

Special Condition C8E: NTS gas exit incentives, costs and revenues

1. NTS system operation exit incentives and costs (SOExIRC_t)

(a) Principal formula

For the purposes of paragraph 3(a) of Special Condition C8C (The NTS system operation activity revenue restriction) the NTS system operation exit revenues and costs (SOExIRC_t) shall be derived from the following formula:

$$\text{SOExIRC}_t = \text{ExCBBIR}_t + \text{ExCIT}_t + \text{ExCIIR}_t + \text{ExLRCIR}_t + \text{ExNOCIR}_t + \text{ExXSIBBC}_t + \text{ExNTSSIC}_t$$

where:

ExCBBIR_t means the buy-back and interruptions incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 1(b) of this condition;

ExCIT_t means the incentive target for costs incurred by the licensee in respect of formula year t in respect of its use of constrained storage facilities to avoid transportation constraints (all having the meanings given to those in the network code) and shall be derived in accordance with paragraph 1(c) of this condition;

ExCIIR_t means the exit capacity investment incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 1(d) of this condition;

ExLRCIR_t means the long run contracting incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 1(e) of this condition;

$ExNOCIR_t$ means the incentive revenue from the sale of NTS non-obligated exit capacity in respect of formula year t and shall be derived in accordance with paragraph 1(f) of this condition;

$ExXSIBBC_t$ means an amount equal to the NTS exit capacity constraint management costs incurred by the licensee, in excess of a pre-specified amount, in respect of formula year t in the event of a delay to the delivery of NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility and shall be derived in accordance with paragraph 1(g) of this condition; and

$ExNTSSIC_t$ means the payments made by the licensee or the total accrued value in respect of formula year t of charges foregone by the licensee as a result of NTS exit capacity curtailment rights and shall be derived in accordance with paragraph 1(h) of this condition.

For the purposes of this condition:

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

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

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

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

(b) Buy-back and interruptions incentive revenue (ExCBBIIR_t)

For the purposes of paragraph 1(a) of this condition the maximum buy-back and interruptions incentive revenue allowed to the licensee in respect of formula year t (ExCBBIIR_t) shall be derived as follows:

- (i) For all days from and including 1 October 2010 (or such date that the Authority otherwise directs in writing) ExCBBIIR_t shall have the value zero (0); and
- (ii) otherwise, ExCBBIIR_t shall be derived from the following formula:

If $ExCBBIIT_t \geq ExCBBICP_t$, then:

$$ExCBBIIR_t = ExCBBICP_t + [ExCBBIUSF_t \times (ExCBBIIT_t - ExCBBICP_t)]$$

Otherwise:

$$ExCBBIIR_t = ExCBBICP_t + \text{MAX} [ExCBBIDSF_t \times (ExCBBIIT_t - ExCBBICP_t), ExCBBICOL_t]$$

Where:

ExCBBICP_t means the NTS exit capacity buy-back and interruption performance measure in respect of formula year t and shall be calculated in accordance with paragraph 1(b)(ii)(A) of this condition;

ExCBBIUSF_t is the NTS exit capacity buy-back and interruption upside sharing factor in respect of formula year t and shall take a value of 75% in each relevant formula year;

ExCBBIDSF_t is the NTS exit capacity buy-back and interruption downside sharing factor in respect of formula year t and shall take a value of 50% in each relevant formula year;

ExCBBIIIT_t means the NTS exit capacity buy-back and interruption incentive target in respect of formula year t and shall be calculated in accordance with paragraph 1(b)(ii)(B) of this condition; and

ExCBBICOL_t means the minimum NTS exit capacity buy-back and interruption incentive revenue in respect of formula year t as set out in paragraph 1(b)(ii)(C) of this condition.

(A) For the purposes of paragraph 1(b)(ii) of this condition the buy-back and interruptions performance measure in respect of formula year t (ExCBBICP_t) shall be derived from the following formula:

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

where:

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

$$\text{ExCCMC}_t = \sum_{\text{all } d} \text{ExBBC}_{d,t} + \sum_{\text{all } d} \text{ExCCC}_{d,t}$$

where:

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

ExCCC_{d,t} means the costs incurred by the licensee in respect of any payments made by the licensee to gas shippers or DN operators in exchange for agreeing

to put gas into the NTS at the licensee's request on day d in respect of formula year t and in respect of any costs incurred by the licensee undertaking any other commercial or physical action to manage exit capacity excluding those covered by $ExBBC_{d,t}$ or those included within either $ExNTSIIC_t$ or in respect of its use of constrained storage facilities to avoid transportation constraints (all having the meanings given to those terms in the network code).

