

To the Company Secretary:

1. National Grid Gas plc  
Company No. 02006000  
1-3 Strand  
London  
WC2N 5EH
  
2. Northern Gas Networks Limited  
Company No. 05167070  
1100 Century Way  
Thorpe Park Business Park  
Colton Leeds  
LS15 8TU
  
3. Scotland Gas Networks plc  
Company No. SC264065  
Inveralmond House  
200 Dunkeld Road  
Perth  
Perthshire PH1 3AQ
  
4. Southern Gas Networks plc  
Company No. 05167021  
2 Leasons Hill St Mary Cray  
Orpington  
Kent  
BR5 2TN
  
5. Wales & West Utilities Limited  
Company No. 05046791  
Wales & West House  
Spooner Close Coedkernew  
Newport  
South Wales  
NP10 8FZ

## Notice under section 23 of the Gas Act 1986

The Gas and Electricity Markets Authority (the “**Authority**”) hereby gives notice pursuant to section 23(1)(a) of the Gas Act 1986 (the “**Act**”) as follows:

1. The Authority proposes to modify the conditions of the gas transporter licence (the “**Licence**”) granted or treated as granted under section 7 of the Act to each of the following gas distribution network gas transporters (the “**GDN**”) –
  - a. National Grid Gas plc;
  - b. Northern Gas Networks Limited;
  - c. Scotland Gas Networks plc;
  - d. Southern Gas Networks plc; and
  - e. Wales & West Utilities Limited,as described below in Schedules 1, 2 and 3 and attached herewith –

### Schedule 1: Omissions - National Grid Gas plc, Scotland Gas Networks plc, Southern Gas Networks plc, Northern Gas Networks Limited, Wales & West Utilities Limited

- a. By omitting various definitions in **Special Condition E2A (Revenue restriction definitions in respect of the Distribution Network)** (“**Condition E2A**”) because they are no longer required in the Licence.
- b. By omitting and removing **Special Condition E11 (Amendment to Credit Rating of the Licensee)** (“**Condition E11**”) because for National Grid Gas plc, it is not used and for each of Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc and Wales & West Utilities Limited, Condition E11 is spent.

### Schedule 2: Alterations - National Grid Gas plc, Scotland Gas Networks plc, Southern Gas Networks plc, Northern Gas Networks Limited, Wales & West Utilities Limited

- a. By altering the definition of “Distribution Network” in Condition E2A to reflect the fact that the term “Local Distribution Zone” will be defined in the licence.
- b. By altering the principal formula for Maximum Distribution Network transportation activity revenue in **paragraph 8(1) of part 1b of Special Condition E2B** (The Distribution Network transportation activity Revenue Restriction (“**Condition E2B**”) by setting a price control allowance based on a fixed amount with appropriate inflationary uplift and including the formula term  $DNSh_t$ , for the formula year beginning on 1 April 2007 at 06:00 hours.
- c. By altering the definition of “Distribution Network prescribed rates” in the principal formula for maximum Distribution Network

transportation activity revenue in **paragraph 8(1) of Condition E2B**.

- d. By altering the mains replacement expenditure adjustment formula in **paragraph 8(2) of Condition E2B**.
- e. By altering each GDN's matrix mains cost formula  $AM_t$  in **paragraph 8(3) of Condition E2B**.
- f. By altering **paragraph 11(3), (5), (6) and (7) of Condition E2B** to clarify provisions regarding disapplication of the Distribution Network transportation activity revenue restriction.

