensee for NTS exit flow flexibility  $DNExFFDC_t$  shall be calculated as follows:

$$DNExFFDC_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRExCh_{v,t,d} \times NTSMAExFF_{v,t} \right]}{100}$$

where:

$NTSMAExFF_{v,t}$  means the maximum actual allocation of NTS exit flow flexibility in GWh/d in respect of Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$ ;

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network;

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

- (iv) The costs in £million incurred by the licensee in respect of total payments made by the licensee to the relevant NTS operator in respect of curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$   $DNExIIC_t$  shall be derived from the following formula:

$$DNExIIC_t = \sum_{\text{all } d} \sum_{\text{all } z} DNExIIC_{z,d}$$

where:

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

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

$DNExIIC_{z,d}$  means the total payments made by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days on day  $d$  in respect of formula year  $t$  to the extent that such amount relates to a plus 15 curtailment day in respect of supply point, connected system exit point or storage connection point  $z$ , until such date as the Authority otherwise directs in writing.

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

**(d) Statement of actual interruption**

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

(aa) the volumes of Distribution Network capacity (in respect of which the licensee held exit capacity curtailment rights) 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 Distribution Network or (ii) for such other reason as the licensee shall specify.

(ii) The licensee shall retain copies of each statement published pursuant to sub-paragraph 8(5)(d)(i) of Part 1 b of this condition for at least seven (7) years.

**(6) Determination of any adjustment factor to be applied to  $DNMR_t$  ( $DNIAE_t$ )**

(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); and

- (iii) 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 8(6)(i) of this condition,

where the event has, for relevant formula year  $t$ , increased or decreased the value of  $DNE_{xCP_t}$  (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) 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 8(6)(b) and 8(6)(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 8(6)(d)(i) to 8(6)(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 8(6)(b) or 8(6)(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 8(6)(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 8(6)(b) or 8(6)(c) were caused or saved by an income adjusting event;
  - (ii) whether the event or circumstance has increased or decreased the value of  $DNE_{xCP_t}$  by more than the threshold amount, save in the case of sub-paragraph 8(6)(a)(ii) 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 ( $DNIAE_t$ ) shall be:
  - (i) the value determined by the Authority under paragraph 8(6)(i) above; or
  - (ii) if the Authority has not made a determination under paragraph 8(6)(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 8(6)(d)(iii); or

- (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 8(6)(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 8(6)(d) and/or 8(6)(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 8(6)(b) or 8(6)(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.

## **9. Calculation of quantities**

- (1) In Part 1 b of this condition in respect of the definitions of commercial user quantity, very large user quantity and small interruptible user quantity, the licensee shall determine loads attributable to the small interruptible user quantity, commercial user quantity and very large user quantity on the basis of volumes reasonably expected to have been off-taken from the relevant Distribution Network during the formula year having regard to daily meter reads or if these are not available the licensee shall use reasonable estimates of the volumes likely to be off-taken from the relevant Distribution Network in accordance with the process for determination of such volumes pursuant to the network code.



**10. Reporting obligations**

- (1) Where the licensee publishes any statement or revised or amended statement as to its Distribution Network 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 Distribution Network transportation activity revenue together with its components, in respect of the relevant Distribution Network to which the statements referred to in paragraph 10(1) relate and 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 Distribution Network transportation activity revenue together with its components, in respect of the relevant Distribution Network to which the statements referred to in paragraph 10 (1) relate and 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 10(4) of Part 1 b of this condition in respect of the first mentioned formula year has been furnished to the Authority before publication of the proposed change to 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 Distribution Network transportation charges under Standard Special Condition A4 (Charging – General) the licensee shall provide the Authority with a written forecast of the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network and 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 the formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion, paragraphs 6(1) and 6(2) of Part 1 b of this condition above apply in respect of that formula year and its best estimate of what  $DNK_t$  (as defined in paragraph 8(4) of Part 1 b of this condition) is likely to be in that formula year in respect of the relevant Distribution Network.
- (5) The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement in respect of the relevant Distribution Network showing the Distribution Network transportation activity revenue, the Distribution Network transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity in respect of that formula year which 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 an appropriate auditor that, in its opinion, that statement fairly presents the Distribution Network transportation activity revenue, the Distribution Network transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity, in relation to the relevant Distribution Network in accordance with the requirements of this condition.

**11. Disapplication of the Distribution Network transportation activity revenue restriction**

- (1) The Distribution Network transportation 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 11(2) to 11(7) of Part 1 b of this condition.
- (2) The Distribution Network transportation 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 11(3) of Part 1 b of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 11(6) or paragraph 11(7) of Part 1 b of this condition.

- (3) A disapplication request shall:
  - (i) be in writing addressed to the Authority;
  - (ii) specify the Distribution Network transportation activity revenue restriction conditions (or any part or parts thereof) to which the request relates;
  - (iii) specify the Distribution Network (or any part or parts thereof) to which the request relates; and
  - (iv) state the date (being not earlier than the date referred to in paragraph 11(5) of Part 1 b of this condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect, (the disapplication date).
- (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 11(6) of Part 1 b 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 b 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 this disapplication request, the licensee may deliver written notice to the Authority terminating the application of Part 1 b 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 b 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 E2B Part 1 b, 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 b of this condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or such a later date.

**Part 1 b The Distribution Network transportation activity revenue restriction**

**(London Distribution Network)**

**6. The principal restriction**

- (1) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year  $t$  the Distribution Network transportation activity revenue for the Distribution Network covered by this condition ( $\text{DNR}_t$ ) shall not exceed the maximum Distribution Network transportation activity revenue ( $\text{DNMR}_t$ ) in that year.
- (2) (a) If in respect of any formula year the Distribution Network transportation activity revenue in respect of a relevant Distribution Network exceeds the maximum Distribution Network transportation activity revenue in respect of that Distribution Network 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 relevant Distribution Network unless either:
  - (i) it has demonstrated to the reasonable satisfaction of the Authority that the Distribution Network transportation activity revenue in respect of the relevant Distribution Network would not be likely to exceed the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network 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 Distribution Network transportation activity revenue in respect of the relevant Distribution Network has exceeded the maximum Distribution Network transportation activity revenue is more than 6 per cent of the maximum Distribution Network transportation activity revenue in respect of

the relevant Distribution Network 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 in respect of the relevant Distribution Network such that the Distribution Network transportation activity revenue in respect of the relevant Distribution Network would not be likely in the judgement of the Authority to exceed maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network in that next following formula year.