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

$ExNTSIIC_t$ means in respect of formula year t the total payments made by the licensee in accordance with paragraph 1(b)(ii)(E) of this condition in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days and shall be derived from the following formula:

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

where:

$ExNTSIIC_{z,d}$ means the amount paid by the licensee in respect of the curtailment of rights to offtake gas from the NTS at supply point, connected system exit point or storage connection point z on day d in respect of formula year t to the extent that such amount relates to a plus 15 curtailment day.

(B) For the purposes of paragraph 1(b)(ii) of this condition the NTS exit capacity buy-back and interruption incentive target in respect of

formula year t ($ExCBBiIT_t$) shall be derived in accordance with the following formula:

$$ExCBBiIT_t = ExCBBIT_t + ExNTSiIT_t$$

Where:

$ExCBBIT_t$ means the NTS exit capacity buy-back incentive target in respect of formula year t and shall have the value zero (0) in each relevant formula year; and

$ExNTSiIT_t$ means the incentive target in respect of formula year t for payments made by the licensee in accordance with paragraph 1(b)(ii)(E) of this condition in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days subject to paragraph 1(b)(ii)(D) of this condition where:

(aa) For all days until 30 September 2008 (inclusive) (or such date that the Authority otherwise directs in writing) $ExNTSiIT_t$ shall take the values set out in the following table:

Variable	Formula year	
	$t=1$	$t \geq 2$
$ExNTSiIT_t$ £million	1.73	1.68

(bb) For all days from 1 October 2008 (or such date that the Authority otherwise directs in writing) $ExNTSiIT_t$ shall have the value zero (0) in each relevant formula year;

(C) For the purposes of paragraph 1(b)(ii) of this condition the minimum NTS exit capacity buy-back and interruption incentive revenue in respect of formula year t ($ExCBBiCOL_t$) shall:

- (aa) For all days until 30 September 2008 (inclusive) (or such date that the Authority otherwise directs in writing) take the a value of -£7m in each relevant formula year; and
 - (bb) For all days from 1 October 2008 (or such date that the Authority otherwise directs in writing) take a value of -£2m in each relevant formula year;
- (D) Unless the Authority otherwise directs in writing, in any formula year t $ExNTSIIT_t$ shall be equal to zero if:
- (aa) the weighted average charge payable by the licensee to gas shippers in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days does not conform with paragraph 1(b)(ii)(E) below; or
 - (bb) no charge is payable by the licensee to gas shippers in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days in respect of formula year t .
- (E) The licensee shall use all reasonable endeavours to ensure that the weighted average charge payable by the licensee in respect of the curtailment of rights to offtake gas from NTS on plus 15 curtailment days in respect of formula year t ($AExNTSIIC_t$) shall be equal to the value derived from the following formula:

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

where:

$ExNTSSIC_t$ means the total value accrued in respect of formula year t of charges foregone by the licensee as a result of NTS exit capacity curtailment rights and shall be

derived in accordance with paragraph 1(h) of this condition; and

$ExNTSC_z^{Jan\ 15th}$ means the volume of NTS exit capacity registered in respect of supply point, connected system exit point or storage connection point z in respect of which the licensee has NTS exit capacity curtailment rights on 15 January of formula year t.

(c) Constrained storage target ($ExCIT_t$)

For the purposes of paragraph 1(a) of this condition, the incentive target for costs incurred by the licensee in respect of formula year t in respect of its use of constrained storage facilities to avoid transportation constraints (all having the meanings given to those in the network code) ($ExCIT_t$) shall be as set out in the following table:

Variable	Formula year				
	t=1	t=2	t=3	t=4	t≥5
$ExCIT_t$ £ million	2.6	2.1	[1.4 – 3.5]	[0.1 – 2.9]	[0 – 2.8]

(d) Exit capacity investment incentive revenue ($ExCIIR_t$)

For the purposes of paragraph 1(a) of this condition, the exit capacity investment incentive revenue allowed to the licensee in respect of formula year t ($ExCIIR_t$) shall be derived as follows:

$$ExCIIR_t = (ExCIIR_t^{projspec} + ExCIIR_t^{swquad}) \times \frac{RIEx_t}{RIEx_0}$$

where:

RIEx_t means the arithmetic average of the retail price index published or determined with respect to each of the twelve months in formula year t-1; and

RIEx₀ means the arithmetic average of the retail price index published or determined with respect to each of the twelve months from April 2005 to March 2006.