**Schedule 3: Additions - National Grid Gas plc, Scotland Gas Networks plc, Southern Gas Networks plc, Northern Gas Networks Limited, Wales & West Utilities Limited**

- a. By adding definitions of "Local Distribution Zone or LDZ", "LDZ allowed shrinkage factor", "LDZ throughput quantity", "National Grid Gas plc", and "NTS transportation owner activity" in paragraph 1 of **Condition E2A**.
  - b. By adding a definition of "Distribution Network Pension Deficit Charge" in paragraph 8(1) of **Condition E2B**.
  - c. By adding the meaning of LDZ throughput quantity in Condition E2A and the meaning of the relevant formula  $ZTQ_{t,m,i}$  and its component parameters in **paragraph 8(1) of Condition E2B**.
  - d. By adding the meaning of the formula term  $DNSh_t$  (maximum shrinkage incentive revenue) in **paragraph 8(1) of Condition E2B**.
  - e. By adding a new sub-paragraph 7 to set out the formula for calculation of  $DNSh_t$  in **paragraph 8 of Condition E2B**.
  - f. By adding a new sub-paragraph 8 (Contingency revenue restrictions in respect of the Distribution Network transportation activity) in **paragraph 11 of Condition E2B**.
  - g. By adding a requirement for each GDN to include in the statement provided to the Authority, information relating to the component parameters of the formulae for LDZ throughput quantity ( $ZTQ_{t,m,i}$ ) and Gas price reference cost ( $GPRC_{t,m}$ ) in the table set out in **Special Condition E6 (Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the Distribution Network)**.
2. The reasons why the Authority proposes to make these licence modifications and their effect are mainly set out in various documents published on behalf of the Authority (which are available free of charge from the Ofgem library (telephone: 020 7901 7003) or on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk))), including:
- a. *Gas distribution price control review, Initial Consultation, December 2005, 259/05.*
  - b. *Gas Distribution Price Control, Second Consultation Document, July 2006, 123a/06.*

- c. *Gas Distribution Price Control, Second Consultation – Supplementary Appendices, July 2006, 123b/06.*
- d. *Gas Distribution Price Control Review, One Year Control Initial Proposals, September 2006.*
- e. *Gas Distribution Price Control Review, One Year Control Initial Proposals, Supplementary Appendices, September 2006.*
- f. *Gas Distribution Price Control Review, One Year Control Final Proposals, December 2006.*
- g. *Gas Distribution Price Control Review, One Year Control Final Proposals, Supplementary Appendices, December 2006,*

and in summary, the reasons are to reflect in the Licence the final price control proposals developed for each GDN for one year from 1 April 2007 to 31 March 2008, as set out in the Gas Distribution Price Control Review, One Year Control Final Proposals document, December 2006, and to make such changes necessary to give effect to the final proposals.

3. In summary, the effect of these licence modifications is to implement changes to the regulatory framework which have been consulted on as part of the Gas Distribution Price Control Review, particularly changes to Special Condition E2B, which are required to reset in the Licence the revenue allowances that apply to each GDN for one year from 1 April 2007 to 31 March 2008, to omit redundant definitions from and add new definitions to Special Condition E2A; and also to omit entirely, Special Condition E11 which is “not used” or is spent, from the Licence.
4. Any representations or objections to any of the proposed modifications to the Licence must be made in writing on or before 27 March 2007 to Kieran Donoghue, Office of Gas and Electricity Markets (Ofgem) 9 Millbank, London SW1P 3GE or via email to [Kieran.Donoghue@ofgem.gov.uk](mailto:Kieran.Donoghue@ofgem.gov.uk).
5. A proforma that a GDN may wish to use in order to register a statutory objection is Schedule 4 to this notice.
6. All responses will be published on the Ofgem website and retained in the Ofgem Research and Information Centre, and if a respondent does not wish its response to be published, it should clearly mark the response as not for publication.



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Joanna Whittington  
Director, Gas Distribution

Duly authorised on behalf of the  
Gas and Electricity Markets Authority

27 February 2007

## Schedule 1 Notice under section 23 of the Gas Act 1986

(Omissions from the Licence)