## **7. Distribution Network transportation activity revenue ( $DNR_t$ )**

For the purposes of paragraph 6 of Part 1 b of this condition, the Distribution Network transportation activity revenue in respect of the relevant Distribution Network in formula year  $t$  ( $DNR_t$ ) shall have the meaning given to that term in Special Condition E2A (Revenue restriction definitions) (and for the avoidance of doubt shall exclude any revenues derived from excluded services).

## **8. Maximum Distribution Network transportation activity revenue $DNMR_t$**

### **(1) Principal formula**

For the purposes of paragraph 6 of Part 1 b of this condition the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network in formula year  $t$   $DNMR_t$  shall be an amount equal to that derived from the following formula:

For formula year  $t=1$

$$DNMR_t = DNZ_t + DNF_t - DNMRA_t - DNK_t$$

For formula year  $t=2$  and for each subsequent formula year

$$DNMR_t = DNZ_t + DNF_t + DNEx_t + DNIAE_t - DNMRA_t - DNK_t$$

where:

$DNZ_t$  in respect of the relevant Distribution Network shall be derived in the following manner:

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

where in respect of the formula year commencing on 1 April 2004:

$$DNZ_{t-1} = \text{£}202,967,704$$

where:

$RPI_t$  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 relevant year t-2;

$X$  has the value of two (2); and

$Q_t$  shall be derived from the following formula:

$$Q_t = \left( 0.65 + 0.35 \times \frac{W_t}{W_{t-1}} \right)$$

where:

$W_t$  means the composite user quantity in respect of the relevant Distribution Network in formula year t and shall be derived from the following formula:

$$W_t = B_t + (0.15 \times D_t) + (0.05 \times V_t)$$

where:

$B_t$  is the small user quantity in respect of the relevant Distribution Network in formula year t;

$D_t$  is the large user quantity in respect of the relevant Distribution Network in formula year t; and

$V_t$  is the very large user quantity in respect of the relevant Distribution Network in formula year t.

$DNF_t$  means the Distribution Network prescribed rates plus the Distribution Network licence fees in respect of the relevant Distribution Network in formula year t,

where:

Distribution means the amount of the charge deemed to be incurred



Network prescribed rates in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of the licensee's Distribution Network transportation activity: in the event that the licensee is not Transco plc, and is not an affiliate of Transco plc, it will be the amount of the separate rating assessment for the licensee's Distribution Network transportation activity including (where relevant) metering: in the event that the licensee is Transco plc or an affiliate of Transco plc it shall be calculated as follows;

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

b) in the event that a separate rating assessment is not provided in respect of any of the Distribution Network transportation activities carried out by Transco plc or an affiliate of Transco plc, and of the NTS transportation owner activity carried out either by Transco plc or by an affiliate of Transco plc, and if each of the 8 Distribution Networks owned by Transco plc on 1 April 2004 continue to be owned by Transco plc or an affiliate of Transco plc, the total charge in respect of the licensee's Distribution Network transportation owner activity shall be 10.9214% of 83% of the prescribed rates or equivalent tax replacing them levied in respect of the licensee and its affiliates' 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 Distribution Network transportation owner activity shall be 14.2086% 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 E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

In the event that the licensee receives a separate rating

assessment or assessments in respect of gas meters connected to the pipe-line system to which this licence relates in respect of periods from 1 April 2005 onwards, the resultant charges shall be deemed to constitute an element of the Distribution Network prescribed rates and shall be treated by the licensee in accordance with Special Condition E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

Distribution  
Network  
licence fee

means payments made by the licensee in respect of the Distribution Network transportation activity under standard condition 3 (Payments by the Licensee to the Authority) in respect of the relevant Distribution Network in formula year t determined in accordance with the methodology determined by the Authority for the purposes of that condition.

$DNEx_t$  means the DN exit capacity costs and incentive revenue in respect of formula year t and shall be derived from the following formula:

$$DNEx_t = DNExCIR_t + DNExIIC_t + DNExC_t$$

where

$DNExCIR_t$  means the DN exit capacity incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 8(5)(a) of Part 1 b of this condition;

$DNExIIC_t$  means the costs incurred by the licensee in respect

of the total payments made by the licensee to the relevant NTS operator in respect of formula year  $t$  in accordance with paragraph 8(5)(c) of Part 1 b of this condition in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days; and

$DNExC_t$  means in respect of formula year  $t$ , an amount equal to the actual payments made by the licensee in respect of NTS exit capacity and NTS exit flow flexibility in respect of the Distribution Network and shall be derived from the following formula:

$$DNExC_t = DNExCC_t + DNExFFC_t$$

where

$DNExCC_t$  means in respect of formula year  $t$ , the total costs incurred by the licensee for NTS exit capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit capacity; and

$DNExFFC_t$  means in respect of formula year  $t$ , the total costs incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit flow flexibility.

For the avoidance of doubt, before 1 October 2008 (or such date that the Authority shall otherwise direct in writing),  $DNExC_t$  shall have the value zero (0).

$DNIAE_t$  means any allowance in respect of approved income adjusting events (whether of a positive or negative value) to be made in respect of formula year t and shall be derived in accordance with paragraph 8(6) of Part 1 b of this condition;

$DNMRA_t$  means the mains replacement expenditure adjustment (whether positive or negative value) in respect of the relevant Distribution Network in formula year t and shall be derived in accordance with paragraph 8(2) of Part 1 b of this condition; and

$DNK_t$  means the Distribution Network transportation activity revenue adjustment factor to the Distribution Network transportation activity revenue over or under recovery in respect of the relevant Distribution Network in formula year t-1 and shall be derived in accordance with paragraph 8(4) of Part 1 b of this condition.