(i) Determination of ExCIIR_t^{projspec}

$$\text{ExCIIR}_t^{\text{projspec}} = \sum_{\text{all } p} (\text{RDPROJSPEC}_{p,t} \times \text{CDEL}_{p,t})$$

where:

$\sum_{\text{all } p}$ means the sum across all anticipated investment projects p;

RDPROJSPEC_{p,t} means the project specific revenue driver in respect of anticipated project p and formula year t as set out in the table below;

CDEL_{p,t} (A) shall take a value of one (1) in respect of formula year t and formula years t + 1, t + 2, t + 3 and t + 4 if NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity associated with the anticipated project p, as defined in the following table, is delivered in formula year t following the receipt of a user commitment signal consistent with the methodology published pursuant to paragraph 1 of Special Condition C18 (Licensee's methodology for determining the release of exit capacity volumes) for the delivery of the project p in formula year t; and

(B) shall otherwise, take a value of zero (0).

Anticipated project p	Project description	RDPROJSPEC_{p,t} £million/year
Langage power station Phase 1	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 40GWh/day at the Langage power station	[5.6]
Langage power station Phase 2	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 18GWh/day at the Langage power station subsequent to the delivery of 40GWh/day as outlined for Langage Phase 1 above.	[4.5]
Marchwood power station	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 45GWh/day at the Marchwood power station	[2.9]
Pembroke power station	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 87GWh/day at the Pembroke power station	[4.2]
Grain power station	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 55GWh/day at the Grain power station	[8.5]

(ii) **Determination of ExCHIR_t^{swquad}**

If:
$$\sum_{\text{all } z \text{ in swquad}} (\text{INCCAP}_{z,t}^{\text{swquad}} \times \text{DEL}_{z,t}) < 15$$

where:

$DEL_{z,t}$ (A) shall take a value of one (1) in respect of formula year t if the NTS incremental exit capacity or NTS obligated incremental exit flat capacity taken into account in the calculation of $INCCAP_{z,t}$ is delivered in formula year t; and

(B) shall otherwise take a value of zero (0).

then: $ExCIIR_t^{swquad} = RDSWQUAD_t \times INCCAP_t^{swquad}$

Otherwise:

$$ExCIIR_t^{swquad} = 0$$

where:

$RDSWQUAD_t$ shall take a value of [£0.63m] / GWh / day in respect of formula year t; and

$$INCCAP_t^{swquad} = \sum_{\text{all } z \text{ in } swquad} (INCCAP_{z,t} \times RDEL_{z,t})$$

where:

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

means the sum across all supply points, connected system exit points and storage connection points z in the south west quadrant, which are as set out in the table below and such new offtake points in the south west to which the Authority has consented in writing;

supply points, connected system exit points and storage connection points z in the south west quadrant

Aylesbeare

- Barton Stacey
- Braishfield A
- Braishfield B
- Cirencester
- Coffinswell
- Eastern Grey
- Ilchester
- Kenn
- Langage
- Littleton Drew
- Lynham
- Mappowder
- Marchwood
- Pucklechurch
- Seabank DN
- Seabank Power
- Seabank Power 2
- Sevenside

$$\text{INCCAP}_{z,t} = \text{TINCCAP}_{z,t} + \text{OIE}x\text{C}_{z,t}$$

Where:

$\text{TINCCAP}_{z,t}$ means NTS incremental exit capacity, registered or capable of being registered on or before 30 September 2010 (or such date that the Authority otherwise directs in writing), in respect of formula year t and supply point, connected system exit point or storage connection point z in GWh/day in respect of which:

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(A) the licensee has received a specific user commitment as outlined in the statement published pursuant to paragraph 1 of Special Condition C18 (Licensee's methodology for determining the release of exit capacity volumes); or

(B) the Authority has made a determination pursuant to paragraph 3(b)(vi); and

$OIExC_{z,t}$ means NTS obligated incremental exit flat capacity in respect of formula year t and supply point, connected system exit point or storage connection point z in GWh/day; and

$RDEL_{z,t}$ (A) shall take a value of one (1) in respect of formula year t and formula years $t + 1$, $t + 2$, $t + 3$ and $t + 4$ if the NTS incremental exit capacity or NTS obligated incremental exit flat capacity taken into account in the calculation of $INCCAP_{z,t}$ is delivered in formula year t ; and

(B) shall otherwise take a value of zero (0).