### 1. Special Condition E11. Not used Special Condition E11. Amendment to Credit Rating of the Licensee

<i>Proposed omission of Special Condition E11 from the licence</i>	<i>Relevant GDN</i>
Special Condition E11. Not used	National Grid Gas plc
<p><b>Special Condition E11. Amendment to Credit Rating of the Licensee</b>            Amendments to Standard Special Condition A38 (Credit Rating of the Licensee)            1. Standard Special Condition A38 (Credit Rating of the Licensee) shall be amended by the insertion of the words “, or with the prior permission of the Authority, any such arrangements as the Authority considers appropriate” at paragraph 1 after the words “investment grade issuer credit rating”.            2. Unless the Authority directs otherwise in writing, this condition shall cease to have effect in this licence on the date on which Transco plc ceases to be the legal owner of the entire issued share capital of the licensee.            3. In this condition, “licensee” means the body corporate for the time being holding this licence</p>	Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited

### 2. Special Condition E2A (Revenue restriction definitions in respect of the Distribution Network)

<i>Proposed omissions from Special Condition E2A(1)</i>	<i>Relevant GDN</i>
entry capacity      has the meaning given to the term NTS Entry Capacity in the network code;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
firm entry capacity      means entry capacity other than interruptible entry capacity;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited

incremental entry capacity	means obligated incremental entry capacity and non-obligated incremental entry capacity;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
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;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
incremental exit capacity services	means the undertaking of engagements by Transco plc relating to the provision of NTS incremental exit capacity;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
initial NTS SO baseline entry capacity	means in respect of each terminal and period the NTS SO baseline entry capacity specified in table A2 of schedule A within Transco plc's NTS GT licence;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
interruptible entry capacity	has the meaning given to the term interruptible NTS Entry Capacity in the network code;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
non-obligated incremental entry capacity	means firm entry capacity other than obligated entry capacity;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited

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;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
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: incremental entry capacity services; incremental exit capacity services; residual gas balancing services; balancing management; constraint management services; and the provision of services in relation to gas quality	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
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;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
obligated entry capacity	means obligated incremental entry capacity and NTS SO baseline entry capacity;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited

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;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
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;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
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;	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
supply of NTS services	means the undertaking and performance for gain and reward of engagements by Transco plc: 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 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.	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited

**Schedule 2**  
**Notice under section 23 of the Gas Act 1986**

(Alterations to the Licence)

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

<i>Proposed alteration to definitions in Special Condition E2A(1)</i>	<i>Relevant GDN</i>										
<p><b>Distribution Network</b> means each relevant gas distribution network defined with reference to the aggregate of its constituent Local Distribution Zones as set out in the table below:</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 30%;">Distribution Network</td> <td>Local Distribution Zone</td> </tr> <tr> <td>North West</td> <td>North West</td> </tr> <tr> <td>East of England</td> <td>East Midlands, Eastern</td> </tr> <tr> <td>West Midlands</td> <td>West Midlands</td> </tr> <tr> <td>London</td> <td>North Thames</td> </tr> </table>	Distribution Network	Local Distribution Zone	North West	North West	East of England	East Midlands, Eastern	West Midlands	West Midlands	London	North Thames	National Grid Gas plc
Distribution Network	Local Distribution Zone										
North West	North West										
East of England	East Midlands, Eastern										
West Midlands	West Midlands										
London	North Thames										
<p>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;</p> <p><b>Distribution Network</b> means the relevant gas distribution network defined with reference to the aggregate of its constituent Local Distribution Zones as set out in the table below:</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 30%;">Distribution Network</td> <td>Local Distribution Zone</td> </tr> <tr> <td>North of England</td> <td>Northern, North East</td> </tr> </table>	Distribution Network	Local Distribution Zone	North of England	Northern, North East	Northern Gas Networks Limited						
Distribution Network	Local Distribution Zone										
North of England	Northern, North East										
<p><b>Distribution Network</b> means the relevant gas distribution network defined with reference to the aggregate of its constituent Local Distribution Zones as set out in the table below:</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 30%;">Distribution Network</td> <td>Local Distribution Zone</td> </tr> <tr> <td>Scotland</td> <td>Scotland</td> </tr> </table>	Distribution Network	Local Distribution Zone	Scotland	Scotland	Scotland Gas Networks plc						
Distribution Network	Local Distribution Zone										
Scotland	Scotland										