**(2) Mains replacement expenditure adjustment ( $DNMRA_t$ )**

For the purposes of paragraph 8(1) of Part 1 b of this condition the mains expenditure adjustment in respect of the relevant Distribution Network in formula year t ( $DNMRA_t$ ) shall be derived from the following manner:

If  $E_t > AM_t$ , then:

$$DNMRA_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.5 \times E_t) - (0.5 \times AM_t)$$

Otherwise:

$$\text{DNMRA}_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.67 \times E_t) - (0.33 \times \text{AM}_t)$$

where:

$A_t$  means the mains RPI in respect of formula year t;

$J_t$  means the price control initial projection allowance in respect of the relevant Distribution Network in formula year t and shall have the values set out in the following table:

Price control mains allowance	Formula year t				
			t=1	t=2	t=3
£ million			31.0	34.8	35.4

$E_t$  means the outturn mains costs in respect of the relevant Distribution Network in formula year t;

$\text{AM}_t$  means the matrix mains cost in respect of the relevant Distribution Network in formula year t and shall be derived in accordance with paragraph 8(3) of Part 1 b of this condition.

where:

included mains means all mains which prior to decommissioning formed mains which operated at low, medium or intermediate distribution pressures;

mains RPI means the percentage change (whether of a positive or negative value) in the arithmetic average of the retail price index numbers published or determined with respect to each of the twelve months April to March (both inclusive) in formula year t and the arithmetic

average of the retail price index numbers published or determined with respect to the period from January to December (both inclusive) 2000;

outturn mains cost means the costs reasonably attributable to the replacement and decommissioning of included mains composed of non standard mains materials in respect of the relevant Distribution Network in formula year t excluding costs reasonably attributable to rechargeable diversions; and

non standard mains materials means mains which are not composed of polyethylene or a similar polymer based material (other than polyvinyl chloride (PVC)) or of steel provided with cathodic protection.

### (3) Matrix mains cost ( $AM_t$ )

- (a) For the purposes of paragraph 8(2) of Part 1 b of this Special Condition the matrix mains cost in respect of the relevant Distribution Network in formula year t ( $AM_t$ ) shall be derived in the following manner:

$$AM_t = \left(1 + \frac{A_t}{100}\right) \times \left[ \sum_{n=1}^6 (L_{nt} \times U_{nt}) \right] \times 1,000$$

where:

$A_t$  shall have the meaning given to that term in paragraph 8(2) of Part 1 b of this condition;

$L_{nt}$  means the length of mains in kilometres decommissioned in respect of diameter band n, the relevant Distribution Network and formula year t where the diameter bands shall be defined as

set out in the following table, save that in respect of any diameter of mains not covered by the table or mains measured in metric measurement shall be reported in the diameter band corresponding to the nearest imperial equivalent

<b>Diameter band n</b>	<b>Nominal internal diameter of mains decommissioned (inches)</b>
1	2 – 3
2	4 – 5
3	6 – 7
4	8 – 9
5	10 – 12
6	Greater than 12

$U_{nt}$  means the specific matrix costs in respect of diameter band n, the relevant Distribution Network and formula year t as set out in the following table

	<b>Specific matrix costs (£ per metre)</b>				
<b>Diameter band n</b>			<b>t=1</b>	<b>t=2</b>	<b>t=3</b>
1			64.2	63.2	61.6
2			77.9	76.7	74.8
3			108.5	105.9	103.2
4			211.6	206.6	201.2
5			304.2	294.3	286.5
6			445.8	435.2	424.0

$$\sum_{n=1}^6$$

Means the sum over the diameter bands n.

- (b) On or before 31 July in each formula year t in respect of the relevant Distribution Network the licensee shall prepare and provide to the Authority a report providing details of:



- (i) the mains replacement work completed in respect of the previous formula year in kilometres of length of mains decommissioned (excluding rechargeable diversions) by diameter band; and
  - (ii) detailing the outturn mains costs in respect of formula year t-1.
- (c) For the purposes of paragraph 8(3)(b) of Part 1 b of this condition, rechargeable diversions means mains decommissioned or replaced at the request of a party other than the licensee and where the cost of the work is recovered or is expected to be recovered from that party (or another) by the licensee.
- (d) The licensee shall allow the Authority or a duly authorised nominated representative of the Authority on the provision of reasonable prior written notice access to its staff, records and facilities as the Authority may reasonably require or as may be necessary for the purpose of enabling the Authority to establish to its reasonable satisfaction that the information to be provided by the licensee under paragraph 8(3)(b) of Part 1 b of this condition above fairly presents the outturn mains costs and lengths and diameters decommissioned in formula year t.

**(4) Distribution Network transportation activity revenue adjustment ( $DNK_t$ )**

- (a) For the purposes of paragraph 8(1) of Part 1 b of this condition the Distribution Network transportation activity revenue adjustment in respect of the relevant Distribution Network in formula year t ( $DNK_t$ ) shall be derived from the following manner:

- (i) In respect of the formula year commencing on 1 April 2004:

$$DNK_t = \text{£}2,180,722$$

- (ii) and thereafter

$$DNK_t = (DNR_{t-1} - DNMR_{t-1}) \times \left(1 + \frac{I_t}{100}\right)$$

where:

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

**(5) Distribution Network Exit Capacity incentive revenue (DNExCIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 8(1) of Part 1 b of this condition, the maximum Distribution Network exit capacity incentive revenue allowed to the licensee in respect of formula year t (DNExCIR<sub>t</sub>) shall be derived from the following formula:

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

$$DNExCIR_t = 0$$

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

If  $DNExIT_t \geq DNExCP_t$ , then:

$$DNExCIR_t = \text{MIN} ((DNExUSF_t \times (DNExIT_t - DNExCP_t)), DNExCAP_t)$$

Otherwise:

$$\text{DNExCIR}_t = \text{MAX} ((\text{DNExDSF}_t \times (\text{DNExIT}_t - \text{DNExCP}_t)), \text{DNExCOL}_t)$$