(iii) Capacity release obligation

In respect of all NTS exit capacity registered or capable of being registered on or after 1 October 2010 (or such date that the Authority otherwise directs in writing):

(A) In respect of any supply point, connected system exit point or storage connection point, and any day in formula year t , the licensee shall use all reasonable endeavours to offer for sale all NTS baseline exit flat capacity and NTS baseline exit flow flexibility to gas shippers and DN operators in all available allocations up to and including on the day to which the capacity relates, consistent with the charging methodology established

pursuant to Standard Special Condition A5 (Obligations as Regard Charging Methodology);

- (B) In respect of any supply point, connected system exit point or storage connection point, and any day in formula year t , the licensee shall use all reasonable endeavours to offer for sale all NTS obligated incremental exit flat capacity and NTS obligated incremental exit flow flexibility to gas shippers and DN operators in all available allocations up to and including on the day to which the capacity relates, consistent with the charging methodology established pursuant to Standard Special Condition A5 (Obligations as Regard Charging Methodology);
- (C) The licensee shall use all reasonable endeavours to substitute unsold NTS baseline exit flat capacity release obligations between supply points, connected system exit points and/or storage connection points such that the level of NTS obligated incremental exit flat capacity and NTS obligated incremental exit flow flexibility is minimised; and
- (D) The licensee shall use all reasonable endeavours to revise NTS baseline exit flat capacity release obligations and / or NTS baseline exit flow flexibility release obligations upwards in the event that the release of obligated incremental entry capacity increases the availability of NTS exit capacity.

(e) Long run contracting incentive revenue ($ExLRCIR_t$)

For the purposes of paragraph 1(a) of this condition, the long run contracting incentive revenue allowed to the licensee in respect of formula year t ($ExLRCIR_t$) shall be derived as follows:

- (i) For all days until 30 September 2010 (inclusive) (or such date that the Authority otherwise directs in writing) $ExLRCIR_t$ shall have the value zero (0); and
- (ii) otherwise, $ExLRCIR_t$ shall be derived from the following formula:

$$\text{ExLRCIR}_t = \text{ExLRCCP}_t + [\text{ExLRCSF}_t \times (\text{ExLRCIT}_t - \text{ExLRCCP}_t)]$$

where:

ExLRCCP_t means the costs incurred by the licensee in respect of formula year t in relation to the delivery of NTS baseline exit flat capacity release obligations at the following NTS offtakes: [Didcot A, Abson, Terra Nitrogen, Barton Stacey and Avonmouth];

ExLRCSF_t is the long run contracting sharing factor in respect of formula year t and shall take a value of 50% in each relevant formula year; and

ExLRCIT_t means the long run contracting incentive target in respect of formula year t and shall take a value of £2.8m in each relevant formula year.

(f) Incentive revenue from sale of NTS non-obligated exit capacity (ExNOCIR_t)

For the purposes of paragraph 1(a) of this condition, the incentive revenue allowed to the licensee from the sale of NTS non-obligated exit capacity in respect of formula year t (ExNOCIR_t) shall be derived as follows:

If $\text{ExREVNOC}_t \geq \text{ExNOCIT}_t$, then:

$$\text{ExNOCIR}_t = \text{MIN} [\text{ExNOCUSF}_t \times (\text{ExREVNOC}_t - \text{ExNOCIT}_t), \text{ExNOCCAP}_t]$$

Otherwise:

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

Where:

ExREVNOC_t means the revenue from the sale of NTS non-obligated exit capacity in respect of formula year t and shall be calculated in accordance with paragraph 2(b)(i) of this condition;

$ExNOCUSF_t$ is the NTS non-obligated exit capacity incentive upside sharing factor in respect of formula year t and shall take a value of 50% in each relevant formula year;

$ExNOCIT_t$ means the NTS non-obligated exit capacity incentive target in respect of formula year t and shall have the value zero (0); and

$ExNOCCAP_t$ means the maximum revenue from the sale of NTS non-obligated exit capacity in respect of formula year t and shall take a value of £20m in each relevant formula year.

(g) Cap on incremental investment buy-back exposure ($ExXSIBBC_t$)

For the purposes of paragraph 1(a) of this condition, the revenue allowed to the licensee in respect of NTS exit capacity constraint management costs incurred by the licensee in respect of formula year t in the event of a delay to the delivery of NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility ($ExXSIBBC_t$) shall be derived as follows:

$$ExXSIBBC_t = \text{MAX}(0, ExIBBC_t - ExIBBCAP_t)$$

where:

$ExIBBC_t$ means the NTS exit capacity constraint management costs incurred by the licensee in respect of formula year t in the event of a delay to the delivery of NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility; and

$ExIBBCAP_t$ is the amount above which the costs represented by the term $ExIBBC_t$ shall be revenue allowed to the licensee in respect of formula year t and shall take a value of £36m in each relevant formula year.

