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Transmission Price Control Review: Third consultation on draft licence modifications (Gas transmission)

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Target audience: National Grid Gas NTS, gas shippers, gas DN's and other interested parties.

Overview:

In December 2006 we published our transmission price control review (TPCR) final proposals (TPCR Final Proposals) following our review of the price controls of the four transmission companies in electricity and gas. This document sets out further draft text for the licence amendments necessary to implement the proposals in respect of National Grid Gas (NGG NTS).

Over the past few months we have engaged with NGG NTS to develop the licence drafting that accurately reflects TPCR Final Proposals and serves to enhance the clarity and robustness of the existing licence provisions. We expect to continue to utilise bilateral discussions from now until the publication of our formal notice (anticipated at the beginning of June) to further develop the licence drafting. The drafting will be subject to further review following our bilateral meetings with the licensee, and is therefore subject to change.

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Context

We published TPCR Final Proposals in December 2006, which set out the revised obligations in respect of the electricity and gas transmission activities.

The regulatory regime applying to gas transmission business of NGG NTS is relatively complex and the licence changes required to implement TPCR Final Proposals are significant. In the light of this, we concluded that it would be desirable to implement the proposals in relation to NGG NTS in two stages. The first stage of licence amendments would be implemented to ensure that the existing commercial framework from 1 April 2007 is aligned with the new proposals and the second stage to introduce those new aspects of the regime that were proposed in December. Stage 1 was concluded in March 2007.

This document forms part of the second stage in the process and sets out further drafts of the legal text necessary to implement the remainder of the TPCR Final Proposals.

Associated Documents

- "Transmission Price Control Review - Initial Consultation", Ofgem, July 2005
- "Transmission Price Control Review - Second Consultation", Ofgem, December 2005
- "Transmission Price Control Review 2007-2012: Third Consultation", Ofgem, March 2006
- "Transmission Price Control Review - Initial Proposals", Ofgem, June 2006
- "Transmission Price Control Review - Updated Proposals", Ofgem, September 2006
- "Transmission Price Control Review - Draft licence modifications", Ofgem, November 2006
- "Transmission Price Control Review - Final Proposals", Ofgem, December 2006
- "Transmission Price Control Review: Draft licence conditions (gas) 2nd informal consultation", Ofgem, January 2007
- "Notice under section 23 (3) of the Gas Act 1986", Ofgem, February 2007
- "Modification of the Gas Transporter Licence Under Section 23 of the Gas Act 1986", Ofgem, March 2007
- "Section 38A notice in respect of reasons for the decision to modify the licence of National Grid Gas plc", Ofgem, March 2007
- "Transmission Price Control Review: Third consultation on draft licence modifications (Gas transmission) - consultation document", Ofgem, April 2007

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Appendix 5 – Special Conditions C8A to C8E and Special Conditions C17 and C18

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

1. In this condition and in Special Conditions C8B to C8G (inclusive):

allocation	means any process by which entry capacity or NTS exit capacity may be allotted by or on behalf of the licensee in accordance with the network code;
annual obligated incremental entry capacity	means any obligated incremental entry capacity in respect of a given terminal which the licensee is required to offer for sale for a period of less than five years;
average specified rate	means the average of the daily base rates of Barclays Bank PLC current from time to time during the period in respect of which any calculation falls to be made;
clearing allocation	means in respect of a terminal and period an allocation of entry capacity which either: <ul style="list-style-type: none">- results in all the capacity offered for sale being sold; or- has a reserve price of zero;
connected system exit point	has the meaning given to that term in the network code;
constrained storage facility	has the meaning given to that term in the network code;
curtailment day	means any day in formula year t in respect of which rights to offtake gas at a given supply point, connected system exit point or storage connection point have been

curtailed by the licensee;

day

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

Distribution Network

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

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

Distribution Network transportation activity

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

DM connected system exit point

means a daily metered connected system exit point;

DM supply meter point

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

DN Operator	[to be inserted]
entry capacity	has the meaning given to the term NTS Entry Capacity in the network code;
exit capacity curtailment rights	means rights held by the licensee to curtail rights to offtake gas from the transportation system, other than rights conferred on the licensee solely for the purpose of taking emergency steps or force majeure (having the meanings given to those terms in the network code);
firm entry capacity	means entry capacity other than interruptible entry capacity;
formula year	means a period of twelve months commencing on 1 April at 06:00 hours, the first such formula year (t=1) commencing 1 April 2002 at 06:00 hours;
gigawatt hour or GWh	means one million kilowatt hours;
incremental entry capacity	means obligated incremental entry capacity and non-obligated incremental entry capacity;
incremental entry capacity services	means the undertaking of engagements relating to the provision of entry capacity other than NTS SO baseline entry capacity;
incremental exit capacity services	means the undertaking of engagements relating to the provision of NTS incremental exit capacity;
initial NTS SO baseline entry capacity	means in respect of each terminal and period the NTS SO baseline entry capacity specified in table A2 of schedule A;
interruptible entry capacity	has the meaning given to the term interruptible NTS

	Entry Capacity in the network code;
interruption	has the meaning given to that term in the network code;
kilowatt hour or kWh	means 3,600,000 Joules;
locational actions	means any action taken by the licensee where the action was taken in respect of a specific location and would therefore be coded with a locational reason code on the OCM. Locational buys will be treated as a cost to the licensee and locational sells will be treated as a revenue;
logged up costs	means: <ul style="list-style-type: none"> (a) for the purposes of paragraph 3(c) of special condition C8B, the capital expenditure and operating expenditure costs incurred by the licensee in respect of those items referred to in those paragraphs; and (b) for the purposes of paragraph 5 of special condition C8B the capital expenditure incurred by the licensee in respect of those items referred to in those paragraphs.
long-term NTS SO baseline entry capacity	means that proportion of the initial NTS SO baseline entry capacity in respect of each formula year that is available to be sold more than 548 days prior to the first day in respect of which such capacity relates;
NDM connected system exit point	means a non-daily metered connected system exit point;
NDM supply meter point	has the meaning given to that term in the network code;
non-obligated incremental entry capacity	means firm entry capacity other than obligated entry capacity;

NTS baseline firm exit capacity	means in respect of each period the NTS firm exit capacity specified in table A3 of schedule A or subsequently modified (subject to the prior written consent of the Authority) within the statement produced by Transco plc in accordance with Standard Special Condition A4 (Charging – General);
NTS baseline exit flat capacity	means in respect of each period the NTS exit flat capacity specified in table A6 of schedule A or subsequently modified (subject to the prior written consent of the Authority) within the statement produced by Transco plc in accordance with Standard Special Condition A4 (Charging – General);
NTS baseline exit flow flexibility	means in respect of each period the NTS exit flow flexibility specified in table A5 of schedule A or subsequently modified (subject to the prior written consent of the Authority) within the statement produced by Transco plc in accordance with Standard Special Condition A4 (Charging – General);
NTS baseline exit shipper capacity	means in respect of each period the NTS exit shipper capacity specified in table A7 of schedule A or subsequently modified (subject to the prior written consent of the Authority) within the statement produced by Transco plc in accordance with Standard Special Condition A4 (Charging – General);
NTS baseline interruptible exit capacity	means in respect of each period the NTS interruptible exit capacity specified in table A4 of schedule A or subsequently modified (subject to the prior written consent of the Authority) within the statement produced by Transco plc in accordance with Standard Special

Condition A4 (Charging – General);

NTS exit capacity curtailment rights	means exit capacity curtailment rights held by the licensee in respect of NTS exit capacity;
NTS exit point	has the meaning given to that term in the network code;
NTS exit shipper capacity	has the meaning given to the term “NTS Exit Capacity” in the network code;
NTS firm exit capacity	means NTS exit capacity other than NTS interruptible exit capacity;
NTS incremental exit capacity	means that NTS exit capacity in excess of NTS baseline firm exit capacity and NTS baseline interruptible exit capacity;
NTS incremental exit flat capacity	means that NTS exit flat capacity in excess of NTS baseline exit flat capacity;
NTS incremental exit flow flexibility	means that NTS exit flow flexibility in excess of NTS baseline exit flow flexibility;
NTS interruptible exit capacity	means NTS exit capacity subject to exit capacity curtailment rights;
NTS incremental exit shipper capacity	means that NTS exit shipper capacity in excess of NTS baseline exit shipper capacity;
NTS SO baseline entry capacity	means in respect of each terminal and period that terminal's initial NTS SO baseline entry capacity and that terminal's permanent obligated incremental capacity for which the first day to which such capacity relates has occurred five or more years previously;

NTS system operation activity or NTS SO activity

means engagements undertaken by the licensee pursuant to the operation of the NTS, being the procuring and using of balancing services for the purpose of balancing the NTS and the arranging with the NTS TO activity for the delivery of incremental entry capacity and NTS incremental exit capacity, including:

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

NTS system operator revenue or NTS SO revenue

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

NTS TO baseline entry capacity

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

NTS transportation owner activity or NTS TO activity

means the activities of the licensee connected with the development, administration and maintenance of the NTS and with the supply of NTS services;

NTS transportation owner revenue or NTS TO revenue

means the revenue derived by the licensee from the supply of NTS services to gas shippers and DN operators in respect of the NTS transportation owner activity (such

	revenue to be measured on an accruals basis);
obligated entry capacity	means obligated incremental entry capacity and NTS SO baseline entry capacity;
obligated incremental entry capacity	means that firm entry capacity in excess of NTS SO baseline entry capacity which the licensee is required to offer for sale in accordance with paragraph 14(5)(b) of Part 2 of Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity);
permanent obligated incremental entry capacity	means any obligated incremental entry capacity in respect of a given terminal, which the licensee is required to offer for sale for a period of five years or more;
plus 15 curtailment day	means any curtailment day in formula year t at a given supply point, connected system exit point or storage connection point after the first 15 curtailment days in that formula year for the given supply point, connected system exit point or storage connection point connected to the transportation system to which this licence relates;
residual gas balancing services	means the undertaking of engagements relating to the acquisition or disposal of gas to ensure the safe and efficient operation of the transportation system;
short-term NTS SO baseline entry capacity	means initial NTS SO baseline entry capacity other than long term NTS SO baseline entry capacity;
specified rate	means the base rate of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made;

storage connection point	has the meaning given to that term in the network code;
subscript t	means the relevant formula year;
supply of Distribution Network services	<p>means the undertaking and performance for gain or reward of engagements:</p> <ul style="list-style-type: none"> a) in connection with the conveyance of gas through the Distribution Network; b) for the prevention of the escape of gas which has been taken off the Distribution Network; and c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of: <ul style="list-style-type: none"> (i) the balancing of the Distribution Network through the acquisition or disposal of gas to replace gas lost from the Distribution Network; and (ii) facilitating constraint management;
supply of NTS services	<p>means the undertaking and performance for gain and reward of engagements:</p> <ul style="list-style-type: none"> (a) in connection with the conveyance of gas through the NTS other than engagements in connection with activities within the definition of the NTS SO activity; and (b) for the prevention of the escape of gas, which has been taken off the NTS, other than to the Distribution Network or any pipe-line system operated by a person holding a gas transporter's licence or who is

exempted from holding such a licence which but for such pipe-line not being operated by the licensee, would fall within the definition of the Distribution Network;

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

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

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

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

Special Condition C8B: The NTS transportation owner activity revenue restriction

1. The principal restriction

- (a) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year the revenue which it derives from its NTS transportation owner activity (TOR_t) shall not exceed the maximum NTS transportation owner revenue ($TOMR_t$).
- (b)
 - (i) If in respect of any formula year the NTS transportation owner revenue exceeds the maximum NTS transportation owner revenue by more than 4 per cent of the latter, the licensee shall provide to the Authority a written explanation and, in the next following formula year, the licensee shall not effect any increase in charges for use of the NTS unless either:
 - (1) (A) it has demonstrated to the reasonable satisfaction of the Authority that the NTS transportation owner revenue would not be likely to exceed the maximum NTS transportation owner revenue in that next following formula year; or
 - (2) (B) the Authority has, on the written application of the licensee, consented to such an increase in charges for use of the NTS.
 - (ii) If, in respect of any two successive formula years, the sums of the amounts by which the NTS transportation owner revenue (TOR_t) has exceeded the maximum NTS transportation owner revenue is more than 6 per cent of the maximum NTS transportation owner revenue ($TOMR_t$) for the second of those formula years, then in the next following formula year the licensee shall if required by the Authority adjust its charges for use of the NTS such that the NTS transportation owner revenue would not be likely in the judgement of the Authority to exceed the maximum NTS transportation revenue in that next following formula year.

2. NTS transportation owner revenue (TOR_t)

(a) Principal formula

For the purposes of paragraph 1 of this condition, the NTS transportation owner revenue in respect of formula year t (TOR_t) shall be derived from the following formula:

$$TOR_t = TOREVBEC_t + TOExR_t + TORCOM_t$$

where:

$TOREVBEC_t$ means the NTS TO revenue derived by the licensee in respect of formula year t from the sale of NTS SO baseline entry capacity and shall be derived in accordance with Part B of Special Condition C8D (NTS gas entry incentives, costs and revenues).

$TOExR_t$ means the revenue derived by the licensee in respect of formula year t in respect of charges levied on gas shippers and DN operators that is allocated to the NTS transportation owner activity and the revenue derived by the licensee in respect of formula year t from the sale 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) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

$TORCOM_t$ means the revenue derived by the licensee in respect of NTS TO activities provided by the licensee in respect of formula year t from charges levied on gas shippers and DN operators pursuant to Standard Special Condition A4 (Charging–General) or payments made by the licensee other than revenue earned by the licensee through (i) $TOREVBEC_t$ and (ii) $TOExR_t$.

3. Maximum NTS transportation owner revenue ($TOMR_t$)

(a) Principal formula

For the purposes of paragraph 1 of this condition, the maximum NTS transportation owner revenue in respect of formula year t ($TOMR_t$) shall be derived from the following formula:

$$TOMR_t = TOZ_t + TOF_t + TOG_t - TOK_t$$

where:

TOZ_t shall be derived in the following manner:

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

$$TOZ_t = [\pounds 458,300,000] \times \left[1 + \left(\frac{RPI_0}{100} \right) \right]$$

- (ii) In respect of any formula year commencing on 1 April 2008 or on 1 April in any subsequent formula year:

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

where:

RPI_0 means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail prices index published or determined with respect to each of the six months from July to December (both inclusive) in the year 2003 and the arithmetic average of

the retail prices index numbers published or determined with respect to the six months from July to December in the year 2006;

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail prices 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 prices index numbers published or determined with respect to the same months in formula year $t-2$; and

X has the value of zero; and

TOF_t means the NTS TO cost pass-through adjustment term in respect of formula year t and shall be derived in accordance with paragraph 3(b) of this condition.

TOG_t means the NTS TO incentive revenue adjustment term in respect of formula year t and shall be derived in accordance with paragraph 3(c) of this condition.

TOK_t means the NTS TO revenue adjustment factor in respect of formula year t equal to the NTS TO over or under recovery in respect of formula year $t-1$ and shall be derived in accordance with paragraph 3(d) of this condition.

(b) NTS transportation owner cost pass-through adjustment TOF_t

- (i) For the purposes of paragraph 3(a) of this condition, the NTS TO cost pass-through adjustment factor in respect of formula year t (TOF_t) shall be derived in the following manner:

$$TOF_t = Rate_t + L_t + NTSPDC_t + DNPDC_t + IS_t + OPTC_t$$

where:

$Rate_t$ means the revenue adjustment factor in the formula year t in respect of non domestic rates and shall, subject to subparagraphs (ii) and (iii), be calculated in accordance with the following formula:

$$Rate_t = NDRP_t - NDRA_t$$

where:

$NDRP_t$ means the NTS prescribed rates and shall take a value of 32.6391 % in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of its NTS transportation owner activity and the Distribution Network transportation activity in respect of formula year t ; and

$NDRA_t$ shall be derived as follows:

$$NDRA_t = TORB_t \times PIT_t$$

where:

$TORB_t$ shall take the value, in 2004/05 prices, set against the formula year t in the following

table:

Formula year commencing 1 April	2007	2008	2009	2010	2011
TORB _t	£71,100,000	£71,100,000	£71,100,000	£71,100,000	£71,100,000

PIT_t is the price indexation adjustment, which shall be calculated using the following formula:

$$PIT_t = \left(1 + \frac{RPI_t}{100} \right) \times PIT_{t-1}$$

where PIT_{t-1} shall take the value 1 in respect of the formula year commencing 1 April 2004 and RPI_t shall be as defined in paragraph 3(a)(ii) of this condition.

L_t means the revenue adjustment factor in the formula year t in respect of licence fee payments and shall be calculated in accordance with the following formula:

$$L_t = LP_t - LA_t$$

where:

LP_t means payments made by the licensee in respect of the NTS transportation owner activity under standard condition 3 (Payments by the Licensee to the Authority) in respect of formula year t; and

LA_t shall be derived as follows:

$$LA_t = TOLA_t \times PIT_t$$

where:

TOLA_t shall take the value, which is in 2004/05

prices, set against the formula year t in the following table

Formula year commencing 1 April	2007	2008	2009	2010	2011
TOLA _t	£7,800,000	£7,600,000	£7,500,000	£7,300,000	£7,300,000

NTSPDC_t means the revenue adjustment term in respect of pension deficit costs associated with non-active scheme members at 1 May 2005 attributable to the NTS in respect of formula year t and shall take the value £2,530,000.

DNPDC_t means the revenue adjustment term in respect of pension deficit costs associated with non-active scheme members at 1 May 2005 attributable to all DN operators in respect of formula year t and shall take the value £26,370,000.

IS_t means an amount directed (by no later than 31 March 2008) by the Secretary of State in respect of arrangements associated with the conveyance to independent systems in respect of the formula year t, or in the absence of a direction by the Secretary of State, zero; and

OPTC_t means an amount equal to such costs incurred by the licensee as the Authority may determine shall be treated as pass through costs related to additional security measures required by government in formula year t.

- (ii) For the purposes of paragraph 3(b)(i) of this condition, in the formula year commencing 1 April 2010 and each subsequent formula year,

Rate_t shall take the value zero, unless otherwise directed by the Authority.

- (iii) For the purposes of paragraph 3(b)(ii) of this condition, the Authority may direct that, in respect of the formula year commencing on 1 April 2010 and each subsequent formula year, Rate_t be calculated in accordance with the formula set out above where the Authority is satisfied that the licensee has used reasonable endeavours to minimise the amount of NTS prescribed rates.