<b>Distribution Network</b> means the relevant gas distribution network defined with reference to the aggregate of its constituent Local Distribution Zones as set out in the table below:		Southern Gas Networks plc
Distribution Network	Local Distribution Zone	
South of England	South East, Southern	
<b>Distribution Network</b> means the relevant gas distribution network defined with reference to the aggregate of its constituent Local Distribution Zones as set out in the table below:		Wales & West Utilities Limited
Distribution Network	Local Distribution Zone	
Wales & West	Wales North, Wales South, South West	

**Special Condition E2B (Restriction of Revenue in respect of the Distribution Network transportation activity)**

<b>Proposed alteration to:</b>	<b>Relevant GDN</b>
<i>paragraph 8(1) (DNMR <math>\rho</math>) of Part 1 b (The Distribution Network transportation activity revenue restriction) of Special Condition E2B</i>	
<p>Maximum Distribution Network transportation activity revenue (DNMR <math>\rho</math>)</p> <p>(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 formula year <math>t</math>, DNMR<math>_t</math> shall be an amount equal to that derived from the following formula:</p> $\text{DNMR}_t = \text{DNZ}_t + \text{DNF}_t + \text{DNEx}_t + \text{DNIAE}_t - \text{DNMRA}_t + \text{DNSh}_t - \text{DNK}_t$ <p>DNZ<math>_t</math> in respect of the Distribution Network shall be derived in the following manner:</p>	<p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>
DNZ $_t$	
DNZ $_t = \text{£}349,116,892 \times \text{RPI adjustment}$	National Grid Gas plc – (East of England)
DNZ $_t = \text{£}201,065,281 \times \text{RPI adjustment}$	National Grid Gas plc – (London)
DNZ $_t = \text{£}239,428,092 \times \text{RPI adjustment}$	National Grid Gas plc – (North West)
DNZ $_t = \text{£}182,126,055 \times \text{RPI adjustment}$	National Grid Gas plc – (West Midlands)

$DNZ_t = £228,983,334 \times \text{RPI adjustment}$	Northern Gas Networks Limited
$DNZ_t = £170,394,493 \times \text{RPI adjustment}$	Scotland Gas Networks plc
$DNZ_t = £359,563,904 \times \text{RPI adjustment}$	Southern Gas Networks plc
$DNZ_t = £215,089,383 \times \text{RPI adjustment}$	Wales & West Utilities Limited
Where : RPI adjustment 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 six months from July to December 2006 and the arithmetic average of the retail price index numbers published or determined with respect to the period from July to December 2004.	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited

<i>paragraph 8(1) (DNMR<sub>t</sub>) of Part 1 b (The Distribution Network transportation activity revenue restriction) of Special Condition E2B</i>	
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: the total charge in respect of the licensee's Distribution Network transportation owner activity shall be 28.3146% 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.	National Grid Gas plc – (East of England)
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: the total charge in respect of the licensee's Distribution Network transportation owner activity shall be 13.6385% 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.	National Grid Gas plc – (London)
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: the total charge in respect of the licensee's Distribution Network transportation owner activity shall be 14.2424% 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.	National Grid Gas plc – (North West)

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: the total charge in respect of the licensee's Distribution Network transportation owner activity shall be 11.1655% 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.	National Grid Gas plc – (West Midlands)
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: it will be the amount of the separate rating assessment for the licensee's Distribution Network transportation activity including (where relevant) metering.	Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
<i>paragraph 8(2) (DNMRA<sub>t</sub>) of Part 1 b (The Distribution Network transportation activity revenue restriction) of Special Condition E2B</i>	
A <sub>t</sub> means the RPI adjustment	National Grid Gas plc; Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
Price control initial projection allowance (I <sub>t</sub> ) for t=4	
£64,938,542	National Grid Gas plc – (East of England)
£25,300,654	National Grid Gas plc – (London)
£54,874,658	National Grid Gas plc – (North West)
£35,200,752	National Grid Gas plc – (West Midlands)
£41,611,144	Northern Gas Networks Limited
£31,571,513	Scotland Gas Networks plc
£64,430,415	Southern Gas Networks plc
£32,017,859	Wales & West Utilities Limited