(h) Charges foregone (ExNTSSIC_t)

For the purposes of paragraphs 1(a), 1(b)(ii)(F) and 2(a) of this condition, the payments made by the licensee or the total accrued value in respect of formula year *t* of charges foregone by the licensee as a result of NTS exit capacity curtailment rights (ExNTSSIC_t) shall be derived from the following formula:

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

where:

ExC_{*z,d*} means the volume of NTS exit capacity in respect of day *d* and supply point, connected system exit point or storage connection point *z* for which the licensee has NTS exit capacity curtailment rights; and

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

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

where:

ExUCC_{*z,d*} means the NTS exit capacity charge per unit of capacity that would be payable in respect of day *d* and supply point, connected system exit point or storage connection point *z* for a volume of NTS exit capacity equal to ExC_{*z,d*} that was not subject to NTS exit capacity curtailment rights; and

ExFC_{*z,d*} means the NTS exit capacity charge per unit of capacity that is otherwise payable in respect of day *d* and supply

point, connected system exit point or storage connection
point z in respect of $ExC_{z,d}$.

Except that for all days on and after 1 October 2010 (or such date that the Authority otherwise directs in writing), $ExNTSSIC_t$ shall have the value zero (0).

2. NTS gas exit revenues

(a) NTS transportation owner revenues ($TOExR_t$)

For the purposes of paragraph 2(a) of Special Condition C8B (The NTS transportation owner activity revenue restriction) the revenue derived by the licensee in respect of the transportation owner activity in respect of formula year t ($TOExR_t$) shall be derived from the following formula:

$$TOExR_t = TOExRF_t + ExNTSSIC_t + TOREVBExC_t$$

where:

$TOExRF_t$ means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers in respect of its provision of NTS baseline exit shipper capacity, NTS baseline exit flat capacity and NTS baseline exit flow flexibility and shall be derived in accordance with paragraph 2(a)(i) of this condition;

$ExNTSSIC_t$ means the accrued value in respect of charges foregone by the licensee in respect of formula year t as a result of NTS exit capacity curtailment rights and shall have the meaning given to that term in paragraph 1(h) of this condition; and

$TOREVBExC_t$ means the NTS TO revenue derived by the licensee in respect of formula year t from the sale of NTS baseline exit flat capacity and NTS baseline exit flow flexibility and shall be derived in accordance with paragraph 2(a)(ii) of this condition.

(i) TOExRF_t

For the purposes of paragraph 2(a) of this condition TOExRF_t shall be derived in the following manner:

In respect of all days from and including 1 October 2010 (or such date that the Authority otherwise directs in writing), TOExRF_t shall have the value zero (0);

Otherwise:

$$\text{TOExRF}_t = \text{TREVBSC}_t + \text{TREVExC}_t + \text{TREVBFF}_t$$

where:

TREVBSC_t means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers in respect of its provision of NTS baseline exit shipper capacity;

TREVExC_t means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers in respect of its provision of NTS baseline exit flat capacity; and

TREVBFF_t means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers in respect of its provision of NTS baseline exit flow flexibility.

(ii) TOREVBExC_t

For the purposes of paragraph 2(a) of this condition and in respect of all days from 1 October 2010 (or such date that the Authority otherwise directs in writing),

TOREVBExC_t shall be derived from the following formula:

$$\text{TOREVBExC}_t = \text{REVBExC}_t + \text{REVBFF}_t$$

where:

$REVBExC_t$ means the revenue derived by the licensee in respect of formula year t from the sale of NTS baseline exit flat capacity, excluding that included within $TOExRF_t$; and

$REVBFF_t$ means the revenue derived by the licensee in respect of formula year t from the sale of NTS baseline exit flow flexibility excluding that included within $TOExRF_t$;

Otherwise, $TOREVBExC_t$ shall have the value zero (0).

