

To the Company Secretary:

1. National Grid Gas plc
Company No. 02006000
1-3 Strand
London
WC2N 5EH

2. Northern Gas Networks Limited
Company No. 05167070
1100 Century Way
Thorpe Park Business Park
Colton Leeds
LS15 8TU

3. Scotland Gas Networks plc;
Company No. SC264065
Inveralmond House
200 Dunkeld Road
Perth
Perthshire PH1 3AQ

4. Southern Gas Networks plc
Company No. 05167021
2 Leasons Hill St Mary Cray
Orpington
Kent
BR5 2TN

5. Wales & West Utilities Limited
Company No. 05046971
Wales & West House
Spoooner Close Coedkernew
Newport
South Wales
NP10 8FZ

SECTION 23 AND SECTION 38A(1)(b) OF THE GAS ACT 1986
MODIFICATION OF GAS TRANSPORTER LICENCES

AND

NOTICE OF THE REASONS FOR THE DECISION TO MODIFY EACH LICENCE

Whereas:

1. National Grid Gas plc, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc and Wales and West Utilities Limited ("the GDN Licensees") are the holders of gas transporter's licences granted under section 7 of the Gas Act 1986 in respect of their Gas Distribution Networks ("the GDN Licences") .
2. Pursuant to section 23(3) of the Act, the Gas and Electricity Markets Authority ("the Authority") gave notice on 18 June 2007 ("the Notice") proposing modifications to Part 1 b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) of each GDN licence and requiring any objections or modifications to be made on or before 16 July 2007.
3. Pursuant to section 23(4)(b) of the Act, the Authority sent a copy of the notice of its intention to modify the GDN Licences to the Secretary of State and did not receive by 16 July 2007 or at all a direction from the Secretary of State pursuant to section 23(5) of the Act not to make the modification.
4. The Authority received no objections and four representations (all from the five GDN Licensees and none of which was withdrawn) all of which accepted the modification and these representations have been duly considered and are available free of charge from the Ofgem Research and Information Centre (telephone: 02079017003) and on the Ofgem website at www.ofgem.gov.uk.
5. One GDN licensee represented that it was appropriate for the flat and flex capacity volume targets to be derived from the GDN Licensees' Business Plan Questionnaire submissions, while another GDN Licensee stated that it had reservations about the type of risk that the incentive scheme could expose the GDN Licensees to, but understood the rationale for extending the transitional incentive scheme to cover the 2010/11 gas year.
6. One GDN Licensee raised concerns about the Authority's proposals to reduce the Income Adjusted Event (IAE) threshold for the formula year t=7 from £1,500,000 to £1,000,000, and create a new IAE threshold for the formula year t=8 set at £1,500,000, and stated that the licence modification proposals were not consistent with the proposals set out in the main text of 'Final proposals on extended transitional NTS Exit capacity and interruption incentive and formal licence consultation under section 23 of the Gas Act 1986' Ofgem, 18 June 2007 document.
7. Pursuant to section 38A of the Act, and having duly considered all the representations received, the Authority's reasons for modifying the GDN Licences are set out in various documents including:

- a. 252/05 – ‘Final proposals on transitional incentive schemes and formal licence consultations under Section 23 of the Gas Act and paragraph 3(a) of Standard Special Condition A2’, Ofgem, November 2005;
- b. ‘NTS Exit capacity and interruption incentive for Gas Distribution Networks 2010/11’ Ofgem letter dated 10 May 2007;
- c. ‘Final proposals on extended transitional NTS Exit capacity and interruption incentive and formal licence consultation under section 23 of the Gas Act 1986’ Ofgem, 18 June 2007;

(all of which are available from the Ofgem Research and Information Centre (telephone: 02079017003) and on the Ofgem website at www.ofgem.gov.uk) and in summary, the reasons are to -