(c) NTS transportation owner incentive revenue adjustment TOG_t

- (i) For the purposes of paragraph 3(a) of this condition, the NTS TO revenue adjustment factor in respect of formula year *t* (TOG_t) shall be derived in the following manner:

$$TOG_t = IFI_t + CxIncRA_t + LC_t$$

Where:

IFI_t means the innovation funding incentive revenue adjustment factor in the formula year *t* in respect of the Innovation Funding Incentive (IFI) as derived in paragraph 3(c)(ii) of this condition; and

CxIncRA_t means the baseline capital expenditure incentive revenue adjustment term in the formula year *t*, and shall take the value zero in all formula years except in the formula year commencing 1 April 2012 where, CxIncRA_t shall take the value as derived in paragraph 3(c)(iv) of this condition; and

LC_t means the revenue adjustment term, whether of a positive or of a zero value, in respect of the full recovery of efficiently

incurred logged up costs (adjusted for financing costs) which in all formula years shall take the value zero except for the formula year commencing on 1 April 2012 for which it shall take a value being the total of the operating expenditure and the depreciation and return of the capital expenditure incurred by the licensee in the period 1 April 2007 to 31 March 2012, and reported to the Authority in accordance with standard special condition A40 (Price Control Review Information), by the licensee against the following cost categories:

(a) Quarry and loss of development claims;

subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

- (ii) For the purposes of paragraph 3(c)(i), IFI_t shall be calculated for the formula year t using the following formula:

$$IFI_t = ptri \times (\min(IFIE_t, (\max(\pounds 500,000 + KIFI_t, ((0.005 \times TOZ_t) + KIFI_t))))))$$

where:

$ptri_t$ is the pass-through factor applicable for the formula year t and shall in the formula year commencing on 1 April 2007 and each subsequent formula year take the value 0.8;

$IFIE_t$ means the eligible IFI expenditure for the formula year t as reported in the IFI annual report for that formula year;

TOZ_t shall take the value derived in respect of the formula year t in accordance with paragraph 3(a) of this condition;

$KIFI_t$ is the carry forward in relation to the IFI scheme as set out in the IFI annual report for formula year t-1, and is calculated in accordance with the following formula:

if $IFIE_{t-1} \leq 0.5 \times \max(\pounds 500,000, (0.005 \times TOZ_{t-1}))$:

$$KIFI_t = (0.5 \times \max(\pounds 500,000, 0.005 \times TOZ_{t-1}))$$

if $IFIE_{t-1} > (0.5 \times \max(\pounds 500,000, 0.005 \times TOZ_{t-1}))$ and

$$IFIE_{t-1} \leq (\max(\pounds 500,000, 0.005 \times TOZ_{t-1})):$$

$$KIFI_t = \max(\pounds 500,000, (0.005 \times TOZ_{t-1})) - IFIE_{t-1}$$

if $IFIE_{t-1} > (\max(\pounds 500,000, 0.005 \times TOZ_{t-1}))$:

$$KIFI_t = 0$$

where, for the formula year commencing 1 April 2007, $KIFI_t$, shall be zero.

(iii) For the purposes of paragraph 3(c)(ii) of this condition:

“eligible IFI expenditure”	means the amount of expenditure spent or accrued by the licensee in respect of eligible IFI projects;
“eligible IFI projects”	means those projects that meet the requirements described for such IFI projects; and
“IFI annual report”	means the report produced each year by the licensee, in a format agreed with the Authority, in respect of expenditure and innovation; and

in each case above, all as more fully set out in the revenue reporting regulatory instructions and guidance for the time being in force under special condition

C14B (Price Control Revenue Reporting and Associated Information) in relation to the IFI scheme.

- (iv) For the purposes of paragraph 3(c)(i), $CxIncRA_t$ shall be calculated for the formula year t using the following formula:

$$CxIncRA_t = \left(\left[\sum_n [(CIR_n - 0.25) \times PVF_n \times (IncDif_n)] \right] \times PIT_t \right) + \left(\left[\sum_n [PVF_n \times MH_n] \right] \times PIT_t \right)$$

where

n means the formula year n such that the first formula year n shall be the year commencing on 1 April 2007 and accordingly the fifth formula year n is the year commencing on 1 April 2011;

CIR_n means the capital expenditure incentive sharing factor, representing the proportion of the licensee's exposure to under or overspend against the capital expenditure allowance for the formula year n that would be borne by the licensee during the revenue restriction period if no adjustment were to be made to the licensee's revenue in accordance with this condition and shall take the value set out in the table below:

Formula year commencing 1 April:	2007	2008	2009	2010	2011
CIR_n	0.3139	0.2513	0.1835	0.1103	0.0313

PVF_n means the present value adjustment factor in respect of the formula year t and shall take the value set out in the table below:

Formula year commencing 1 April:	2007	2008	2009	2010	2011
PVF_n	1.35408	1.27443	1.19946	1.12891	1.06250

$IncDif_n$ represents the difference, expressed in 2004/05 prices, between the adjusted efficient capital expenditure and the base capital expenditure allowance in respect of the formula year n and shall be calculated in accordance with the following formula:

$$IncDif_n = \frac{ACx_n}{PIT_n} - BCx_n$$

where:

ACx_n is the adjusted efficient capital expenditure incurred by the licensee in respect of the formula year n and shall be calculated in accordance with paragraph 3(c)(v) of this condition;

PIT_n shall take the value of PIT_t for formula year $t=n$, where PIT_t shall take the same meaning as given in paragraph 3(b)(i) of this condition; and

BCx_n means, subject to paragraph 5 of this condition, the base capital expenditure allowance, expressed in 2004/05 prices, in respect of the formula year n and shall take the value set out in the table below:

Formula year commencing 1 April:	2007	2008	2009	2010	2011
BCx_n	£209,100,000	£194,400,000	£56,000,000	£44,200,000	£41,000,000

- (v) For the purposes of paragraph 3(c)(iv), ACx_n shall be calculated in accordance with the following formula:

$$ACx_n = Cx_n - SOCx_n - ESCx_n - LCx_n - MH_n - DCx_n$$

where:

Cx_n means the capital expenditure, expressed net of pensions contributions, incurred by the licensee in the formula year n as reported to the Authority pursuant to standard special condition A40 (Price Control Review Information);.

$SOCx_n$ means the total capital expenditure, expressed net of pensions contributions, incurred by the licensee in the formula year n in providing incremental entry capacity and providing NTS incremental exit capacity as reported to the Authority pursuant to standard special condition A40 (Price Control Review Information);

$ESCx_n$ means that amount of capital expenditure net of capital contributions incurred by the licensee in respect of the formula year n that may be treated as excluded services as set out in Special Condition C10

(Supplementary provisions of the revenue restrictions in respect of the NTS transportation owner activity and NTS system operation activity);

LCx_n means that amount of capital expenditure incurred by the licensee in the formula year n that falls to be treated as logged up capital expenditure and as reported to the Authority pursuant to paragraph 3(c)(viii);

MH_n means that amount of capital expenditure incurred by the licensee in the formula year n that falls to be treated as the excess cost of the Milford Haven Pipeline project to be excluded from the capital expenditure incentive (up to a maximum value of £75,000,000 in 2004/05 prices) as directed by the Authority on or before 31 March 2012; and

DCx_n means that amount of capital expenditure incurred by the licensee in respect of the formula year n in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of the formula years from 1 April 2007 to 31 March 2011, and on or before 31 March 2017 in respect of the formula year commencing on 1 April 2011, that such expenditure is deemed inefficient in accordance with sub-paragraphs (vi) and (vii) of this condition. It shall take the value zero unless the Authority directs otherwise.

(vi) For the purposes of sub-paragraph (v), before issuing a direction that certain capital expenditure is deemed inefficient the Authority shall issue a notice in writing to the licensee specifying:

(aa) the capital expenditure that the Authority proposes to deem inefficient;

(bb) the reasons why the Authority considers that the capital expenditure referred to in sub-paragraph (aa) is inefficient; and

(cc) the date, being no less than 28 days from the date of the Authority's notice, by which the licensee may make representations to the Authority in respect of that notice.

- (vii) The Authority shall have regard to any representations made by the licensee in response to the notice referred to in sub-paragraph (vi) before making any direction in respect of sub-paragraph (v).
- (viii) For the purposes of paragraph 3(c)(v) of this condition, LCx_n shall comprise those capitalised costs incurred, and reported to the Authority by the licensee in relation to the following cost categories:

- (aa) Quarry and loss of development claims;

subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

(d) NTS transportation owner revenue adjustment (TOK_t)

- (i) For the purposes of paragraph 3(a) of this condition, the NTS TO revenue adjustment factor in respect of formula year t (TOK_t) shall be derived in the following manner:

$$TOK_t = (TOR_{t-1} - TOMR_{t-1}) \times \left(1 + \frac{I_t + PI_t}{100} \right)$$

where:

TOR_{t-1} shall,

- (A) in respect of the formula year commencing 1 April 2007, take the value of TOR_t derived, in respect of the formula year commencing 1 April 2006, in accordance with paragraph 2(1) of part 1a of Special Condition C8B of this licence in the form in force as at 31 March 2007;
- (B) in respect of the formula year commencing 1 April 2008 and each subsequent formula year have the meaning given to that term in

paragraph 2 of this condition where t is replaced by t-1;

- $TOMR_{t-1}$ shall,
- (A) in respect of the formula year commencing 1 April 2007, take the value of $TOMR_t$ derived, in respect of the formula year commencing 1 April 2006, in accordance with paragraph 3(1) of part 1a of Special Condition C8B of this licence in the form in force as at 31 March 2007;
 - (B) in respect of the formula year commencing 1 April 2008 and each subsequent formula year have the meaning given to that term in paragraph 3(a) of this condition where t is replaced by t-1;
- I_t means the percentage interest rate in respect of formula year t which is equal to the average specified rate; and
- PI_t means the penalty interest rate in the formula year t which is equal to, where $(TOR_{t-1} - TOMR_{t-1})$ has a positive value, three (3), otherwise it shall take the value zero (0).

4. Disapplication of the NTS transportation owner activity revenue restriction

- (a) The NTS transportation owner activity revenue restriction conditions shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 4(b) to 4(g) of this condition.
- (b) The NTS transportation owner activity revenue restriction conditions shall cease to have effect (in whole or in part as the case may be) if the licensee delivers to the

Authority a disapplication request made in accordance with paragraph 4(c) of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 4(f) or paragraph 4(g) of this condition.

- (c) A disapplication request shall:
 - (i) be in writing addressed to the Authority;
 - (ii) specify the NTS transportation owner activity revenue restriction conditions (or any part or parts thereof) to which the request relates; and
 - (iii) state the date (being not earlier than the date referred to in paragraph 4(e) of this condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect.
- (d) The licensee may withdraw a disapplication request at any time.
- (e) No disapplication following delivery of a disapplication request shall have effect until a date (the “disapplication date”) being 31 March in the formula year ending more than 18 months after the date of that disapplication request..
- (f) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of this condition or the part or parts thereof specified in the disapplication request before the beginning of the period of 6 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 this condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.
- (g) If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that:
 - (i) the cessation of those conditions, in whole or in part, operates or may be

- expected to operate against the public interest; or
- (ii) 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,
- the licensee may within 30 days after the publication of the report on a reference made by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of those conditions or any part or parts thereof with effect from the disapplication date or later.

5. Capital Expenditure Safety Net

- (a) For the purposes of this condition, relevant capital expenditure in respect of the formula year t shall be calculated as follows:

$$RelC_{x_t} = \frac{C_{x_t} - SOC_{x_t} - ESC_{x_t} - LC_{x_t} - MH_t}{PIT_t}$$

where:

C_{x_t} shall take the value of C_{x_n} for formula year $n=t$, where C_{x_n} shall take the same meaning as given in paragraph 3 of this condition;

SOC_{x_t} shall take the value of SOC_{x_n} for formula year $n=t$, where SOC_{x_n} shall take the same meaning as given in paragraph 3 of this condition;

LC_{x_t} shall take the value of LC_{x_n} for formula year $n=t$, where LC_{x_n} shall take the same meaning as given in paragraph 3 of this condition; and

ESC_{x_t} shall take the value of ESC_{x_n} for formula year $n=t$, where ESC_{x_n} shall take the same meaning as given in paragraph 3 of this condition;

MH_t shall take the value of MH_n for formula year $n=t$, where MH_n shall take the same meaning as given in paragraph 3 of this condition; and

PIT_t shall take the same meaning as given in paragraph 3 of this condition.

- (b) The licensee shall use reasonable endeavours to estimate relevant capital expenditure in respect of the formula year t and each subsequent formula year up

to and including the formula year commencing 1 April 2011.

- (c) For the purposes of paragraph 5(d) of this condition, the relevant capital expenditure allowance ($RelACx_t$) in the formula year t shall be calculated in accordance with the following formula:

$$RelACx_t = BCx_t$$

where:

BCx_t shall take the value of BCx_n for formula year $n=t$, where BCx_n shall take the same meaning as given in paragraph 3 of this condition.

- (d) If, in respect of the formula year t or any subsequent formula year up to and including the formula year commencing 1 April 2011, the licensee reasonably expects that relevant capital expenditure will be less than $0.8x(RelACx_t)$ then the Licensee shall furnish to the Authority a statement setting out:
- (i) the amount by which the Licensee expects relevant capital expenditure to fall below $RelACx_t$ in respect of that same formula year; and
 - (ii) the factors which, in the Licensee's reasonable opinion, has or is likely to result in the shortfall referred to in sub-paragraph (i).
- (e) The Authority may request any additional information in relation to paragraphs 5(a) to 5(d) of this condition that it considers reasonably necessary to exercise its duties and functions under the Act. Such a request shall be made in writing by the Authority to the licensee and specify the date by which the information shall be provided to the Authority being not less than 14 days from the date of the Authority's request.
- (f) Where the Authority issues a written request pursuant to paragraph 5(e), the licensee shall, unless the Authority agrees otherwise, provide such information that has been reasonably requested by the Authority by the date specified in that request.
- (g) The Authority may, having considered the information provided by the licensee pursuant to this condition, by notice in writing to the licensee set out that it proposes to reduce the value TOZ_t . Such notice shall specify:
- (i) the amount by which the Authority proposes to reduce TOZ_t as a result of

- relevant capital expenditure $RelCAx_t$ being less than $0.8 \times (RelACx_t)$;
- (ii) the date on which the Authority proposes that the proposed reduction in TOZ_t would take effect;
 - (iii) the reasons why the Authority considers that the proposed reduction is appropriate in light of the information provided by the Licensee to the Authority pursuant to this condition;
 - (iv) the time , (being not less than 28 days from the date of the Authority's notice) within which representations by the licensee may be made , and
 - (v) the date by which the Authority intends to give effect to such proposed amendments to the licence under section 23 of the Act.
- (h) The Authority shall consider any representations made by the licensee in response to the notice referred to in paragraph 5(g) of this condition before proposing modification to the value of TOZ_t under section 23 of the Act.
- (j) The proposals provided to the licensee pursuant to paragraph 5(g) of this condition shall be constructed, so far as is reasonably practicable, to reduce the licensee's TOZ_t by an amount which is no more than an amount which represents the savings in financing costs, including depreciation, in respect of a reduction to the capital expenditure allowance determined by the Authority for the purpose of this part of this condition in the light of information provided by the licensee in accordance with this part of this condition.

Special Condition C8C: NTS System Operator Revenue Restriction

1. Principal restriction

- (a) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year the revenue which it derives from its NTS system operation activity (SOR_t) shall not exceed the maximum NTS system operation revenue ($SOMR_t$).
- (b) If in respect of any formula year the NTS system operation revenue (SOR_t) exceeds the maximum NTS system operation revenue ($SOMR_t$) by more than 4 per cent of the latter, the licensee shall furnish an explanation to the Authority and, in the next following formula year, the licensee shall not effect any increase in charges in respect of services relating to the NTS SO activity unless either:
 - (i) it has demonstrated to the reasonable satisfaction of the Authority that the NTS system operation revenue would not be likely to exceed the maximum NTS system operation revenue in that next following formula year; or
 - (ii) the Authority has, on the application of the licensee, consented to such an increase in charges.
- (c) If, in respect of any two successive financial years, the sums of the amounts by which the NTS system operation revenue (SOR_t) has exceeded the maximum NTS system operation revenue is more than 6 per cent of the maximum NTS system operation revenue ($SOMR_t$) for the second of those years, then in the next following formula year the licensee shall if required by the Authority adjust its charges such that the NTS system operation revenue would not be likely in the judgement of the Authority to exceed maximum NTS system operation revenue in that next following formula year.

2. NTS system operation revenue (SOR_t)

(a) Principal formula

For the purposes of paragraph 1 of this condition, the revenues which the licensee derives from its NTS system operation activity in respect of any formula year t (SOR_t) shall be derived from the following formula:

$$\text{SOR}_t = \text{RCOM}_t + \text{SOExRF}_t + \text{SORCAP}_t + \text{SOROC}_t$$

where:

RCOM_t means the revenue derived by the licensee in respect of formula year t from charges levied on gas shippers and DN operators pursuant to Standard Special Condition A4 (Charging– General) in respect of NTS SO activities provided by the licensee and shall include revenue from charges to recover both costs incurred by the licensee and net payments made to or by the licensee in respect of reducing the costs arising from system operation activities other than revenue earned by the licensee through:

(i) SOExRF_t;

(ii) SORCAP_t;

(iii) SOROC_t; and

(iv) revenues received by the licensee in respect of formula year t from the sale of gas that had been purchased by the licensee in respect of its use of constrained storage facilities in order to avoid transportation constraints;

- $SOExRF_t$ means the NTS SO revenue derived by the licensee in respect of sales of exit capacity and shall be derived in accordance with Special Condition C8E (NTS gas exit incentives, costs and revenues);
- $SORCAP_t$ means the NTS SO revenue derived by the licensee in respect of sales of entry capacity and shall be derived in accordance with Special Condition C8D (NTS gas entry incentives, costs and revenues); and
- $SOROC_t$ means the NTS SO revenue derived by the licensee in respect of other defined SO charges and shall be derived in accordance with Special Condition C8F (Other NTS System Operator external incentives, costs and revenues).

3. Definition of maximum NTS system operation revenue ($SOMR_t$)

(a) Principal formula

For the purposes of paragraph 1 of this condition, the term maximum NTS system operation revenue in respect of formula year t ($SOMR_t$) shall be derived from the following formula:

$$SOMR_t = SOEIRC_t + SOExIRC_t + SOOIRC_t + SOIntIRC_t + SORA_t +$$

$$BBIOCA_t + DELINC_t - SOK_t$$

where:

- $SOEIRC_t$ means the NTS system operation entry incentive revenue and costs in respect of formula year t and shall be derived in accordance with Special Condition C8D (NTS gas entry incentives, costs and revenues);

SOExIRC_t means the NTS system operation exit incentive revenue and costs in respect of formula year t and shall be derived in accordance with Special Condition C8E (NTS gas exit incentives, costs and revenues);

SOOIRC_t means other NTS external cost system operation incentive revenue and costs in respect of formula year t and shall be derived in accordance with Special Condition C8F (Other NTS System Operator external incentives, costs and revenues);

SOIntICR_t means the NTS system operation internal cost incentive revenue and costs in respect of formula year t and shall be derived in accordance with Special Condition C8G (NTS System Operator internal incentives, costs and revenues);

SORA_t means approved allowance in respect of an income adjusting event (whether of a positive or negative value) to be made in respect of formula year t and shall be derived in accordance with paragraph 3(b) of this condition; and

BBIOCA_t means the buyback incentive overall collar adjustment for year t and shall be derived in accordance with the following formula:

- (i) If $(EnCOBBIR_t + EnCIBBIR_t + ExCBBIR_t) < (BBIODC * INFL)$, then:

$$BBIOCA_t = - (EnCOBBIR_t + EnCIBBIR_t + ExCBBIR_t - (BBIODC * INFL))$$

- (ii) If $(EnCOBBIR_t + EnCIBBIR_t + ExCBBIR_t) \geq (BBIODC * INFL)$, then:

$$BBIOCA_t = 0$$

where:

EnCOBBIR_t shall take the value for that term calculated in accordance with paragraph [[3(a)]] of Special Condition C8D of this licence;

EnCIBBIR_t shall take the value for that term calculated in accordance with paragraph [[5(a)]] of Special Condition C8D of this licence;

[ExCBBIR_t] shall take the value for that term calculated in accordance with paragraph [[a(a)]] of Special Condition C8E of this licence; and

BBIODC is the buyback incentives overall downside collar and shall take the value -£48,000,000.