Where:

$\text{DNExIT}_t$  means the Distribution Network exit incentive target in respect of formula year  $t$  and shall be derived in accordance with paragraph 8(5)(b) of Part 1 b of this condition;

$\text{DNExCP}_t$  means the Distribution Network exit performance measure in respect of formula year  $t$ , and shall be derived in accordance with paragraph 8(5)(c) of Part 1 b of this condition;

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

$\text{DNExUSF}_t$  means the Distribution Network exit upside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b><math>t \geq 2</math></b>
$\text{DNExUSF}_t$	100%

$\text{DNExDSF}_t$  means the Distribution Network exit downside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>
<b>Variable</b>	<b><math>t \geq 2</math></b>
$\text{DNExDSF}_t$	100%

$DNE_{xCAP_t}$  means the maximum Distribution Network exit capacity revenue in respect of formula year  $t$  derived from the following formula:

$$DNE_{xCAP_t} = DNE_{xCAPP_t} \times DNE_{xIT_t}$$

where  $DNE_{xCAPP_t}$  is set out in the following table:

	Formula year
<b>Variable</b>	<b><math>t \geq 2</math></b>
$DNE_{xCAPP_t}$	7.5%

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

$DNE_{xCOL_t}$  means the minimum Distribution Network exit capacity revenue in respect of formula year  $t$  derived from the following formula:

$$DNE_{xCOL_t} = DNE_{xCOLP_t} \times DNE_{xIT_t}$$

where  $DNE_{xCOLP_t}$  is set out in the following table:

	Formula year
<b>Variable</b>	<b><math>t \geq 2</math></b>
$DNE_{xCOLP_t}$	-7.5%

**(b) The Distribution Network exit incentive target ( $DNE_{xIT_t}$ )**

- (i) For the purpose of paragraph 8(5)(a) of Part 1 b of this condition the Distribution Network exit incentive target in respect of formula year  $t$  ( $\text{DNExIT}_t$ ) shall be derived from the following formula:

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

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

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

$$\text{DNExIT}_t = (\text{DNExCTC}_t + \text{DNExFFTC}_t + \text{DNExIIT}_t) \times 1,000,000$$

where:

$\text{DNExCTC}_t$  means the target cost in £million of the initial volume allocation of NTS exit capacity in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(b)(ii) of Part 1 b of this condition in respect of the relevant Distribution Network;

$\text{DNExFFTC}_t$  means the target cost in £million of the initial volume allocation of NTS exit flow flexibility in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(b)(iii) of Part 1 b of this condition in respect of the relevant Distribution Network; and

$DN_{ExIIT}_t$  means the incentive target in £million in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$  in accordance with subparagraph 8(5)(b)(iv) of Part 1 b of this condition.

(ii) The target cost in £million of the initial volume allocation of NTS exit capacity  $DN_{ExCTC}_t$  shall be calculated as follows:

$$DN_{ExCTC}_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRExCh_{v,t,d} \times NTSBAExC_{v,t} \right]}{100}$$

where:

$NTSRExCh_{v,t,d}$  means the relevant NTS (TO) Exit capacity charge in p/peak day kWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network for day  $d$  in respect of formula year  $t$  as set out in the NTS gas transportation statement which applies for formula year  $t$ ;

$NTSBAExC_{v,t}$  means the initial volume allocation of NTS exit capacity in GWh/d for Distribution Network exit zone  $v$  within the relevant Distribution

Network in respect of formula year  $t$   
as given in the following table:

Distribution Network exit zone $v$	NTSBAExC <sub>v,t</sub> (GWh/d)			
	$t=2$	$t=3$	$t=4$	$t=5$
NT1	20.34	12.69	12.86	11.42
NT2	175.93	194.94	197.34	186.39
NT3	287.19	281.01	284.71	299.34

$$\sum_{\text{all } d}$$

means the sum across all days  $d$  in  
formula year  $t$ ; and

$$\sum_{\text{all } v}$$

means the sum across all Distribution  
Network exit zones  $v$  within the  
relevant Distribution Network.

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

- (iii) The target cost in £million of the initial volume allocation of NTS exit flow flexibility DNExFFTC <sub>$t$</sub>  shall be calculated as follows:

$$\text{DNExFFTC}_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} \text{NTSRExCh}_{v,t,d} \times \text{NTSBAExFF}_{v,t} \right]}{100}$$

where:

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

$NTSBAExFF_{v,t}$  means the initial volume allocation of NTS exit flow flexibility in GWh/d for Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$  as given in the following table:

Distribution Network exit zone $v$	NTSBAExFF $_{v,t}$ (GWh/d)			
	$t=2$	$t=3$	$t=4$	$t=5$
NT1	2.85	0.00	0.00	0.00
NT2	0.00	0.00	0.00	0.00
NT3	8.05	0.00	0.00	0.00

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

$\sum_{all\ v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network.

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

- (iv) The incentive target  $DNExIIT_t$  in respect of payments made by the licensee (in accordance with sub-paragraph 8(5)(b)(vi) of Part 1 b of this condition) in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days subject to sub-paragraph 8(5)(b)(v) of



Part 1 b of this condition is as set out in the following table (until such date as the Authority otherwise directs in writing):

	<b>Formula year</b>			
<b>Variable</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
DNE <sub>xIIT</sub> <sub>t</sub> £million	0.05	0.06	0.06	0.06

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

(v) Unless the Authority otherwise directs in writing, in any formula year t DNE<sub>xIIT</sub><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 off-take gas from the Distribution Network on plus 15 curtailment days does not conform with subparagraph 8(5)(b)(vi) below; or

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

(vi) The licensee shall use all reasonable endeavours to ensure that the weighted average unit charge payable by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year t (ADNE<sub>xIIC</sub><sub>t</sub>) shall be equal to the value derived from the following formula:

$$ADNE_{xIIC}_t = \frac{DNSIC_t}{\left( \sum_{\text{all } z} DNE_{xC}_z^{\text{Jan15th}} \times 15 \right)}$$

where:

$DNSIC_t$  means the total value accrued in respect of formula year t of charges foregone by the licensee in respect of Distribution Network capacity curtailment rights;

$DNExC_z^{Jan15th}$  means the volume of Distribution Network capacity within the relevant Distribution Network registered in respect of supply point, connected system exit point or storage connection point z in respect of which the licensee has Distribution Network capacity curtailment rights on 15 January in respect of formula year t; and

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

**(c) The Distribution Network exit performance measure ( $DNExCP_t$ )**

- (i) For the purposes of paragraphs 8(5)(a) of Part 1 b of this condition, the Distribution Network exit performance measure in respect of formula year t ( $DNExCP_t$ ) shall be derived from the following formula:

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

$$DNExCP_t = 0$$

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

$$\text{DNExCP}_t = (\text{DNExCDC}_t + \text{DNExFFDC}_t + \text{DNExIIC}_t) \times 1,000,000$$

where

$\text{DNExCDC}_t$  means the deemed costs in £million incurred by the licensee for NTS exit capacity in respect of all NTS offtakes within the relevant Distribution Network in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(ii) of Part 1 b of this condition;

$\text{DNExFFDC}_t$  means the deemed costs in £million incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network in respect of formula year  $t$  in accordance with sub-paragraph 8(5)(c)(iii) of Part 1 b of this condition; and

$\text{DNExIIC}_t$  means the costs in £million incurred by the licensee in respect of total payments made by the licensee to the relevant NTS operator in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year  $t$  in accordance with sub-paragraph

8(5)(c)(iv) of Part 1 b of this condition.

- (ii) The deemed costs in £million incurred by the licensee for NTS exit capacity  $DNExCDC_t$  shall be calculated as follows:

$$DNExCDC_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRExCh_{v,t,d} \times NTSMAExC_{v,t} \right]}{100}$$

where:

$NTSMAExC_{v,t}$  means the maximum actual allocation of NTS exit capacity in GWh/d in respect of Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$ ;

$NTSRExCh_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network;

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

- (iii) The deemed costs in £million incurred by the licensee for NTS exit flow flexibility  $DNE_{\text{FFDC}}_t$  shall be calculated as follows:

$$DNE_{\text{FFDC}}_t = \frac{\sum_{\text{all } v} \left[ \sum_{\text{all } d} NTSRE_{\text{Ch}}_{v,t,d} \times NTSMAE_{\text{FF}}_{v,t} \right]}{100}$$

where:

$NTSMAE_{\text{FF}}_{v,t}$  means the maximum actual allocation of NTS exit flow flexibility in GWh/d in respect of Distribution Network exit zone  $v$  within the relevant Distribution Network in respect of formula year  $t$ ;

$NTSRE_{\text{Ch}}_{v,t,d}$  has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b of this condition;

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

$\sum_{\text{all } v}$  means the sum across all Distribution Network exit zones  $v$  within the relevant Distribution Network;

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

- (iv) The costs in £million incurred by the licensee in respect of total payments made by the licensee to the relevant NTS operator in respect of curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days in respect of formula year t  $DNExIIC_t$  shall be derived from the following formula:

$$DNExIIC_t = \sum_{\text{all } d} \sum_{\text{all } z} DNExIIC_{z,d}$$

where:

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

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

$DNExIIC_{z,d}$  means the total payments made by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days on day d in respect of formula year t to the extent that such amount relates to a plus 15 curtailment day in respect of supply point, connected system exit point or storage connection point z, until such date as the Authority otherwise directs in writing.

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

**(d) Statement of actual interruption**

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

(aa) the volumes of Distribution Network capacity (in respect of which the licensee held exit capacity curtailment rights) 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 Distribution Network or (ii) for such other reason as the licensee shall specify.

(ii) The licensee shall retain copies of each statement published pursuant to sub-paragraph 8(5)(d)(i) of Part 1 b of this condition for at least seven (7) years.

**(6) Determination of any adjustment factor to be applied to  $DNMR_t$  ( $DNIAE_t$ )**

(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); and

- (iii) 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 8(6)(i) of this condition,

where the event has, for relevant formula year  $t$ , increased or decreased the value of  $DNE_{xCP_t}$  (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) 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 8(6)(b) and 8(6)(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 8(6)(d)(i) to 8(6)(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 8(6)(b) or 8(6)(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 8(6)(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 8(6)(b) or 8(6)(c) were caused or saved by an income adjusting event;
  - (ii) whether the event or circumstance has increased or decreased the value of  $DNE_{xCP_t}$  by more than the threshold amount, save in the case of sub-paragraph 8(6)(a)(ii) 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 ( $DNIAE_t$ ) shall be:
  - (i) the value determined by the Authority under paragraph 8(6)(i) above; or
  - (ii) if the Authority has not made a determination under paragraph 8(6)(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 8(6)(d)(iii); or

- (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 8(6)(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 8(6)(d) and/or 8(6)(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 8(6)(b) or 8(6)(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.

## **9. Calculation of quantities**

- (1) In Part 1 b of this condition in respect of the definitions of commercial user quantity, very large user quantity and small interruptible user quantity, the licensee shall determine loads attributable to the small interruptible user quantity, commercial user quantity and very large user quantity on the basis of volumes reasonably expected to have been off-taken from the relevant Distribution Network during the formula year having regard to daily meter reads or if these are not available the licensee shall use reasonable estimates of the volumes likely to be off-taken from the relevant Distribution Network in accordance with the process for determination of such volumes pursuant to the network code.