- i. Place incentives on each GDN to efficiently minimise NTS exit capacity booking and interruption payments to customers on their own networks up to and including the 2010/11 gas year (1 October – 30 September); and
 - ii. Set an NTS exit capacity incentive for the 2010/11 gas year which is compatible with the extension of the transitional offtake arrangements
8. Each of the five GDN Licensees has consented in writing to these modifications.
 9. All representations have been duly considered and the Authority is of the view that its decision in respect of the treatment of the IAE threshold under the extended transitional offtake period represents a continuation of the treatment of the IAE threshold under the existing transitional incentive scheme.
 10. In relation to the GDN’s representation set out in paragraph 6, the Authority notes that following its December 2005 consultation¹ on Income Adjusting Event thresholds for gas distribution networks, its decision letter, ‘Open letter on Income Adjusting Event thresholds for gas distribution networks’ of 8 March 2006 concluded that it would be appropriate to reduce the IAE threshold for each formula year for the duration of the transitional period from £2million to £1million.
 11. The Authority clarifies in relation to the representation in paragraph 6 that the transitional offtake period originally covered the gas years 2008/09 and 2009/10, and to account for these two gas years overlapping three price control formula years, the licence modification proposals under section 23 of the Act which were associated with the Open letter of March 2006 and which each GDN licensee consented to stated in part that;

‘The transitional period includes only six months of formula year t=5 and formula year t=7. As such, the revised threshold amounts for these formula years have been calculated so that the reduced threshold amount is assumed to apply proportionately to the formula year. This results in a revised threshold amount of £1,500,000 for formula year t=5 and formula year t=7. The revised threshold amount for formula year t=6 which falls entirely within the transitional period is £1,000,000.’

¹ Open letter on Income Adjusting Events thresholds for gas distribution networks – 266/05, Ofgem, December 2005

12. The Authority concludes regarding the representation in paragraph 6 that as a consequence of extending the transitional Exit capacity incentive scheme to cover the extended transitional offtake period up to 30 September 2011, the formula year t=7 now falls entirely within the transitional period, while the first six months of the formula year t=8 are now also included within this period and it is therefore consistent and proportionate to reduce the IAE threshold for formula year t=7 to £1,000,000, and apply an IAE threshold for formula year t=8 of £1,500,000 to reflect the fact only half of this formula year will be affected by the extended incentive scheme.

Now therefore:

Pursuant to the powers contained in section 23 of the Act, and with effect on and from 23 July 2007, the Authority HEREBY MODIFIES the gas transporter's licence (the "licence") granted or treated as granted under section 7 of the Act to each of the following gas distribution network gas transporters (each, the "GDN") –

- a National Grid Gas plc;
- b Northern Gas Networks Limited;
- c Scotland Gas Networks plc;
- d Southern Gas Networks plc; and
- e Wales and West Utilities Limited,

as described below and set out in Appendices 1-5 attached herewith by amending Part 1 b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) by –

- i adding in sub-paragraphs 8(5)(b)(ii) and 8(5)(b)(iii) respectively, columns and numerical values to the tables for each Distribution Network exit zone v in respect of formula year t=8 commencing 1 April 2011;
- ii adding in sub-paragraphs 8(5)(b)(ii) and 8(5)(b)(iii) respectively, additional exit zone specific targets to the tables for NTS exit flat capacity (NTSBAExC) and NTS exit flow flexibility (NTSBAExFF) for each GDN for the formula year t=8 (2011/12), consistent with the numbers detailed in the Appendices;
- iii altering in sub-paragraphs 8(5)(b)(ii) and 8(5)(b)(iii) respectively the date on and from which the values of each of the terms DNExCTC and DNExFFTC become zero, from 1 October 2010 to 1 October 2011;
- iv altering in sub-paragraphs 8(5)(c)(ii) and 8(5)(c)(iii) respectively, the date on and from which the values of each of DNExCDC and DNExFFDC become zero from 1 October 2010 to 1 October 2011;
- v altering sub-paragraph 8(6)(a) so that the income adjusting event threshold for the formula year t=7 commencing 1 April 2010 shall have the value £1,000,000, and for the formula year t=8 shall have the value of £1,500,000.