DELINC_t shall take the value 0 other than in formula year commencing 1 April 2012 when it shall take the value in £ million of $LTDVE_{end} * 0.005$

where:

$LTDVE_{end}$ means the value of $LTDVE_n$ where day n is 31 March 2012.

where:

$LTDVE_n$ is defined as in paragraph [[3(h) of special condition C8D of this licence]

SOK_t means the NTS SO revenue adjustment term equal to NTS system operation maximum revenue under or over recovery in respect of formula year t-1 and shall be derived in accordance with paragraph 3(c) of this condition.

(b) Determination of any adjustment factor to be applied to maximum NTS system operator revenue (SORA_t)

(i) An income adjusting event may arise from any of the following:

(A) an event or circumstance constituting force majeure under the network code;

(B) 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);

(C) where the revenues derived by the licensee from the sale of obligated entry capacity pursuant to paragraph [7] of Special Condition C8D (NTS gas entry incentives, costs and revenues) are less than the revenues that would have been derived from the original sale of that capacity had the original purchaser of the capacity not been served with a termination notice (having the meaning given to that term in the network code); and

(D) 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 3(b)(ix) of this condition,

where the event has, for relevant formula year t , increased or decreased the value of “relevant system operation costs” (having the meaning given to that term in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity)) by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraphs 3(b)(i)(B) or 3(b)(i)(C) above.

- (ii) 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.
- (iii) 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.
- (iv) A notice provided to the Authority under paragraphs 3(b)(ii) or 3(b)(iii) shall, in the case of the licensee, and should in so far as is practicable in the case of any shipper, give particulars of:

(A) 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;

- (B) 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;
- (C) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
- (D) 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.
- (v) If the Authority considers that the analysis or information provided in subparagraphs 3(b)(iv)(A) to 3(b)(iv)(D) 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.
- (vi) 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.
- (vii) The Authority will make public, excluding any confidential information as defined in paragraph 3 (viii) of this condition, information which it has received under paragraph 3(b)(ii) or 3(b)(iii) of this condition.
- (viii) Any notice submitted to the Authority under either paragraphs 3(b)(ii) or 3(b)(iii) above shall clearly identify whether any of the information contained in the notice is confidential information. The Authority shall make the final determination as to whether the information is confidential information for the purpose of paragraph 3(b)(vii) having regard to:

- (A) 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
 - (B) the extent to which the disclosure of the information mentioned in sub-paragraph 3(b)(viii)(A) is necessary for the purpose of enabling shippers to fully assess the event to which the notice relates.
- (ix) Following consultation with such parties as the Authority considers likely to be affected by its determination, including the licensee and shippers, the Authority shall determine:
 - (A) whether any or all of the costs and/or expenses referred to in a notice pursuant to paragraphs 3(b)(ii) or 3(b)(iii) of this condition were incurred or saved as a result of an income adjusting event;
 - (B) whether the event or circumstance has increased or decreased the value of relevant system operation costs by more than the threshold amount, save in the case of sub-paragraphs 3(b)(i)(B) and 3(b)(i)(C) where the threshold amount shall not apply; and
 - (C) 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.
- (x) In relation to formula year t , the approved allowance in respect of an income adjusting event ($SORA_t$) shall be:
 - (A) the value determined by the Authority under paragraph 3(b)(ix) of this condition; or

(B) if the Authority has not made a determination under paragraph 3(b)(ix) of this condition 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 paragraph 3(b)(iv)(C); or

(C) in all other cases zero, including situations where the Authority has not made a determination under paragraph 3(b)(ix) of this condition within three months of the date on which notice under paragraphs 3(b)(ii) or 3(b)(iii) 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 3(b)(iv) and/or 3(b)(v) 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.

- (xi) The Authority's decision in relation to any notice given under paragraphs 3(b)(ii) or 3(b)(iii) shall be in writing, shall be copied to the licensee and shall be published.
- (xii) The Authority may revoke an approval of an income adjusting event and an allowed income adjustment with the consent of the licensee, following consultation with the licensee and shippers. Revocation of any income adjusting event and an allowed income adjustment shall be in writing, shall be copied to the licensee and shall be published.

(c) NTS SO revenue adjustment factor (SOK_t)

For the purposes of paragraph 3(a) of this condition, the NTS SO revenue adjustment factor in respect of formula year t (SOK_t) shall be derived in the following manner:

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

where:

SOR_{t-1}	<p>shall,</p> <p>(A) in respect of the formula year commencing 1 April 2007, take the value of SOR_t derived, in respect of the formula year commencing 1 April 2006, in accordance with paragraph 13(1) of part 2 of Special Condition C8B of this licence in the form in force as at 31 March 2007;</p> <p>(B) in respect of the formula year commencing 1 April 2008 and each subsequent formula year have the meaning given to that term in paragraph 2 of this condition where t is replaced by t-1;</p>
$SOMR_{t-1}$	<p>shall,</p> <p>(A) in respect of the formula year commencing 1 April 2007, take the value of $SOMR_t$ derived, in respect of the formula year commencing 1 April 2006, in accordance with paragraph 14(1) of part 2 of Special Condition C8B of this licence in the form in force as at 31 March 2007;</p> <p>(B) in respect of the formula year commencing 1 April 2008 and each subsequent formula year have the meaning given to that term in paragraph 3(a) of this condition where t is replaced by t-1;</p>
I_t	<p>means the percentage interest rate in respect of formula year t which is equal to the average specified rate; and</p>
PI_t	<p>means the penalty interest rate in the formula year</p>

t which is equal to, where $(SOR_{t-1} - SOMR_{t-1})$ has a positive value, three (3), otherwise it shall take the value zero (0).

4. Disapplication of the NTS SO activity revenue restriction

- (a) The NTS system operation 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 4(b) to 4(g) of this condition.
- (b) The NTS system operation 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 4(c) of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 4(f) or paragraph 4(g) of this condition.
- (c) A disapplication request shall:
 - (i) be in writing addressed to the Authority;
 - (ii) specify the NTS system operation activity revenue restriction conditions (or any part or parts thereof) to which the request relates; and
 - (iii) state the date (being not earlier than the date referred to in paragraph 4(e) of this condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect.
- (d) The licensee may withdraw a disapplication request at any time.
- (e) No disapplication, following delivery of a disapplication request, shall have effect until a date (the “disapplication date”) being 31 March in the formula year ending more than 18 months after the date of that disapplication request.

- (f) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of this condition or the part or parts thereof specified in the disapplication request before the beginning of the period of 6 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 this condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.
- (g) If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that:
- (i) the cessation of those conditions, in whole or in part, operates or may be expected to operate against the public interest; or
 - (ii) 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,
- the licensee may within 30 days after the publication of the report on a reference made by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of those conditions or any part or parts thereof with effect from the disapplication date or later.

Special Condition C8D: NTS gas entry incentives, costs and revenues

PART A

1. Principal formula

- a) For the purposes of paragraph [[3(a) of Special Condition C8C]] the NTS system operation entry incentive revenue and costs in respect of formula year t (SOEIRC_t) shall be defined in accordance with:

$$\text{SOEIRC}_t = \text{EnHER}_t + \text{ARIEnC}_t + \text{EnCBBOIR}_t + \text{EnCBBIIR}_t + \text{EnCBBMHSI}_t$$

Where:

EnHER _t	means the entitlement to system operator revenue as a legacy of obligated incremental entry capacity release prior to 1 April 2007, and shall take the value that would be taken by the term [[SOREVOIC _t]] in the licence of the licensee which was in effect on 31 st March 2007 as if for the purposes of this calculation only that capacity which had been allocated prior to 1 st April 2007 had been allocated..
ARIEnC _t	means the allowed revenue in respect of the release of obligated incremental entry capacity in formula year t and shall be calculated in accordance with paragraph [[2(a) of this condition]];
EnCBBOIR _t	means the maximum entry capacity operational buy-back and interruption incentive revenue in formula year t and shall be calculated in accordance with paragraph [[3(a) of this condition]];
EnCBBIIR _t	means the maximum entry capacity incremental buyback incentive revenue in formula year t and shall be calculated in accordance with [[paragraph 5(a) of this condition]];
EnCBBMHSI _t	means the maximum Milford Haven specific incentive revenue in formula year t and shall be calculated in accordance with [[paragraph 4(a) of this condition]].

2. Revenue drivers

- a) For the purposes of [[paragraph 1(a)]] of this condition the allowed revenue in respect of the release of obligated incremental entry capacity in formula year t ($ARIEnC_t$) shall be determined in accordance with the following formula:

$$ARIEnC_t = INFL_t \times \sum_{i, m \in t} ARIEnCS_{i,m}$$

Where:

$ARIEnCS_{i,m}$ means the [revenue allowance] at entry point i for month m shall take a value of zero for all $m \leq 0$ and shall otherwise be determined by the relevant formula specified in Table 2

Table 2

If	Then Formula:
$IFOIEnC_{i,m} \leq 25$	A
$25 < IFOIEnC_{i,m} \leq 100$	B
$100 < IFOIEnC_{i,m} \leq 500$	C
$500 < IFOIEnC_{i,m}$	D

- b) For the purposes of Table 2, $IFOIEnC_{i,m}$ means the Incrementally Funded Obligated Incremental Entry Capacity at entry point i in month m and shall take the value 0 for all $m \leq 0$ and shall otherwise take the value defined in accordance with the following formula:

$$IFOIEnC_{i,m} = EnCFCR_{i,m} - EnCST_{i,m}$$

Where:

$$EnCFCR_{i,m} \text{ is } \text{MAX}_{d \in m} EnCFCR_{i,d}$$

Where

$EnCFCR_{i,d}$ has the meaning given to it in paragraph [[X of this condition]],

$EnCST_{i,m}$ is the entry capacity substitution to entry point i in quarter q and shall be defined as $\text{MAX}_{d \in m} EnCST_{i,d}$ evaluated for all days d in quarter m ,

Where

EnCST_{i,d} is calculated in accordance with [[paragraph 13 of C15]]

c) For the purposes of the formulae referred to in Table 2 above:

i) Formula A shall be:

$$\text{ARIEncS}_{i,m} = \text{IFOIEncC}_{i,m} * \text{EnIR1}_{i,t}$$

ii) Formula B shall be:

$$\text{ARIEncS}_{i,m} = (25 * \text{EnIR1}_{i,t}) + (\text{IFOIEncC}_{i,m} - 25) * \text{EnIR2}_{i,t}$$

iii) Formula C shall be:

$$\text{ARIEncS}_{i,m} = (25 * \text{EnIR1}_{i,t}) + (75 * \text{EnIR2}_{i,t}) + (\text{IFOIEncC}_{i,m} - 100) * \text{EnIR3}_{i,t}$$

iv) Formula D shall be:

$$\text{ARIEncS}_{i,m} = (25 * \text{EnIR1}_{i,t}) + (75 * \text{EnIR2}_{i,t}) + (400 * \text{EnIR3}_{i,t}) + (\text{IFOIEncC}_{i,m} - 500) * \text{EnIR4}_{i,t}$$

Where,

The entry incremental marginal revenue allowance (EnIR_{z,i,t}) shall take the value:

$$\text{EnIR}_{z,i,t} = \text{EnIND}_t * \text{EnIR}_{z,i}$$

Where

EnIND_t is the inflation index to apply to EnIR_{z,i} and shall take the values in Table 3 below:

Table 3

Year	07/08	08/09	09/10	10/11	11/12 and later
EnIND _t	1	1.025	1.044	1.063	1.085

EnIR_{z,i} is the revenue allowance for Incrementally Funded Obligated Incremental Entry Capacity and shall take the values in accordance with Table 4 below.

Table 4

	Em/GWh/month	Z=			
		1	2	3	4
i	Easington	0.0013	0.0019	0.0059	0.0044
	Bacton	0.0026	0.0057	0.0063	0.0072
	Isle of Grain	0.0029	0.0026	0.0047	0.0105
	Milford Haven	0.0088	0.0137	0.0116	0.0184
	St Fergus	0.0002	0.0054	0.0163	0.0126
	Teesside	0.0013	0.0013	0.0020	0.0072
	Barrow	0.0037	0.0014	0.0021	0.0081
	Theddlethorpe	0.0016	0.0000	0.0021	0.0068
	Point of Ayr	0.0013	0.0021	0.0013	0.0027
	Hole House Farm	0.0065	0.0001	0.0021	0.0041
	Humbly Grove	0.0052	0.0016	0.0016	0.0131
	Hatfield Moor	0.0019	0.0004	0.0035	0.0015
	Aldborough	0.0021	0.0021	0.0049	0.0015
	Cheshire	0.0008	0.0000	0.0006	0.0010
	Hornsea	0.0008	0.0012	0.0030	0.0030
	Fleetwood	0.0072	0.0000	0.0011	0.0053
	Caythorpe	0.0031	0.0028	0.0058	0.0053
	Wytch Farm	0.0020	0.0007	0.0078	0.0032
	Blyborough (Welton)	0.0030	0.0013	0.0055	0.0037
	Winkfield	0.0021	0.0015	0.0054	0.0035
	Tastfield	0.0039	0.0048	0.0075	0.0146
	Glenmavis	0.0011	0.0000	0.0005	0.0110
	Partington	0.0009	0.0002	0.0008	0.0012
	Avonmouth	0.0067	0.0024	0.0060	0.0088
	Dynevour Arms	0.0037	0.0081	0.0071	0.0205
	Albury	0.0180	0.0013	0.0056	0.0043
	Palmers Wood	0.0073	0.0037	0.0075	0.0146

3. Entry capacity operational buy-back and interruption costs and incentive revenue

- a) For the purposes of paragraph [[1(a) of this condition]], the maximum entry capacity operational buy-back and interruption incentive revenue in formula year t ($EnCBBOIR_t$) shall be derived in accordance with the following formula:

$$EnCBBOIR_t = EnCOBBC_t + EnCOBBIR_t + EnCNOIR_t$$

where:

$EnCOBBC_t$ means the subset of the costs ($EnCBBC_t$ as defined in paragraph [[3(c) of this condition]]) incurred by the licensee in respect of formula year t in respect of entry capacity constraint management,:

- i. including (but not limited to) costs incurred by the licensee in respect of any payments made by the licensee to curtail the rights of relevant shippers to use entry capacity in formula year t (or any part thereof) which would otherwise be conferred on relevant shippers through the ownership of entry capacity rights; and
- ii. excluding ((subject to the provision of [[paragraph 3(l) of this condition]]) costs incurred by the licensee in this manner where the relevant shippers' ownership of entry capacity rights relates to:
 - o obligated incremental entry capacity first released for sale by the licensee after 31 March 2007; and
 - o obligated incremental entry capacity in respect of the Milford Haven entry point released for sale in the auction held [[from September 2004 to December 2004]] with effect from 1st October 2007 until such time as that capacity has been delivered to relevant shippers;

$EnCNOIR_t$ has the meaning given in [[paragraph 3(b)]] save where a notice under [[paragraph 3(j) of this condition]] has been issued in which case it shall take the value 0 in respect of the period or periods set out in said notice.

EnCOBBIR_t shall (Except that in the circumstances specified in [[paragraph 3(j) of this condition]] when it shall take the value 0.) be derived in accordance with the following formula:

i) If $\text{EnCOBBIP}_t \leq (\text{EnCOBBTC} * \text{INFL})$, then:

$$\text{EnCOBBIR}_t = \text{MIN}\{\text{EnCOBBSF} * (\text{EnCOBBTC} * \text{INFL} - \text{EnCOBBIP}_t), \text{EnCOBBUC} * \text{INFL}\}$$

ii) If $\text{EnCOBBIP}_t > (\text{EnCOBBTC} * \text{INFL})$, then

$$\text{EnCOBBIR}_t = \text{MAX}\{\text{EnCOBBSF} * (\text{EnCOBBTC} * \text{INFL} - \text{EnCOBBIP}_t), -\text{EnCOBBDC} * \text{INFL}\}$$

where:

EnCOBBIP_t means the entry capacity operational buy-back performance measure in respect of formula year t and shall be defined in accordance with paragraph [[3(b) of this condition]];

EnCOBBTC means the entry capacity operational buy-back target cost and shall take the value of £18,000,000;

INFL means [the relevant inflation index];

EnCOBBSF means the entry capacity operational buy-back sharing factor and shall take the value of 50%;

EnCOBBUC means the entry capacity operational buy-back upside cap and shall take a value of £18,000,000;

EnCOBBDC means the entry capacity operational buy-back downside collar and shall take the value of £18,000,000

Entry capacity operational buy-back performance measure

b) For the purposes of paragraph [[3(a) of this condition]], the entry capacity operational buy-back performance measure in respect of formula year t (EnCOBBIP_t) shall be derived from the following formula:

$$\text{EnCOBBIP}_t = \text{EnCOBBC}_t - \text{DDCR}_t - \text{REVIC}_t - (\text{REVIEC}_t - \text{EnCNOIR}_t) - \text{RCOR}_t - \text{RLOC}_t - [\text{RADD}_t]$$

where:

EnCOBBC_t has the meaning given in paragraph [[3(a) of this condition]].

$DDCR_t$ means the revenue derived by the licensee from the sale of obligated (on the day) entry capacity across all entry points i for delivery on all days d in formula year t and shall be derived from the following formula:

$$DDCR_t = DREVBEC_t + DREVOIEC_t$$

where:

$DREVBEC_t$ shall have the meaning given to that term in paragraph [6(f)] of this condition; and

$DREVOIEC_t$ shall have the meaning given to that term in paragraph [6(h)] of this condition.

$REVIC_t$ means the revenue derived by the licensee from the sale of interruptible entry capacity (category [e.] in paragraph [6(c)] of this condition) across all entry points i for delivery on all days d in formula year t .

$REVIEC_t$ means the revenue derived by the licensee from the sale of non-obligated entry capacity (category [d.] in paragraph [6(c)] of this condition) across all entry points i for delivery on all days d in formula year t .

$EnCNOIR_t$ means $\sum_i (EnCNOIR_{i,t})$ where $EnCNOIR_{i,t}$ (the revenues from the accelerated release of obligated incremental entry capacity) is defined in accordance with paragraph [[3(e) of this condition]].

$RCOR_t$ means the revenue derived by the licensee in formula year t from system entry overrun charges (having the meaning given to that term in the network code).

$RLOC_t$ means the revenue derived by the licensee in respect of formula year t in respect of locational sell actions and physical renomination incentive charges (with the latter term having the meaning given to that term in the network code).

$[RADD_t]$ means any additional revenues derived by the licensee in respect of formula year t that the Authority has directed to include in the formula for the entry capacity operational buy-back performance measure ($EnCOBBIP_t$), where for the avoidance of doubt such additional revenues shall exclude revenues derived by the licensee from the sale of obligated incremental entry capacity (category [c.] in paragraph [6(c)] of this condition) allocated ahead of gas day d in formula year t and from the sale of [obligated baseline] entry capacity

released ahead of gas day d in formula year t (TOREVBEC_t).

Entry capacity constraint management costs

- c) For the purposes of paragraph [[3(a) of this condition]], the costs incurred by the licensee in respect of formula year t in respect of entry capacity constraint management (EnCBBC_t) shall be derived from the following formula:

$$\text{EnCBBC}_t = \sum_{d \in t} \text{BBC}_{d,t} + \sum_{d \in t} \text{ECCC}_{d,t}$$

where:

BBC_{d,t} means the costs incurred by the licensee in the curtailment of capacity rights to put gas into the transportation system (less any revenues received from DN operators in respect of the curtailment of capacity rights to put gas into their transportation system) in respect of day d of formula year t (including costs incurred in respect of any acquisitions from gas shippers of capacity rights); and

ECCC_{d,t} means the costs incurred by the licensee in respect of any payments made by the licensee to gas shippers in exchange for agreeing to offtake gas from the NTS at the licensee's request on day d in respect of formula year t and in respect of any costs incurred by the licensee undertaking any other commercial or physical action to manage entry capacity excluding those covered by BBC_{d,t} including any locational buy actions.