<i>paragraph 8(3) (AM v) of Part 1 b (The Distribution Network transportation activity revenue restriction) of Special Condition E2B</i>						
Specific matrix costs (£ per metre) ( $U_m$ ) for formula year $t=4$						
<b>n=1</b>	<b>n=2</b>	<b>n=3</b>	<b>n=4</b>	<b>n=5</b>	<b>n=6</b>	
53.3	56	87.4	160.2	242.8	297.7	National Grid Gas plc – East of England
74.0	74.1	77.6	129.6	157.4	463.7	National Grid Gas plc – London
51.8	53.1	95	164.1	275.3	367.4	National Grid Gas plc – North West
50.7	58	80.3	130.5	219.6	273.9	National Grid Gas plc – West Midlands
54.3	58.7	82.6	126.2	210.3	298.9	Northern Gas Networks Limited
71.3	70.7	75.6	219.3	288.7	267.5	Scotland Gas Networks plc
80.9	77.8	77.4	178.5	265.4	265.4	Southern Gas Networks plc
66.2	66.5	68.5	96.7	217.2	229.5	Wales & West Utilities Limited

<i>paragraph 11(Disapplication of the Distribution Network transportation activity revenue restriction) of Part 1 b (The Distribution Network transportation activity revenue restriction) of Special Condition E2B</i>		
<i>(alterations in bold underlined text)</i>		
<p>3. A disapplication request <b><u>may be delivered at any time and</u></b> shall:</p> <p>(a) be in writing addressed to the Authority;</p> <p>(b) specify the Distribution Network transportation activity revenue restriction conditions (or any part or parts thereof) to which the request relates;</p> <p>(c) specify the Distribution Network (or any part or parts thereof) to which the request relates; and</p> <p>(d) 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</p>	<p>National Grid Gas plc Northern Gas Networks Limited; Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>	

disapplication date).	
<p>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 <b><u>not less than 18 months after delivery of the disapplication request.</u></b></p>	<p>National Grid Gas plc Northern Gas Networks Limited; Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>
<p>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 <b><u>15</u></b> 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.</p>	<p>National Grid Gas plc Northern Gas Networks Limited; Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>
<p>(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:</p> <p><b><u>(a) the cessation of such revenue restriction, in whole or in part, operates or may be expected to operate against the public interest; or</u></b></p> <p><b><u>(b) that any adverse effects specified by the Competition Commission could be remedied or prevented by such modifications of the relevant conditions as are specified in the report,</u></b></p> <p>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.</p>	<p>National Grid Gas plc Northern Gas Networks Limited; Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>

**Schedule 3**  
**Notice under section 23 of the Gas Act 1986**

(Additions to the Licence)

**Special Condition E2A (Revenue restriction definition in respect of the Distribution Network)**

<i>Proposed additions in alphabetical sequence to Special Condition E2A(1)</i>	<i>Relevant GDN</i>
<b>Local Distribution Zone or LDZ</b> has the meaning given in Section A 1.2.2(a) of the network code as at 1 January 2006.	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
<b>LDZ allowed shrinkage factor</b> means the maximum level of LDZ shrinkage as a percentage of LDZ throughput quantity and has the value set out in the Table in paragraph 8 part (7) of Special Condition E2B (Restriction of revenue in respect of the Distribution Network throughput activity).	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
<b>LDZ throughput quantity</b> means the aggregate quantity of gas measured in gigawatt hours introduced into the LDZ as a result of arrangements with gas shippers and DN operators in each month of the year t=4 (commencing on 1 April 2007).	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
<b>National Grid Gas plc</b> means the company (registered in England and Wales under company number 02006000) which had that name on 10 October 2005 and was previously known as "Transco plc".	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
<b>NTS transportation owner activity</b> means the transportation business carried out by the NTS operator	National Grid Gas plc