This document also constitutes under section 38A(1)(b) of the Act, notice of the reasons for the decision to modify the Licences.

The official seal of the Gas and Electricity Markets Authority is affixed herewith and is authenticated by



Handwritten signature of David Gray in black ink, written over a dotted line.

David Gray
Managing Director, Networks

Duly authorised on behalf of the Authority
23 July 2007



Appendix 1
Modification of Special Condition E2B of
National Grid Gas Plc's gas transporters licence

Special Condition E2B Part 1 b 8(5)(b)(ii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExC_{v,t} (GWh/d) Table)

North West Distribution Network

Distribution Network exit zone v	NTSBAExC _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NW1	335.28	340.13	347.80	348.01	233.83	235.58	294.34
NW2	210.02	211.87	216.63	219.04	344.73	347.16	285.32

East of England Distribution Network

Distribution Network exit zone v	NTSBAExC _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
EM1	87.61	90.11	92.09	92.92	113.88	115.35	80.53
EM2	95.43	96.25	97.03	98.22	107.31	108.69	118.33
EM3	285.35	290.08	294.18	297.55	277.06	280.63	309.67
EM4	19.09	19.42	19.50	19.63	21.00	21.27	16.52
EA1	37.66	38.80	39.70	40.28	40.78	41.58	43.57
EA2	41.60	42.59	43.32	43.82	46.29	47.08	45.79
EA3	62.21	63.96	65.16	66.09	76.66	71.16	49.04
EA4	224.16	229.55	233.68	236.33	230.17	241.50	260.35

West Midlands Distribution Network

Distribution Network exit zone v	NTSBAExC _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
WM1	74.90	76.17	77.52	80.48	114.18	115.63	128.07
WM2	246.32	250.53	254.96	255.06	240.55	243.62	226.23
WM3	129.59	131.79	134.14	134.67	122.53	123.56	111.37

London Distribution Network

Distribution Network exit zone v	NTSBAExC _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NT1	20.34	12.69	12.86	11.42	21.23	21.50	18.00
NT2	175.93	194.94	197.34	186.39	188.29	190.65	185.86
NT3	287.19	281.01	284.71	299.34	322.60	326.65	315.24

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_xCTC_v shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(b)(iii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExFF_{v,t} (GWh/d) table)

North West Distribution Network

Distribution Network exit zone v	NTSBAExFF _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NW1	6.30	8.19	8.71	9.31	22.82	23.61	15.15
NW2	8.32	8.45	8.74	8.79	15.08	15.11	25.76

East of England Distribution Network

Distribution Network exit zone v	NTSBAExFF _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
EM1	1.54	1.98	1.33	1.57	0.12	0.13	6.84
EM2	0.76	0.77	0.78	0.79	6.70	6.78	0.61
EM3	6.30	7.66	5.74	6.45	2.15	2.18	17.34
EM4	1.22	1.24	1.26	1.28	1.29	1.31	0.98
EA1	5.08	5.25	5.36	5.45	5.52	5.61	6.46
EA2	5.62	5.76	5.86	5.92	6.06	6.16	6.79
EA3	-0.64	-0.36	-0.14	0.07	0.75	0.76	0.00
EA4	-1.00	-0.43	0.02	0.44	0.29	0.30	-3.16

West Midlands Distribution Network

Distribution Network exit zone v	NTSBAExFF _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
WM1	1.44	1.61	1.81	1.74	-0.48	-0.48	-10.18
WM2	4.88	5.35	5.92	6.06	2.76	2.79	11.01
WM3	-5.06	-4.86	-4.56	-4.13	-2.65	-2.62	2.66

London Distribution Network

Distribution Network exit zone v	NTSBAExFF _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NT1	2.85	0.00	0.00	0.00	0.00	0.00	0.00
NT2	0.00	0.00	0.00	0.00	-5.57	-4.48	-6.28
NT3	8.05	0.00	0.00	0.00	-9.48	-9.03	0.00