- d) In the process of attributing entry capacity constraint management costs (EnCBBC_t) defined in paragraph [[3(c) of this condition]] between the [entry capacity operational buy-back scheme (in paragraph [[3]] of this condition), the Milford Haven specific incentive (in paragraph [[4]] of this condition), and the entry capacity incremental buy-back scheme (in paragraph [[5]] of this condition)], the licensee shall ensure that:
- i) [it attributes costs in accordance with the cost allocation rules set out in paragraphs [[3(l)-3(m)]] of this condition] and,
 - ii) that while applying these cost allocation rules, it does not double-count costs by attributing the same costs to more than one scheme.

Accelerated release of incremental entry capacity

- e) The revenues from the accelerated release of incremental entry capacity (EnCNOIR_{i,t}) shall be the revenues received by the licensee from the sale of non-obligated entry capacity at entry point i for use on day d of formula year t shall be derived from the following formula:

$$\text{EnCNOR}_{i,t} = \sum_{i,d \in t} \text{EnCNOIR}_{i,d}$$

Where:

EnCNOIR_{i,d} means the revenues received by the licensee from the sale of non-obligated entry capacity at entry point i for use on day d of formula year t in circumstances where:

- i) day d is less than [6] months prior to a day on which the licensee's obligation to release entry capacity at entry point i increases as a result of the implementation of a proposal made by the licensee to release for sale obligated incremental entry capacity;
- ii) The allocation of the capacity occurred on a day at least 18 months prior to day d;
- iii) the day on which the licensee's obligation to release entry capacity at entry point i increases as a result of the implementation of a proposal made by the licensee to release for sale obligated incremental entry capacity has not been extended by the licensee beyond the default of [42] months; and
- iv) the amount of non-obligated capacity released is on any given day not greater than the difference between the level of incremental entry capacity at point i 6 months after day d and the level of incremental entry capacity at point i on day d

Incremental capacity delivery incentive payment

- f) The licensee may, with the consent of the Authority, vary the lead time for the contractual delivery of obligated incremental entry capacity from the default of 42 months [[from the 1st day of the month following the allocation process]]. Consent shall be deemed to have been granted if:
 - i) The licensee is proposing to reduce the contractual delivery lead time to a period less than 42 months,
 - or
 - ii) If the volume of capacity being deferred (in units of gigawatt months) is, at that time, less than the licensee's "lead time deferment volume entitlement" defined in paragraph [[3(h) of this condition]].
- g) The licensee shall notify the Authority in writing and in a timely manner of each instance where it varies the contractual lead time for the delivery of obligated incremental entry capacity from the default of 42 months specifying:
 - i) The entry point(s) affected;
 - ii) The volume of capacity (in units of GW months) for which the delivery date is being brought forward; and
 - iii) The volume of capacity (in units of GW months) for which the delivery date is being put back.
- h) The licensee's lead time deferment volume entitlement on day n (LTDVE_n) shall be calculated in accordance with the following formula:

$$LTDVE_n = 7200 + \sum_{v, d-1} \Delta LTDVE_v$$

Where

$\sum_{v, n-1} \Delta LTDVE_v$ means the sum of all variations to delivery lead times (positive and negative, in units of GW months) pursuant to notices provided to the Authority under paragraph [[3(g) of this condition]] prior to day n.

Review of entry capacity operational buy-back scheme

- i) The licensee may issue a notice to the Authority providing that the value of the $EnCOBBIR_t$ shall take a value of 0 (zero) in respect of any period or periods of time specified in said notice, provided the provisions of paragraph [[3(k-l)]] of this condition have been met.
- j) A notice provided under [[paragraph 3(j)]] shall:
 - i) Be in writing addressed to the authority
 - ii) State the period or periods referred to in [[paragraph 3(i) of this condition]] to which it will apply
 - iii) Not be in respect of any period or periods commencing prior to 1st April 2009
 - iv) Be submitted on a date after 31st January 2009
- k) The licensee may withdraw the notice referred to in [[paragraph 3(j) of this condition]] at any time
- l) The notice shall have no effect if the Authority has made a reference to the Competition Commission under section 24 of the Act relating to the modification of [[paragraph 3 of this condition]] before the date on the first period on which such a notice would take effect.

Buy-back cost allocation rules

- m) Where it is not possible to unambiguously assign the capacity rights referred to in paragraph 3(a) of this condition to the categories indicated in [[paragraph 3(a)(ii) of this condition]] the licensee shall apply the following cost allocation rules
 - i) Where the capacity has been bought back at a price above the administered price set out in [[somewhere]] the costs shall not be allocated to the category associated with obligated incremental capacity
 - ii) Where the capacity has been bought back at a price determined by the administered price set out in [[somewhere]] the costs shall be allocated to the category associate with obligated incremental capacity
 - iii) Where the capacity has been bought back at a price below that of the administered price set out in [[somewhere]] the costs shall be allocated to the category

associated with obligated incremental capacity and to the other category in proportion to the ratio of obligated incremental capacity obligations to baseline entry capacity obligations on that day.

n) [[]]

4. Milford Haven entry capacity specific incentive

- a) For the purposes of ([paragraph 1(a) of this condition]) the maximum Milford Haven specific incentive revenue (EnCBBMHSl_t) shall be defined in accordance with:

$$\text{EnCBBMHSl}_t = \text{EnCBBMHBBC}_t - \sum_p [\text{MIN}(\text{EnCBBMHSF} * \text{EnCBBMHBBC}_p), \text{EnCBBMHBCAP}_p]$$

Where:

EnCBBMHBBC_t means the costs incurred by the licensee in respect of entry capacity constraint management in respect of the non delivery of the capacity [[first 650 GW of capacity]] at Milford Haven allocated at [[date]] at Milford Haven) for delivery on, and after, gas day 1 October 2007.

EnCBBMHSF is the Entry Capacity Buyback Milford Haven Specific incentive sharing factor and shall take the value 0.35.

EnCBBMHBBC_p means the costs incurred by the licensee in respect of entry capacity constraint management in respect of the non delivery of the capacity [[first 650 GW of capacity]] at Milford Haven allocated at [[date]] at Milford Haven) in period p

EnCBBMHBCAP_p is the Entry Capacity Buyback Milford Haven specific incentive Buyback exposure Cap for period p and shall take the value set out in Table 5.

For the purposes of ([paragraph 4 of this condition]) the days 1– 7 April 2008 shall be treated as occurring in the formula year preceding the formula year in which they actually fall.

Table 5

p	EnCBBMHBCAP_m (£m)	Formula year
before 8 th December 2007	0	2007/08 or earlier
8 th December 2007 – 7 th January 2008	2	2007/08
8 th January 2008 – 7 th February 2008	2	2007/08
8 th February 2008 – 7 th March 2008	2	2007/08
8 th March 2008 – 7 th April 2008	6	2007/08
8 th April 2008 – 7 th May 2008	6	2008/09
8 th May 2008 – 7 th June 2008	6	2008/09
8 th June 2008 – 7 th July 2008	2	2008/09
8 th July 2008 – 7 th August 2008	2	2008/09
8 th August 2008 – 7 th September 2008	2	2008/09
8 th September 2008 – 7 th October 2008	2	2008/09
8 th October 2008 – 7 th November 2008	2	2008/09
8 th November 2008 – 7 th December 2008	2	2008/09
after 7 th December 2008	0	2008/09 or later

5. Entry capacity incremental buy-back costs and incentive revenue (EnCBBIR_t)

- a) For the purposes of paragraph [[1(a) of this condition]], the maximum entry capacity incremental buyback incentive revenue in formula year t (EnCBBIR_t) shall be derived as follows:

$$\text{EnCBBIR}_t = \text{EnCIBBC}_t + \text{EnCIBBIR}_t$$

Where:

EnCIBBC_t means an amount equal to the costs incurred by the licensee in respect of entry capacity constraint management in formula year t (or any part thereof) where those costs relate to incremental obligated entry capacity first released for sale by the licensee after 31 March 2007;

EnCIBBIR_t shall be derived in accordance with the following formula:

$$\text{EnCIBBIR}_t = - \text{MIN} \{ \text{EnCBBICE}_t, (\text{EnCACAP} * \text{INFL}) \}$$

where:

EnCBBICE_t means the amount of EnCIBBC_t that remains following the application of the monthly cap and shall be defined in accordance with paragraph [[5(b)]];

EnCACAP means the annual exposure cap, which is the maximum value that EnCBBICE_t can take in a formula year without resulting in an increase to the licensee's entitlement to recover revenue in that formula year and shall take the value of £36,000,000; and

INFL means [the relevant inflation index].

Cap on Monthly Buyback Exposure

- b) For the purposes of paragraph [[5(a)]], EnCBBICE_t shall be derived from the following formula:

$$\text{EnCBBICE}_t = \sum_{m \in t} \text{MIN} (\text{EnCBBICM}_m, \text{EnCMCAP} * \text{INFL})$$

Where:

EnCBBICM_m means the costs incurred by the licensee in respect of entry capacity constraint management in month m (or any part thereof) of formula year t where those costs relate to incremental obligated entry capacity first

released for sale by the licensee after 31 March 2007;
and

EnCMCAP means the monthly exposure cap, which is the maximum value that EnCBBIC_t can take in a month within a formula year without resulting in an increase to the licensee's entitlement to recover revenue in that formula year and shall take the value of £4,000,000.

Cap on incremental buyback price

- c) In making payments to shippers in respect of the curtailment of their rights to capacity which is incremental obligated capacity the licensee shall use best endeavours to ensure that it does not pay more than [0.52p/kWh/day] until such time as the capacity has been delivered.
- d) For the purposes of this condition the capacity shall be deemed to have been delivered when:
 - i) the licensee is first able to accept gas properly tendered for delivery by any gas shipper; or
 - ii) the Authority has deemed (in response to a request made by a relevant shipper or the licensee) that the capacity has been delivered.

PART B

6. Attributing revenues from the sale of entry capacity to TOR_t and SOR_t

- a) For each day n (including days prior to 1 April 2007) on which entry capacity was allocated for delivery at each entry point i on each day d from 1 April 2007 onwards, the licensee shall attribute the total volume of entry capacity allocated on day n for delivery on day d at entry point i across the following five categories:
- i) Non-incremental obligated entry capacity
 - ii) Non-incremental obligated (on the day) entry capacity
 - iii) Incremental obligated entry capacity
 - iv) Non-obligated entry capacity
 - v) Interruptible capacity
- b) The licensee shall undertake this attribution for every day d commencing on 1 April 2007, by applying the following criteria:

Category	Criteria
a.	<p>The following quantity ($DAYBASESOLD_{i,d,n}$) is attributed to the non-incremental obligated pot.</p> <p>If $TOTALSOLD_{i,d,n} < REMAININGBASE_{i,d,n}$</p> <p>then</p> $DAYBASESOLD_{i,d,n} = TOTALSOLD_{i,d,n}$ <p>Otherwise</p> $DAYBASESOLD_{i,d,n} = REMAININGBASE_{i,d,n}$ <p>Where:</p> <p>$TOTALSOLD_{i,d,n}$ is the total amount of firm entry capacity sold on day n in respect of day d at entry point i where $d > n$.</p> <p>$REMAININGBASE_{i,d,n}$ takes the value</p> $REMAININGBASE_{i,d,n} = BASEOB_{i,d,n} - AGGBASESOLD_{i,d,n-1}$ <p>Where $AGGBASESOLD_{i,d,n} = AGGBASESOLD_{i,d,n-1} + DAYBASESOLD_{i,d,n}$</p> <p>$BASEOB_{i,d,n}$ takes the value</p>

Category	Criteria
	<p>If $n < [\text{start of current price control}]$ and $d-n > [\text{withhold period}]$ $\text{BASEOB}_{i,d,n} = 0.8 \times [\text{old base obligation}]$</p> <p>If $n < [\text{start of current price control}]$ and $d-n \leq [\text{withhold period}]$ $\text{BASEOB}_{i,d,n} = [\text{old base obligation}]$</p> <p>If $n \geq [\text{start of current price control}]$ and $d-n > [\text{withhold period}]$ $\text{BASEOB}_{i,d,n} = 0.9 \times \{ \text{EnCB}_i + [[\text{inc cap (y-5)}]] + \text{EnCST} - \text{EnCSF} \}$</p> <p>Otherwise $\text{BASEOB}_{i,d,n} = \text{EnCB}_i + [[\text{inc cap (y-5)}]] + \text{EnCST} - \text{EnCSF}$</p>
b.	<p>The licensee shall attribute the following volume of firm entry capacity allocated on day n for delivery on day d to category b. in [[paragraph 2]] ('Non- incremental obligated (on the day)'):</p> <p style="text-align: center;">the volume of firm entry capacity allocated on day n when day d = n</p>
c.	<p>The following quantity ($\text{DAYINCSOLD}_{i,d,n}$) is attributed to the incremental obligated pot.</p> <p>If $(\text{TOTALSOLD}_{i,d,n} - \text{DAYBASESOLD}_{i,d,n}) \leq 0$ then $\text{DAYINCSOLD}_{i,d,n} = 0$</p> <p>Otherwise $\text{DAYINCSOLD}_{i,d,n} = \text{MIN} [(\text{TOTALSOLD}_{i,d,n} - \text{DAYBASESOLD}_{i,d,n}), \text{REMAININGINC}_{i,d,n}]$</p> <p>Where:</p> <p>$\text{REMAININGINC}_{i,d,n} = \text{TOTINCOBLIG}_{i,d,n} - \text{AGGINCSOLD}_{i,d,n-1}$</p> <p>Where</p> <p>$\text{TOTINCOBLIG}_{i,d,n}$ is the sum of all the incremental capacity released by day n in accordance with [paragraph X of this condition] at entry point i in respect of day d other than that delivered by capacity substitution and shall take the value</p> <p>$\text{TOTINCOBLIG}_{i,d,n} = \text{EnCI}_{i,d,n} - (\text{EnCST}_{i,d,n} - \text{EnCSF}_{i,d,n})$</p> <p>$\text{AGGINCSOLD}_{i,d,n}$ is the aggregated incremental capacity sold and shall take the value</p> <p>$\text{AGGINCSOLD}_{i,d,n} = \text{AGGINCSOLD}_{i,d,n-1} + \text{DAYINCSOLD}_{i,d,n}$</p>

Category	Criteria
	Except that $AGG\text{INCSOLD}_{i,d,0}$ shall take the value [data].
d.	<p>The following quantity ($\text{DAYNOBSOLD}_{i,d,n}$) is attributed to the Non-obligated sales capacityTo Non-obligated capacity sales</p> <p>If $(\text{TOTALSOLD} - \text{DAYBASESOLD} - \text{DAY\text{INCSOLD}}) \leq 0$ then $\text{DAYNOBSOLD} = 0$</p> <p>Otherwise $\text{DAYNOBSOLD} = (\text{TOTALSOLD} - \text{DAYBASESOLD} - \text{DAY\text{INCSOLD}})$.</p>
e.	The licensee shall attribute all interruptible capacity allocated on day n for delivery on day d to category e. in [[paragraph 2]] ('Interruptible').

- c) The licensee shall allocated revenues associated with capacity sales to the categories above. If the price at which the licensee has allocated firm entry capacity on day n for delivery on day d at entry point i is not the same across all firm entry capacity allocated, then the licensee shall, while applying criteria a. to d. defined in [the table above], attribute the total volume of entry capacity allocated on day n for delivery on day d at entry point i to categories a. to d. defined in [[paragraph 2]], by starting with the highest price that is accepted to be paid in each allocation of firm entry capacity on day n and adopting a descending price order thereafter..
- d) When there are multiple [allocations] of firm entry capacity on day n for delivery on day d at entry point i, the licensee shall consider these [allocations] in chronological order, starting with the first [allocation] on day n before considering the next [allocation] on day n, and apply the descending price order rule set out in [[paragraph 6(d)]] in this chronological order.

Defined terms

- e) For the purposes of Special Condition C8B the following definitions shall apply:

TOREVBECt shall be defined in accordance with the following formula*:

$$\text{TOREVBECt} = \text{REVBECt} - \text{DREVBECt}$$

Where

REVBECt means revenue from the sales of non-incremental obligated entry capacity (i.e. the sum of revenues associated with categories

a.and b above) across all entry points i for delivery on all days d in formula year t.

DREVBEC_t means revenue from the sales of non-incremental obligated (on the day) entry capacity (category b. above) across all entry points i for delivery on all days d in formula year t.

- f) For the purposes of Special Condition C8C, SORCAP_t means the revenue from the sales across all entry points i for delivery on all days d in formula year t of:
- i) Non-incremental obligated (on the day) entry capacity (category b. in [[paragraph 2]]),
 - ii) Incremental obligated entry capacity (category c. in [[paragraph 2]]),
 - iii) Non-obligated entry capacity (category d. in [[paragraph 2]]), and
 - iv) Interruptible entry capacity (category e. in [[paragraph 2]]).

PART C

7. Obligations to release entry capacity

- a) The licensee shall offer for sale (in accordance with the licensee's obligations under its network code) at each entry point i and in respect of each gas day d a volume of obligated entry capacity ($EnCR_{i,d}$) which shall be determined in accordance with the following formula:

$$EnCR_{i,d} = \{(EnCW * EnCB_i) + EnCSF_{i,d}\} + EnCI_{i,d} - EnSOLDCAP_{i,d}$$

Where:

$EnCW$	means a value equal to 0.9 in respect of NTS SO Baseline Entry Capacity released for sale more than [[548]] days in advance of the gas day, and otherwise shall take a value equal to 1 (one);
$EnCB_i$	means the NTS SO Baseline Entry Capacity that the licensee shall offer for sale for all periods from 1 April 2007 and at each entry point i shall take the value set out in [[Table 6 of this condition]];
$EnCSF_{i,d}$	means the cumulative effect on the volume of NTS SO Baseline Entry Capacity at entry point i on gas day d , of capacity substitution as defined in paragraph [[7(e)-(n) of this condition]]. As at 1 April 2007, $EnCSF_{i,d}$ shall take the value of zero for all entry points i and all gas days d ; and
$EnCI_{i,d}$	means the cumulative volume of obligated incremental entry capacity at point i on gas day d , which shall be determined in accordance with the following formula:

$$EnCI_{i,d} = EnCHCR_{i,d} + EnCFCR_{i,d}$$

Where:

$EnCHCR_{i,d}$	means the volume of obligated incremental entry capacity at each entry point i and for gas day d released prior to 1 April 2007, and shall take the values in [[Table 7 of this condition]]; and
$EnCFCR_{i,d}$	means the cumulative volume of obligated incremental entry capacity at each entry point i and for each gas day d , resulting from the implementation of proposals made by the licensee to the

Authority after 1 April 2007 in accordance with paragraph [[7(d)]] of this condition.

$EnSOLDCAP_{i,d}$ is the obligated entry capacity at entry point i which has been sold by the licensee in respect of gas day d other than capacity which has been sold to a relevant shipper which has [[subsequently been terminated]].