**Special Condition E2B (Restriction of Revenue in respect of the Distribution Network transportation activity)**

<i>Proposed additions to Special Condition E2B</i>	<i>Relevant GDN</i>
<i>To be added immediately after the meaning of "Distribution Network licence fee" in paragraph 8(1) of Part 1 b (The Distribution Network transportation activity revenue restriction) of Special Condition E2B</i>	

<p>Distribution Network Pension Deficit Charge means payments made by the licensee to meet the charge made by the NTS operator to the Distribution Network and specified by the NTS operator as Distribution Network Pensions Deficit Charge payments.</p>	<p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>
<p><i>To be added immediately after the meaning of "DNK<sub>t</sub>" in paragraph 8(1) of Part 1 b (The Distribution Network transportation activity revenue restriction of Special Condition E2B</i></p>	
<p>DNSh<sub>t</sub> means the maximum shrinkage incentive revenue and shall be derived in accordance with paragraph 8(7) of Part 1 b of this condition.</p>	<p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>
<p><i>To be added immediately after paragraph 8(6)(l) of Part 1 b (The Distribution Network transportation activity revenue restriction</i></p>	
<p>Part 1b (8)(7) Distribution Network shrinkage incentive revenue</p>	<p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>
<p>For the purposes of paragraph 8(1) of Part 1 b of this condition, the maximum Distribution Network shrinkage incentive revenue in respect of the formula year t=4 (commencing on 1 April 2007) shall be derived from the following formula:</p> $DNSh_t = \sum_{\text{all } i} GPRC_{t,m} \times \frac{SF_{t,i}}{100} \times ZTQ_{t,m,i}$ <p>Where:</p> <p>DNSh<sub>t</sub> means the maximum shrinkage incentive revenue in respect of the relevant Distribution Network for formula year t=4;</p> <p>i means each LDZ i of the Distribution Network;</p> <p><math>\sum_{\text{all } i}</math> means the sum of <math>\sum_{\text{all } m} GPRC_{t,m} \times \frac{SF_{t,i}}{100} \times ZTQ_{t,m,i}</math> for all LDZs i;</p> <p>m means each calendar month where m=1 commences on 1 April 2007;</p> <p><math>\sum_{\text{all } m}</math> means the sum of <math>GPRC_{t,m} \times \frac{SF_{t,i}}{100} \times ZTQ_{t,m,i}</math> for months m=1 to m=12 in formula year t=4;</p>	<p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>

<p><math>SF_{t,i}</math> means the LDZ allowed shrinkage factor SF in respect of the formula year <math>t=4</math> for each constituent LDZ <math>i</math> of the Distribution Network as set out in the following table:</p>		
LDZ	Allowed Shrinkage Factor Formula Year $T=4$	
East Midlands	0.519	National Grid Gas plc – East of England
Eastern	0.593	
North Thames	0.622	National Grid Gas plc – London
North West	0.656	National Grid Gas plc – North West
West Midlands	0.729	National Grid Gas plc – West Midlands
North East	0.628	Northern Gas Networks Limited
Northern	0.557	
Scotland	0.517	Scotland Gas Networks plc
Southern	0.706	Southern Gas Networks plc
South East	0.673	
South West	0.916	Wales & West Utilities Limited
Wales North	0.798	
Wales South	0.475	
<p><math>ZTQ_{t,m,i}</math> means the LDZ throughput quantity ZTQ for LDZ <math>i</math> in each month <math>m</math> of formula year <math>t=4</math> measured in gigawatt hours;</p> <p><math>GPRC_{t,m}</math> means the gas price reference cost GPRC in respect of month <math>m</math> of formula year <math>t=4</math> and shall be derived from the following formula:</p> $GPRC_{t,m} = UF * CF * \frac{\sum_{all\ d} FP_{m-3,d}}{n_{m-3}}$ <p>Where:</p> <p>UF means Uplift Factor UF and has the value of 1.035;</p> <p>CF means Conversion Factor CF and is used to convert <math>FP_{m-3,d}</math> from pence per therm, to pounds sterling per gigawatt hour and is equal to 341.200;</p> <p><math>d</math> means a “working day” with the definition given in Standard Special Condition A3 (Definitions and Interpretation) and is a day on which the forward price for month <math>m</math> is published in an approved market price report;</p> <p><math>\sum_{all\ d}</math> means the sum of the <math>FP_{m-3,d}</math> for all working days <math>d</math> in month <math>m-3</math>;</p>		<p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>