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_{ExFFTC}_t shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(c)(ii) & (iii) (The Distribution Network exit performance measure) (DNE_{ExCP}_t)

- (ii) The deemed costs in £million incurred by the licensee for NTS exit flat capacity DNE_{ExCDC}_t shall be calculated as follows:

$$DNE_{ExCDC}_t = \frac{\sum_{\text{all } v} \left[\sum_{\text{all } d} NTSRE_{ExCh}_{v,t,d} \times NTSM_{AExC}_{v,t} \right]}{100}$$

where:

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

NTSRE_{ExCh}_{v,t,d} has the meaning given to that term in paragraph 8(5)(b)(ii) of Part 1 b

of this condition;

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), $DNExCDC_t$ shall have the value zero (0).

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

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

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), $DNExFFDC_t$ shall have the value zero (0).

Special Condition E2B Part 1 b 8(6)(a) Determination of any adjustment factor to be applied to $DNMR_t$ ($DNIAE_t$)

- (a) An income adjusting event may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the network code;
 - (ii) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code); and
 - (iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 8(6)(i) of this condition,

where the event has, for relevant formula year t , increased or decreased the value of $DNExCP_t$ (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than:

- (aa) £1,500,000 for formula year $t=5$;
- (bb) £1,000,000 for formula year $t=6$;
- (cc) £1,000,000 for formula year $t=7$;
- (dd) £1,500,000 for formula year $t=8$; or
- (ee) £2,000,000 for any other formula year

(the "threshold amount"). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) above.

Appendix 2
Modification of Special Condition E2B of
Northern Gas Networks Ltd's gas transporters licence

Special Condition E2B Part 1 b 8(5)(b)(ii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExC_{v,t} (GWh/d) Table)

North of England Distribution Network

Distribution Network exit zone v	NTSBAExC _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NO1	243.32	247.23	250.04	254.86	249.74	252.23	250.88
NO2	26.37	26.70	26.97	27.18	28.08	28.45	30.08
NE1	220.57	223.72	226.29	228.08	242.52	245.72	246.05
NE2	60.69	61.39	61.94	62.40	66.7	67.58	69.33

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_xCTC_t shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(b)(iii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExFF_{v,t} (GWh/d) table)

North of England Distribution Network

Distribution Network exit zone v	NTSBAExFF _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NO1	-1.04	-0.46	-0.03	0.69	-2.36	-2.33	0.66
NO2	2.57	2.61	2.64	2.65	2.61	2.64	2.96
NE1	7.64	5.58	9.86	10.59	20.3	20.56	20.42
NE2	0.61	0.22	0.31	0.37	1.08	1.1	4.45

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_xFFTC_t shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(c)(ii) & (iii) The Distribution Network exit performance measure (DNE_xCP_t)

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

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

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), $DNExCDC_t$ shall have the value zero (0).

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

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

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), $DNExFFDC_t$ shall have the value zero (0).

Special Condition E2B Part 1 b 8(6)(a) Determination of any adjustment factor to be applied to $DNMR_t$ ($DNIAE_t$)

- (a) An income adjusting event may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the network code;
 - (ii) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code); and
 - (iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 8(6)(i) of this condition,

where the event has, for relevant formula year t , increased or decreased the value of $DNExCP_t$ (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than:

(aa) £1,500,000 for formula year $t=5$;

(bb) £1,000,000 for formula year $t=6$;

- (cc) £1,000,000 for formula year $t=7$;
- (dd) £1,500,000 for formula year $t=8$; or
- (ee) £2,000,000 for any other formula year

(the "threshold amount"). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) above.