## **10. Reporting obligations**

- (1) Where the licensee publishes any statement or revised or amended statement as to its Distribution Network 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 Distribution Network transportation activity revenue together with its components, in respect of the relevant Distribution Network to which the statements referred to in paragraph 10(1) relate and 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 Distribution Network transportation activity revenue together with its components, in respect of the relevant Distribution Network to which the statements referred to in paragraph 10 (1) relate and 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 10(4) of Part 1 b of this condition in respect of the first mentioned formula year has been furnished to the Authority before publication of the proposed change to 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 Distribution Network transportation charges under Standard Special Condition A4 (Charging – General) the licensee shall provide the Authority with a written forecast of the maximum Distribution Network transportation activity revenue in respect of the relevant Distribution Network and 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 the formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion, paragraphs 6(1) and 6(2) of Part 1 b of this condition above apply in respect of that formula year and its best estimate of what  $DNK_t$  (as defined in paragraph 8(4) of Part 1 b of this condition) is likely to be in that formula year in respect of the relevant Distribution Network.
- (5) The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement in respect of the relevant Distribution Network showing the Distribution Network transportation activity revenue, the Distribution Network transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity in respect of that formula year which 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 an appropriate auditor that, in its opinion, that statement fairly presents the Distribution Network transportation activity revenue, the Distribution Network transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity, in relation to the relevant Distribution Network in accordance with the requirements of this condition.

#### **11. Disapplication of the Distribution Network transportation activity revenue restriction**

- (1) The Distribution Network transportation 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 11(2) to 11(7) of Part 1 b of this condition.
- (2) The Distribution Network transportation 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 11(3) of Part 1 b of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 11(6) or paragraph 11(7) of Part 1 b of this condition.

- (3) A disapplication request shall:
  - (i) be in writing addressed to the Authority;
  - (ii) specify the Distribution Network transportation activity revenue restriction conditions (or any part or parts thereof) to which the request relates;
  - (iii) specify the Distribution Network (or any part or parts thereof) to which the request relates; and
  - (iv) state the date (being not earlier than the date referred to in paragraph 11(5) of Part 1 b of this condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect, (the disapplication date).
- (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 11(6) of Part 1 b 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 b 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 this disapplication request, the licensee may deliver written notice to the Authority terminating the application of Part 1 b 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 b 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 E2B Part 1 b, 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 b of this condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or such a later date.

**Part 2 [Paragraphs 12 –16]: Not used**



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

1. Unless the Authority otherwise directs 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 E2B (Restriction of revenue in respect of the Distribution Network transportation activity) shall conform to the following principles:
  - (a) The licensee shall in so far as is reasonably practicable allocate or attribute revenues, costs, assets and liabilities in accordance with the activities which cause the revenues to be earned, costs to be incurred, the assets to be acquired or the liabilities to be incurred.
  - (b) The licensee shall perform allocations and attributions:
    - (i) on an objective basis; and
    - (ii) in a manner calculated not to unduly benefit:
      - (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 Distribution Network transportation activity;
  - (b) the metering activities; or
  - (c) excluded services in accordance with the principles set out in Special Condition E4 (Supplementary provisions of the revenue restrictions in respect of the Distribution Network).
- 3. The licensee shall on or before 1 October 2002 or such later date as the Authority may direct and thereafter before 1 July in each subsequent formula year (or such longer period as the Authority may approve) prepare and submit to the Authority a statement in a form approved by the Authority setting out (consistently with the licensee's duty under paragraph 1 and 2 of this condition and consistently with its other duties under the Act, and the standard, Standard Special and Special Conditions) the methods it intends to use in the allocation and attribution of revenues and costs. As a minimum, the statement shall distinguish from each other the allocation or attribution of, revenues, costs, assets and liabilities to each of the activities listed in paragraph 2 of this condition and where such allocations and attributions have changed from one year to the next, the licensee shall indicate how and why such basis has been changed.
- 4. The licensee shall re-allocate or re-attribue 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:

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

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

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

services;

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

1. There may be treated as excluded services services provided by the licensee in the provision of its Distribution Network transportation activity in respect of which charges are made which:
  - (a) do not fall within Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity); and
  - (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 Distribution Network transportation activity shall be treated as an excluded service in so far as it relates to the provision of services remunerated through charges levied pursuant to paragraph 7 of Part 1 b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity).
3. The whole or an appropriate proportion of the charges received for the following may be treated as excluded services:
  - (a) subject in each case to paragraphs 11 and 12 of Standard 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) derived 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) representing 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) derived from the execution of works in connection with the provision of, or the carrying out of modifications to, points at which gas may be introduced into or taken off the transportation system.
4. There may with the approval of the Authority be treated as an excluded service any service of a type not referred to which:
- (a) consists in the provision of services for the specific benefit of a third party requesting the same; and
  - (b) is not made available by the licensee as a normal part of its Distribution Network transportation activity.
5. Where the Authority is satisfied that in light of the principles set out in paragraphs 2 to 4 inclusive of this condition any service treated by the licensee as an excluded service should not be so treated, the Authority shall issue directions to that effect and such service shall cease to be treated as an excluded service with effect from the date of issue of such directions or such earlier date as specified in the directions being not earlier than the commencement of the relevant year to which the statement last furnished to the Authority pursuant to paragraph 3 of Special Condition E3 (Allocation of Revenues and Costs for Calculations under the Price Control in respect of the Distribution Network) prior to issue of such directions related, unless such statement or the accompanying report or certificate referred to in paragraph 5 of that Special Condition or any earlier such statement, report or certificate was incorrect or misleading in any material aspect.

**Special Condition E5: 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:

Activity	Description	Maximum tariff caps ( $M_t^A$ )
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	£340.00 $\times (1 + RPI_0)$

points, per supply meter point per annum

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

- (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:

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

- (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.
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- (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:

<b>“daily metered supply meter points”</b>	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
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Code) of Transco plc's gas transporter licence on that date.