(b) NTS system operation revenues ($SOExRF_t$)

For the purposes of paragraph 2(a) of Special Condition C8C (The NTS system operation activity revenue restriction) the revenue derived by the licensee in respect of the system operation activity in respect of formula year t ($SOExRF_t$) shall be derived from the following formula:

$$SOExRF_t = TOEx_t - TOExRF_t + REVOIExC_t + REVOIFF_t + ExREVNOC_t$$

where:

$TOEx_t$ means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers in respect of its provision of NTS exit shipper capacity, NTS exit flat capacity and NTS exit flow flexibility, except that for all days from and including 1 October 2010 (or such date that the Authority otherwise directs in writing), $TOEx_t$ shall have the value zero (0);

$TOExRF_t$ shall be derived in accordance with paragraph 2(a)(i) of this condition;

$REVOIExC_t$ means the revenue derived by the licensee in respect of formula year t from sales of NTS obligated incremental exit flat capacity;

$REVOIFF_t$ means the revenue derived by the licensee in respect of formula year t from sales of NTS obligated incremental exit flow flexibility; and

ExREVNOC_t means the revenue from the sale of NTS non-obligated exit capacity in respect of formula year t and shall be calculated in accordance with paragraph 2(b)(i) of this condition.

(i) NTS exit capacity revenue from the sale of NTS non-obligated exit capacity (ExREVNOC_t)

For the purposes of paragraphs 1(f) and 2(b) of this condition the revenue derived by the licensee from the sale of NTS non-obligated exit capacity in respect of formula year t (ExREVNOC_t) shall be derived as follows:

- (A) For all days until 30 September 2010 (inclusive) (or such date that the Authority otherwise directs in writing) ExREVNOC_t shall have the value zero (0); and
- (B) otherwise, ExREVNOC_t shall be derived from the following formula:

$$\text{ExREVNOC}_t = \text{REVNOIExC}_t + \text{REVIExC}_t + \text{REVIFF}_t$$

Where:

REVNOIExC_t means the revenue derived by the licensee in respect of formula year t from the sale of NTS non-obligated incremental exit flat capacity;

REVIExC_t means the revenue derived by the licensee in respect of formula year t from the sale of NTS short term interruptible exit capacity; and

REVIFF_t means the revenue derived by the licensee in respect of formula year t from the sale of NTS non-obligated incremental exit flow flexibility.

3. Statements required from the licensee

(a) Statement of actual interruption

- (i) The licensee shall publish by 12:00 noon each day a statement setting out in respect of the NTS by each exit zone (having the meaning given to that term in the network code):
 - (A) the volumes of NTS exit capacity which were curtailed on the previous day; and
 - (B) in respect of sub-paragraph (A) above why it initiated such use of NTS exit capacity curtailment rights which shall be for one of the following reasons: (aa) for the purposes of managing capacity rights within the NTS, (bb) for the purposes of balancing the inputs of gas to and the offtakes of gas from the NTS, (cc) for a specified combination of the reasons (aa) and (bb), or (dd) for such other reason as the licensee shall specify.
- (ii) The licensee shall retain copies of each statement published pursuant to paragraph 3(a)(i) of this condition for at least seven (7) years following publication.

(b) Statement of incremental investment in the transitional period

- (i) By 1 June 2007, and by 1 June in each subsequent formula year, (or in each case, such other date as the Authority may direct in writing), the licensee shall provide the Authority with a written statement of any NTS incremental exit capacity or any proposed NTS incremental exit capacity in respect of which:
 - (A) the licensee has already, or expects to, incur depreciation or capital expenditure or financing costs in respect of formula year $t = 1$ or subsequent formula years; and

- (B) the date from which such NTS incremental exit capacity was capable or is reasonably expected to be capable of being registered pursuant to the network code falls within the period from 1 October 2008 to 30 September 2010 (inclusive) (or such dates that the Authority otherwise directs in writing).

- (ii) The statement referred to in paragraph 3(b)(i) of this condition shall include the following:
 - (A) The NTS exit point(s) (having the meaning given to that term in the network code) to which the NTS incremental exit capacity relates or will relate;
 - (B) The volume of such NTS incremental exit capacity in GWh per day by NTS exit point;
 - (C) The date from which such NTS incremental exit capacity was capable or is reasonably expected to be capable of being registered pursuant to the network code; and
 - (D) Where the licensee has not received a specific user commitment as outlined in the statement published pursuant to paragraph 1 of Special Condition C18 (Licensee's methodology for determining the release of exit capacity volumes) and a determination has not already been made by the Authority pursuant to paragraph 3(b)(vi) of this condition, the basis upon which the licensee has reached the view that there is or will be demand sufficient to justify the provision of such NTS incremental exit capacity.