Table 6: NTS SO Baseline Entry Capacity ($EnCB_i$)

Terminal i	$EnCB_i$ (in GWh/day)
Bacton	1,783.4
Barrow	309.1
Easington	1,062.0
St. Fergus	1,670.7
Teesside	361.3
Theddlethorpe	610.7
Glenmavis	28.5
Partington	174.6
Avonmouth	179.3
Isle of Grain	175.0
Dynevor Arms	8.0
Hornsea	164.1
Hatfield Moor (storage)	14.9
Hatfield Moor (onshore)	0.3
Cheshire	285.9
Hole House Farm	131.6
Wyth Farm	3.3
Burton Point	73.5
Milford Haven	0
Barton Stacey	82.6
Garton	0
Burton Agnes (Caythorpe)	0
Winkfield	0
Blyborough (Welton)	0
Tatsfield	0
Albury	0
Palmers Wood	0
Fleetwood	0

Table 7: Obligated incremental entry capacity released prior to 1 April 2007 (in GWh/day)

Terminal i	EnCHCR_{i,d} (in GWh/day)	[[Contractual delivery date]]
Barton Stacey	90	1 April 2006
Garton	420	1 October 2006
Milford Haven	650	1 October 2007
Milford Haven	300	1 January 2009
Isle of Grain	235.44	1 October 2008
Easington	345	1 October 2009
Hornsea	58.1	1 January 2010
Fleetwood	650	1 October 2010
Cheshire	64.2	1 October 2010
Cheshire	192.6	1 January 2012

Prohibition on withholding capacity

- b) The licensee shall not withhold capacity.
- c) The licensee shall be deemed to have complied with [[paragraph 7(b) of this condition]] to the extent that all capacity for sale on any day has been offered for sale in a clearing auction. For these purposes, a clearing auction means:
 - i) an allocation of entry capacity which results in all capacity obligated to be offered for sale in respect of day d being sold, or
 - ii) an allocation of entry capacity which has a reserve price of zero.

Determination of obligated incremental entry capacity

- d) In this paragraph of this condition:

Proposal means a proposal by the licensee to undertake to sell or to offer for sale entry capacity additional to the prevailing level of obligated entry capacity at the time the proposal is made and for such entry capacity to be treated as obligated incremental entry capacity for the purposes of this condition.

- i) Where the licensee reasonably believes that there is or will be demand for firm entry capacity additional to the prevailing level of obligated entry capacity at the time the proposal is made as a result of calculations carried out in accordance with its prevailing incremental entry capacity release methodology, established pursuant to Special Condition C15 (Licensee's methodology for determining

incremental entry capacity volumes), it may apply for that additional firm entry capacity to be treated as obligated incremental entry capacity for the purposes of this condition in accordance with the following paragraphs.

- ii) The licensee shall make a written application to the Authority in respect of each specific proposal to make available obligated incremental entry capacity for sale which shall include, in sufficient detail to enable the Authority to decide whether to make the direction referred to in sub-paragraph [[7(d)(vi) of this condition]], the following:
 - (A) The inputs that have been applied to the incremental entry capacity release methodology;
 - (B) The results of applying the incremental entry capacity release methodology and the rationale for why the licensee believes implementation of the proposal is justified;
 - (C) The terminal to which the proposal relates;
 - (D) The volume of firm entry capacity subject to the proposal;
 - (E) The first month in respect of which the firm entry capacity subject to the proposal would relate (for the avoidance of doubt, the capacity will be deemed to be available from the first day of this month); and
 - (F) The day on which the obligation to enter into agreements to offer for sale such capacity would commence.
- iii) The licensee shall keep a record of each application made pursuant to paragraph [[7(d)(ii) of this condition]].
- iv) The licensee shall provide the Authority with such additional information as the Authority requests for the purposes of ascertaining whether it is reasonable to conclude that there is sufficient demand to justify implementation of the proposal.
- v) Where the licensee's calculations pursuant to its incremental entry capacity release methodology demonstrate that all the relevant criteria as specified in its incremental entry capacity release methodology for releasing incremental entry capacity have been met, the licensee shall implement the proposal made pursuant to paragraph [[7(d)(ii)]] of this condition in accordance with the timetable set out in that proposal commencing 5 business days from receipt by the Authority of written application under paragraph [[7(d)(ii) of this condition]], unless the Authority notifies the licensee in writing before that date to suspend implementation of the proposal because in its opinion the application made pursuant to paragraph [[7(d)(ii) of this condition]] contained insufficient information for it to determine whether all of the relevant criteria as specified in its incremental entry capacity release methodology have been met.
- vi) Where the Authority has notified the licensee under paragraph [[7(d)(v) of this condition]] to suspend implementation of the proposal made pursuant to paragraph [[7(d)(ii) of this condition]] the licensee shall implement the proposal, subject to

any amendments which may have been agreed between the licensee and the Authority, in accordance with the timetable set out in that proposal commencing 28 days from receipt by the Authority of written application under paragraph [[7(d)(ii) of this condition]], unless the Authority directs the licensee in writing before that date not to implement the proposal or prior to the end of the 28 days the Authority directs the licensee in writing to implement the proposal (subject to any amendments as may have been agreed with the Authority) at an earlier date.

- vii) Tranches of obligated incremental entry capacity released pursuant to a notification to the licensee by the Authority pursuant to paragraph [[7(d)(vi) of this condition]] shall be treated as obligated incremental entry capacity for the purposes of this condition for a period of sixty (60) months commencing on the month in which each tranche of capacity is contracted to be delivered. Thereafter, the relevant volumes of capacity shall be treated as [NTS SO Baseline Entry Capacity] for the purposes of this condition.
- viii) Pursuant to a proposal made by the licensee under paragraph [[7(d)(ii)]] in Part 2 of this condition, and implemented in accordance with paragraph [[7(d)(v) or (vi) of this condition]], as the case may be, the licensee shall treat as obligated incremental entry capacity that capacity which it has proposed to offer for sale and shall be obliged to offer such capacity for sale from the date specified in such proposal (as may have been amended in accordance with paragraph [[7(d)(vi) of this condition]]) in accordance with paragraphs [[x(c) and x(f) of this condition]];
- ix) The licensee may withdraw a proposal made pursuant to paragraph [[7(d)(ii) of this condition]] within 5 business days from receipt by the Authority of that proposal. Where the Authority has notified the licensee under paragraph [[7(d)(v) of this condition]] to suspend implementation of the proposal made pursuant to paragraph [[7(d)(ii) of this condition]], the licensee may withdraw such a proposal within 28 days from receipt by the Authority of that proposal unless the Authority has otherwise directed the licensee to implement the proposal.
- x) For the avoidance of doubt where the Authority has made a direction not to implement the proposal under paragraph [[7(d)(vi) of this condition]] the licensee shall remain entitled to make available firm entry capacity additional to the prevailing level of obligated entry capacity at the time the proposal is made and any such additional firm entry capacity sold by the licensee shall be treated as non-obligated incremental entry capacity.

Capacity substitution

- e) In this condition “capacity substitution” means the process of substituting in accordance with the methodology set out in paragraph [[7(g) of this condition]] NTS SO baseline entry capacity which could have been sold but has not been sold to entry point i from other entry points where the licensee would otherwise be obligated to release such capacity for sale.

- f) Where the licensee proposes to release obligated incremental entry capacity at a particular entry point, the licensee shall use reasonable endeavours to undertake capacity substitution.
- g) The licensee shall, by 1 April 2007 or such later date as the Authority may direct, prepare and submit for approval by the Authority a capacity substitution methodology statement, setting out the capacity substitution methodology which it will use (consistently with the licensee's duties under this licence and the Act) to carry out capacity substitution.
- h) 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 [[7(g) of this condition]]) the licensee shall, when determining its proposals for substitution of NTS SO baseline entry capacity release obligations pursuant to paragraph [[7(f) of this condition]], take all reasonable steps to apply the methodology set out in that statement, and shall do so on the earlier of:
 - i) the date of receipt of a notice from the Authority approving the statement; and
 - ii) the expiry of that two month period.
- i) The licensee shall if so directed by the Authority and in any event at least once a year, review the methodology prepared pursuant to [[paragraph 7g of this condition]] in consultation with gas shippers and other persons likely to be affected by it
- j) Except where the Authority directs otherwise, before submitting the initial methodology statement for entry baseline substitution by 1 April 2007 (or such later date as the Authority may direct) pursuant to paragraph [[7(g)]] or revising its methodology statement for entry baseline substitution the licensee shall:
 - i) when revising its methodology statement for entry baseline substitution, send a copy of the proposed substitutions to the Authority and to any person who asks for one;
 - ii) consult relevant shippers and DN operators and allow them a period of not less than 28 days in which to make representations;
 - iii) within 7 days of the close of the consultation referred to in paragraph [[7(j)(ii) of this condition]] submit to the Authority a report setting out:
 - (A) the substitutions originally proposed,
 - (B) the representations (if any) made to the licensee,
 - (C) any change to the substitutions; 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.

- k) The licensee shall be entitled to modify its statement for entry baseline substitution at any time pursuant to paragraphs [[7(i) and 7(j) of this condition]], save that it shall not modify such statement:
- i) if within 28 days from the date on which the Authority receives the report referred to in paragraph [[7(j)(iii) of this condition]] the Authority directs the licensee not to make the modification.
 - ii) 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 [[7(j)(iii) of this condition]]; or
 - iii) where paragraph [[7(j)(iii)(D) in this condition]] applies, before the day (if any) specified in the direction made pursuant to that paragraph;
- l) The licensee shall send to the Authority a copy of all modifications to the statements and reports prepared pursuant to paragraphs [[7(g) and 7(k) of this condition]].
- m) The licensee shall make the capacity substitution methodology statement from time to time applicable to the pipeline system to which this licence relates available on its website (and in such other manner as appears to the licensee to be appropriate).
- n) The licensee shall publish the cumulative effect of capacity substitution for each entry point i ($EnNCS_{i,d}$) in a form and manner approved by the Authority. The licensee shall use reasonable endeavours to ensure that, at any point in time, the information published pursuant to this paragraph is accurate and up-to-date.

8. Capacity Transfer Obligations

- a) Prior to any mechanism for the release of capacity (other than obligated incremental capacity) the licensee shall use reasonable endeavours to meet any requests from a shipper for a transfer rate or rates calculated in accordance with the methodology prepared pursuant to paragraph [[8(c) of this condition]].
- b) In this condition, capacity transfer means the transfer of [unsold [obligated] entry capacity rights] **[N.B. NEED TO BE CLEAR WHICH CAPACITY RIGHTS WILL BE SUBJECT TO THE METHODOLOGY]** to a specified entry point **[N.B. NEED CONSISTENCY WITH DEFINITION OF ENTRY POINT IN C8A]** from one of more other entry points.
- c) The licensee shall, by [1 April 2007] or such later date as the Authority may direct, prepare and submit for approval by the Authority a capacity transfer methodology, setting out the capacity transfer methodology which it will use (consistently with the licensee's duties under this licence and the Act) to facilitate capacity transfer.
- d) The capacity transfer statement prepared pursuant to paragraph [[8(c) of this condition]] shall be prepared by the licensee in a manner best calculated to meet the following objectives (the "capacity transfer objectives"):
 - i) ensuring that capacity transfer is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
 - ii) avoiding undue increases in the costs (including the costs incurred in respect of the non delivery of [obligated entry capacity rights] previously allocated by the licensee to relevant shippers) that are reasonably expected to be incurred by the licensee as a result of effecting the transfer of obligated entry capacity; and
 - iii) so far as is consistent with (a) and (b) above, facilitating effective competition between relevant shippers and between relevant suppliers and other parties engaged in commercial activities connected with the shipping, transportation or supply of gas.
- e) Unless the Authority otherwise directs, such direction to be made within two months of the receipt by the Authority of a statement prepared pursuant to paragraph **Error! Reference source not found.** of this condition, the licensee shall take all reasonable steps to apply the methodology set out in such statement in responding to any request from a relevant shipper for capacity transfer received after the expiry of that two month period.
- f) The licensee shall keep its capacity transfer methodology under review at all times and seek to make (consistently with paragraphs **Error! Reference source not found.** of this condition) such modifications as it considers reasonably calculated to better meet the capacity transfer objectives.
- g) Except in so far as the Authority otherwise directs, the licensee shall not modify the capacity transfer methodology unless the licensee has:

- i) sent a copy of the proposed modifications to the Authority, relevant shippers and any other interested party who requests one;
- ii) consulted relevant shippers and allowed them a period of not less than 28 days within which to make representations; and
- iii) within 14 days of the close of the consultation referred to in sub-paragraph 6(b) of this condition, submitted to the Authority a report setting out:

(A) the modifications originally proposed;

(B) the representations (if any) made to the licensee and not withdrawn; and

(C) any change to the modifications proposed as a result of such representations;

provided that, where the licensee has complied with the requirements of sub-paragraphs (a) to (c) above, it shall not make any modification to the capacity transfer methodology where the Authority has, within 28 days of receiving the report being furnished to it under sub-paragraph (c)(iii), directed the licensee not to make the modifications.

- h) The licensee shall, by 31st March each year, provide the Authority with a statement on the application and implementation of the capacity transfer methodology setting out:
 - i) the extent to which, in the licensee's opinion, the capacity transfer objectives have been achieved during the period to which it relates;
 - ii) whether the capacity transfer objectives could more closely be achieved by modification of the transfer methodology: and
 - iii) if so, the modifications which should be made for that purpose.
- i) The licensee shall make available on its website (and in such other manner as appears to the licensee to be appropriate) [in a form approved by the Authority] a statement of its capacity transfer methodology in such form and with such detail as shall be necessary to enable any relevant shipper to make an accurate estimate of how the capacity transfer rate methodology will be applied to specific requests for transfer of capacity.
- j) Where the licensee has provided a relevant shipper with a capacity transfer rate in accordance with paragraph **Error! Reference source not found.**, the licensee shall, in response to any queries raised by that relevant shipper in respect of the calculation of the capacity transfer rate, take reasonable and timely steps to explain to the relevant shipper how the capacity transfer rate has been calculated in accordance with the approved capacity transfer rate methodology.

9. Capacity Trade Obligations

- a) The licensee shall use reasonable endeavours to meet any requests from two (or more) shippers for trade rate or rates calculated in accordance with the methodology prepared pursuant to paragraph **Error! Reference source not found.** of this condition.
- b) In this condition, capacity trade means the transfer of [sold [firm] entry capacity rights] **[N.B. NEED TO BE CLEAR WHICH CAPACITY RIGHTS WILL BE SUBJECT TO THE METHODOLOGY]** to a specified entry point **[N.B. NEED TO CONSISTENCY WITH DEFINITION OF ENTRY POINT IN C8A]** from one of more other entry points.
- c) The licensee shall, by [1 April 2007] or such later date as the Authority may direct, prepare and submit for approval by the Authority a capacity trade methodology, setting out the capacity trade methodology which it will use (consistently with the licensee's duties under this licence and the Act) to facilitate capacity trade.
- d) The capacity trade statement prepared pursuant to paragraph **Error! Reference source not found.** shall be prepared by the licensee in a manner best calculated to meet the following objectives (the "capacity trade objectives"):
 - i) ensuring that capacity trade is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
 - ii) avoiding undue increases in the costs (including the costs incurred in respect of the non delivery of [obligated entry capacity rights] previously allocated by the licensee to relevant shippers) that are reasonably expected to be incurred by the licensee as a result of effecting the trade of obligated entry capacity; and
 - iii) so far as is consistent with (a) and (b) above, facilitating effective competition between relevant shippers and between relevant suppliers and other parties engaged in commercial activities connected with the shipping, transportation or supply of gas.
- e) Unless the Authority otherwise directs, such direction to be made within two months of the receipt by the Authority of a statement prepared pursuant to paragraph **Error! Reference source not found.** of this condition, the licensee shall take all reasonable steps to apply the methodology set out in such statement in responding to any request from a relevant shipper for capacity trade received after the expiry of that two month period.
- f) The licensee shall keep its capacity trade methodology under review at all times and seek to make (consistently with paragraphs **Error! Reference source not found.** of this condition) such modifications as it considers reasonably calculated to better meet the capacity trade objectives.
- g) Except in so far as the Authority otherwise directs, the licensee shall not modify the capacity trade methodology unless the licensee has:

- i) sent a copy of the proposed modifications to the Authority, relevant shippers and any other interested party who requests one;
- ii) consulted relevant shippers and allowed them a period of not less than 28 days within which to make representations; and
- iii) within 14 days of the close of the consultation referred to in sub-paragraph 6(b) of this condition, submitted to the Authority a report setting out:
 - (A) the modifications originally proposed;
 - (B) the representations (if any) made to the licensee and not withdrawn; and
 - (C) any change to the modifications proposed as a result of such representations;

provided that, where the licensee has complied with the requirements of sub-paragraphs (a) to (c) above, it shall not make any modification to the capacity trade methodology where the Authority has, within 28 days of receiving the report being furnished to it under sub-paragraph (c)(iii), directed the licensee not to make the modifications.

- h) The licensee shall, by 31st March each year, provide the Authority with a statement on the application and implementation of the capacity trade methodology setting out:
 - i) the extent to which, in the licensee's opinion, the capacity trade objectives have been achieved during the period to which it relates;
 - ii) whether the capacity trade objectives could more closely be achieved by modification of the trade methodology: and
 - iii) if so, the modifications which should be made for that purpose.
- i) The licensee shall make available on its website (and in such other manner as appears to the licensee to be appropriate) a statement of its capacity trade methodology in such form and with such detail as shall be necessary to enable any relevant shipper to make an accurate estimate of how the capacity trade rate methodology will be applied to specific requests for trade of capacity.
- j) Where the licensee has provided a relevant shipper with a capacity trade rate in accordance with paragraph **Error! Reference source not found.**, the licensee shall, in response to any queries raised by that relevant shipper in respect of the calculation of the capacity trade rate, take reasonable and timely steps to explain to the relevant shipper how the capacity trade rate has been calculated in accordance with the approved capacity trade rate methodology.

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 terms 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:

delivered	means the licensee's contractual date of delivery for NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity;
$MIN(x,y)$	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;
$\sum_{all\ y}$	means the sum across all supply points, connected system exit points and storage connection points y;

$\sum_{\text{all } z}$ means the sum across all NTS exit points z ;

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

$\sum_{\text{all } m}$ means the sum across all months m in formula year t .

(b) Buy-back and interruptions incentive revenue (ExCBBIIIR_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 (ExCBBIIIR_t) shall be derived as follows:

- (i) For all days from and including 1 October 2011 (or such date that the Authority otherwise directs in writing) ExCBBIIIR_t shall have the value zero (0); and
- (ii) otherwise, ExCBBIIIR_t shall be derived from the following formula:

If $\text{ExCBBIIIT}_t \geq \text{ExCBBICP}_t$, then:

$$\text{ExCBBIIIR}_t = \text{ExCBBICP}_t + [\text{ExCBBIUSF}_t \times (\text{ExCBBIIIT}_t - \text{ExCBBICP}_t)]$$

Otherwise:

$$\text{ExCBBIIIR}_t = \text{ExCBBICP}_t + \text{MAX} [\text{ExCBBIDSF}_t \times (\text{ExCBBIIIT}_t - \text{ExCBBICP}_t), \text{ExCBBICOL}_t]$$

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 means 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 means 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:

$$\text{ExNTSIIC}_t = \sum_{\text{all } d} \left(\sum_{\text{all } y} \text{ExNTSIIC}_{y,d} \right)$$

where:

ExNTSIIC_{y,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 y 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 ($ExCBBIT_t$) shall be derived in accordance with the following formula:

$$ExCBBIT_t = ExCBBIT_t + ExNTSIIT_t$$

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:

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

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

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

$ExNTSC_y^{Jan\ 15th}$ means the volume of NTS exit capacity registered in respect of supply point, connected system exit point or storage connection point y 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 terms in the network code) ($ExCIT_t$) shall be as set out in the following table:

	Formula year				
Variable	t=1	t=2	t=3	t=4	t≥5
$ExCIT_t$ £ million	2.6	2.1	4.3	3.6	2.9

(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:

$ExCIIR_t^{projspec}$ means the revenue allowed in respect of formula year t, in respect of the anticipated projects set out in paragraph 1(d)(i) of this condition;

$ExCIIR_t^{swquad}$ means the revenue allowed in respect of formula year t, where NTS incremental exit capacity below a specified volume threshold is delivered to NTS exit points in the south west quadrant as set out in paragraph 1(d)(ii) of this condition;

$RIEx_t$ 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

$RIEx_0$ means the arithmetic average of the retail price index published or determined with respect to each of the twelve months from April 2004 to March 2005.