<b>“domestic credit meter installation”</b>	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;
<b>“domestic sized”</b>	means designed for a maximum rate of gas flow which does not exceed six (6) cubic metres per hour;
<b>“tariff capped metering activities”</b>	means those activities provided by the licensee listed in paragraph 2 of this condition; and
<b>“prepayment meter installation”</b>	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 E6: Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the Distribution Network**

1. The licensee shall provide statements to the Authority of the information specified in the following table for each of the licensee's Distribution Networks for the periods identified in that table and by the dates specified in that table. Where information is derived from a formula defined in the licence, the component parameters of that formula shall also be reported. Where information is requested in respect of periods of less than a full formula year, the licensee shall provide such information on a reasonable endeavours basis. All revenue and information provided shall comply with Special Condition E3 (Allocation of revenue and costs for calculations under the price control in respect of the Distribution Network) and terms used in the following tables shall have the meaning given to those terms in Special Condition E2A (Revenue restriction definitions in respect of the Distribution Network) and/or Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity).

Description	Licence definition	Period	Reporting deadline
<b>Distribution Network transportation activity</b>			
$DNR_t$	Distribution Network transportation activity revenue	Formula years	By 30 June in formula year $t+1$
$E_t$	Out-turn mains costs	Formula years	By 31 July in formula year $t+1$
$L_{n,t}$	Lengths of included mains decommissioned by diameter band	Formula years	By 31 July in formula year $t+1$
$DNMRA_t$	Mains replacement expenditure	Formula years	By 31 July in formula year

	adjustment		t+1
$DNK_t$	Distribution Network transportation activity revenue adjustment factor	Formula years	By 30 June in formula year t+1
	Distribution Network transportation quantity	Formula years	By 30 June in formula year t+1
	Commercial user quantity	Formula years	By 30 June in formula year t+1
$V_t$	Very large user quantity	Formula years	By 30 June in formula year t+1
	Small interruptible user quantity	Formula years	By 30 June in formula year t+1
$DNExCC_t$	Total costs for NTS exit capacity	Formula years	By 30 June in formula year t+1
$DNExFFC_t$	Total costs for NTS flow flexibility	Formula years	By 30 June in formula year t+1
$DNEx_t$	DN exit capacity costs and incentive revenue	Formula years	By 30 June in formula year t+1
$DNIAE_t$	Any allowance in respect of approved income adjusting events (whether of a positive or negative	Formula years	By 30 June in formula

	amount)		year t+1
Distribution Network Prescribed Rates	Amount of the charge incurred in respect of the prescribed rates or equivalent tax or duty in respect of the Distribution Network transportation activity including (where relevant) metering	Formula years	By 30 June in formula year t+1

**Emergency Services**

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

$DNE_{x}CIR_t$	DN exit capacity incentive revenue	Formula years	By 30 June in formula year t+1
$DNE_{x}CP_t$	Exit performance measure	Formula years	By 30 June in formula year t+1
$DNE_{x}CDC_t$	Deemed costs incurred for NTS exit capacity	Formula years	By 30 June in formula year t+1
$DNE_{x}FFDC_t$	Deemed costs incurred for NTS exit flow flexibility	Formula years	By 30 June in formula



			year t+1
$DNE_{xIIC_t}$	Total costs for curtailment of rights to off-take gas on plus 15 curtailment days	Formula years	By 30 June in formula year t+1
$DNE_{xIT_t}$	Distribution Network exit incentive target	Formula years	By 30 June in formula year t+1
$DNE_{xCTC_t}$	Target cost of the initial volume allocation of NTS exit capacity	Formula years	By 30 June in formula year t+1
$DNE_{xFFTC_t}$	Target cost of the initial volume allocation of NTS exit flow flexibility	Formula years	By 30 June in formula year t+1
$DNSIC_t$	Total value of charges foregone in respect of Distribution Network capacity curtailment rights	Formula years	By 30 June in formula year t+1
$DNE_{xC_z}^{Jan\ 15th}$	Volume of Distribution Network capacity which the licensee has Distribution Network capacity curtailment rights registered at point z on 15 January	Formula years	By 30 June in formula year t+1
$DNE_{xIIC_{z,d}}$	Payments made in respect of plus 15 curtailment days at point z	For each day in the year	By 30 June in formula year t+1
$NTSMA_{ExC_{v,t}}$	Maximum actual allocation of NTS exit capacity for zone v	Formula years	By 30 June in formula year t+1

$NTSMAExFF_{v,t}$	Maximum actual allocation of NTS exit flow flexibility for zone v	Formula years	By 30 June in formula year t+1
	Volumes, prices paid and charges foregone in respect of Distribution Network capacity curtailment rights, by Distribution Network	Formula years	By 30 June in formula year t+1
	Volumes and payments made in respect of the curtailment of rights to off-take gas from the Distribution Network on plus 15 curtailment days.	Formula years	By 30 June in formula year t+1
$AExDNIIC_t$	Weighted average charge payable in respect of the curtailment of rights to off-take gas from the DN on plus 15 curtailment days	Formula years	By 30 June in formula year t+1

2. If, prior to the fulfilment of its obligations under paragraph 3 of this condition, the licensee becomes aware of any inaccuracies in respect of information it has provided to the Authority in pursuance of its obligations under paragraph 1 of this condition it shall notify such inaccuracies to the Authority together with details of why such information is inaccurate and of the correct information.
3. Where applicable, 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 E2B (Restriction of revenue in respect of the Distribution Network transportation activity) in respect of the formula year to which the statement relates; and
- that statement used data compiled in accordance with Special Condition E3 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network) and is consistent with the licensee's accounting records; and
- 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.

**Special Condition E7: Not used**

**Special Condition E8: Not used**

**Special Condition E9: Not used**

**Special Condition E10. Separation of NTS and Distribution Network Businesses**

1. The licensee shall use its best endeavours to ensure compliance with the terms of the statement prepared in accordance with paragraph 2 of Special Condition C20 (Separation of NTS and Distribution Network Businesses) of the licence which the holder of this licence holds, in the same legal entity, in respect of its operation of the NTS as from time to time revised and approved by the Authority. In particular, the licensee shall ensure that no associated gas transporter business solicits any action from the NTS operator which would constitute a breach of Standard Special Condition A6 (Conduct of the Transportation Business) and Standard Special Condition A35 (Prohibition of Cross-Subsidies). To the extent required, the statement referred to above shall also be construed appropriately in respect of the licensee's role as a DN operator.
2. The managerial and operational independence of the associated gas transporter business from any NTS operator which is required to be demonstrated by the statement referred to in paragraph 1 above shall include the establishment of separate managerial boards for each of:
  - (a) the associated gas transporter businesses, taken as a whole, as defined in this condition; and
  - (b) the transportation business in respect of the NTS.