- (iii) The licensee shall keep a record of the statement made pursuant to paragraph 3(b)(i) of this condition for seven (7) years following publication.

- (iv) The licensee shall provide the Authority with such additional information as the Authority requests for the purposes of ascertaining the reason or reasons

why the licensee considered that there was or would be sufficient demand pursuant to paragraph 3(b)(ii)(D) of this condition to justify the remuneration of such investment.

- (v) The licensee shall publish the statement within twenty-eight (28) days of making it available to the Authority unless the Authority otherwise directs the licensee in writing provided that the licensee shall exclude from the statement as published, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect that person's interests.
- (vi) Where the licensee has not received a specific user commitment as outlined in the statement published pursuant to paragraph 1 of Special Condition C18 (Licensee's methodology for determining the release of exit capacity volumes), the Authority shall consider the information provided by the licensee pursuant to paragraphs 3(b)(ii)(D) and 3(b)(iv) and shall determine whether the NTS incremental exit capacity concerned may be treated, for revenue driver purposes, as if such a user commitment had been received unless a determination has been issued previously in this regard.
- (vii) Any determination made by the Authority pursuant to paragraph 3(b)(vi) of this condition shall be:
 - (A) in writing;
 - (B) copied to the licensee;
 - (C) in the public domain; and
 - (D) made within three months of the receipt by the Authority of all relevant information from the licensee pursuant to paragraphs 3(b)(ii)(D) and 3(b)(iv) of this condition.

(c) Methodology statement for baseline revision

- (i) The licensee shall, on or before [1 April 2007], or such later date as the Authority may direct, prepare and submit for approval by the Authority a methodology statement for exit baseline revision setting out the methodology by which it will determine its proposals for the revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to the obligation in paragraphs 1(d)(iii)(C) and 1(d)(iii)(D) of this condition.
- (ii) Unless the Authority otherwise directs, such direction to be made within 2 months of the receipt by the Authority of a statement prepared pursuant to paragraph 3(c)(i) of this condition, the licensee shall take all reasonable steps to apply the methodology set out in such statement in making any decisions made after the earlier of: the date of receipt of a notice from the Authority approving the statement; or the expiry of that two month period when determining its proposals for revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraphs 1(d)(iii)(C) and 1(d)(iii)(D) of this condition.
- (iii) The licensee shall, if so directed by the Authority and in any event at least once a year, review the statement prepared pursuant to paragraph 3(c)(i) in consultation with gas shippers, DN operators and other persons likely to be affected by it and allow each of them a period of not less than 28 days from the statement being shown to such person in which to make representations.
- (iv) Except where the Authority directs otherwise, before submitting the initial methodology statement for exit baseline revision by [1 April 2007] (or such later date as the Authority may direct) pursuant to paragraph 3(c)(i) or revising its methodology statement for exit baseline revision the licensee shall:
 - (A) send a copy of the proposed revisions to the Authority and to any person who asks for one;

- (B) consult gas shippers and DN operators and allow them a period of not less than 28 days in which to make representations;
 - (C) within 7 days of the close of the consultation referred to in paragraph 3(c)(iv)(B) of this condition submit to the Authority a report setting out:
 - (aa) the revisions originally proposed,
 - (bb) the representations (if any) made to the licensee,
 - (cc) any change to the revisions; and
 - (D) where the Authority directs that sub-paragraphs (A), (B) and (C) of this paragraph or any of them shall not apply, comply with such other requirements as are specified in the direction.
- (v) The licensee shall be entitled to revise its statement for exit baseline revision at any time pursuant to paragraphs 3(c)(iii) and 3(c)(iv) of this condition, save that it shall not revise such statement:
- (A) if within 28 days from the date on which the Authority receives the report referred to in paragraph 3(c)(iv)(C) of this condition the Authority directs the licensee not to make the revision.
 - (B) where there is no such direction until the expiry of 28 days from the date on which the Authority receives the report referred to in paragraph 3(c)(iv)(C) of this condition; or
 - (C) where paragraph 3(c)(iv)(D) in this condition applies, before the day (if any) specified in the direction made pursuant to that paragraph;
- (v) The licensee shall take all reasonable steps to comply with the revised statement in force pursuant to paragraph 3(c)(v) of this condition.

- (vi) The licensee shall send to the Authority a copy of all revisions to the statements and reports prepared pursuant to paragraphs 3(c)(i) and 3(c)(v) of this condition.
- (vii) The licensee shall publish (in such manner as the Authority may approve) the statements prepared pursuant to paragraph 3(c)(i) of this condition and each revision thereof.