(i) Determination of $ExCIIR_t^{projspec}$

$$ExCIIR_t^{projspec} = \sum_{all\ p} (RDPROJSPEC_{p,t} \times INDEX_p \times CDEL_{p,t})$$

where:

$\sum_{all\ p}$ 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;

Anticipated project p	Project description	$RDPROJSPEC_{p,t}$ £million/year
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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 in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	9.5
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 and in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	5.5
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 in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	4.5
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 in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition; and	6.4
Grain power station	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 55GWh/day at the Grain	10.6

	power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition.	
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$INDEX_p$ means the relevant input price indexation factor for the formula year in which the NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity associated with the anticipated project p is delivered (as defined in paragraph 1(a) of this condition) as set out in the table below:

Formula year in which the NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity associated with the anticipated project p is delivered	$INDEX_p$
2007/8	1.05
2008/9	1.076
2009/10	1.097
2010/11	1.116
2011/12 and later	1.14

$CDEL_{p,t}$ (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 (as defined in paragraph 1(a) of this condition) 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 anticipated project p in formula year t; and

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

(ii) Determination of $\text{ExCIIR}_t^{\text{swquad}}$

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

where:

$\text{INCCAP}_{z,t}^{\text{swquad}}$ means the NTS incremental exit flat capacity or NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity in the south west quadrant as set out in paragraph 1(d)(ii) of this condition and shall be calculated as set out in this paragraph;

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

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

then: $\text{ExCIIR}_t^{\text{swquad}} = \text{£}0.82\text{m} / \text{GWh} / \text{day} \times \text{INCCAP}_t^{\text{swquad}}$

Otherwise:

$$\text{ExCIIR}_t^{\text{swquad}} = 0$$

where:

$$\text{INCCAP}_t^{\text{swquad}} = \sum_{\text{all } z \text{ in swquad}} (\text{INCCAP}_{z,t} \times \text{RDEL}_{z,t} \times \text{INDEX}_z)$$

where:

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

means the sum across all NTS exit 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:

NTS exit points z in the south west quadrant
Avonmouth Max Refill
Aylesbeare
Barton Stacey Max Refill
Braishfield A
Braishfield B
Cirencester
Coffinswell
Didcot A
Didcot B
Easton Grey
Ilchester
Ipsden 1
Ipsden 2
Kenn

Littleton Drew

Lyneham

Mappowder

Pucklechurch

Seabank DN

Winkfield SO

Winkfield SE

Winkfield NT

Abson (Seabank Power station phase I)

Seabank Power station phase II

Terra Nitrogen (aka ICI/ Terra
Severnside)

$$\text{INCCAP}_{z,t} = \text{TINCCAP}_{z,t} + \text{OIExC}_{z,t}$$

Where:

$\text{TINCCAP}_{z,t}$ means NTS incremental exit flat capacity or NTS incremental exit shipper capacity, registered or capable of being registered on or before 30 September 2011 (or such date that the Authority otherwise directs in writing), in respect of formula year t and NTS exit point z in GWh/day in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition, and:

- (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 4(b)(vi); and

$OIExC_{z,t}$ means NTS obligated incremental exit flat capacity in respect of formula year t and NTS exit point z in GWh/day in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;

- $RDEL_{z,t}$ (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); and

$INDEX_z$ means the relevant input price indexation factor given the formula year in which the NTS incremental exit capacity or NTS obligated incremental exit flat capacity associated with the NTS exit point z is delivered as set out in the table below:

Formula year in which the NTS incremental exit capacity or NTS obligated incremental exit flat capacity associated with the NTS exit point z is delivered	$INDEX_z$
2007/8	1.05
2008/9	1.076

2009/10	1.097
2010/11	1.116
2011/12 and later	1.14

(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 2011 (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 (Seabank Power station phase I), Terra Nitrogen (also known as ICI/ Terra Severnside), Barton Stacey Max Refill and Avonmouth Max Refill;

ExLRCSF_t means 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:

- (A) £2.8m in each relevant and complete formula year; and
- (B) in respect of each relevant and partial formula year, the same proportion of £2.8m as the relevant period is to a complete 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 means 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:

- (i) £20m in respect of each relevant and complete formula year; and
- (ii) in respect of each relevant and partial formula year, the same proportion of £20m as the relevant period is to a complete 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:

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

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;

$ExIBBCAP_t$ means 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:

- (i) £36m in respect of each relevant and complete formula year; and
- (ii) in respect of each relevant and partial formula year, the same proportion of £36m as the relevant period is to a complete formula year.

$ExIBBE_t$ means the potential annual exposure of the licensee to 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 following the application of a monthly cap ($ExIBBCAP_{m,t}$) and shall be derived in accordance with the following formula:

$$ExIBBE_t = \sum_{allm} (\text{MIN} (ExIBBC_{m,t}, ExIBBCAP_{m,t}))$$

where:

$ExIBBC_{m,t}$ means the NTS exit capacity constraint management costs incurred by the licensee in respect of month m 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.

$ExIBBCAP_{m,t}$ means the cap on the costs incurred by the licensee represented by the term $ExIBBC_{m,t}$ in respect of month m of formula year t and shall take a value of £4m in each month of each relevant formula year.

However, in deriving $ExIBBC_t$, the licensee shall in making payments to shippers in respect of the curtailment of their rights to capacity which is NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility use its best endeavours to ensure that it does not pay more than 0.52 pence per kWh per day until such time as the capacity has been delivered.

(h) Charges foregone ($ExNTSSIC_t$)

For the purposes of paragraphs 1(a), 1(b)(ii)(E) 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:

$$ExNTSSIC_t = \sum_{all\ d} \left(\sum_{all\ y} ExC_{y,d} \times ExIPK_{y,d} \right)$$

where:

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

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

$$ExIPK_{y,d} = ExUCC_{y,d} - ExFC_{y,d}$$

where:

$ExUCC_{y,d}$ 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 y for a volume of NTS exit capacity equal to $ExC_{y,d}$ that was not subject to NTS exit capacity curtailment rights; and

$ExFC_{y,d}$ 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 $ExC_{y,d}$.

Except that for all days on and after 1 October 2011 (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 2011 (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 2011 (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:

$$\text{SOExRF}_t = \text{TOEx}_t - \text{TOExRF}_t + \text{REVOIExC}_t + \text{REVOIFF}_t + \text{ExREVNOC}_t$$

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 2011 (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 2011 (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:

$$ExREVNOC_t = REVNOIExC_t + REVIExC_t + REVIFF_t$$

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 and shall be calculated in accordance with paragraph 2(b)(ii) of this condition.

(ii) NTS exit capacity revenue from the sale of NTS non-obligated incremental exit flow flexibility ($REVIFF_t$)

For the purposes of paragraph 2(b)(i) of this condition the revenue derived by the licensee from the sale of NTS non-obligated incremental exit flow flexibility in respect of formula year t (REVIFF_t) shall be derived from the following formula:

$$\text{REVIFF}_t = \sum_{\text{all } d} \text{VOLIFF}_d \times £4,000$$

Where:

VOLIFF_d means the volume in million cubic meters of NTS non-obligated incremental exit flow flexibility sold by the licensee for each day d in respect of formula year t.

3. Capacity release obligation

- (a) In respect of all NTS exit capacity registered or capable of being registered on or after 1 October 2011 (or such date that the Authority otherwise directs in writing):
 - (i) In respect of any NTS exit 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 the end of the day to which the capacity relates, consistent with the charging methodology established pursuant to Standard Special Condition A5 (Obligations as Regard Charging Methodology);
 - (ii) 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 to the end of the day to which the capacity relates, consistent with the charging

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

- (iii) The licensee shall use all reasonable endeavours to substitute unsold NTS baseline exit flat capacity release obligations between NTS exit points such that the level of NTS obligated incremental exit flat capacity and NTS obligated incremental exit flow flexibility is minimised;
- (iv) The licensee shall use all reasonable endeavours to revise NTS baseline exit flat capacity release obligations and 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; and
- (v) The licensee shall use all reasonable endeavours to revise NTS baseline exit flow flexibility release obligations upwards in the event that the release of NTS obligated incremental exit flat capacity increases the availability of NTS firm exit flow flexibility.

4. 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 4(a)(i) of this condition for at least seven (7) years following publication.

(b) Statement of incremental investment in the transitional period

- (i) In respect of each formula year, the licensee shall, by 1 June in that formula year (or such other date as the Authority may direct in writing), 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 2011 (inclusive) (or such dates that the Authority otherwise directs in writing).

- (ii) The statement referred to in paragraph 4(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 4(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 4(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 reached a view that there was or would be sufficient demand to justify the provision of such NTS incremental exit capacity (as referred to in paragraph 4(b)(ii)(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 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 4(b)(ii)(D) and 4(b)(iv) and shall determine whether the NTS incremental exit capacity concerned may be treated, for revenue driver purposes (pursuant to paragraph 1(d)(ii)), 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 4(b)(vi) of this condition shall be:

- (A) in writing;
- (B) copied to the licensee;
- (C) published by the Authority; and
- (D) made and so written, copied and published within three months of the receipt by the Authority of all relevant information from the licensee pursuant to paragraphs 4(b)(ii)(D) and 4(b)(iv) of this condition.

(c) Methodology statement for baseline substitution or revision

(i) The licensee shall, on or before 1 April 2008, or such later date as the Authority may direct, prepare and submit for approval by the Authority a methodology statement for exit baseline substitution or revision setting out the methodology by which it will determine its proposals for the substitution or revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to the obligation in paragraphs 3(a)(iii) and 3(a)(iv) 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 4(c)(i) of this condition) the licensee shall, when determining its proposals for substitution or revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraphs 3(a)(iii) and 3(a)(iv) of this condition, take all reasonable steps to apply the methodology set out in that statement, and shall do so on the earlier of:

- (A) the date of receipt of a notice from the Authority approving the statement; and
 - (B) the expiry of that two month period.
- (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 4(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 substitution or revision by 1 June 2007 (or such later date as the Authority may direct) pursuant to paragraph 4(c)(i) or revising its methodology statement for exit baseline substitution or revision the licensee shall:
 - (A) when revising its methodology statement for exit baseline substitution or revision, 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 4(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 modify its statement for exit baseline substitution or revision at any time pursuant to paragraphs 4(c)(iii) and 4(c)(iv) of this condition, save that it shall not modify such statement:
 - (A) if within 28 days from the date on which the Authority receives the report referred to in paragraph 4(c)(iv)(C) of this condition the Authority directs the licensee not to make the modification.
 - (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 4(c)(iv)(C) of this condition; or
 - (C) where paragraph 4(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 modified statement in force pursuant to paragraph 4(c)(v) of this condition.
- (vi) The licensee shall send to the Authority a copy of all modifications to the statements and reports prepared pursuant to paragraphs 4(c)(i) and 4(c)(v) of this condition.
- (vii) The licensee shall publish (in such manner as the Authority may approve) the statements prepared pursuant to paragraph 4(c)(i) of this condition and each modification thereof. Such statements and modified statements refers only to those to which the Authority has given consent.
- (d) **Request for baseline substitution or revision**
 - (i) Within 1 month 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 substitution or revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraphs 3(a)(iii) and 3(a)(iv) of this condition.

- (ii) The statement referred to in paragraph 4(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 substitution or 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 substitution or 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 3(a)(iii) and 3(a)(iv) of this condition.
- (iii) The licensee shall keep a record of the statement made pursuant to paragraph 4(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 substitution or revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraph 4(d)(ii)(D) of this condition in order for the Authority to establish compliance with the obligation pursuant to paragraphs 3(a)(iii) and 3(a)(iv) 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 4(d)(ii)(D) and 4(e)(iv) of this condition and shall determine whether to consent to the proposed substitution or revision of NTS baseline exit flat capacity release obligations or NTS baseline exit flow flexibility release obligations pursuant to paragraphs 3(a)(iii) and 3(a)(iv) of this condition;
- (vii) Any consent granted by the Authority pursuant to paragraph 4(d)(vi) of this condition shall be:
 - (A) in writing;
 - (B) copied to the licensee;
 - (C) published by the Authority; and
 - (D) made and so written, copied and published within six week of the receipt by the Authority of all relevant information from the licensee pursuant to paragraphs 4(d)(ii)(D) and 4(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 4(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) In respect of each formula year, the licensee shall, by 1 November in that formula year (or such other date as the Authority may direct in writing), 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 4(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 3(a)(iii) and 3(a)(iv) of this condition.

- (iii) The licensee shall keep a record of the statement made pursuant to paragraph 4(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 4(e)(ii)(D) of this condition in order for the Authority to establish compliance with the substitution obligation pursuant to paragraphs 3(a)(iii) and 3(a)(iv) of this condition.
- (iv) 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.

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

1. In this condition:

“incremental entry capacity” means capacity that is in excess of the obligated entry capacity $[(EnCR_{i,d})]$ current at that time as determined in line with paragraph $[[7a \text{ Special Condition C8D}]]$.

2. The licensee shall before 1 October 2002 or such later date as the Authority may direct and thereafter before 1 July in each subsequent formula year (or such later date in each formula year as the Authority may approve) prepare and submit for approval by the Authority an incremental entry capacity release methodology statement setting out (consistently with the licensee's duty under the Act, and the standard, Standard Special and Special Conditions) the methodology by which it will determine whether to make incremental entry capacity available for sale to gas shippers. For the avoidance of doubt this methodology will take into account the possibility of substituting unused capacity between entry points.
3. Where the Authority requests it the statement shall be accompanied by a statement from appropriate auditors confirming that they have carried out an investigation, the scope and objectives of which shall have been established by the licensee and approved by the Authority, and giving their opinion as to the extent to which the licensee has developed a methodology that is in line with the licensee's duty under the Act, and the standard, Standard Special and Special Conditions.
4. Unless the Authority otherwise directs, such direction to be made within 2 months of the receipt by the Authority of a statement prepared pursuant to paragraph 2 of this condition, the licensee shall take all reasonable steps to apply the methodology set out in such statement in making any decisions made after the earlier of: the date of receipt of a notice from the Authority approving the statement; or the expiry of that two month period on whether to release incremental entry capacity for sale to gas shippers.

5. Except where the Authority directs otherwise or paragraph 7 applies, before revising the incremental entry capacity release methodology statement the licensee shall:
- (i) send a copy of the proposed revisions to the Authority and to any person who asks for one;
 - (ii) consult gas shippers and allow them a period of not less than 28 days in which to make representations;
 - (iii) within 7 days of the close of the consultation referred to in sub-paragraph 5(ii) of this condition submit to the Authority a report setting out:
 - the revisions originally proposed,
 - the representations (if any) made to the licensee,
 - any change to the revisions; and
 - (iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) of this paragraph or any of them shall not apply, comply with such other requirements as are specified in the direction.
6. The licensee shall be entitled to revise the incremental entry capacity release methodology statement at any time pursuant to paragraph 5, save that it shall not revise such statement:
- (i) where paragraph 5(iv) in this condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph;
 - (ii) where there is no such direction, or no date is specified in such direction, until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph 5(iii) in this condition; or
 - (iii) if within the period referred to in paragraph 5(ii) of this condition the Authority directs the licensee not to make the revision.

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

- (b) send a copy of each statement and report prepared pursuant to paragraphs 2, 3, 4, 5, 6 and 7 of this condition or the latest revision of any such statement and report to any person who requests the same, provided that the licensee shall exclude therefrom, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests,

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

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

Statement of capacity substitution

12. Before applying to the authority for the release of capacity pursuant to [[incremental capacity application procedure]] the licensee shall provide the authority with a statement specifying the net capacity substitution to entry point i on gas day d ($EnNCS_{i,d}$) (i.e. the total substituted to entry point i on gas day d less the amount substituted from entry point i on gas day d) produced in accordance with the capacity substitution methodology produced (and amended) in accordance with paragraphs 7(g)-7(n) of special condition C8D.
13. For the purposes of condition C8D of this licence the capacity substitution to entry point i on day d $EnCST_{i,d}$ shall be defined as:

If $EnNCS_{i,d} < 0$ then $EnCST_{i,d} = 0$

Otherwise

$EnCST_{i,d} = EnNCS_{i,d}$

14. For the purposes of condition C8D of the licence the capacity substitution from entry point i on day d $EnCSF_{i,d}$ shall be defined as:

If $EnNCS_{i,d} > 0$ then $EnCSF_{i,d} = 0$

Otherwise

$EnCSF_{i,d} = EnNCS_{i,d}$

Special Condition C17: Exit Code Statement

1. Until 1 October 2011 (or such other date as the Authority may direct in writing), by 30 June in each formula year, the licensee shall prepare and submit to the Authority an exit code statement (“the exit code statement”).
2. Except to the extent the Authority shall otherwise specify, the exit code statement referred to in paragraph 1 shall include:
 - (i) a description of the services which have been provided to (1) the NTS TO activity and/or the NTS SO activity by the Distribution Network transportation activity; and (2) the Distribution Network transportation activity by the NTS TO activity and/or the NTS SO activity in the previous formula year; and
 - (ii) provide details of any revenue received or charges made by (1) the Distribution Network transportation activity from the NTS TO activity and/or NTS SO activity; and (2) the NTS SO activity and/or the NTS TO activity from the Distribution Network transportation activity in respect of each of the services referred to in sub-paragraph (i) above in the previous formula year.
2. The terms “NTS TO activity”, “NTS SO activity”, “Distribution Network transportation activity” and “Distribution Network” shall have the meaning given in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity).