Appendix 3
Modification of Special Condition E2B of
Scotland Gas Networks plc's gas transporters licence

Special Condition E2B Part 1 b 8(5)(b)(ii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExC_{v,t} (GWh/d) Table)

Scotland Distribution Network

Distribution Network exit zone v	NTSBAExC _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
SC1	53.47	58.73	59.73	60.67	55.53	56.08	54.33
SC2	67.08	69.19	72.71	74.18	75.97	77.04	63.88
SC4	237.59	242.77	245.32	249.23	245.95	248.90	242.74

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNExCTC_i shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(b)(iii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExFF_{v,t} (GWh/d) table)

Scotland Distribution Network

Distribution Network exit zone v	NTSBAExFF _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
SC1	4.88	6.30	6.00	5.71	6.17	6.23	3.62
SC2	7.46	7.71	8.09	8.24	8.31	8.39	8.66
SC4	12.21	12.93	13.57	14.32	13.94	14.08	5.79

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNExFFTC_i shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(c)(ii) & (iii) The Distribution Network exit performance measure (DNE_xCP_t)

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

$$DNE_{x}CDC_{t} = \frac{\sum_{\text{all } v} \left[\sum_{\text{all } d} NTSRE_{x}Ch_{v,t,d} \times NTSM_{A}E_{x}C_{v,t} \right]}{100}$$

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_xCDC_t shall have the value zero (0).

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

$$DNE_{x}FFDC_{t} = \frac{\sum_{\text{all } v} \left[\sum_{\text{all } d} NTSRE_{x}Ch_{v,t,d} \times NTSM_{A}E_{x}FF_{v,t} \right]}{100}$$

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), $DNExFFDC_t$ shall have the value zero (0).

Special Condition E2B Part 1 b 8(6)(a) Determination of any adjustment factor to be applied to $DNMR_t$ ($DNIAE_t$)

- (a) An income adjusting event may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the network code;
 - (ii) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code); and
 - (iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 8(6)(i) of this condition,

where the event has, for relevant formula year t , increased or decreased the value of $DNExCP_t$ (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than:

- (aa) £1,500,000 for formula year t=5;
- (bb) £1,000,000 for formula year t=6;
- (cc) £1,000,000 for formula year t=7;
- (dd) £1,500,000 for formula year t=8; or
- (ee) £2,000,000 for any other formula year

(the "threshold amount"). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) above.

Appendix 4
modification of Special Condition E2B of
Southern Gas Networks plc's gas transporters licence

Special Condition E2B(8)(5)(b)(ii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExC_{v,t} (GWh/d) Table)

Southern Distribution Network

Distribution Network exit zone v	NTSBAExC _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
SE1	412.86	416.30	419.01	421.10	454.73	460.09	472.83
SE2	107.71	108.81	109.67	110.19	102.46	103.67	95.69
SO1	114.77	116.37	116.54	121.22	120.72	121.88	124.64
SO2	280.67	286.44	297.99	298.56	308.34	313.89	320.16

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_xCTC_t shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(b)(iii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExFF_{v,t} (GWh/d) table)

Southern Distribution Network

Distribution Network exit zone v	NTSBAExFF _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
SE1	0.00	0.00	0.00	0.00	0.00	0.00	4.93
SE2	0.00	0.00	0.00	0.00	0.00	0.00	3.26
SO1	8.43	7.49	5.66	3.17	5.22	5.30	3.57
SO2	5.06	7.50	6.45	7.59	7.54	7.66	11.80

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_xFFTC_t shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(c)(ii) & (iii) The Distribution Network exit performance measure (DNE_xCP_t)

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

$$DNE_{x}CDC_{t} = \frac{\sum_{\text{all } v} \left[\sum_{\text{all } d} NTSRE_{x}Ch_{v,t,d} \times NTSM_{A}E_{x}C_{v,t} \right]}{100}$$

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_xCDC_t shall have the value zero (0).

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

$$DNE_{x}FFDC_{t} = \frac{\sum_{\text{all } v} \left[\sum_{\text{all } d} NTSRE_{x}Ch_{v,t,d} \times NTSM_{A}E_{x}FF_{v,t} \right]}{100}$$

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), $DNExFFDC_t$ shall have the value zero (0).