Such managerial boards shall be bodies consisting of at least two members, two of which shall be directors of Transco plc. These managerial boards shall be responsible for directing the affairs of, and taking all substantial decisions relating to, the business in respect of which they have been established. Each member of those 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.

3. The licensee shall appoint a business separation compliance officer for the purposes of facilitating compliance with this condition on the same terms and with the same duties as the holder of this licence is required to appoint a compliance officer in

- respect of Special Condition C21 (Appointment and duties of the business separation compliance officer) of any licence held with respect to an NTS operator.
4. 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 compliance officer set out in paragraph 3 and the compliance of the licensee with its duties under paragraph 1. The compliance committee shall have the same duties in respect of this licence as the compliance committee established in respect of the NTS (as set out in Special Condition C21 (Appointment and duties of the business separation compliance officer) of the licence which the holder of this licence holds in respect of its operation of the NTS). Such compliance committee 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.
  5. 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 E11. Not Used**

**Schedule A [Tables A1 – A4]: Not used**

**Schedule 1: Specified Area**

Great Britain

## **Schedule 2: Revocation Of Licence**

1. The Authority may at any time revoke the licence by giving not less than 30 days' notice (24 hours' notice, in the case of a revocation under sub-paragraph 1(j)) 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 prior to receipt of a notice from Transco plc (a company registered in England and Wales under number 2006000 and formerly known as British Gas plc) pursuant to Amended Standard Condition 29 (Disposal of Assets) of Transco plc's gas transporter's licence which was amended and restated by a licensing scheme made by the Secretary of State on 28 September 2001 (the "original Transco Licence") that it intends (as part of its proposed sale of one or more of its local gas distribution networks as announced by National Grid Transco plc in May 2003) to dispose of transportation assets comprising of certain gas network businesses, the Authority determines that the licence is not required by Transco plc as part of such proposed sale;
  - (d) if, following receipt of a notice from Transco plc of its intention (as part of its proposed sale of one or more of its local gas distribution networks as announced by National Grid Transco plc in May 2003) to dispose of transportation assets comprising of certain gas network businesses (pursuant to Amended Standard Condition 29 (Disposal of Assets) of the original Transco Licence ("a relevant Disposal Notice")) the Authority informs Transco plc in writing of its objection to the proposed disposal of such transportation assets. Save that the Authority shall not revoke the licence pursuant to this paragraph 1(d) where:

- (i) it has consented to the proposed disposal of one or more gas network businesses to which a relevant Disposal Notice from Transco plc related; and
  - (ii) it has informed Transco in writing of its objection to the proposed disposal of one or more other gas network businesses to which a relevant Disposal Notice from Transco plc related; and
  - (iii) the number of gas transporter licences held by Transco plc (excluding the original Transco licence) would, if the revocation of the licence was to take place, be less than the number of gas network businesses the disposal of which the Authority has consented to. For the purposes of this sub-paragraph, gas network businesses which are to be disposed of by Transco plc pursuant to Amended Standard Condition 29 of the original Transco Licence but which are not to be sold to third party purchasers as part of the sale of one or more of Transco plc's local gas distribution networks as announced by National Grid Transco plc in May 2003 shall be deemed to comprise a single gas network business.
- (e) if any conditions specified as part of any consent (pursuant to Amended Standard Condition 29 of the original Transco licence) to disposal or any other consent granted by the Authority as part of the proposed sale of one or more of Transco plc's local gas distribution networks as announced by National Grid Transco plc in May 2003 (including, without limitation consents relating to the completion of any share sale) are not complied with and/or where any condition to any such consent requires Transco plc to obtain further consent from the Authority and such consent is not granted
- (f) if the transportation assets comprising of certain gas network businesses to be disposed of by Transco plc as part of the proposed sale of one or more of its local gas distribution networks (as announced by National Grid Transco plc in May 2003) are not disposed of within a time period which may be specified by the Authority as part of any consent granted by the Authority pursuant to Amended Standard Condition 29 (Disposal of Assets) of the original Transco

Licence. Save that the Authority shall not revoke the licence pursuant to this paragraph 1(f) where:

- (i) one or more gas network businesses to which a relevant Disposal Notice from Transco plc related have been disposed of within the time period specified by the Authority as part of its consent; and
- (ii) one or more other such gas network businesses have not been disposed of within the time period specified by the Authority as part of its consent; and
- (iii) the number of gas transporter licences held by Transco plc (excluding the original Transco licence) would, if the revocation of the licence was to take place, be less than the number of gas network businesses which have been disposed of within the time period specified by the Authority as part of its consent. For the purposes of this subparagraph, gas network businesses which are to be disposed of by Transco plc pursuant to Amended Standard Condition 29 of the original Transco Licence but which are not to be sold to third party purchasers as part of the sale of one or more of Transco plc's local gas distribution networks as announced by National Grid Transco plc in May 2003 shall be deemed to comprise a single gas network business.

(g) 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 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;
- (h) if the licensee fails to comply with:
  - (i) an order made by a relevant authority under sections 158 or 160 of the Enterprise Act 2002; or
  - (ii) an order made by the court under section 34 of the Competition Act 1998; or
  - (iii) an order by the Competition Commission under sections 76, 81, 83, 84 and 161 of the Enterprise Act 2002; or
  - (iv) an order made by the Secretary of State under sections 66, 160 or 161 of the Enterprise Act 2002.
- (i) 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
- (j) 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;
- (iii) has an administration order under Schedule B1 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

(k) 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(j)(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(j)(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.



**Schedule 3: Transportation Services Area**

Great Britain