Special Condition C18: Licensee's methodology for determining the release of NTS exit capacity volumes

1. The licensee shall before 1 April 2007 or such later date as the Authority may direct and thereafter before 1 April in each subsequent formula year (or such later date in each formula year as the Authority may approve) prepare and submit for approval by the Authority an NTS exit capacity release methodology statement setting out (consistently with the licensee's duty under the Act, and the standard, Standard Special and Special Conditions) the methodology by which it will determine whether to release NTS exit capacity to gas shippers or DN operators.
2. If directed by the Authority in writing, the statement shall be accompanied by a statement from appropriate auditors confirming that they have carried out an investigation, the scope and objectives of which shall have been established by the licensee and approved by the Authority, and giving their opinion as to the extent to which the licensee has developed a methodology that is in line with the licensee's duty under the Act, and the standard, Standard Special and Special Conditions.
3. 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 1 of this condition) the licensee shall, in making any decisions on whether to release NTS exit capacity for sale to gas shippers or DN operators, take all reasonable steps to apply the methodology set out in that statement, and shall do so on the earlier of:
 - (i) the date of receipt of a notice from the Authority approving the statement; or
 - (ii) the expiry of that two month period.
4. Except where the Authority directs otherwise or paragraph 6 applies, before submitting the statement referred to in paragraph 1 by 1 April 2007 (or such later date as the Authority may direct) pursuant to paragraph 1 or revising the exit capacity release methodology statement, the licensee shall:

- (i) when revising the exit capacity release methodology statement, send a copy of the proposed revisions to the Authority and to any person who asks for one;
 - (ii) consult gas shippers and DN operators and allow them a period of not less than 28 days in which to make representations;
 - (iii) within 7 days of the close of the consultation referred to in paragraph 4(ii) of this condition submit to the Authority a report setting out:
 - the revisions originally proposed,
 - the representations (if any) made to the licensee,
 - any change to the revisions; and
 - (iv) where the Authority directs that paragraphs 4(i), (ii) and (iii) of this condition or any of them shall not apply, comply with any such other requirements as may be specified in the direction.
5. The licensee shall be entitled to revise the exit capacity release methodology statement at any time referred to in paragraph 4, save that it shall not revise such statement:
- (i) where paragraph 4(iv) in this condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph;
 - (ii) where there is no such direction, or no date is specified in such direction, until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph 4(iii) of this condition; or
 - (iii) if within the period referred to in paragraph 4(ii) of this condition the Authority directs the licensee not to make the revision.
6. (a) The licensee shall, if so directed by the Authority but in any event at least once a year, review the statement prepared pursuant to paragraph 1 of this condition in

consultation with gas shippers, DN operators and other interested persons likely to be affected thereby and allow them a period of not less than 28 days in which to make representations.

(b) Within 7 days of the close of the consultation referred to in paragraph 6(a) of this condition, the licensee shall send to the Authority:

(i) a report on the outcome of the review which shall be accompanied by a statement from appropriate auditors that they have carried out an investigation, the scope and objectives of which shall have been established by the licensee and approved by the Authority, and giving their opinion as to the extent to which the licensee has complied with the statement prepared pursuant to paragraph 1 of this condition;

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

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

(c) The licensee may revise the statement only in accordance with any revision within paragraph 6(b)(ii) of this condition and only if the Authority consents to such revision.

7. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 1 of this condition.

8. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 1, 2, 3, 4, 5 and 6 of this condition and of all revisions to any such statements and reports.

9. The licensee shall:

- (a) publish (in such manner as the Authority may direct) the statements prepared pursuant to paragraph 1 of this condition and each revision thereof, and
- (b) send a copy of each statement and report prepared pursuant to paragraphs 1, 2, 3, 4, 5 and 6 of this condition or the latest revision of any such statement and report to any person who requests the same, provided that the licensee shall exclude from publication, 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,

and, for the purposes of paragraph 9(b) of this condition, the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).

10. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 9(b) of this condition of an amount reasonably reflecting the licensee's reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purpose of this condition.

Appendix 6 – Special Conditions C9 and C10

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

1. Unless the Authority otherwise directs in writing, any allocation or attribution of revenues, costs, assets and liabilities performed by the licensee in order to calculate any of the values referred to in special conditions C8B to C8G inclusive 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 National Grid Gas 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 shall allocate or attribute all revenue earned and costs incurred by the transportation business to the following activities:
 - (a) the NTS transportation owner activity;
 - (b) the NTS system operation activity;
 - (c) the metering activities; or
 - (d) excluded services in accordance with the principles set out in Special Condition C10 (Supplementary provisions of the revenue restrictions in respect of the NTS transportation owner activity and NTS system operation activity).
- 3. The licensee shall on or before 1 October 2007 (or such later date as the Authority may direct) and before 1 July in each subsequent formula year (or such longer period as the Authority may direct) 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 of this licence) 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. Without prejudice to the generality of the foregoing, the statement shall separately identify which of the activities listed in paragraph 2 each allocation or attribution of revenues, costs or liabilities relates to, and, where such allocation and attributions have changed from one year to the next, the licensee shall explain and give reasons for such change.
- 4. The licensee shall re-allocate or re-attribute revenues earned by the licensee and costs incurred by the licensee to the activities 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 31st July 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 paragraph 3 and directions for the time being in force pursuant to paragraph 4 of this condition.
 7. To the extent the licensee earns revenues or incurs costs in the provision of de minimis activities in accordance with Standard Special Condition A36 (Restriction on Activity and Financial Ring-fencing), the licensee shall report on these revenues and costs in accordance with this condition.

8. In this condition:

“NTS transportation
owner activity”

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

“excluded services”	means any activity or engagement undertaken by the licensee or any affiliate or related undertaking of the licensee that has been determined by the Authority to be an excluded service in line with the principles outlined in Special Condition C10 (Supplementary provisions of the revenue restrictions in respect of the NTS transportation owner activity and NTS system operation activity).
“transportation business”	means any activity or engagement undertaken by the licensee or any affiliate or related undertaking of the licensee related to the operation, planning, expansion and maintenance of the pipeline system to which this licence relates and shall include the NTS transportation owner activity, the NTS system operation activity, the metering and meter reading activity and excluded services.

Special Condition C10: Excluded Services

1. There may be treated as excluded services, services provided by the licensee in the provision of its NTS TO activity or its NTS SO activity in respect of which charges are made which:
 - (a) do not fall within paragraph 2 of this special condition; and
 - (b) may be determined by the licensee as falling under one of the principles set out in paragraphs 3 to 5 of this special condition.
2. No service provided by the licensee as part of its NTS TO activity or NTS SO activity shall be treated as an excluded service in so far as it relates to the provision of services remunerated through charges levied pursuant to:
 - (a) paragraph 2 of Special Condition C8B (The NTS transportation owner activity revenue restriction); and
 - (b) paragraph 2 of Special Condition C8C (The NTS system operation activity revenue restriction).
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 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 NTS TO activity or NTS SO activity.
5. Where the Authority is satisfied that, in the 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 information relating to excluded services last furnished pursuant to paragraph 3 of Special Condition C9 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) prior to issue of such directions related, unless such statement or the accompanying report or certificate referred to in paragraph 5 of that Special Condition or any earlier such statement, report or certificate was incorrect or misleading in any material respect, as may be specified in the directions).

Appendix 7 – Special Conditions C14, C14B and C23

Special condition C14: Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS system operation activity and Price Control Revenue Reporting and Associated Information

1. The licensee shall provide statements to the Authority of the information specified in the following table, in respect of the activities covered by this licence, for the periods identified in that table and by the dates specified in that table. Where information is derived from a formula defined in the licence, the component parameters of that formula shall also be reported. Where information is requested in respect of periods of less than a full formula year, the licensee shall provide such information on a reasonable endeavours basis. All revenue and information provided shall comply with Special Condition C9 (Allocation of revenue and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) and terms used in the following tables shall have the meaning given to those terms in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity) and/or Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity).

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

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

	TOREVBEC _t or TOExR _t		in formula year t+1
SOTIEx _t	Total volume of interruptible capacity registered by shippers on 15 January	Formula years	By 30 June in formula year t+1
NTS prescribed rates	Amount of the charge incurred in respect of the prescribed rates or equivalent tax or duty in respect of the NTS TO activity	Formula years	By 30 June in formula year t+1
TOREVBExC _t	Revenue from the sale of NTS baseline exit flat capacity, NTS baseline exit shipper capacity and NTS baseline exit flow flexibility	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

NTS system operation revenue information			
SOMR _t	Maximum NTS system operation	Formula years	By 30 June in formula

	revenue		year t+1
$SOIR_t$	NTS system operation incentive revenue	Formula years	By 30 June in formula year t+1
$SOIC_t$	NTS system operation costs	Formula years	By 30 June in formula year t+1
$SORA_t$	Any allowance in respect of approved income adjusting events (whether of a positive or negative volume)	Formula years	By 30 June in formula year t+1
SOK_t	NTS SO revenue adjustment factor	Formula years	By 30 June in formula year t+1
$CNIC_t$	Total second capacity adjustment neutrality amount	Formula years	By 30 June in formula year t+1
$DQREV_{j,t}$	Revenue from the sale of obligated incremental entry capacity at terminal j that is not included in $REVOIEC_t$	Formula years	By 30 June in formula year t+1
$DREVBExC_t$	Revenue from on the day sales of NTS baseline exit flat capacity and NTS baseline exit shipper capacity	Formula years	By 30 June in formula year t+1
$DREVBFF_t$	Revenue from on the day sales of NTS baseline exit flow flexibility	Formula years	By 30 June in formula year t+1

FTI_t	Revenue from charges levied on gas shippers and DN operators in respect of failure to interrupt	Formula years	By 30 June in formula year t+1
$PRIORSELL_{m,d}^J$	Entry capacity allocated in any allocation occurring prior to 1 April 2002	For each day in the month in question	Two weeks after month end
$RBIC_t$	Sum of the basic net neutrality amount and the adjustment neutrality amount	Formula years	By 30 June in formula year t+1
$RCOM_t$	NTS SO Revenue not covered in $SOExRF_t$, $SORCAP_t$ or $SOROC_t$	Formula years	By 30 June in formula year t+1
$REVIExC_t$	Revenue from sales of NTS incremental exit flat capacity and NTS incremental exit shipper capacity	Formula years	By 30 June in formula year t+1
$REVIFF_t$	Revenue from sales of NTS incremental exit flow flexibility	Formula years	By 30 June in formula year t+1
RNC_t	Net revenue from balancing neutrality charges	Formula years	By 30 June in formula year t+1
$ECIIR_t$	Entry capacity incentive revenue	Formula years	By 30 June in formula year t+1
$SBIC_t$	System balancing costs	Formula years	By 30 June in formula

			year t+1
REVOIEC _t	Revenue from sales of obligated incremental entry capacity	Formula years	By 30 June in formula year t+1
REVIBEC _t	Revenue from sales of permanent obligated incremental entry capacity relating to periods more than 5 years	Formula years	By 30 June in formula year t+1

Exit capacity investment incentive information			
SOExIRC _t	NTS system operation exit revenues and costs	Formula years	By 30 June in formula year t+1
ExXSIBBC _t	NTS exit capacity constraint management costs incurred by the licensee	Formula years	By 30 June in formula year t+1
ExIBBC _t	NTS exit capacity constraint management costs incurred by the licensee in respect in the event of a delay to the delivery of NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility	Formula years	By 30 June in formula year t+1
ExIPK _{y,d}	Notional unpaid NTS exit capacity charge in respect of day d and supply point, connected system exit point or storage connection point y for a volume of NTS exit capacity equal to ExC _{y,d}	Formula years	By 30 June in formula year t+1
TOExR _t	Revenue derived by the licensee in	Formula years	By 30 June

	respect of the transportation owner activity		in formula year t+1
TREVBSC _t	Revenue derived by the licensee in respect of charges levied on gas shippers in respect of its provision of NTS baseline exit shipper capacity	Formula years	By 30 June in formula year t+1
TREVExC _t	Revenue derived by the licensee in respect of charges levied on gas shippers in respect of its provision of NTS baseline exit flat capacity	Formula years	By 30 June in formula year t+1
TREVBFF _t	Revenue derived by the licensee in respect of charges levied on gas shippers in respect of its provision of NTS baseline exit flow flexibility.	Formula years	By 30 June in formula year t+1
SOExRF _t	Revenue derived by the licensee in respect of the system operation activity	Formula years	By 30 June in formula year t+1
REVIFF _t	Revenue derived by the licensee from the sale of NTS non-obligated incremental exit flow flexibility	Formula years	By 30 June in formula year t+1
VOLIFF _d	volume in million cubic meters of NTS non-obligated incremental exit flow flexibility sold by the licensee for each day d	Formula years	By 30 June in formula year t+1
REVIExC _t	the revenue derived by the licensee from the sale of NTS short term	Formula years	By 30 June in formula

	interruptible exit capacity		year t+1
ExCIT _t	Incentive target for costs incurred by the licensee in respect of its use of constrained storage facilities to avoid transportation constraints	Formula years	By 30 June in formula year t+1
REVIExC _t	Revenue derived by the licensee from the sale of NTS short term interruptible exit capacity	Formula years	By 30 June in formula year t+1
ExCIIR _t	Exit capacity investment incentive revenue allowed to the licensee	Formula years	By 30 June in formula year t+1
ExCBBIR _t	Maximum buy-back and interruptions incentive revenue allowed to the licensee	Formula years	By 30 June in formula year t+1
ExNOCIR _t	incentive revenue allowed to the licensee from the sale of NTS non-obligated exit capacity	Formula years	By 30 June in formula year t+1

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

			year t+1
$BBIR_t$	Cumulative balance and end of year forecast of entry capacity buy-back incentive revenue	Year to date	Monthly 4 weeks after month end
$BBCP_t$	Entry capacity buy-back performance measure	Formula years	By 30 June in formula year t+1
$BBCP_t$	Entry capacity buy-back performance measure	Year to date	Monthly 4 weeks after month end
$BBC_{d,t}$	Entry capacity buy-back costs	For each day in the month	Monthly 2 weeks after month end
	Volume and prices of entry capacity buy-backs by terminal	For each day in the month	Monthly 2 weeks after month end
$ECCC_{d,t}$	Entry capacity constraint payments	For each day in the month	Monthly 2 weeks after month end
	Revenue from daily sales of obligated entry capacity	For each day in the month	Monthly 2 weeks after month end
	Volumes and prices of obligated entry capacity sold daily by terminal	For each day in the month	Monthly 2 weeks after month end
	Revenue from sales of	For each day	Monthly 2

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

	costs		
$RPIC_{d,t}$	Revenue from a physical renomination incentive charge	For each day in the year	By 30 June in formula year t+1
$DDCR_t$	Revenue from on-the-day sales of obligated entry capacity	Formula years	By 30 June in formula year t+1

Residual balancing incentive information			
$STIP_t$	Sum of total daily residual balancing incentive payments	Formula years	By 30 June in formula year t+1
$STIP_t$	Sum of total daily residual balancing incentive payments	Year to date	Monthly 2 weeks after month end
$RBIR_t$	Residual gas balancing incentive revenue	Formula years	By 30 June in formula year t+1
$RBIR_t$	Cumulative balance and end of year forecast of residual gas balancing incentive revenue	Year to date	Monthly 2 weeks after month end
$SDPIP_t$	Sum of daily price incentive payments	Formula years	By 30 June in formula year t+1
$SDPIP_t$	Sum of daily price incentive payments	Year to date	Monthly 2 weeks after month end

$SDLIP_t$	Sum of daily linepack incentive payments	Formula years	By 30 June in formula year $t+1$
$SDLIP_t$	Sum of daily linepack incentive payments	Year to date	Monthly 2 weeks after month end
$DPIP_{d,t}$	Daily price incentive payment	For each day in the month in question	2 weeks after month end
$DLIP_{d,t}$	Daily linepack incentive payment	For each day in the month in question	2 weeks after month end
$PPM_{d,t}$	Daily residual balancing price performance measure	For each day in the month in question	2 weeks after month end
$LPM_{d,t}$	Linepack performance measure	For each day in the month in question	2 weeks after month end
$OLP_{d,t}$	Opening linepack levels NTS linepack at 06:00 hours on day D	For each day in the month in question	2 weeks after month end
$CLP_{d,t}$	Closing linepack levels NTS linepack at 06:00 hours on day D+1	For each day in the month in question	2 weeks after month end
$SAP_{d,t}$	System average price	Daily	D+1
$TMIBP_{d,t}$	Highest market offer price in	Daily	D+1

	relation to an eligible market balancing action		
TMISP _{d,t}	Lowest market offer price in relation to an eligible market balancing action	Daily	D+1

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

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

$UDQI_{t-2,q,d}^S$	Sum of gas shippers' user daily quantity input at storage connection point S	For each day of the year for formula year t-2	By 30 June in formula year t+1
$UDQO_{t-2,q,d}^S$	Sum of gas shippers' user daily quantity output at storage connection point S	For each day of the year for formula year t-2	By 30 June in formula year t+1
$GCIT_t$	NTS SO gas cost incentive target	Formula years	By 30 June in formula year t+1
$GCRP_t$	NTS SO gas cost reference price	Formula years	By 30 June in formula year t+1

Internal cost incentive information			
$ICIR_t$	Internal cost incentive revenue	Formula years	By 30 June in formula year t+1
$ICCP_t$	Internal costs performance measure	Formula years	By 30 June in formula year t+1
$SOOC_t$	NTS SO operating cost	Formula years	By 30 June in formula year t+1
$SODCP_t$	Depreciation on the NTS SO regulatory asset base	Formula years	By 30 June in formula

			year t+1
$SORCP_t$	Deemed return on the NTS SO regulatory asset base	Formula years	By 30 June in formula year t+1

NTS exit capacity buy-back and interruption incentive information			
$ExCBBIR_t$	NTS exit capacity buy-back and interruption incentive revenue	Formula years	By 30 June in formula year t+1
$ExCBBIT_t$	NTS exit capacity buy-back and interruption incentive target	Formula years	By 30 June in formula year t+1
$ExCBBICP_t$	NTS exit capacity buy-back and interruption performance measure	Formula years	By 30 June in formula year t+1
$ExCCMC_t$	Total NTS exit capacity constraint management costs	Formula years	By 30 June in formula year t+1
$ExBBC_{d,t}$	Exit capacity buy-back costs	For each day of the year	By 30 June in formula year t+1
$ExCCC_{d,t}$	NTS Exit capacity constraint payments	For each day of the year	By 30 June in formula year t+1

Other information required for general market monitoring

	Daily system demand	Daily	D+1
	Daily interconnector flows at Bacton and at Moffat	For each day in the month in question	Two weeks after month end
	Daily system allocations by entry terminal by gas shipper	For each day in the month in question	Four weeks after month end
	Daily gas shipper imbalances	For each day in the month in question	Four weeks after month end
	Gas shipper system entry capacity holdings excluding daily sales by gas shipper by terminal by day	For each day in the week in question	One week after week end

2. If, prior to the fulfilment of its obligations under paragraph 3 of this condition, the licensee becomes aware of any inaccuracies in respect of information it has provided to the Authority in pursuance of its obligations under paragraph 1 of this condition it shall notify such inaccuracies to the Authority together with details of why such information is inaccurate and of the correct information.
3. As soon as reasonably practical after the end of each formula year and in any event no later than three months after the end of the formula year the licensee shall send to the Authority a reconciliation of the information provided in accordance with paragraph 1 of this condition for periods of less than the formula year with that provided for the full formula year together with a written explanation of any discrepancies.
4. The reconciliations provided by the licensee under paragraph 3 of this condition shall be accompanied by a report prepared by appropriate auditors addressed to the Authority which indicates whether, in their opinion:

- that statement fairly presents so far as it reasonably possible to do so the licensee's performance against each of the performance measures provided for in Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity) in respect of the formula year to which the statement relates; and
 - that statement used data compiled in accordance with Special Condition C9 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) and is consistent with the licensee's accounting records; and
 - any explanations given by the licensee under paragraphs 2 and 3 of this condition in respect of the formula year in question were reasonable and consistent with the information supplied.
5. The licensee shall provide a statement of the following information to the Authority and publish that statement not later than seven (7) days prior to the start of any allocation of entry capacity rights in respect of capacity rights offered for sale for a consecutive period of more than one (1) day:
- (a) the terminal to which such allocation relates;
 - (b) the amount of unallocated NTS SO baseline entry capacity and unallocated obligated incremental entry capacity at the terminal (both as defined in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity)) that is available on the day that the statement is published which the licensee will offer for sale in the allocation and the period to which such capacity relates;
 - (c) the reserve price if any to be applied to such allocations;
 - (d) the licensee's opinion as to future levels of entry capacity at the terminal to which the allocation relates accompanied by background information (if any) in support

of such opinion including the licensee's opinion as to future aggregate volumes of gas to be transported through the NTS;

- (e) the commencement time and date of the allocation; and
 - (f) when the gas shippers shall be informed of the outcome of the allocation;
6. The licensee shall provide a statement of the following information, by terminal and by the month to which it relates, to the Authority and publish that statement not later than fourteen (14) days after the close of any allocation of entry capacity rights in respect of capacity rights offered for sale for a consecutive period of more than one (1) day:
- (a) the volume of NTS SO baseline entry capacity, obligated incremental entry capacity and non-obligated incremental entry capacity allocated;
 - (b) the total amount of the revenue derived and to be derived by the licensee in respect of the NTS SO baseline entry capacity, obligated incremental entry capacity and non-obligated incremental entry capacity allocated;
 - (c) the highest price accepted by the licensee for a unit of entry capacity allocated;
 - (d) the lowest price accepted by the licensee for a unit of entry capacity allocated; and
 - (e) the weighted average price accepted by the licensee for a unit of entry capacity allocated.
7. The licensee shall provide a statement of the following information to the Authority and publish that statement not later than seven (7) days prior to the start of any allocation of exit capacity rights in respect of capacity rights offered for sale for a consecutive period of more than one (1) day:
- (a) the offtake point to which such allocation relates;
 - (b) the amount of unallocated NTS SO baseline exit capacity and unallocated obligated incremental exit capacity at the offtake point (both as defined in Special

Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity)) that is available on the day that the statement is published which the licensee will offer for sale in the allocation and the period to which such capacity relates;

- (c) the reserve price if any to be applied to such allocations;
 - (d) the licensee's opinion as to future levels of exit capacity at the terminal to which the allocation relates accompanied by background information (if any) in support of such opinion including the licensee's opinion as to future aggregate volumes of gas to be transported through the NTS;
 - (e) the commencement time and date of the allocation; and
 - (f) when the gas shippers shall be informed of the outcome of the allocation;
8. The licensee shall provide a statement of the following information, by offtake point and by the month to which it relates, to the Authority and publish that statement not later than fourteen (14) days after the close of any allocation of exit capacity rights in respect of capacity rights offered for sale for a consecutive period of more than one (1) day:
- (a) the volume of NTS SO baseline exit capacity, obligated incremental exit capacity and non-obligated incremental exit capacity allocated;
 - (b) the total amount of the revenue derived and to be derived by the licensee in respect of the NTS SO baseline exit capacity, obligated incremental exit capacity and non-obligated incremental exit capacity allocated;
 - (c) the highest price accepted by the licensee for a unit of exit capacity allocated;
 - (d) the lowest price accepted by the licensee for a unit of exit capacity allocated; and
 - (e) the weighted average price accepted by the licensee for a unit of exit capacity allocated.