Special Condition E2B Part 1 b 8(6)(a) Determination of any adjustment factor to be applied to $DNMR_t$ ($DNIAE_t$)

- (a) An income adjusting event may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the network code;
 - (ii) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code); and
 - (iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 8(6)(i) of this condition,

where the event has, for relevant formula year t , increased or decreased the value of $DNExCP_t$ (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than:

- (aa) £1,500,000 for formula year t=5;
- (bb) £1,000,000 for formula year t=6;
- (cc) £1,000,000 for formula year t=7;
- (dd) £1,500,000 for formula year t=8; or
- (ee) £2,000,000 for any other formula year

(the "threshold amount"). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) above.

Appendix 5
Modification of Special Condition E2B of
Wales and West Utilities Ltd's gas transporters licence

Special Condition E2B Part 1 b 8(5) (b) (ii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExC_{v,t} (GWh/d) Table)

Wales and West Distribution Network

Distribution Network exit zone v	NTSBAExC _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
SW1	36.49	37.69	38.26	38.72	39.12	39.76	39.49
SW2	157.03	162.17	164.62	166.65	168.96	171.76	173.07
SW3	90.86	93.83	95.24	96.72	97.69	99.31	99.34
WA1	51.71	52.92	53.94	54.81	53.78	54.55	54.06
WA2	187.30	190.82	193.68	195.98	198.25	200.05	242.30

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_{ExCTC}_t shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5) (b) (iii) (Restriction of revenue in respect of the Distribution Network transportation activity)

(NTSBAExFF_{v,t} (GWh/d) table)

Wales and West Distribution Network

Distribution Network exit zone v	NTSBAExFF _{v,t} (GWh/d)						
	t=2	t=3	t=4	t=5	t=6	t=7	t=8
SW1	1.76	1.99	2.09	2.18	2.13	2.23	2.29
SW2	4.13	4.54	4.73	4.92	5.38	5.62	5.98
SW3	3.87	4.62	4.96	2.81	3.69	4.00	4.11
WA1	0.00	0.00	0.00	0.00	0.00	0.00	0.00
WA2	0.00	0.00	0.00	-0.01	0.00	0.00	0.98

...

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_{ExFFTC}_t shall have the value zero (0).

...

Special Condition E2B Part 1 b 8(5)(c)(ii) & (iii) The Distribution Network exit performance measure (DNE_xCP_t)

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

$$DNE_{x}CDC_{t} = \frac{\sum_{\text{all } v} \left[\sum_{\text{all } d} NTSRE_{x}Ch_{v,t,d} \times NTSM_{A}E_{x}C_{v,t} \right]}{100}$$

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), DNE_xCDC_t shall have the value zero (0).

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

$$DNE_{x}FFDC_{t} = \frac{\sum_{\text{all } v} \left[\sum_{\text{all } d} NTSRE_{x}Ch_{v,t,d} \times NTSM_{A}E_{x}FF_{v,t} \right]}{100}$$

where:

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

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

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

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

However, for all days from 1 October 2011 (or such date that the Authority otherwise directs in writing), $DNExFFDC_t$ shall have the value zero (0).

Special Condition E2B Part 1 b 8(6)(a) Determination of any adjustment factor to be applied to $DNMR_t$ ($DNIAE_t$)

- (a) An income adjusting event may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the network code;
 - (ii) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code); and
 - (iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 8(6)(i) of this condition,

where the event has, for relevant formula year t , increased or decreased the value of $DNExCP_t$ (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than:

- (aa) £1,500,000 for formula year t=5;
- (bb) £1,000,000 for formula year t=6;
- (cc) £1,000,000 for formula year t=7;
- (dd) £1,500,000 for formula year t=8; or
- (ee) £2,000,000 for any other formula year

(the "threshold amount"). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) above.