<p><math>n_{m-3}</math></p> <p><math>FP_{m-3,d}</math></p> <p>where:</p> <p>approved market price report</p> <p>National Balancing Point</p>	<p>means the number of working days <math>d</math> upon which the approved market price report publishes a forward price for month <math>m</math> in month <math>m-3</math>; and</p> <p>means the Forward Offer Price <math>FP_{m-3,d}</math> of gas at close of business on day <math>d</math> of month <math>m-3</math> published in an approved market price report for delivery at the national balancing point in respect of month <math>m</math> of formula year <math>t=4</math></p> <p>means The Heren Reports (published by Heren Energy Limited) or another published market price report (published by a comparable price reporting service) which, in the opinion of the Authority, notified in writing to the licensee is equivalent to The Heren Reports in the United Kingdom.</p> <p>has the meaning given to that term in the approved market price report.</p>	<p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p> <p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>
<p><i>To be added as new sub-paragraph 8 of paragraph 11 (Disapplication of the Distribution Network transportation activity revenue restriction) Part 1 b (The Distribution Network transportation activity revenue restriction) of Special Condition E2B, immediately after paragraph 11(7)</i></p>		
<p>(8) Contingency revenue restriction in respect of the Distribution Network transportation activity</p> <p>(a) Subject to paragraph 11(1) of Part 1 b of this condition, where the price control period end date has passed, then until not later than 6 months after the delivery of the report by the Competition Commission to the Authority pursuant to section 25(4) of the Act, or if later, 1 month after the final conclusion of any civil proceedings in respect of sections 24, 25, 26 or 26A of the Act, the maximum Distribution Network transportation activity revenue for the formula year commencing on 1 April immediately after the price control period end date and (where relevant) each subsequent formula year shall be derived, save where, on the application of the licensee, the Authority otherwise consents, in the following manner:</p>	<p>National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales &amp; West Utilities Limited</p>	

$$DNMR = DNMR_{t-1} \times \left[ 1 + \left( \frac{RPI_t}{100} \right) \right]$$

Where:

$DNMR_{t-1}$  means the previous 12 months maximum Distribution Network transportation activity revenue

$RPI_t$  means the percentage change (whether 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 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

(b) For the purpose of this paragraph 11(8) of Part 1 b of this condition, "price control period end date" means the end of the period during which, apart from paragraph 11(8)(a) of Part 1 b of this condition,  $DNMR_t$  can be calculated pursuant to paragraph 8(1) of Part 1 b of this condition.

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

<i>Proposed additions to Special Condition E2A(1)</i>				<i>Relevant GDN</i>
<i>To be added in the table in Special Condition E6(1) (Distribution Network transportation activity)</i>				
$ZTQ_{t,m,i}$	LDZ throughput quantity	Per month of the formula year	By 30 June in formula year t=5	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
$GPRC_{t,m}$	Gas price reference cost	Per month of the formula year	By 30 June in formula year t=5	National Grid Gas plc Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited

**Schedule 4**  
**Pro Forma to Register a Statutory Objection**

**Proposed Modification of Special Licence Conditions in the gas transporter licence**

In response to the statutory notice dated 19 February 2007 in respect of the above proposed modifications, this notice constitutes a statutory objection to that proposal on behalf of [state full name of each relevant licence holder making the objection].

I confirm that I am duly authorised to give this notice on behalf of each of the above named companies.

[Signed]

[Date: / / ]

[Address for acknowledgement, preferably including email address]