Special Condition C14B – Price Control Revenue Reporting and Associated Information

PART A: Application and Purpose

1. The purpose of this condition is to secure the collection of specified information, to an appropriate degree of accuracy by the licensee so as to enable the Authority to monitor effectively the revenue of the licensee.

PART B: Revenue Reporting Regulatory Instructions and Guidance and specified information

2. For the purposes of this condition:

“revenue reporting Regulatory Instructions and Guidance” means the instructions and guidance issued by the Authority for the purposes of this condition as modified from time to time by a direction under paragraph 12 and subject to paragraphs 15 to 17 shall include (without limitation):

- (a) the definition of specified information to be collected pursuant to this condition which for the purposes of paragraph 7 is information relating to:
 - (i) all associated terms used in the derivation of the licensee’s allowed revenue as defined in the relevant special conditions of the licensee’s gas transporters NTS licence for purposes of paragraph 7(a) (Audited Price Control Return)
 - (ii) the allowed revenue term, the actual revenue term and income derived from excluded services as defined in the licensee’s gas transporters NTS licence for the purpose of paragraph 7(b) (Forecast Price Control Return)
 - (iii) the associated information and parameters used in the determination of the Revenue Drivers as defined in the relevant special condition of the licensee’s gas transporters NTS licence for the purposes of paragraph 7 (c)

- (iv) the associated information and parameters used in the determination of the Innovation Funding Incentive as defined in the relevant special condition of the licensee's gas transporter's NTS licence for the purposes of paragraph 7 (d);
- (b) requirements for recording specified information which are reasonably necessary to enable an appropriate auditor to determine the accuracy and reliability of specified information;
- (c) requirements as to the form and manner in which specified information shall be provided to the Authority (including templates for doing so);
- (d) requirements as to the form and manner in which specified information shall be recorded and the standards of accuracy and reliability with which it shall be recorded; and
- (e) requirements as to the timing of the provision of specified information to the Authority in respect of each relevant year.

3. The licensee shall :

- (a) establish and maintain appropriate systems, processes and procedures to measure and record specified information in respect of the relevant year commencing on 1st April 2007 and for each subsequent relevant year in accordance with the revenue reporting regulatory instructions and guidance (including any associated information therein) for the time being in force pursuant to this condition;
- (b) maintain all systems of control and other governance arrangements that ensure the information collected and reported to the Authority is in all material respects accurate and complete and is fairly presented and that all such systems of control and other governance arrangements are kept under regular review by the directors of the licensee with a view to ensuring that they remain effective for this purpose; and

- (c) shall provide such assistance as the Authority may reasonably require to permit the Authority to review such systems from time to time.
- 4. The licensee shall notify the Authority immediately in the event that it discovers errors in the information or calculations used to derive the information submitted to the Authority under this condition.
- 5. The licensee shall collect the specified information required by the revenue reporting regulatory instructions and guidance issued pursuant to this condition from the date on which such revenue reporting Regulatory Instructions and Guidance are issued by the Authority.

PART C : Information to be provided to the Authority

- 6. The licensee shall comply with the relevant provisions and information requirements of the revenue reporting Regulatory Instructions and Guidance issued pursuant to this condition.
- 7. The licensee shall provide the Authority with:
 - (a) the information specified in the audited template for the Audited Price Control Return contained in the revenue reporting regulatory instructions and guidance by no later than 31 July following the end of the relevant year to which such information relates;
 - (b) save in relation to the relevant year commencing 1st April 2007 the information specified in the for the Forecast Price Control Return contained in the revenue reporting regulatory instructions and guidance by no later than 1 April of the relevant year to which such information relates, being the licensee's estimate of that information made on or before 1 April of the relevant year to which the information relates, being the licensee's estimate of that information made on or before 1st April;
 - (c) the information specified in the template for the Revenue Drivers contained in the revenue reporting regulatory instructions and guidance by no later than 31st July following the end of the relevant year to which the information relates;

- (d) the information specified in the template for Innovation Funding Incentive contained in the revenue reporting regulatory instructions and guidance by no later than 31st July following the end of the relevant year to which the information relates.

PART D: Audit Requirements

- 8. The information referred to in paragraph 7(a) shall be accompanied by a report addressed to the Authority from the auditors, stating whether in their opinion:
 - (a) the information provided in accordance with paragraph 7 (a) has been properly prepared in accordance with the revenue reporting regulatory instructions and guidance; and
 - (b) the amounts presented are in accordance with the licensee's records which have been maintained in accordance with paragraph 3 of this condition.
- 9. The licensee shall require that the report from the auditors, referred to in paragraph 8, is accompanied by a letter from the auditors to the Authority detailing the procedures that the auditors have followed in reaching their opinion.
- 10. For the purposes of paragraph 8, the licensee shall at its own expense enter into a contract of appointment with the auditors which includes a term requiring that the audit be conducted in accordance with all relevant auditing standards in force on the last day of the relevant year to which the audit relates as would be appropriate.
- 11. The licensee shall (and must procure, insofar as it is able to do so, that any affiliate or related undertaking of the licensee shall) co-operate fully with the auditors so as to enable them to complete and report to the Authority on any audit carried out in accordance with paragraph 8.

PART E: Modification to the revenue reporting regulatory instructions and guidance

12. Where the Authority considers that the revenue reporting regulatory instructions and guidance should be modified in such way as are necessary to achieve the purposes of this condition more effectively, the Authority may, subject to paragraphs 13 to 15, modify the revenue reporting Regulatory Instructions and Guidance by issuing a direction to the licensee.
13. Before issuing a direction under paragraph 12, the Authority, by notice given to such parties as the Authority deems appropriate, shall:
 - (a) state that it proposes to make a modification, and set out the date on which it proposes that this should take effect;
 - (b) set out the text of the modification, the purpose and effect of the modification, and the reasons for proposing it; and
 - (c) specify the time (not less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made,and consider any representations or objections which have been duly made and are not withdrawn, and give reasons for its decision.
14. Where any proposed modification of the revenue reporting regulatory instructions and guidance relates to a requirement to provide specified information to a greater level of accuracy than was previously required, the Authority may only make such modification with the consent of the licensee, provided that such consent may not be unreasonably withheld or delayed by the licensee
15. Any modification of the revenue reporting regulatory instructions and guidance under paragraph 12 to introduce an additional category of specified information or to enlarge an existing category of information shall not exceed what may reasonably be requested from the licensee by the Authority under paragraph 1 of standard special condition A26 (Provision of Information to the Authority).

16. The provisions of the revenue reporting regulatory instructions and guidance may not exceed what is necessary to achieve the purposes of this condition.
17. Nothing in this condition should require the licensee to produce any documents which it could not be compelled to produce or give in evidence in civil proceedings before a court.

Special Condition 23: Amendments to Standard Special Conditions

PART A: Application and Purpose

1. This condition introduces amendments to the NTS standard special conditions.

PART B: Amendment to Standard Special condition A37 – Availability of Resources

2. Paragraph 3 of Standard Special Condition A37 (Availability of Resources) shall be replaced by the following paragraph:

“The licensee shall submit to the Authority with that certificate:

- (a) a statement of the main factors which the directors of the licensee have taken into account in giving the certificate, together with a confirmation of the availability of financial facilities; and
- (b) a cashflow forecast, movement in net debt and analysis of net debt.”

3. Paragraph 6 of Standard Special Condition A37 (Availability of Resources) shall be replaced by the following paragraph

“The licensee shall require that each certificate provided in accordance with paragraph 2 is accompanied by a report prepared by its auditors and addressed to the Authority stating whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement and cashflow forecast, and movement in net debt and analysis of net debt submitted with it and, on the other hand, any information which they obtained during their audit work on the regulatory accounts of the licensee prepared pursuant to Standard Special Condition A30 (Regulatory Accounts).”

PART C: Amendment to Standard Special Condition A40: Price Control Review Information

4. The following text shall be inserted after paragraph 3b in Standard Special Condition A40:

“keep and maintain such data as will permit the assessment by the Authority of historic and forecast network performance of the licensee’s pipe-line system, as may be required under price control review reporting rules, to facilitate comparative analysis over time for reporting under the price control review reporting rules of:

- (i) geographic areas of and network assets within the licensee’s pipe-line system, and
- (ii) Pipe-line systems for the conveyance of gas within Great Britain, and
- (iii) Pipe-line systems for the conveyance of gas systems in Great Britain and in other countries, and
- (iv) Pipe-line systems for the conveyance of gas systems in Great Britain.”

5. The following text shall be inserted after paragraph 4 in Standard Special Condition A40

“The licensee shall maintain all systems of control and other governance arrangements that ensure the information collected and reported to the Authority is in all material respects accurate and complete and is fairly presented and that all such systems of control and other governance arrangements are kept under regular review by the directors of the licensee with a view to ensuring that they remain effective for this purpose. The licensee shall provide all such assistance as may be reasonably required to permit the Authority to review such systems from time to time.”

Special Condition C13: Network Output Measures

Part A: Purpose

1. The purpose of this condition is to ensure the development and maintenance of an appropriate methodology to enable the evaluation of network output measures (as defined in paragraph 2) for the licensee's pipe-line system.

Part B: Development of the Network Output Measures Methodology

2. The licensee shall, in consultation with interested parties, before 31 May 2008, or such later date as the Authority may direct, submit a methodology (the "network output measures methodology") for approval by the Authority in accordance with paragraphs 7, 8 and 9. The network output measures methodology shall be designed to enable the evaluation of:
 - (a) the current condition of the assets which collectively form the licensee's pipe-line system (including the condition of the principal components of those assets) (collectively, "network assets"), the reliability of network assets, and the predicted rate of deterioration in the condition of network assets which is relevant to assessing present and future ability of network assets to perform their required function ("network asset condition");
 - (b) the overall level of risk to the reliability of the licensee's pipe-line system as a result of network asset condition and the interdependence between network assets ("network risk");
 - (c) those aspects of the technical performance of the licensee's pipe-line system having a direct impact on the reliability and cost of services provided by the licensee as part of its transportation business ("network performance");

- (d) the level of capability and utilisation of the licensee's pipe-line system at entry and exit points and other network capability and utilisation factors ("network capability");

collectively the "network output measures".

3. The licensee shall set out in its proposed network output measures methodology the categories of data to be used and the methodology to be applied to such data to derive network output measures.
4. The network output measures shall be designed to facilitate:
 - (a) the monitoring of the licensee's performance in relation to the development, maintenance and operation of an efficient, co-ordinated and economical pipe-line system for the conveyance of gas;
 - (b) the assessment of historical and forecast network expenditure on the licensee's pipe-line system;
 - (c) the comparative analysis over time between:
 - (i) geographic areas of, and network assets within the licensee's pipe-line system
 - (ii) pipe-line systems for the conveyance of gas within Great Britain
 - (iii) pipe-line systems for the conveyance of gas in Great Britain and in other countries
 - (iv) transmission and distribution networks in Great Britain;
 - (d) the communication of relevant information regarding the licensee's pipe-line system between the licensee, the Authority and interested parties in a transparent manner; and

- (e) the assessment of customer satisfaction derived from the services provided by the licensee as part of its transportation business;

collectively the “objectives”.

5. Save where the Authority otherwise consents, when submitting its network output measures methodology proposal for approval by the Authority in accordance with paragraph 2, the licensee shall also provide the Authority with:
 - (a) analysis and reports relevant to the development of the network output measures methodology, including supporting data and models to indicate how the proposed methodology facilitates the objectives;
 - (b) a description of the data and treatment applied to that data used in the network output measures methodology; and
 - (c) historical data which was used in the network output measures methodology. Historical data should, where practicable, be provided for a period of at least ten years preceding the year in which the proposal is submitted.
6. The Authority shall review the proposed network output measures methodology submitted to it under paragraph 2 and shall consult with the licensee and where appropriate other interested parties.
7. If the Authority is satisfied that the network output measures methodology proposed by the licensee in accordance with paragraph 2 facilitates the objectives, the Authority shall approve the proposed network output measures methodology.
8. If the Authority is satisfied that the network output measures methodology proposed by the licensee in accordance with paragraph 2, if amended, would facilitate the objectives, the Authority may approve such proposed network output measures methodology with such amendments as the Authority shall direct.

9. If the Authority is not satisfied that the network output measures methodology proposed by the licensee in accordance with paragraph 2 facilitates the objectives, or if the Authority is not satisfied that the proposed methodology would facilitate the objectives if amended, the Authority shall issue a notice of disapproval of such proposed network output measures methodology. The Authority shall, in such a notice, provide reasons for such disapproval. The Authority shall also, after consulting with the licensee and other interested parties, direct the areas in which the licensee shall make improvements to the network output measures methodology that it has proposed, and the date by which the licensee shall propose to the Authority such an improved network output measures methodology.

Part C: Implementation of the Network Output Measures Methodology

10. Where the network output measures methodology has been approved by the Authority under paragraph 7 or 8 the licensee shall:
 - (a) from 1 April 2009, or such later date as the Authority may direct, record the data required for the application of the network output measures methodology together with the network output measures derived pursuant to it;
 - (b) in respect of the formula year commencing on 1 April 2009 (or such later date as the Authority may direct) and each subsequent formula year, submit a report on the network output measures to the Authority by 31 July (or such later date as the Authority may direct) of the year immediately following the end of the formula year to which the network output measures relate. The Authority will propose any corresponding specific reporting arrangements applicable to the network output measures in accordance with Standard Special Condition A40 (Price Control Review Information).
11. Where the network output measures methodology has been approved by the Authority under paragraph 8 the licensee shall, as soon as is reasonably practicable, also provide the Authority with the relevant data as specified under paragraph 5(c) reflecting the amendments to the proposed network output measures methodology as directed by the Authority.

Part D: Modification to the Network Output Measures Methodology

12. The licensee shall at all times keep the approved network output measures methodology under review to ensure that it facilitates the objectives.
13. The licensee shall, subject to paragraphs 14, 15 and 16, make such modifications to the approved network output measures methodology as may be required to better facilitate the objectives.
14. Except with the consent of the Authority, before making a modification to the network output measures methodology the licensee shall:
 - (a) consult interested parties and allow them a period of not less than 28 days within which to make written representations;
 - (b) furnish the Authority with a report setting out:
 - (i) the proposed modification to the approved network output measures methodology;
 - (ii) the representations (if any) made to the licensee and not withdrawn;
 - (iii) any changes to the modification proposed to the approved network output measures methodology proposed as a consequence of such representations;
 - (iv) how the proposed modification better facilitates the objectives;
 - (v) the data used to develop the modification to the network output measures methodology. Historical data should, where reasonably practicable, be provided for a period of at least ten years preceding the year in which the modification was proposed;
 - (vi) a timetable for implementation of the proposed modification provided that no such modification may be implemented earlier than the date on which the period referred to in paragraph 15 expires; and

- (c) Where the Authority has given a direction that sub-paragraphs 14(a) and/or 14(b) should not apply, comply with such other requirements that the Authority may specify in the direction in respect of proposals to modify the network output measures methodology.
15. Where the licensee has complied with the requirements of paragraph 14, it shall, unless the Authority has within 28 days of the report being furnished to it given a direction that the modification may not be made, implement the modification to the network output measures methodology. The Authority shall propose any corresponding changes to the specific reporting arrangements in accordance with Standard Special Condition A40 (Price Control Review Information).
16. The Authority may review the network output measures methodology (in consultation with the licensee and/or interested parties) and revisions to the network output measures methodology may be directed by the Authority in a manner specified in the directions and the licensee shall forthwith comply with any such directions. The Authority shall propose any corresponding changes to the specific reporting arrangements in accordance with Standard Special Condition A40 (Price Control Review Information).

Part E: General

17. For the purposes of this condition, “formula year” shall have the same meaning as given to that expression in special condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity).

Appendix 9 – Special Condition C25

Special Condition C25: Promoting competition in the provision to the licensee of Operating Margins services

1. The licensee shall use reasonable endeavours to promote competition in the provision of Operating Margins services to the licensee by 1 April 2009
2. In taking actions to meet its obligations pursuant to paragraph 1 of this condition, the licensee shall, wherever it is appropriate to do so, consult widely with interested parties.
3. (a) The licensee shall, from 31 October 2007 and thereafter by 30 April and 31 October in each year (unless the Authority otherwise directs), in respect of the previous six months ending on 31 March and 30 September in that year, provide the Authority with a summary in writing of:
 - (i) the actions the licensee has taken pursuant to its obligations under this condition during the previous six months;
 - (ii) the actions the licensee intends to take pursuant to its obligations under this condition in the six months immediately following the date of the summary is submitted to the Authority pursuant to paragraph 3 (a)(i); and

(b) Where the Authority considers that competition in the provision of Operating Margins services has been achieved before 1 April 2009, the Authority may direct that all obligations under paragraph 3(a)(i) of this condition shall cease to have effect.
4. In this condition, “Operating Margins” shall bear the meaning given to that term in the licensee’s network code as at 16 March 2007.