(d) Request for baseline revision

- (i) Within [2] months of each application month in relation to applications for Prevailing Annual NTS Exit (Flat) Capacity (having the meaning given to such terms in the network code), (or in each case, such other date as the Authority may direct in writing), the licensee shall provide the Authority with a written statement of any proposed revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraphs 1(d)(iii)(C) and 1(d)(iii)(D) of this condition.
- (ii) The statement referred to in paragraph 3(d)(i) of this condition shall include the following:
 - (A) The NTS exit point(s) (having the meaning given to that term in the network code) to which the proposed revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations relate;
 - (B) The proposed changes in volume of NTS baseline exit flat capacity release obligations and NTS baseline exit flow flexibility release obligations in GWh per day by NTS exit point;
 - (C) The date from which it is proposed that the changes in volume of NTS baseline exit flat capacity release obligations and NTS baseline exit flow flexibility release obligations should take effect; and

- (D) The basis upon which the licensee has determined its proposals for the revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations including the derivation of relevant exchange rates, consistent with its obligation pursuant to paragraphs 1(d)(iii)(C) and 1(d)(iii)(D) of this condition.
- (iii) The licensee shall keep a record of the statement made pursuant to paragraph 3(d)(i) of this condition for seven (7) years after it has provided that statement to the Authority.
- (iv) The licensee shall provide the Authority with such additional information as the Authority requests for the purposes of ascertaining the basis upon which the licensee has determined its proposals for the revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraph 3(d)(ii)(D) of this condition in order for the Authority to establish compliance with the obligation pursuant to paragraphs 1(d)(iii)(C) and 1(d)(iii)(D) of this condition;
- (v) The licensee shall publish the statement within twenty-eight (28) days of making it available to the Authority unless the Authority otherwise directs the licensee in writing provided that the licensee shall exclude from the statement published, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect that person's interests;
- (vi) The Authority shall consider the information provided by the licensee pursuant to paragraphs 3(d)(ii)(D) and 3(e)(iv) of this condition and shall determine whether to consent to the proposed revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraphs 1(d)(iii)(C) and 1(d)(iii)(D) of this condition;
- (vii) Any consent granted by the Authority pursuant to paragraph 3(d)(vi) of this condition shall be:

- (A) in writing;
 - (B) copied to the licensee;
 - (C) in the public domain; and
 - (D) made within three months of the receipt by the Authority of all relevant information from the licensee pursuant to paragraphs 3(d)(ii)(D) and 3(d)(iv) of this condition;
- (viii) Following the granting of consent to the proposed revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraph 3(d)(vi) of this condition, the licensee shall publish (in such a manner as the Authority may approve) the “NTS exit baseline statement” incorporating such revisions.
- (e) Statement of incremental obligated capacity in the enduring period**
- (i) By 1 [November] 2007, and by 1 [November] in each subsequent formula year, (or in each case, such other date as the Authority may direct in writing), the licensee shall provide the Authority with a written statement of any proposed NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility.
 - (ii) The statement referred to in paragraph 3(e)(i) of this condition shall include the following:
 - (A) The NTS exit point(s) (having the meaning given to that term in the network code) to which the NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility will relate;
 - (B) The volume of such NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility in GWh per day by NTS exit point;
 - (C) The date from which such NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility is reasonably

expected to be capable of being registered pursuant to the network code; and

- (D) The basis upon which the licensee has reached the view that the demand triggering such NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility cannot be satisfied in full by the substitution or revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraphs 1(d)(iii)(C) and 1(d)(iii)(D) of this condition.
- (iii) The licensee shall keep a record of the statement made pursuant to paragraph 3(e)(i) of this condition for seven (7) years after it has provided the statement to the Authority.
- (iv) The licensee shall provide the Authority with such additional information as the Authority requests for the purposes of ascertaining the reason or reasons why the licensee considered that the substitution or revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flat capacity release obligations could not satisfy in full the demand triggering such NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility pursuant to paragraph 3(e)(ii)(D) of this condition in order for the Authority to establish compliance with the substitution obligation pursuant to paragraphs 1(d)(iii)(C) and 1(d)(iii)(D) of this condition.
- (viii) The licensee shall publish the statement within twenty-eight (28) days of making it available to the Authority unless the Authority otherwise directs the licensee in writing provided that the licensee shall exclude from the published statement, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests.