

## Schedule 1

### **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 Condition C8B (NTS transportation owner activity revenue restriction) to Special Condition C8G (NTS System Operator internal incentives, costs and revenues) inclusive, with the exception of Annex A to Special Condition C8D (NTS gas entry incentives, costs and revenues), the following shall apply:

(a) defined terms:

additional firm entry capacity	means that volume of firm entry capacity that is in excess of the prevailing level of firm entry capacity;
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;
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;
baseline obligated entry capacity	means: (a) for the purpose of the term $PREVIBEnC_i$ in paragraph 9(c)(i) of Special Condition C8D (NTS gas entry incentives, costs and revenues), non-incremental obligated entry capacity for which the licensee receives a revenue entitlement pursuant to paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction); or (b) for the purpose of the term $IBEnC_{i,m,h}$ in paragraph 9(c)(ii) of Special Condition C8D (NTS gas entry incentives, costs and revenues), that part of non-incremental obligated entry capacity that has not been adjusted for entry capacity substitution and

for which the licensee receives a revenue entitlement pursuant to paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction);

clearing allocation	means in respect of an NTS entry point and period, an allocation of entry capacity which either: (a) results in all the capacity offered for sale being sold; or (b) 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;
contractual delivery	means:  (a) for the purposes of Special Condition C8D (NTS gas entry incentives, costs and revenues), that date, being the first day of month m, that the licensee has entered into agreements to first provide incremental obligated entry capacity;  (b) for the purposes of Special Condition C8E (NTS gas exit incentives, costs and revenues), that date that the licensee has entered into agreements to first provide NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity;
cumulative funded incremental obligated entry capacity	means the sum of funded incremental obligated entry capacity that the licensee is obliged to offer for sale.
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;

delivered means the date of delivery for NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity which has been agreed by the licensee with the relevant shippers or DN operators or has been directed in writing by the Authority;

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:

<b>Distribution Network</b>	<b>Local Distribution Zone (LDZ)</b>
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	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation);
enduring exit period	means the period from 1 October 2011 (or such later date as the Authority may direct from time to time in writing);
entry capacity	at an NTS entry point is capacity in the NTS which a relevant shipper is treated as utilising in delivering gas to the NTS (and the total system) at that point;
entry capacity substitution	means the process by which unsold non-incremental obligated entry capacity is moved from one or more NTS entry points to meet the demand for incremental obligated entry capacity at another NTS entry point, in accordance with the obligations set out in paragraph 10 of Special Condition C8D (NTS gas entry incentives, costs and revenues);
entry capacity trade	means the process by which sold firm entry capacity is moved from one or more NTS entry points to meet the demand for firm entry capacity at another NTS entry point, in accordance with the obligations set out in paragraph 12 of Special Condition C8D (NTS gas entry incentives, costs and revenues);
entry capacity trade rate	means the exchange rate, which shall represent the amount by which firm entry capacity at NTS entry point i would need to be reduced so as to provide one additional unit of firm entry capacity at another NTS entry point, used for the purposes of entry capacity trade and

	determined in accordance with the entry capacity trade methodology established pursuant to paragraph 12 of Special Condition C8D (NTS gas entry incentives, costs and revenues);
entry capacity transfer	means the process by which unsold obligated entry capacity is moved from one or more NTS entry points to to meet the demand for firm entry capacity at another NTS entry point where all obligated entry capacity has been sold, in accordance with the obligations set out in paragraph 11 of Special Condition C8D (NTS gas entry incentives, costs and revenues);
entry capacity transfer rate	means the exchange rate, which shall represent the amount by which firm entry capacity at NTS entry point i would need to be reduced so as to provide one additional unit of firm entry capacity at another NTS entry point, used for the purposes of entry capacity transfer and determined in accordance with the entry capacity transfer methodology established pursuant to paragraph 11 of Special Condition C8D (NTS gas entry incentives, costs and revenues);
exit capacity revision	means the process by which the level of NTS baseline flat exit capacity and NTS baseline flow flexibility is modified as a consequence of: <ul style="list-style-type: none"> <li>(a) the release of incremental obligated entry capacity that changes the availability of NTS exit capacity; or</li> <li>(b) the release of NTS obligated incremental exit flat capacity that changes the availability of NTS exit flow flexibility,</li> </ul> <p>in accordance with the obligations set out in paragraph 4(c) of Special Condition C8E (NTS gas exit incentives, costs and revenues);</p>
exit capacity substitution	means the process by which unsold NTS baseline exit

	flat capacity is moved between NTS exit points such that the level of NTS obligated incremental exit flat capacity and NTS obligated incremental flow flexibility is minimised, in accordance with the obligations set out in paragraph 4(b) of Special Condition C8E (NTS gas exit incentives, costs and revenues);
exit period	means the interim exit period, transitional exit period and enduring exit period;
firm entry capacity	means entry capacity other than interruptible entry capacity;
formula month	means a period commencing at 06:00 in the 1 <sup>st</sup> day of a calendar month and ending at 06:00 on the 1 <sup>st</sup> day of the subsequent calendar month.
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;
funded incremental obligated entry capacity	means: <ul style="list-style-type: none"> <li>(a) that part of incremental obligated entry capacity for which the licensee receives a revenue entitlement pursuant to paragraph 2 of Special Condition C8D (NTS gas entry incentives, costs and revenues) and for which the obligation to offer such capacity for sale commenced on or after 1 April 2007; or</li> <li>(b) incremental obligated entry capacity for which the licensee receives a revenue entitlement pursuant to Annex A of Special Condition C8D (NTS gas entry incentives, costs and revenues) and for which the obligation to offer such capacity for sale commenced before 1 April 2007.</li> </ul>
gigawatt hour or GWh	means one million kilowatt hours;

incremental entry capacity	means firm entry capacity other than non-incremental obligated entry capacity;
incremental entry capacity services	means the undertaking of engagements relating to the provision of entry capacity other than non-incremental obligated entry capacity;
incremental exit capacity services	means the undertaking of engagements relating to the provision of NTS incremental exit capacity;
incremental obligated entry capacity	means that additional firm entry capacity which the licensee is required to offer for sale following the implementation of a proposal made by the licensee in accordance with paragraph 9(f) of Special Condition C8D (NTS gas entry incentives, costs and revenues). For the avoidance of doubt, incremental obligated entry capacity comprises additional firm entry capacity which is either subsequently treated as funded incremental obligated entry capacity or non-incremental obligated entry capacity (where that capacity has been provided by entry capacity substitution);
interim exit period	means the period up to and including 30 September 2008 (or such later date as the Authority may direct from time to time in writing);
interruptible entry capacity	means entry capacity that may be subject to curtailment by the licensee pursuant to the provisions relating to interruption under 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:

- (a) for the purposes of paragraph 3(c) of Special Condition C8B (NTS transportation owner activity revenue restriction), 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 (NTS transportation owner activity revenue restriction) the capital expenditure incurred by the licensee in respect of those items referred to in those paragraphs.

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-incremental obligated entry capacity

means obligated entry capacity other than cumulative funded incremental obligated entry capacity;

non-obligated entry capacity

means firm entry capacity other than obligated entry capacity;

NTS baseline exit flat capacity

means the relevant values for NTS baseline exit flat capacity, which:

- (a) in respect of the interim exit period and transitional exit period, specified in table 1 of Annex A of Special Condition C8E (NTS gas exit incentives, costs and revenues); and
- (b) in respect of the enduring exit period, specified in table 2 of Annex A of Special Condition C8E

(NTS gas exit incentives, costs and revenues) or as may be set out within the NTS exit capacity baseline statement established pursuant to paragraph 4(a) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

NTS baseline exit flow flexibility means the NTS baseline exit flow flexibility, in respect of each period and each zone, as may be determined by the licensee such that the total amount across all zones in Great Britain shall be 238 GWh per day, unless the Authority otherwise directs in writing. In the enduring exit period, the values of NTS baseline exit flow flexibility shall be as set out in the NTS exit capacity baseline statement established pursuant to paragraph 4(a) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

NTS baseline exit shipper capacity means the relevant values for NTS baseline exit shipper capacity, in respect of the interim exit period and transitional exit period, specified in table 1 of Annex A of Special Condition C8E (NTS gas exit incentives, costs and revenues);

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

NTS exit capacity baseline statement means the statement prepared by the licensee pursuant to paragraph 4(a) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

NTS 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);
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 incremental exit capacity	means the sum of NTS incremental exit flat capacity, NTS incremental exit flow flexibility and NTS incremental exit shipper 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 incremental exit shipper capacity	means that NTS exit shipper capacity in excess of NTS baseline exit shipper capacity;
NTS non-obligated exit capacity	means NTS non-obligated incremental exit flat capacity, NTS non-obligated incremental exit flow flexibility and NTS short term interruptible exit capacity;
NTS non-obligated incremental exit flat capacity	means NTS exit flat capacity other than NTS baseline exit flat capacity and NTS obligated incremental exit flat capacity;
NTS non-obligated incremental exit flow flexibility	means NTS exit flow flexibility other than NTS baseline exit flow flexibility and NTS obligated incremental exit flow flexibility;
NTS obligated incremental exit flat capacity	means NTS incremental exit flat capacity registered or capable of being registered from 1 October 2011 onwards (or such date that the Authority otherwise directs in

	writing) for which a long term signal has, at any time, been received consistent with the methodology published pursuant to paragraph 1 of Special Condition C18 (Licensee’s methodology for determining the release of exit capacity volumes);
NTS obligated incremental exit flow flexibility	means NTS incremental exit flow flexibility registered or capable of being registered from 1 October 2011 onwards (or such date that the Authority otherwise directs in writing) for which the Authority has given prior consent and for which a long term signal has, at any time, been received consistent with the methodology published pursuant to paragraph 1 of Special Condition C18 (Licensee’s methodology for determining the release of exit capacity volumes);
NTS short term interruptible exit capacity	means NTS exit capacity subject to NTS exit capacity curtailment rights, but shall exclude NTS exit capacity for which the licensee has secured NTS exit capacity curtailment rights through long term contracts entered into with DN operators or gas shippers in order to reduce capital expenditure incurred in relation to the delivery of such NTS exit capacity;
NTS SO activity	shall have the meaning given to the term NTS system operation activity;
NTS SO revenue	shall have the meaning given to the term NTS system operation revenue;
NTS system operation 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 operation 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 activity	shall have the meaning given to the term NTS transportation owner activity;
NTS TO revenue	shall have the meaning given to the term NTS transportation owner revenue;
NTS transportation owner 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	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 unsold obligated entry capacity and sold obligated entry capacity;
physically delivered	shall mean that date when: <ul style="list-style-type: none"> <li>(a) the licensee is first able to accept gas properly tendered for delivery by any gas shipper; or</li> <li>(b) the Authority has deemed (in response to a request made by a relevant shipper or the licensee) that the</li> </ul>

capacity has been delivered.

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;
Quarry and loss development claims	<p>Any settled claims over 2007-12 which have been demonstrably challenged by NGG NTS as far as is reasonable regarding both the basis of the claim and the quantum of compensation sought. For avoidance of doubt the following claims under the terms of the Deed of Easement may be logged up:</p> <ul style="list-style-type: none"><li>(a) loss of crop and drainage;</li><li>(b) loss of land development e.g. housing, quarrying etc</li><li>(c) sterilised minerals;</li><li>(d) landfill and tipping; and</li><li>(e) power generation.</li></ul>
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;
retail prices index	shall have the same meaning as is given to that term in Standard Special Condition A3 (Definitions and Interpretation);
revenue restriction conditions	means the Special Conditions C8B (NTS transportation owner activity revenue restriction), C8C (NTS System Operation Activity Revenue Restriction), C8D (NTS gas

	entry incentives, costs and revenues), C8E (NTS gas exit incentives, costs and revenues), C8F (NTS System Operator external incentives, costs and revenues) and C8G (NTS System Operator internal incentives, costs and revenues) of this licence;
sold obligated entry capacity	means the firm entry capacity that has been sold or is deemed to have been sold by the licensee for use on day d in month m, for which the licensee had an obligation to offer such capacity for sale during all days up to but excluding the day that is w days in advance of day d in month m, being that capacity determined in relation to the term $SOEnC_{i,d,m,w}$ pursuant to paragraph 9(a) of Special Condition C8D (NTS gas entry incentives, costs and revenues).
storage connection point	has the meaning given to that term in the network code;
supply of Distribution Network services	means the undertaking and performance for gain or reward of engagements: <ul style="list-style-type: none"> <li>a) in connection with the conveyance of gas through the Distribution Network;</li> <li>b) for the prevention of the escape of gas which has been taken off the Distribution Network; and</li> <li>c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of: <ul style="list-style-type: none"> <li>(i) the balancing of the Distribution Network through the acquisition or disposal of gas to replace gas lost from the Distribution Network; and</li> <li>(ii) facilitating constraint management;</li> </ul> </li> </ul>
supply of NTS services	means the undertaking and performance for gain and

reward of engagements:

- (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;
transitional exit period	means the period from 1 October 2008 (or such later date as the Authority may direct from time to time in writing) up to and including 30 September 2011 (or such later date as the Authority may direct from time to time in writing);
transportation system	means the system (having the meaning given to that term in the network code) to which this licence relates; and
unsold obligated entry capacity	means the firm entry capacity for which the licensee has an obligation to offer such capacity for sale during the day that is $w$ days in advance of day $d$ in month $m$ , for use on day $d$ in month $m$ , as calculated pursuant to paragraph 9(a) of Special Condition C8D (NTS gas entry incentives, costs and revenues).

(b) mathematical expressions:

	used in formulae means “such that”.
$\forall$	means “for all”.
$\sum_{\text{all } y}$	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;
$\sum_{\text{all } m}$	means the sum across all months m in formula year t;
$\sum_{z=a}^b f_z$	means the sum for all values of z from a to b of some variable or function $f_z$ such that the sum of $f_z = f_a + f_{a+1} + f_{a+2} + \dots + f_b$
$\sum_{z \in C} f_z$	means the sum for all situations in which z meets some condition C of a variable or function $f_z$
$\sum_{v, n-1}$	means the sum across all variation events v up to the end of day n-1;
$FPI_m^d$	means the number of days between the start of the formula period beginning 1 April 2002 and day d in month m (and for the avoidance of doubt when day d in month m is 1 April 2002 $FPI_m^d$ shall have the value zero(0));

$FPI_{(m-p)}^1$  means the number of days between the start of the formula period beginning 1 April 2002 and the first day of month (m-p) (and for the avoidance of doubt when the first day of month (m-p) is 1 April 2002  $FPI_{(m-p)}^1$  shall have the value zero (0));

$FP2_{(m-p)}^1$  means the number of days between the start of the formula period beginning 1 April 2007 and the first day of month (m-p) (and for the avoidance of doubt when the first day of month (m-p) is 1 April 2007  $FP2_{(m-p)}^1$  shall have the value zero (0));

$m(n)$  returns the value of the month corresponding to date n. For example, where  $n = 1$  April 2007,  $m(1 \text{ April } 2007)$  gives the value 61.

$MAX [x_1, x_2, x_3 \dots, x_n]$  Takes the value of the highest of the set of values  $\{x_1, x_2, x_3, \dots, x_n\}$

$MAX_{x|C} \{a_x\}$  Takes the maximum value taken by the variable  $a_x$  as evaluated for each value taken by x where x meets a certain condition C.

$MIN [x_1, x_2, x_3 \dots, x_n]$  Takes the value of the lowest of the set of values  $\{x_1, x_2, x_3, \dots, x_n\}$

$MIN_{x|C} \{a_x\}$  Takes the minimum value taken by the variable  $a_x$  as evaluated for each value taken by x where x meets a certain condition C;

$PIT_t$  shall take the meaning set out in paragraph 3(a) in Special Condition C8B (NTS transportation owner activity revenue restriction);

subscript d	means the relevant day. d=1 refers to the day commencing at 06:00 on 1 <sup>st</sup> April 2002;
subscript m	means the relevant formula month. m=1 refers to the formula month commencing at 06:00 on 1 <sup>st</sup> April 2002;
subscript n	means the day relevant for the purposes of determining the licensee's entry lead time deferment volume entitlement and the licensee's exit lead time deferment volume entitlement. n=1 refers to the day commencing at 06:00 on 1 <sup>st</sup> April 2007;
subscript t	means the relevant formula year. t=1 refers to the formula year commencing at 06:00 on 1 <sup>st</sup> April 2002;
y(d)	returns the value of the formula year corresponding to day d. For example, if d = 1 April 2007 then y(1 April 2007) gives the value 6; and
y(m)	returns the value of the formula year corresponding to month m. For example, if m = April 2007 then y(April 2007) gives the value 6.

- 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 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 (The NTS transportation owner activity revenue restriction) to C8G (NTS System Operator internal incentives, costs and revenues) 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 those revenues it has earned and those costs it has incurred in respect of the transportation business to the appropriate category set out below:
  - (a) the NTS transportation owner activity (as defined in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation activity and NTS system operation activity)); or
  - (b) the NTS system operation activity (as defined in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation activity and NTS system operation activity)); or
  - (c) the metering activities (as defined in Standard Special Condition A3 (Definitions and Interpretation)); or
  - (d) excluded services in accordance with the principles set out in Special Condition C10 (Excluded Services).
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 paragraphs 1 and 2 of this condition and consistently with its other duties under the Act, and the Standard Conditions, Standard Special Conditions 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.
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 31<sup>st</sup> 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 the previous formula year, complied with the statement prepared pursuant to paragraph 3 of this condition, or as may be directed in writing by the Authority pursuant to paragraph 4 of this condition, and whether any modification should be made to that statement to reflect more closely the business practices 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 use reasonable endeavours to comply with the statement for the time being in force pursuant to paragraph 3 and the 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:

“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 (Excluded Services).

“transportation business” means any activity or engagement undertaken by the licensee or any affiliate or related undertaking of the licensee relating 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 (as defined in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation activity and NTS system operation activity)) or its NTS SO activity (as defined in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation activity and NTS system operation activity)) in respect of which charges are made which:
  - (a) do not fall within paragraph 2 of this Special Condition; and
  - (b) may (subject to paragraph 5) be determined by the licensee as falling under one of the principles set out in paragraphs 3 to 4 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) Special Condition C8B (NTS transportation owner activity revenue restriction);
  - (b) Special Condition C8C (NTS system operation activity revenue restriction);
  - (c) Special Condition C8D (NTS gas entry incentives, costs and revenues);
  - (d) Special Condition C8E (NTS gas exit incentives, costs and revenues);
  - (e) Special Condition C8F (NTS System Operator external incentives, costs and revenues); and
  - (f) Special Condition C8G (NTS System Operator internal incentives, costs and revenues).
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 (Last Resort Supply: Payment Claims); 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 a direction to that effect. Where the Authority issues a direction, such service shall cease to be treated as an excluded service with effect from the date of issue of the direction or such earlier date as is specified in the direction (being not earlier than the commencement of the formula year to which the information relating to excluded services was last furnished to the Authority

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) related, unless such information, or any such information provided earlier, was incorrect or misleading in any material respect, as may be specified in the direction).

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

1. In this condition:

“incremental entry capacity” shall have 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)

2. The licensee shall before 1 July in each 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 duties 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 where appropriate the licensee’s obligations with respect to entry capacity substitution.
3. Unless the Authority otherwise consents, the incremental entry capacity release methodology 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 consistent with the licensee’s duties 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 use reasonable endeavours to apply the methodology set out in such statement from the earlier of:
  - (a) the date of receipt of a notice from the Authority approving the statement; or

- (b) the expiry of that two month period.
5. Except where the Authority directs otherwise or where paragraph 7 applies, before revising the incremental entry capacity release methodology statement the licensee shall:
- (a) send a copy of the proposed revisions to the Authority and to any person who asks for one;
  - (b) consult gas shippers and 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 sub-paragraph 5(ii) of this condition submit to the Authority a report setting out:
    - (i) the revisions originally proposed,
    - (ii) the representations (if any) made to the licensee,
    - (iii) 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 that 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:
- (a) where paragraph 5(d) of this condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph;
  - (b) 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(c) of this condition; or

- (c) if within the period referred to in paragraph 6(b) 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 parties likely to be affected by it 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 use reasonable endeavours 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.

12. For the purposes of this condition:

entry capacity substitution                      shall take the same meaning as is set out in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity) of this licence.

### **Special Condition C16: NTS performance reporting**

- 1 The principal purpose of this Special Condition is to secure the collection of information to an appropriate degree of accuracy, by the licensee so as to monitor the environmental performance of the NTS.
2. The licensee shall establish appropriate systems, processes and procedures to measure and record specified information from the dates specified in paragraph 4 of this condition and in accordance with regulatory instructions and guidance (including any associated information specified therein).
3. For the purposes of this condition:

“charging review date” means any date from which modifications to Special Condition C8B (The NTS transportation owner activity revenue restriction) relating to the NTS have effect:

- (a) whether before or after the date upon which the modifications are made; and
- (b) where such modifications have been proposed by the Authority following a review by the Authority of the NTS transportation owner activity revenue restriction in relation to the licensee;

“examiner” a person or persons nominated by the Authority to examine the systems, processes and procedures referred to in paragraph 2 and their operation, the specified information and the extent to which each complies, and is in accordance, with regulatory instructions and guidance;

“rechargeable diversions” means mains decommissioned or replaced at the request of a party other than the licensee and where the cost of the work is recovered or is expected to be recovered from that

party (or another) by the licensee;

“NTS transportation owner revenue restriction”

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

“regulatory instructions and guidance”

means any instructions and guidance issued by the Authority for the purposes of this Special Condition as may be modified from time to time by notice under paragraph 9 and may set out:

- (a) the establishment of different systems, processes, procedures and manners for providing and recording information and of standards for different classes of information;
- (b) a timetable for the development of the systems, processes and procedures required to achieve the appropriate standards of accuracy and reliability with which specified information shall be recorded;
- (c) the meaning of words and phrases used in defining specified information;
- (d) the recording of information associated with specified information which is reasonably necessary to enable an examiner to determine the accuracy and reliability of specified information;

- (e) the form and manner in which specified information shall be provided to the Authority; and
- (f) the manner in which specified information shall be recorded and as to the standards of accuracy and reliability with which it shall be recorded.

“specified information” means:

- (a) information regarding environmental measures including:
  - (i) methane emissions from the NTS in each formula year measured in kilograms per gigawatt hour in the form and manner specified in the regulatory instructions and guidance;
  - (ii) carbon dioxide emissions from gas powered compressor stations in each formula year measured in kilograms per gigawatt hour in the form and manner specified in the regulatory instructions and guidance; and
  - (iii) nitrogen oxide emissions from gas powered compressor stations in each formula year in the form and manner specified in the regulatory instructions and guidance.
- (b) an analysis of trends observable from the NTS environment measures.

- (c) supporting information including:
  - (i) information regarding all new connections from the NTS to premises or pipe-line systems operated by an authorised gas transporter to the NTS in the form and manner specified in the regulatory instructions and guidance;
  - (ii) information regarding all rechargeable diversions from the NTS in the form and manner specified in the regulatory instructions and guidance;
  - (iii) information regarding the accuracy of one and three-year ahead annual demand forecasts in the form and manner specified in the regulatory instructions and guidance; and
- (d) such other information as may from time to time be specified by the Authority, by direction to the licensee in accordance with paragraph 9.

4. The licensee shall collect specified information in respect of:

- (a) the matters specified in sub-paragraphs (a) to (c) of the definition of specified information from and including 1 April 2007; and
- (b) any matter specified under sub-paragraph (d) of that definition from the date specified in a direction given in accordance with paragraph 9.

5. (a) The licensee shall provide to the Authority the information referred to in sub-paragraphs (a) to (c) of the definition of specified information on or before 31 July 2008 and 31 July in each subsequent formula year (or such

later date as the Authority may direct in writing) in respect of the period of 12 months ending on the 31 March of the preceding formula year; and

- (b) the information referred to in sub-paragraph (d) of the definition of specified information in respect of such period and by such date as shall be specified in the relevant notice in accordance with that sub-paragraph.
6. The licensee shall permit an examiner to examine the systems, processes and procedures referred to in paragraph 2 and their operation, the specified information and the extent to which each complies, and is in accordance, with regulatory instructions and guidance.
  7. The licensee shall (and shall procure, insofar as it is able to do so, that any affiliate of the licensee, any person by whom it procures the performance of the obligation in paragraph 2 and any auditor of such person or of the licensee shall) cooperate fully with an examiner so as to enable him to carry out, complete and report to the Authority on any examination carried out in accordance with paragraph 6.
  8. The licensee's obligation under paragraph 7 to cooperate or procure cooperation with an examiner shall include, without limitation and insofar as necessary or expedient for such purpose, in each case subject to reasonable prior notice to the licensee:
    - (a) providing access to management, employees, agents or independent contractors of the licensee sufficient to enable the examiner to make any enquiries and to discuss any matters which he reasonably considers to be relevant to the carrying out of the examination;
    - (b) giving to the examiner access at reasonable hours to any premises occupied by the licensee or any other person in performing the obligations set out in this condition; and
    - (c) allowing the examiner at reasonable hours:

- (i) to inspect and make copies of, and take extracts from, any documents and records of the licensee maintained in relation to specified information (other than information which is subject to legal privilege);
- (ii) to carry out inspections, measurements and tests on or in relation to any systems maintained and operated for or in relation to the requirements of this condition; and
- (iii) to take onto such premises or onto or into any assets used for the purpose of the NTS such other persons and such equipment as may be necessary or expedient for the purpose of carrying out the examination.

9. Where the Authority considers that the regulatory instructions and guidance should be modified to:

- (a) improve the presentation or style of the requirements of those regulatory instructions and guidance;
- (b) further clarify the meaning of words and phrases used within such requirements to define the information to be provided;
- (c) improve the form or manner in which such information is to be provided under such requirements; or
- (d) introduce additional categories of specified information or enlarge existing categories of specified information

in such ways as the Authority may reasonably require so as more effectively to achieve the principal purpose of this condition, the Authority may, subject to paragraphs 10 to 13, modify the regulatory instructions and guidance by issuing a direction for that purpose to the licensee.

10. Before issuing a direction under paragraph 9, the Authority, by notice given to the licensee, 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 the effect of the modification, and the reasons for proposing it; and
  - (c) specify the time (not being less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modifications may be made

and the Authority shall consider any representations or objections which have been duly made and are not withdrawn, and give reasons for its decision.

11. Where any proposed modification of the regulatory instructions and guidance relates:
- (a) to a requirement under those regulatory instructions and guidance to provide specified information to a greater level of accuracy; or
  - (b) to the introduction into those regulatory instructions and guidance of an additional category of specified information

the Authority may not make that modification except with the consent of the licensee.

12. Any modification of the regulatory instructions and guidance made under paragraph 9 to enlarge an existing category of information may not have the effect of including within that category information that the licensee could not be required to provide to the Authority under paragraph 1 of Standard Special Condition A26 (Provision of Information to the Authority), excluding the effects of paragraph 8 of that condition.

13. The provision of the regulatory instructions and guidance may not exceed what may be reasonably required to achieve the purpose of this condition or purport to have effect with respect to the interpretation of any other condition of this licence or the fulfilment by the licensee of any obligation imposed in respect of any matter which is the subject of any such condition.
  
14. Nothing in this condition shall require the licensee to produce any documents or give information which it could not be compelled to produce or give in evidence in civil proceedings before a court.

### **Special Condition C17: Exit Code Statement**

1. Until 1 October 2011 (or such later date as the Authority may direct from time to time 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:
  - (a) 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
  - (b) 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.
3. 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 within 30 days of the date that the Authority issues its decision that this licence condition takes effect, 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 duties under the Act, and the standard, Standard Special and Special Conditions) the methodology by which it will determine how it will 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 duties under the Act, and the standard, Standard Special and Special Conditions.
3. 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 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:
  - (a) the date of receipt of a notice from the Authority approving the statement; or
  - (b) 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 or revising the exit capacity release methodology statement, the licensee shall:

- (a) 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;
  - (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(a) of this condition submit to the Authority a report setting out:
    - (i) the revisions originally proposed (if any),
    - (ii) the representations (if any) made to the licensee, and
    - (iii) any changes to the revisions;
  - (d) where the Authority directs that paragraphs 4(a), (b) and (c) of this condition or any of them shall not apply, comply with any such other reasonable 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 pursuant to paragraph 4, save that it shall not revise such statement:
- (a) where paragraph 4(d) of this condition applies, before the day specified in the direction made pursuant to that sub-paragraph;
  - (b) 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(c) of this condition; or
  - (c) if within the period referred to in paragraph 4(b) 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;
  - (ii) where appropriate, 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 exit capacity release methodology statement prepared pursuant to paragraph 1 of this condition;
  - (iii) any revision to the NTS exit capacity release methodology 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
  - (iv) 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 use reasonable endeavours 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.

## Schedule 2

### **Special Condition C8B: NTS transportation owner activity revenue restriction**

#### **1. The principal restriction**

- (a) The licensee shall use its best endeavours in setting its charges relating to the NTS TO activity to ensure that in respect of any formula year the NTS transportation owner revenue ( $TOR_t$ ) 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 stating the reasons why the NTS transportation owner revenue has exceeded the maximum NTS transportation owner revenue by more than 4 per cent and, in the next formula year, the licensee shall not effect any increase in charges relating to the NTS TO activity unless either:
- (aa) 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
- (bb) the Authority has, on the written application of the licensee, consented to such an increase in charges relating to the NTS TO activity.
- (ii) If, in respect of any two successive formula years, the sum of the NTS transportation owner revenues in those two successive formula years has exceeded the sum of the maximum NTS transportation owner revenues in the same two successive formula years by more than 6 per cent of the maximum NTS transportation owner revenue for the second of those formula years, then in the next formula year the licensee shall, if required by the Authority, adjust its charges relating to the NTS TO activity such that the NTS transportation owner revenue in that next formula year would not be likely in

the judgement of the Authority to exceed the maximum NTS transportation revenue in that next formula year.

## 2. NTS transportation owner revenue (TOR)

### (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 calculated using the following formula:

$$TOR_t = TOREVBEC_t + TOExR_t + TORCOM_t$$

where:

$TOREVBEC_t$  means that amount of NTS TO revenue in respect of formula year  $t$  that results from the sale of entry capacity and shall be calculated in accordance with paragraph 6(b) of Special Condition C8D (NTS gas entry incentives, costs and revenues).

$TOExR_t$  means that amount of NTS TO revenue in respect of formula year  $t$  that results from:

- (i) charges levied by the licensee on gas shippers and DN operators for the provision of NTS exit capacity that is allocated to the NTS TO activity; and
- (ii) the sale of NTS baseline exit shipper capacity, NTS baseline exit flat capacity and NTS baseline exit flow flexibility;

and shall be calculated in accordance with paragraph 2(a) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

TORCOM<sub>t</sub> means that amount of NTS TO revenue in respect of formula year t that results from:

- (i) charges levied by the licensee on gas shippers and DN operators pursuant to Standard Special Condition A4 (Charging– General); or
- (ii) payments made by the licensee to gas shippers and DN operators;

other than revenue earned by the licensee through TOREVBEC<sub>t</sub> and TOExR<sub>t</sub>.

### 3. Maximum NTS transportation owner revenue (TOMR)

#### (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<sub>t</sub>) shall be calculated using the following formula:

$$\text{TOMR}_t = \text{TOZ}_t - \text{TOZA}_t + \text{TOF}_t + \text{TOG}_t - \text{TOK}_t$$

where:

TOZ<sub>t</sub> means base NTS TO revenue and shall be calculated in the following manner:

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

$$\text{TOZ}_t = \text{£}460,400,000 \times \left[ 1 + \left( \frac{\text{RPI}_0}{100} \right) \right]$$

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

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

where:

RPI<sub>0</sub> 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

$TOZA_t$  means the base NTS TO revenue adjustment term made in the formula year t in respect of the Milford Haven pipe-line project and shall be calculated in accordance with the following formula:

$$TOZA_t = £9,500,000 \times PIT_t$$

where:

$PIT_t$  is the price indexation adjustment term, which shall

be calculated using the following formula:

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

where  $PIT_t$  shall take the value 1 in respect of the formula year commencing 1 April 2004 and  $RPI_t$  shall be as above.

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

$TOK_t$  means the NTS TO revenue adjustment term 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 term in respect of formula year t ( $TOF_t$ ) shall be calculated in the following manner:

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

where:

$Rate_t$  means the revenue adjustment term in the formula year t in respect of non domestic rates and shall, subject to sub-

paragraphs (ii) and (iii), be calculated in accordance with the following formula:

$$\text{Rate}_t = \text{NDRP}_t - \text{NDRA}_t$$

where:

$\text{NDRP}_t$  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

$\text{NDRA}_t$  means the NTS prescribed rates allowance that has been allowed for in setting  $\text{TOZ}_t$  and shall be calculated as follows:

$$\text{NDRA}_t = \text{TORB}_t \times \text{PIT}_t$$

where:

$\text{TORB}_t$  shall in each formula year t take the value £71,100,000 (in 2004/05 prices).

$\text{PIT}_t$  is the price indexation adjustment term, which shall be calculated in accordance with paragraph 3(a) of this condition.

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

$$L_t = \text{LP}_t - \text{LA}_t$$

where:

$LP_t$  means payments made by the licensee in respect of the NTS TO activity under Standard Condition 3 (Payments by the Licensee to the Authority) in respect of formula year t; and

$LA_t$  means the licence fee payments that have been allowed for in setting  $TOZ_t$  and shall be calculated 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 £2,500,000.

$DNPDC_t$  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 £26,530,000.

$IS_t$  means an amount directed (by no later than 31 March 2008) by the Secretary of State or the Authority in respect of arrangements associated with the conveyance to independent systems in respect of the formula year commencing on or after 1

April 2008, or in the absence of a direction by the Secretary of State or the Authority, shall take the value of zero;

- HISC<sub>t</sub> means the amount in respect of the recovery of costs incurred in respect of arrangements associated with the conveyance to independent systems in respect of the formula years commencing 1 April 2005, 1 April 2006 and 1 April 2007, and in the formula year commencing 1 April 2007 shall take a value as agreed in writing by the Authority and in each subsequent formula year shall take the value zero; and
- OPTC<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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)**

- (i) For the purposes of paragraph 3(a) of this condition, the NTS TO revenue adjustment term 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 term 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) in respect of 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:

$ptri$  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:

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

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

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

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

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

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

$$KIFI_t = 0$$

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:

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

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:

<b>Formula year commencing 1 April:</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
$CIR_n$	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:

<b>Formula year commencing 1 April:</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
$PVF_n$	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(a) 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
$BCx_n$	£470,300,000	£212,800,000	£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 obligated entry capacity (excluding that capital expenditure in relation to the Milford Haven pipeline system in respect of entry capacity released for sale during the allocation held between September 2004 and December 2004 (inclusive)) 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, LC<sub>x<sub>n</sub></sub> 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)**

- (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 calculated 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,

- (aa) 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 (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity) of this licence in the form in force as at 31 March 2007;
- (bb) 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,

- (aa) 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 (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity) of this licence in the form in force as at 31 March 2007;

- (bb) 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(f) of this condition.
- (b) The NTS transportation owner activity revenue restriction conditions or any part of them 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(e) or paragraph 4(f) 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(d) of this condition) from which the licensee wishes the Authority to agree that those conditions (or part or parts thereof) shall cease to have effect.
- (d) No disapplication following delivery of a disapplication request shall have effect until a date (the “disapplication date”) being 31 March of the first formula year that ends more than 18 months after the date of that disapplication request.
- (e) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of the conditions 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 such conditions or any part or parts thereof as are specified in the disapplication request with effect from 1 April in the formula year first commencing after the disapplication date.
- (f) 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 1 April in the formula year first commencing after the disapplication date.

## 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:

$$RelCx_t = \frac{Cx_t - SOCx_t - ESCx_t - LCx_t - MH_t}{PIT_t}$$

where:

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

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

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

$ESCx_t$  shall take the value of  $ESCx_n$  for formula year  $n=t$ , where  $ESCx_n$  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(a) 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  $0.8 \times (RelACx_t)$  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.
- (i) 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 Operation Activity Revenue Restriction**

### **1. Principal restriction**

- (a) The licensee shall use its best endeavours in setting its charges relating to the NTS SO activity to ensure that in respect of any formula year the NTS system operation revenue ( $SOR_t$ ) 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 provide to the Authority a written explanation stating the reasons why the NTS system operation revenue has exceeded the maximum NTS system operation revenue by more than 4 per cent and, in the next formula year, the licensee shall not effect any increase in charges 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 written application of the licensee, consented to such an increase in charges relating to the NTS SO activity.
  
- (c) If, in respect of any two successive formula years, the sum of the NTS system operation revenues in those two successive formula years has exceeded the sum of the maximum NTS system operation revenues in the same two successive formula years by more than 6 per cent of the maximum NTS system operation revenue for the second of those formula years, then in the next formula year the licensee shall, if required by the Authority, adjust its charges relating to the NTS SO activity such that the NTS system operation revenue in that next formula year would not be likely in the judgement of the Authority to exceed maximum NTS system operation revenue in that next formula year.

## 2. NTS system operation revenue (SOR)

### (a) Principal formula

For the purposes of paragraph 1 of this condition, the NTS system operation revenue in respect of formula year t ( $SOR_t$ ) shall be calculated using the following formula:

$$SOR_t = RCOM_t + SOExRF_t + SORCAP_t + SOROC_t$$

where:

$RCOM_t$  means that amount of NTS SO revenue in respect of formula year t that results from charges levied by the licensee 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 NTS 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<sub>t</sub> means that amount of NTS SO revenue in respect of formula year t that results from the sale of NTS exit capacity and shall be calculated in accordance with Special Condition C8E (NTS gas exit incentives, costs and revenues);

SORCAP<sub>t</sub> means that amount of NTS SO revenue in respect of formula year t that results from the sale of entry capacity and shall be calculated in accordance with paragraph (6)(a) of Special Condition C8D (NTS gas entry incentives, costs and revenues); and

SOROC<sub>t</sub> means that amount of NTS SO revenue in respect of formula year t that results from associated SO charges levied by the licensee and shall be calculated in accordance with paragraph 3(d)(i) of this condition.

### **3. Maximum NTS system operation revenue (SOMR<sub>t</sub>)**

#### **(a) Principal formula**

For the purposes of paragraph 1 of this condition, the maximum NTS system operation revenue in respect of formula year t (SOMR<sub>t</sub>) shall be calculated using the following formula:

$$\text{SOMR}_t = \text{SOEIRC}_t + \text{SOExIRC}_t + \text{SOOIRC}_t + \text{SOIntIRC}_t + \text{SORA}_t + \text{BBIOCA}_t + \text{DELINC}_t - \text{SOK}_t$$

where:

SOEIRC<sub>t</sub> means the NTS system operation entry incentive revenue and costs in respect of formula year t and shall be calculated 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 calculated 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 calculated 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 calculated 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 calculated in accordance with paragraph 3(b) of this condition; and

$BBIOCA_t$  means the buyback incentive overall collar adjustment in respect of formula year t and shall be calculated in accordance with the following formula:

(i) If  $(EnCOBBIR_t + EnCIBBIR_t + ExCBBIIIR_t) < (BBIODC \times PIT_t)$ , then:

$$BBIOCA_t = - (EnCOBBIR_t + EnCIBBIR_t + ExCBBIIIR_t - (BBIODC \times PIT_t))$$

(ii) If  $(EnCOBBIR_t + EnCIBBIR_t + ExCBBIIIR_t) \geq (BBIODC \times PIT_t)$ , then:

$$BBIOCA_t = 0$$

where:

EnCOBBIR<sub>t</sub> shall take the value for that term calculated in accordance with paragraph 3(a) of Special Condition C8D (NTS gas entry incentives, costs and revenues) of this licence;

EnCIBBIR<sub>t</sub> shall take the value for that term calculated in accordance with paragraph 5(a) of Special Condition C8D (NTS gas entry incentives, costs and revenues) of this licence;

ExCBBIR<sub>t</sub> shall take the value for that term calculated in accordance with paragraph 1(b) of Special Condition C8E (NTS gas exit incentives, costs and revenues) of this licence;

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

PIT<sub>t</sub> is the price index adjustment term and shall have the same meaning as in paragraph 3(a)(i) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence.

DELINC<sub>t</sub> shall take the value 0 other than in formula year commencing 1 April 2012 when it shall be calculated in accordance with the following formula:

$$\text{DELINC}_t = \text{RLTDVE}_n + \text{RLTDVE}_x$$

where:

$$\text{RLTDVE}_n = \text{MIN}[(\text{LTDVE}_{n_{\text{end}}} \times \text{£}5000), (\text{£}36,000,000 \times \text{PIT}_t)];$$

where:

LTDVE<sub>n<sub>end</sub></sub> means the value of LTDVE<sub>n</sub> (in GWh per day for each one month period) where day n is 31 March 2012.

where:

LTDVE<sub>n</sub> is defined as in paragraph 3(h) of Special Condition C8D (NTS gas entry incentives, costs and revenues)

of this licence;

$$RLTDVEx = \text{MIN}[(LTDVEx_{\text{end}} \times \text{£}274), (\text{£}3,000,000 \times \text{PIT}_t)];$$

where:

$LTDVEx_{\text{end}}$  means the value of  $LTDVEx_n$  (in GWh per day) where day  $n$  is 31 March 2012.

where:

$LTDVEx_n$  is defined as in paragraph 5 of Special Condition C8E (NTS gas exit incentives, costs and revenues) of this licence;

$SOK_t$  means the NTS SO revenue adjustment term equal to NTS system operation 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 operation 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 licensee serves a termination notice (having the meaning given to that term in the network code) on a gas shipper and the revenues derived by the licensee from the sale

of that obligated entry capacity 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  $t$ :

- (aa) 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; or

- (bb) increased or decreased the value of  $IOC_t$  (having the meaning given to that term in paragraph 1(b) of Special Condition C8G (NTS system operator internal incentives, costs and revenues)) or  $ICE_t$  (having the meaning given to that term in paragraph 1(c) of Special Condition C8G (NTS system operator internal incentives, costs and revenues)) by more than £1,000,000 (the “internal threshold amount”) and is demonstrably not included in  $IOIT_t$  or  $ICET_t$  respectively (having the meaning given to those terms in paragraphs 1(b) and 1(c) of Special Condition C8G (NTS system operator internal incentives, costs and revenues) respectively) for formula year  $t$ . This internal 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 sub-paragraphs 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, 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 of  $IOC_t$  or  $ICE_t$  (having the meaning given to those terms in paragraphs 1(b) and 1(c) of Special Condition C8G (NTS system operator internal incentives, costs and revenues) respectively) by more than the internal threshold amount, save in the case of sub-paragraphs 3(b)(i)(B) and 3(b)(i)(C) where the threshold amount and internal 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 adjustment ( $SORA_t$ ) 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 allowed income adjustment with the consent of the licensee, following consultation with the licensee and shippers. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (c) NTS SO revenue adjustment (SOK)**

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

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

where:

$SOR_{t-1}$  shall,

- (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 (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity) 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;

$SOMR_{t-1}$  shall,

- (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 (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity) 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  $(SOR_{t-1} - SOMR_{t-1})$  has a positive value, three (3), otherwise it shall take the value zero (0).

**(d) Associated SO charges ( $SOROC_t$ )**

(i) NTS SO revenue derived by the licensee through associated SO charges in respect of formula year t ( $SOROC_t$ ) shall be calculated from the following formula:

$$SOROC_t = RNC_t + RCOR_t + FTI_t + RLOC_t + RADD_t$$

where:

$RNC_t$  means the net revenue derived by the licensee in respect of formula year t from balancing neutrality charges (having the meaning given to that term in the network code);

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

$FTI_t$  means the revenue derived by the licensee in respect of

formula year t from charges levied on gas shippers and DN operators in respect of any failure to interrupt (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 from locational sell actions and physical renomination incentive charges (having the meaning given to that term in the network code); and

$RADD_t$  means any further 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 ( $EnCOBBIP_t$ ) as set out in paragraph 3(b) of Special Condition C8D (NTS gas entry incentives, costs and revenues).

#### **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(f) of this condition.
- (b) The NTS system operation activity revenue restriction conditions (or any part or parts thereof) 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 if notice is given to the Authority by the licensee in accordance with either paragraph 4(e) or paragraph 4(f) of this condition.
- (c) A disapplication request shall:
  - (ii) 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(d) of the condition) from which the licensee wishes the Authority to agree that the conditions (or part or parts thereof) shall cease to have effect.
- (d) No disapplication, following delivery of a disapplication request, shall have effect until a date (the “disapplication date”) being:
  - (i) in case of a disapplication request to Special Condition C8C (NTS System Operation Activity Revenue Restriction), Special Condition C8D (NTS gas entry incentives, costs and revenues), Special Condition C8E (NTS gas exit incentives, costs and revenues), Special Condition C8G (NTS System Operator incentives, costs and revenues), 31 March of the first formula year that ends more than 18 months after the date of the disapplication request; and
  - (ii) in case of a disapplication request which relates to Special Condition C8F (NTS System Operator external incentives, costs and revenues), the earlier of not less than 18 months after the date of that disapplication request and 31 March 2008.
- (e) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of the conditions or the part or parts thereof specified in the disapplication request before the beginning of the period of 6 months which will end on 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 such conditions (or any part or parts thereof) as are specified

in the disapplication request with effect from 1 April in the formula year first commencing after the disapplication date.

(f) 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 1 April in the formula year first commencing after the disapplication date.

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

### **PART A – The Gas Entry Revenue Restriction Calculations**

#### **1. Principal formula**

For the purposes of paragraph 3(a) of Special Condition C8C (NTS System Operation Activity Revenue Restriction) the NTS SO entry incentive revenue and costs in respect of formula year t (SOEIRC<sub>t</sub>) shall be defined in accordance with:

$$\text{SOEIRC}_t = \text{ECIIR}_t + \text{ARIEnC}_t + \text{EnCBBOIR}_t + \text{EnCBBMHSI}_t + \text{EnCBBIR}_t$$

Where:

**ECIIR<sub>t</sub>** means the maximum entry capacity investment incentive revenue allowed to the licensee in respect of formula year t that arises due to entry capacity released prior to 1 April 2007 in accordance with Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity) of this licence in force at that time, and shall be calculated in accordance with Annex A to this condition;

**ARIEnC<sub>t</sub>** means the maximum revenue entitlement allowed to the licensee in respect of the release of funded incremental obligated entry capacity in formula year t and shall be calculated in accordance with paragraph 2(a) of this condition;

**EnCBBOIR<sub>t</sub>** means the maximum revenue entitlement allowed to the licensee in respect of the entry capacity operational buy-back incentive in formula year t and shall be calculated in accordance with paragraph 3(a) of this condition;

**EnCBBMHSI<sub>t</sub>** means the maximum revenue entitlement allowed to the licensee in respect of the delivery of the Milford Haven pipeline project in formula year t and shall be calculated in accordance with paragraph 4(a) of this condition; and

EnCBBIIR<sub>t</sub> means the maximum revenue entitlement allowed to the licensee in respect of the entry capacity incremental buyback incentive in formula year t and shall be calculated in accordance with paragraph 5(a) of this condition.

**2. Maximum revenue entitlement allowed in respect of the release of incremental obligated entry capacity**

- a) For the purposes of paragraph 1 of this condition the maximum revenue entitlement allowed to the licensee in respect of the release of funded incremental obligated entry capacity in formula year t (ARIEnC<sub>t</sub>) shall be determined in accordance with the following formula:

$$ARIEnC_t = PIT_t \times \sum_{\forall i} \sum_{m|y(m)=t} ARIEnCS_{i,m}$$

where:

PIT<sub>t</sub> shall have the same meaning as given in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction);

ARIEnCS<sub>i,m</sub> means the revenue allowance at NTS Entry Point i for month m, which shall take a value of zero for all m ≤ 60 and shall otherwise be calculated in accordance with the relevant formula specified in Table 1 below:

**Table 1**

where: FIOEnC <sub>i,m</sub> ≤ 25 GWh/d	ARIEnCS <sub>i,m</sub> shall be calculated using the formula specified in paragraph 2(c)(i) of this condition (“Formula A”);
where: 25 GWh/d < FIOEnC <sub>i,m</sub> ≤ 100 GWh/d	ARIEnCS <sub>i,m</sub> shall be calculated using the formula specified in paragraph 2(c)(ii) of this condition (“Formula B”);
where: 100 GWh/d < FIOEnC <sub>i,m</sub> ≤ 500 GWh/d	ARIEnCS <sub>i,m</sub> shall be calculated using the formula specified in paragraph 2(c)(iii) of this

	condition (“Formula C”);
where:  500 GWh/d < FIOEnC <sub>i,m</sub>	ARIEnCS <sub>i,m</sub> shall be calculated using the formula specified in paragraph 2(c)(iv) of this condition (“Formula D”);

- b) For the purposes of Table 1, FIOEnC<sub>i,m</sub> means the funded incremental obligated entry capacity at NTS Entry Point i in month m and shall take the value 0 for all m ≤ 60 and shall otherwise take the value defined in accordance with the following formula:

$$FIOEnC_{i,m} = \sum_{p=0}^{59} \sum_{W=0}^{FP2_{m-p}^1} FIOEnC_{i,(m-p),W}$$

where:

FIOEnC<sub>i,(m-p),W</sub> means the volume of funded incremental obligated entry capacity at NTS entry point i (in units of GWh per day), for use from the first day of the first month (m-p), for which the obligation to offer such capacity for sale (being a date on or after 1 April 2007) commenced as at W days in advance of the first day of the first month (m-p), as shall be implemented in accordance with an approved application made pursuant to paragraph 9(f) of this condition. For the avoidance of doubt, such funded incremental obligated entry capacity shall be treated as non-incremental obligated entry capacity from the period commencing on the first day of month (m-p+60) and shall have a non-zero value only for the first month (m-p) and the day that is W days in advance of the first day of the first month (m-p);

- c) For the purposes of paragraph 2(a) of this condition:

i) Formula A shall be:

$$\text{ARIEnCS}_{i,m} = \text{FIOEnC}_{i,m} \times \text{EnFIR1}_{i,t}$$

where :

$$\text{EnFIR1}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=1.$$

ii) Formula B shall be:

$$\text{ARIEnCS}_{i,m} = (25 \times \text{EnFIR1}_{i,t}) + (\text{FIOEnC}_{i,m} - 25) \times \text{EnFIR2}_{i,t}$$

where :

$$\text{EnFIR1}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=1; \text{ and}$$

$$\text{EnFIR2}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=2.$$

iii) Formula C shall be:

$$\text{ARIEnCS}_{i,m} = (25 \times \text{EnFIR1}_{i,t}) + (75 \times \text{EnFIR2}_{i,t}) + (\text{FIOEnC}_{i,m} - 100) \times \text{EnFIR3}_{i,t}$$

where :

$$\text{EnFIR1}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=1;$$

$$\text{EnFIR2}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=2; \text{ and}$$

$$\text{EnFIR3}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=3.$$

iv) Formula D shall be:

$$\text{ARIEnCS}_{i,m} = (25 \times \text{EnFIR1}_{i,t}) + (75 \times \text{EnFIR2}_{i,t}) + (400 \times \text{EnFIR3}_{i,t}) + (\text{FIOEnC}_{i,m} - 500) \times \text{EnFIR4}_{i,t}$$

where :

$$\text{EnFIR1}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=1;$$

$$\text{EnFIR2}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=2;$$

$$\text{EnFIR3}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=3; \text{ and}$$

$$\text{EnFIR4}_{i,t} = \text{EnFIRz}_{i,t}, \text{ where } z=4.$$

- (v) For the purposes of sub-paragraphs (i) to (iv) the funded entry incremental marginal revenue allowance ( $EnFIRz_{i,t}$ ) shall be calculated as follows:

$$EnFIRz_{i,t} = EnIND_t \times EnFIRz_i$$

where:

$EnIND_t$  is the real additional cost inflation index and shall take the values in Table 2 below:

**Table 2**

Year	07/08	08/09	09/10	10/11	11/12 and later
$EnIND_t$	1	1.025	1.044	1.063	1.085

$EnFIRz_i$  is the revenue allowance for funded incremental obligated entry capacity and shall take the values in accordance with Table 3 below.

**Table 3**

	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
	Burton Point	0.0013	0.0021	0.0013	0.0027
	Hole House Farm	0.0065	0.0001	0.0021	0.0041
	Barton Stacey	0.0052	0.0016	0.0016	0.0131
	Hatfield Moor	0.0019	0.0004	0.0035	0.0015
	Garton	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
	Burton Agnes (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
	Tatsfield	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
	Dynevor Arms	0.0037	0.0081	0.0071	0.0205
	Albury	0.0180	0.0013	0.0056	0.0043
	Palmer's Wood	0.0073	0.0037	0.0075	0.0146

### 3. Entry capacity operational buy-back incentive revenue

- a) For the purposes of paragraph 1 of this condition, the maximum entry capacity operational buy-back 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 firm 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(n) of this condition) costs incurred by the licensee in this manner where the relevant shippers' ownership of entry capacity rights relates to:
  - (aa) funded incremental obligated entry capacity first released for sale by the licensee after 31 March 2007 (as included within the term  $EnCIBBC_t$  (as defined in paragraph 5(a) of this condition) until such time as that entry capacity has been delivered to relevant shippers; and

- (bb) funded incremental obligated entry capacity in respect of the Milford Haven NTS Entry Point released for sale during the allocation held between September 2004 and December 2004 (inclusive), for use at the Milford Haven NTS Entry Point from 1 October 2007 (as included within the term  $EnCBBMHBC_t$  as defined in paragraph 4(a) of this condition), until such time as that capacity has been delivered to relevant shippers;

$EnCNOIR_t$  has the meaning given in paragraph 3(b) of this condition;

$EnCOBBIR_t$  shall (except that in the circumstances specified in paragraph 3(j) of this condition when it shall take the value 0) be calculated in accordance with the following formula:

- i) If  $EnCOBBIP_t \leq (EnCOBBTC \times PIT_t)$ , then:

$$EnCOBBIR_t = \text{MIN} \{ EnCOBBSF \times ((EnCOBBTC \times PIT_t) - EnCOBBIP_t), (EnCOBBUC \times PIT_t) \}$$

- ii) If  $EnCOBBIP_t > (EnCOBBTC \times PIT_t)$ , then

$$EnCOBBIR_t = \text{MAX} \{ EnCOBBSF \times ((EnCOBBTC \times PIT_t) - EnCOBBIP_t), -(EnCOBBDC \times PIT_t) \}$$

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;

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; and

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<sub>t</sub>) shall be derived from the following formula:

$$\text{EnCOBBIP}_t = \text{EnCOBBC}_t - \text{AOEnCRD}_t - \text{REVIC}_t - (\text{ANOEnCR}_t - \text{EnCNOIR}_t) - \text{RCOR}_t - \text{RLOC}_t - \text{RADD}_t$$

where:

EnCOBBC<sub>t</sub> shall have the meaning given to that term in paragraph 3(a) of this condition;

AOEnCRD<sub>t</sub> means revenue derived by the licensee in respect of formula year t from on the day sales of obligated entry capacity and shall be calculated in accordance with paragraph 8(f) of this condition;

REVIC<sub>t</sub> shall have the meaning given to that term in paragraph 6(a) of this condition;

ANOEnCR<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from sales of non-obligated entry capacity and shall be calculated in accordance with paragraph 8(c) of this condition;

EnCNOIR<sub>t</sub> means  $\sum_{\forall i} (\text{EnCNOIR}_{i,t})$  where EnCNOIR<sub>i,t</sub> (the revenues from the accelerated release of incremental obligated entry capacity) is defined in accordance with paragraph 3(f) of this condition;

RCOR<sub>t</sub> shall have the meaning given to that term in paragraph 3(d)(i) of Special Condition C8C (NTS System Operation Activity Revenue Restriction);

RLOC<sub>t</sub> shall have the meaning given to that term in paragraph 3(d)(i) of Special Condition C8C (NTS System Operation Activity Revenue Restriction); and

RADD<sub>t</sub> means any further 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<sub>t</sub>).

### **Entry capacity constraint management costs**

- c) For the purposes of paragraph 3(d) of this condition, the entry capacity constraint management costs incurred by the licensee in respect of formula year t (EnCBBC<sub>t</sub>) shall be derived from the following formula:

$$\text{EnCBBC}_t = \sum_{d|y(d)=t} \text{BBC}_{d,t} + \sum_{d|y(d)=t} \text{ECCC}_{d,t}$$

where:

BBC<sub>d,t</sub> 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) The entry capacity constraint management costs incurred by the licensee in respect of formula year t ( $EnCBBC_t$ ) shall be attributed between the following terms:

- i) the entry capacity operational buy-back cost term ( $EnCOBBC_t$ ) in paragraph 3(a) of this condition;
- ii) the Milford Haven entry capacity specific incentive cost term ( $EnCBBMHBBC_t$ ) in paragraph 4(a) of this condition; and
- iii) the entry capacity incremental buy-back cost term ( $EnCIBBC_t$ ) in paragraph 5(a) of this condition;

such that:

$$EnCBBC_t = EnCOBBC_t + EnCBBMHBBC_t + EnCIBBC_t$$

e) In the process of attributing entry capacity constraint management costs ( $EnCBBC_t$ ) in accordance with paragraph 3(d) of this condition, the licensee shall ensure that:

- i) it attributes costs in accordance with the cost allocation rules set out in paragraph 3(n) of this condition; and

- ii) that while applying those cost allocation rules, it shall not attribute the same costs to more than one term for the purposes of paragraph 3(d).

**Accelerated release of incremental obligated entry capacity**

- f) The revenues from the accelerated release of incremental obligated entry capacity ( $EnCNOIR_{i,t}$ ) shall be the revenues received by the licensee from the sale of non-obligated entry capacity at NTS Entry Point i for use on all days g of formula year t and shall be derived from the following formula:

$$EnCNOIR_{i,t} = \sum_{g/y(g)=t} EnCNOIR_{i,g}$$

where:

$EnCNOIR_{i,g}$  means the revenues received by the licensee from the sale of non-obligated entry capacity at NTS Entry Point i for use on day g in circumstances where:

- i) day g is less than 6 months prior to the day on which the licensee's obligation to contractually deliver incremental obligated entry capacity for use at NTS Entry Point i first arises as a result of the implementation of a proposal made under paragraph 9(f) of this condition;
- ii) the allocation of the capacity occurred on a day at least 18 months prior to the day on which the licensee's obligation to contractually deliver incremental obligated entry capacity for use at NTS Entry Point i first arises as a result of the implementation of a proposal made under paragraph 9(f) of this condition;
- iii) the day on which the licensee's obligation to contractually deliver incremental obligated entry capacity for use at NTS Entry Point i that arises as a result of the implementation of a proposal made under paragraph 9(f) of this condition has not been extended by the licensee beyond the default of timescale of 42 months; and
- iv) the amount of non-obligated entry capacity released is, on day g, not greater than the difference between the level of incremental obligated

entry capacity at NTS entry point  $i$  6 months after day  $g$  and the level of incremental obligated entry capacity at point  $i$  on day  $g$ .

### **Incremental capacity delivery incentive payment**

- g) The licensee may, with the consent of the Authority, vary the lead time for the contractual delivery of incremental obligated entry capacity at an individual NTS entry point from the default of 42 months from the 1<sup>st</sup> day of the month following the end of the Annual Invitation Period (as defined in the network code). Consent shall be deemed to have been granted if:
- i) the licensee is proposing to reduce the lead time for the contractual delivery to a period of less than 42 months; or
  - ii) the volume of firm entry capacity being deferred (in units of GWh per day for each one month period) is, at day  $n$ , less than the licensee's "entry lead time deferment volume entitlement"  $LTDVEn_n$  defined in paragraph 3(i) of this condition.
- h) The licensee shall notify the Authority in writing and in a timely manner of each instance where it varies the lead time for the contractual delivery of incremental obligated entry capacity from the default of 42 months specifying:
- i) the NTS Entry Point affected;
  - ii) the volume of capacity (in units of GWh per day for each one month period ) for which the contractual delivery date is being brought forward; or
  - iii) the volume of capacity (in units of GWh per day for each one month period) for which the contractual delivery date is being put back.
- i) The licensee's entry lead time deferment volume entitlement on day  $n$  ( $LTDVEn_n$ ) (in units of GWh per day for each one month period) shall be calculated in accordance with the following formula:

$$LTDVEn_n = 7200 + \sum_{v, n-1} DLTDVEn_v$$

where:

$DLTDVEn_v$  means the change in the lead time for contractual delivery (in units of GWh per day for each one month period) that arises from the variation event  $v$  as notified to the Authority pursuant to paragraph 3(h) of this condition. For the avoidance of doubt, where  $v=0$   $DLTDVEn_0$  shall take the value zero; and

subscript  $v$  means the relevant variation event, where  $v=1$  shall mean the first variation event notified to the Authority pursuant to paragraph 3(h) of this condition.

### **Review of entry capacity operational buy-back scheme**

- j) 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 paragraphs 3(k) to 3(l) of this condition have been met.
- k) A notice provided by the licensee to the Authority under paragraph 3(j) shall:
  - i) be in writing addressed to the Authority;
  - ii) state the period or periods referred to in paragraph 3(j) of this condition to which it will apply;
  - iii) not be in respect of any period or periods commencing prior to 1<sup>st</sup> April 2009; and
  - iv) be submitted on a date after 31<sup>st</sup> December 2008.

- l) The licensee may withdraw the notice referred to in paragraph 3(j) of this condition at any time.
- m) 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 of the first period on which such a notice would take effect.

**Buy-back cost allocation rules**

- n) For the purpose of attributing the entry capacity constraint management costs referred to in paragraph 3(d) of this condition the licensee shall apply the rules set out in its statement of entry capacity constraint management cost allocation rules prepared pursuant to paragraph 13 of this condition.

#### 4. Milford Haven entry capacity specific incentive

- a) For the purposes of paragraph 1 of this condition means the maximum revenue entitlement allowed to the licensee in respect of the delivery of the Milford Haven pipe-line project in formula year t (EnCBBMHSI<sub>t</sub>) shall be defined in accordance with:

$$\text{EnCBBMHSI}_t = \text{EnCBBMHBBC}_t - \sum_{\forall p} [\text{MIN}(\text{EnCBBMHSF} \times \text{EnCBBMHBBC}_p), \text{EnCBBMHBCOL}_p]$$

where:

EnCBBMHBBC<sub>t</sub> means an amount equal to the costs incurred by the licensee in respect of formula year t in respect of the entry capacity constraint management costs in respect of the funded incremental obligated entry capacity up to 650 GWh per day released for sale during the allocation held between September 2004 and December 2004 (inclusive) for use at the Milford Haven NTS Entry Point from 1 October 2007 to the extent that such costs have been incurred prior to such time as that capacity has been delivered to relevant shippers;

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

EnCBBMHBBC<sub>p</sub> means an amount equal to the costs incurred by the licensee in period p in respect of entry capacity constraint management costs in respect of the funded incremental obligated entry capacity up to 650 GWh per day released for sale during the allocation held between September 2004 and December 2004 (inclusive) for use at the Milford Haven NTS Entry

Point from 1 October 2007 to the extent that such costs have been incurred prior to such time as that capacity has been delivered to relevant shippers; and

$EnCBBMHBCOL_p$  is the Entry Capacity Buyback Milford Haven specific incentive Buyback Collar for period  $p$  and shall take the value set out in Table 4 below.

- b) For the purposes of paragraph 4(a) of this condition the days 1– 7 April 2008 shall be treated as occurring in the formula year commencing 1 April 2007.

**Table 4**

<b>p</b>	<b><math>EnCBBMHBCOL_p</math> (£)</b>	<b>Formula year</b>
before 8 <sup>th</sup> December 2007	0	2007/08 or earlier
8 <sup>th</sup> December 2007 – 7 <sup>th</sup> January 2008	2,000,000	2007/08
8 <sup>th</sup> January 2008 – 7 <sup>th</sup> February 2008	2,000,000	2007/08
8 <sup>th</sup> February 2008 – 7 <sup>th</sup> March 2008	2,000,000	2007/08
8 <sup>th</sup> March 2008 – 7 <sup>th</sup> April 2008	6,000,000	2007/08
8 <sup>th</sup> April 2008 – 7 <sup>th</sup> May 2008	6,000,000	2008/09
8 <sup>th</sup> May 2008 – 7 <sup>th</sup> June 2008	6,000,000	2008/09
8 <sup>th</sup> June 2008 – 7 <sup>th</sup> July 2008	2,000,000	2008/09
8 <sup>th</sup> July 2008 – 7 <sup>th</sup> August 2008	2,000,000	2008/09
8 <sup>th</sup> August 2008 – 7 <sup>th</sup> September 2008	2,000,000	2008/09
8 <sup>th</sup> September 2008 – 7 <sup>th</sup> October 2008	2,000,000	2008/09
8 <sup>th</sup> October 2008 – 7 <sup>th</sup> November 2008	2,000,000	2008/09
8 <sup>th</sup> November 2008 – 7 <sup>th</sup> December 2008	2,000,000	2008/09
after 7 <sup>th</sup> December 2008	0	2008/09 or later

## 5. Entry capacity incremental buy-back costs and incentive revenue

### (EnCBBIR<sub>t</sub>)

- a) For the purposes of paragraph 1 of this condition, the maximum entry capacity incremental buyback incentive revenue in formula year t (EnCBBIR<sub>t</sub>) shall be derived as follows:

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

where:

EnCIBBC<sub>t</sub> 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 funded incremental obligated entry capacity first released for sale by the licensee after 31 March 2007 until such time as that entry capacity has been delivered to relevant shippers;

EnCIBBIR<sub>t</sub> shall be derived in accordance with the following formula:

$$\text{EnCIBBIR}_t = - \text{MIN} [\text{EnCBBICE}_t, (\text{EnCACAP} \times \text{PIT}_t)]$$

where:

EnCBBICE<sub>t</sub> means the amount of EnCIBBC<sub>t</sub> that remains following the application of the monthly cap and shall be defined in accordance with paragraph 5(b) of this condition; and

EnCACAP means the annual exposure cap, which is the maximum value that EnCBBICE<sub>t</sub> 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.

### Cap on Monthly Buyback Exposure

- b) For the purposes of paragraph 5(a) of this condition,  $EnCBBICE_t$  shall be calculated from the following formula:

$$EnCBBICE_t = \sum_{m|y(m)=t} \text{MIN} (EnCBBICM_m, EnCMCAP_m)$$

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 funded incremental obligated entry capacity first released for sale by the licensee after 31 March 2007; and

$EnCMCAP_m$  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  $£4,000,000 \times PIT_t$ .

### Cap on incremental buyback price

- c) The licensee shall use reasonable endeavours to ensure that it does not pay more than 0.52p/kWh/day in respect of entry capacity constraint management costs in respect of funded incremental obligated entry capacity and for which the obligation to offer such capacity for sale commenced on or after 1 April 2007. This obligation shall apply until that funded incremental obligated entry capacity has been physically delivered.

- d) For the purposes of paragraph 5(c) of this condition, the licensee may submit a report to the Authority demonstrating how it considers that it has met its obligation set out in that paragraph. Where the Authority considers that the licensee has used reasonable endeavours to satisfy the obligation referred to in that paragraph, the Authority may direct in writing that the licensee has satisfied its obligation thereunder.

## PART B – Revenue calculations

### 6. Attributing revenues from the sale of entry capacity to TOR and SOR

- a) For the purposes of paragraph 2(a) of Special Condition C8C (NTS System Operation Activity Revenue Restriction) the amount of NTS SO revenue in respect of formula year t that results from the sale of entry capacity (SORCAP<sub>t</sub>) shall be calculated from the following formula:

$$\text{SORCAP}_t = \text{ANIOEnCRD}_t + \text{AFIOEnCR}_t + \text{ANOEnCR}_t + \text{REVIC}_t$$

where:

ANIOEnCRD<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from on the day sales of non-incremental obligated entry capacity and shall be calculated in accordance with paragraph 8(d) of this condition;

AFIOEnCR<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from sales of funded incremental obligated entry capacity and shall be calculated in accordance with paragraph 8(b) of this condition;

ANOEnCR<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from sales of non-obligated entry capacity and shall be calculated in accordance with paragraph 8(c) of this condition; and

REVIC<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from sales of interruptible entry capacity.

- b) For the purposes of paragraph 2(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) the amount of NTS TO revenue in respect of formula year t that results from the sale of

entry capacity ( $TOREVBEC_t$ ) shall be calculated from the following formula:

$$TOREVBEC_t = ANIOEnCR_t - ANIOEnCRD_t$$

where:

$ANIOEnCR_t$  means the revenue derived by the licensee in respect of formula year t from sales of non-incremental obligated entry capacity and shall be calculated in accordance with paragraph 8(a) of this condition; and

$ANIOEnCRD_t$  means the revenue derived by the licensee in respect of formula year t from on the day sales of non-incremental obligated entry capacity and shall be calculated in accordance with paragraph 8(d) of this condition.

## 7. Entry capacity and revenue allocations

- a) For the purposes of paragraph 7(b) of this condition, for each day that is  $w$  days in advance of day  $d$ , the licensee shall attribute the amount of firm entry capacity it has sold at NTS entry point  $i$  during the day that is  $w$  days in advance of day  $d$  in month  $m$ , for use at NTS entry point  $i$  on day  $d$  in month  $m$ , ( $EnCAPS_{i,d,m,w}$ ) (measured in GWh per day) to the categories of sold firm entry capacity set out in sub-paragraphs (i), (ii) and (iii) of this paragraph, in the manner specified by the formulae of those sub-paragraphs.
- (i) non-incremental obligated entry capacity sold by the licensee during the day that is  $w$  days in advance of day  $d$  in month  $m$ , for use at NTS entry point  $i$  on day  $d$  in month  $m$ , ( $NIOEnCS_{i,d,m,w}$ ) (measured in GWh per day) shall be calculated from the following formula:

$$NIOEnCS_{i,d,m,w} = \text{MIN} [EnCAPS_{i,d,m,w}, \text{MAX} [(NIOEnC_{i,d,m,w} - NIOEnC_{i,d,m,w+1}), \text{MAX} [(NIOEnC_{i,d,m,w} - \sum_{Q=w+1}^{FP I_m^d} NIOEnCS_{i,d,m,Q}), 0]]]$$

where:

$EnCAPS_{i,d,m,w}$  shall have the meaning given to that term in paragraph 7(a) of this condition;

$NIOEnC_{i,d,m,w}$  shall have the meaning given to that term in paragraph 9(c) of this condition;

- (ii) cumulative funded incremental obligated entry capacity sold by the licensee during the day that is  $w$  days in advance of day  $d$  in month  $m$ , for use at NTS entry point  $i$  on day  $d$  in month  $m$ , (CFIOEnCS <sub>$i,d,m,w$</sub> ) (measured in GWh per day) shall be calculated from the following formula:

$$\text{CFIOEnCS}_{i,d,m,w} = \text{MIN} [\text{EnCAPS}_{i,d,m,w} - \text{NIOEnCS}_{i,d,m,w}, \\ (\text{CFIOEnC}_{i,d,m,w} - \sum_{Q=w+1}^{\text{FPI}_m^d} \text{CFIOEnCS}_{i,d,m,Q})]$$

where:

EnCAPS <sub>$i,d,m,w$</sub>  shall have the meaning given to that term in paragraph 7(a) of this condition;

NIOEnCS <sub>$i,d,m,w$</sub>  shall have the meaning given to that term in paragraph 7(a)(i) of this condition; and

CFIOEnC <sub>$i,d,m,w$</sub>  shall have the meaning given to that term in paragraph 9(d) of this condition.

- (iii) non-obligated entry capacity sold by the licensee during the day that is  $w$  days in advance of day  $d$  in month  $m$ , for use at NTS entry point  $i$  on day  $d$  in month  $m$ , (NOEnCS <sub>$i,d,m,w$</sub> ) (measured in GWh per day) shall be calculated from the following formula

$$\text{NOEnCS}_{i,d,m,w} = (\text{EnCAPS}_{i,d,m,w} - \text{NIOEnCS}_{i,d,m,w} - \\ \text{CFIOEnCS}_{i,d,m,w})$$

where:

EnCAPS <sub>$i,d,m,w$</sub>  shall have the meaning given to that term

in paragraph 7(a) of this condition;

$NIOEnCS_{i,d,m,w}$  shall have the meaning given to that term in paragraph 7(a)(i) of this condition; and

$CFIOEnCS_{i,d,m,w}$  shall have the meaning given to that term in paragraph 7(a)(ii) of this condition.

For the avoidance of doubt,  $NOEnCS_{i,d,m,w}$  shall include non-obligated entry capacity which has been sold in accordance with paragraph 3(f) of this condition (Accelerated release of incremental obligated entry capacity).

- b) For the purposes of paragraphs 6 and 8 of this condition, the licensee shall attribute the revenue derived from the amount of firm entry capacity it has sold at NTS entry point  $i$  during the day that is  $w$  days in advance of day  $d$  in month  $m$ , for use at NTS entry point  $i$  on day  $d$  in month  $m$ , ( $EnCAPS_{i,d,m,w}$ ) (measured in GWh per day) to the categories of revenue set out in sub-paragraphs (i), (ii) and (iii) of this paragraph, in the manner specified in those sub-paragraphs and in sub-paragraph (iv):
- (i) the revenue derived by the licensee from sales of non-incremental obligated entry capacity at NTS entry point  $i$  during the day that is  $w$  days in advance of day  $d$  ( $NIOEnCR_{i,d,m,w}$ ) shall be the revenue attributed in respect of  $NIOEnCS_{i,d,m,w}$ ;
  - (ii) the revenue derived by the licensee from sales of cumulative funded incremental obligated entry capacity at NTS entry point  $i$  during the day that is  $w$  days in advance of day  $d$  ( $CFIOEnCR_{i,d,m,w}$ ) shall be the revenue attributed in respect of  $CFIOEnCS_{i,d,m,w}$ ; and
  - (iii) the revenue derived by the licensee from sales of non-obligated entry capacity at NTS entry point  $i$  during the day that is  $w$  days in

advance of day  $d$  ( $\text{NOEnCR}_{i,d,m,w}$ ) shall be the revenue derived by the licensee from sales of firm entry capacity other than  $\text{CFIOEnCR}_{i,d,m,w}$  and  $\text{NIOEnCR}_{i,d,m,w}$ .

- (iv) In attributing the revenue, it is assumed that firm entry capacity allocated on day  $d$  of month  $m$  was allocated to gas shippers in descending order of price accepted to be paid in respect of each allocation of firm entry capacity in chronological order throughout day  $d$  of month  $m$  starting with the highest paid in the amount applied for, allocating first up to the total volume of  $\text{NIOEnCS}_{i,d,m,w}$  then up to the total volume of  $\text{CFIOEnCS}_{i,d,m,w}$  then up to the total volume of  $\text{NOEnCS}_{i,d,m,w}$

where:

$\text{NIOEnCS}_{i,d,m,w}$  shall have the meaning given to that term in paragraph 7(a)(i) of this condition;

$\text{CFIOEnCS}_{i,d,m,w}$  shall have the meaning given to that term in paragraph 7(a)(ii) of this condition; and

$\text{NOEnCS}_{i,d,m,w}$  shall have the meaning given to that term in paragraph 7(a)(iii) of this condition.

## 8. Annual Revenues from entry capacity sales

(a) For the purposes of paragraph 6(b) of this condition the revenue derived by the licensee in respect of formula year t from sales of non-incremental obligated entry capacity (ANIOEnCR<sub>t</sub>) shall be calculated from the following formula:

$$\text{ANIOEnCR}_t = \sum_{\forall i} \sum_{d/y(d)=t} \sum_{w=0}^{FP I_m^d} \text{NIOEnCR}_{i,d,m,w}$$

where:

NIOEnCR<sub>i,d,m,w</sub> shall have the meaning given to that term in paragraph 7(b)(i) of this condition.

(b) For the purposes of paragraph 6(a) of this condition the revenue derived by the licensee in respect of formula year t from the sales of funded incremental obligated entry capacity (AFIOEnCR<sub>t</sub>) shall be calculated from the following formula:

$$\text{AFIOEnCR}_t = \sum_{\forall i} \sum_{d/y(d)=t} \sum_{w=0}^{FP I_m^d} \text{CFIOEnCR}_{i,d,m,w}$$

where:

CFIOEnCR<sub>i,d,m,w</sub> shall have the meaning given to that term in paragraph 7(b)(ii) of this condition.

(c) For the purposes of paragraphs 3(b) and 6(a) of this condition the revenue derived by the licensee in respect of formula year t from sales of non-obligated entry capacity (ANOEnCR<sub>t</sub>) shall be calculated from the following formula:

$$\text{ANOEnCR}_t = \sum_{\forall i} \sum_{d/y(d)=t} \sum_{w=0}^{FP I_m^d} \text{NOEnCR}_{i,d,m,w}$$

where:

NOEnCR<sub>i,d,m,w</sub> shall have the meaning given to that term in paragraph 7(b)(iii) of this condition.

d) For the purposes of paragraphs 6(a) and 8(f) of this condition the revenue derived by the licensee in respect of formula year t from on the day sales of non-incremental obligated entry capacity (ANIOEnCRD<sub>t</sub>) shall be calculated from the following formula:

$$\text{ANIOEnCRD}_t = \sum_{\forall i} \sum_{d/y(d)=t} \text{NIOEnCR}_{i,d,m,0}$$

where:

NIOEnCR<sub>i,d,m,0</sub> shall have the meaning given to the term NIOEnCR<sub>i,d,m,w</sub> in paragraph 7(b)(i) of this condition where w=0.

e) For the purposes of paragraph 8(f) of this condition the revenue derived by the licensee in respect of formula year t from on the day sales of funded incremental obligated entry capacity (AFIOEnCRD<sub>t</sub>) shall be calculated from the following formula:

$$\text{AFIOEnCRD}_t = \sum_{\forall i} \sum_{d/y(d)=t} \text{CFIOEnCR}_{i,d,m,0}$$

where:

CFIOEnCR<sub>i,d,m,0</sub> shall have the meaning given to that term CFIOEnCR<sub>i,d,m,w</sub> in paragraph 7(b)(ii) of this condition where w=0.

f) For the purposes of paragraph 3(b) of this condition the revenue derived by the licensee in respect of formula year t from on the day sales of obligated entry capacity (AOEnCRD<sub>t</sub>) shall be calculated from the following formula:

$$\text{AOEnCRD}_t = \text{ANIOEnCRD}_t + \text{AFIOEnCRD}_t$$

where:

ANIOEnCRD<sub>t</sub> shall be calculated in accordance with paragraph 8(d) of this condition; and

AFIOEnCRD<sub>t</sub> shall be calculated in accordance with paragraph 8(e) of this condition.

## PART C – Capacity release obligations

### 9. Obligations to release entry capacity

- a) The licensee shall offer for sale, during the day that is  $w$  days in advance of day  $d$  in month  $m$ , a volume of unsold obligated entry capacity (measured in GWh per day) ( $UOEnC_{i,d,m,w}$ ) for use at NTS entry point  $i$  on day  $d$  in month  $m$ , which shall be calculated as follows:

$$UOEnC_{i,d,m,w} = \text{MAX}[(NIOEnC_{i,d,m,w} + CFIOEnC_{i,d,m,w} - SOEnC_{i,d,m,w}), 0]$$

where:

$NIOEnC_{i,d,m,w}$  means the volume of non-incremental obligated entry capacity at NTS entry point  $i$  (measured in GWh per day) that the licensee shall offer for sale, during the day that is  $w$  days in advance of day  $d$  in month  $m$ , for use at NTS entry point  $i$  on day  $d$  in month  $m$ , which shall be calculated in accordance with paragraph 9(c) of this condition;

$CFIOEnC_{i,d,m,w}$  means the volume of cumulative funded incremental obligated entry capacity at NTS entry point  $i$  (measured in GWh per day) that the licensee shall offer for sale, during the day that is  $w$  days in advance of day  $d$  in month  $m$ , for use at NTS entry point  $i$  on day  $d$  in month  $m$ , which shall be calculated in accordance with paragraph 9(d) of this condition; and

$SOEnC_{i,d,m,w}$  means that volume of obligated entry capacity (measured in GWh per day) which has been sold or is deemed to have been sold by the licensee at NTS entry point  $i$  for use on day  $d$  in month  $m$ , during all days up to but excluding the day that is  $w$  days in advance of day  $d$  in month  $m$ , except that  $SOEnC_{i,d,m,w}$  shall not

include that volume of obligated entry capacity which had been sold previously for use on day d in month m to a relevant shipper who has been terminated in accordance with the network code.

- b) For the purposes of term  $SOEnC_{i,d,m,w}$  in paragraph 9(a) of this condition, obligated entry capacity will:
- (i) be deemed to have been sold by the licensee at NTS entry point i where the licensee has enacted an entry capacity transfer from that NTS entry point i to another NTS entry point in accordance with paragraph 11(c) of this condition; and
  - (ii) continue to be treated as sold by the licensee at NTS entry point i where the licensee has enacted an entry capacity trade from that NTS entry point i to another NTS entry point in accordance with paragraph 12(c) of this condition.
- c) For the purposes of paragraph 9(a) of this condition the volume of non-incremental obligated entry capacity ( $NIOEnC_{i,d,m,w}$ ) shall be calculated as follows:

$$NIOEnC_{i,d,m,w} = NIOEnC_{i,m,h} \quad \text{for all days d in month m}$$

where:

$NIOEnC_{i,m,h}$  is the volume of non-incremental obligated entry capacity at NTS entry point i that the licensee shall offer for sale on the day that is h days in advance of the first day of month m in which day d occurs (where the day that is h days in advance of the first day of month m in which day d occurs is the same day as the day that is w days in advance of day d in month m) and shall be calculated in accordance with paragraphs 9(c)(i) to 9(c)(iii):

i) where the day that is  $h$  days in advance of the first day of month  $m$  occurs before 1 April 2007,  $NIOEnC_{i,m,h}$  shall:

(aa) if  $h \geq 548$  days, be calculated as follows:

$$NIOEnC_{i,m,h} = 0.8 \times PREVIBEnC_i$$

(bb) if  $h < 548$  days, be calculated as follows:

$$NIOEnC_{i,m,h} = PREVIBEnC_i$$

where for the purposes of sub-paragraphs (aa) and (bb):

$PREVIBEnC_i$  means the volume of baseline obligated entry capacity which the licensee was required to offer for sale prior to 1 April 2007 (measured in GWh per day) for use at NTS Entry Point  $i$  as given within Table 6 below:

**Table 6:**

<b>NTS Entry Point i</b>	<b>PREVIBEnC<sub>i</sub> (in GWh/day)</b>
Bacton	1,745
Barrow	712
Easington	1,062
St. Fergus	1,677
Teesside	761
Theddlethorpe	848
Glenmavis	99
Partington	215
Avonmouth	149
Isle of Grain	218
Dynevor Arms	50
Hornsea	175
Hatfield Moor (storage)	54
Hatfield Moor (onshore)	1
Cheshire	214
Hole House Farm	26
Wytch Farm	3.2
Burton Point	55
Milford Haven	0
Barton Stacey	0
Garton	0
Burton Agnes (Caythorpe)	0
Winkfield	0
Blyborough (Welton)	0
Tatsfield	0
Albury	0
Palmers Wood	0
Fleetwood	0

ii) where the day that is h days in advance of the first day of month m occurs on or after 1 April 2007 and before 1 April 2012, NIOEnC<sub>i,m,h</sub> shall:

(aa) if  $h \geq 548$  days, be calculated as follows:

$$\text{NIOEnC}_{i,m,h} = 0.9 \times \text{IBEnC}_{i,m,h} + \sum_{p=0}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{EnCST}_{i,(m-p),W} - \sum_{p=0}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{EnCSA}_{i,(m-p),W}$$

(bb) if  $h < 548$  days, be calculated as follows:

$$\text{NIOEnC}_{i,m,h} = \text{IBEnC}_{i,m,h} + \sum_{p=0}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{EnCST}_{i,(m-p),W} - \sum_{p=0}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{EnCSA}_{i,(m-p),W}$$

where, for the purposes of sub-paragraphs (aa) and (bb):

IBEnC<sub>i,m,h</sub> means the volume of baseline obligated entry capacity at NTS entry point i (measured in GWh per day) that the licensee shall offer for sale, during the day that is h days in advance of the first day of month m, for use at NTS entry point i on each day of month m, as specified in Table 7 below (where, for the avoidance of doubt, IBEnC<sub>i,m,h</sub> shall take the same value specified in Table 7 for all months  $m \geq 61$  and for all days that are h days in advance of the first day of month  $m \geq 61$  that occur on or after 1 April 2007);

$EnCST_{i,(m-p),W}$  means the volume of non-incremental obligated entry capacity substituted to NTS entry point  $i$  (in units of GWh per day), for use from the first day of the first month  $(m-p)$ , for which the obligation to offer such capacity for sale commenced as at  $W$  days in advance of the first day of the first month  $(m-p)$ , as shall be implemented in accordance with an approved application made pursuant to paragraph 9(f) of this condition. For the avoidance of doubt, such non-incremental obligated entry capacity substituted to NTS entry point  $i$  shall have a non-zero value only for the first month  $(m-p)$  and the day that is  $W$  days in advance of the first day of the first month  $(m-p)$ ; and

$EnCSA_{i,(m-p),W}$  means the volume of non-incremental obligated entry capacity substituted away from NTS entry point  $i$  (in units of GWh per day), for use from the first day of the first month  $(m-p)$ , for which the obligation to offer such capacity for sale commenced as at  $W$  days in advance of the first day of the first month  $(m-p)$ , as shall be implemented in accordance with an approved application made pursuant to paragraph 9(f) of this condition. For the avoidance of doubt, such non-incremental obligated entry capacity substituted away from NTS entry point  $i$  shall have a non-zero value only for the first month  $(m-p)$  and the day that is  $W$  days in advance of the first day of the first month  $(m-p)$ .

iii) where the day as at  $h$  days in advance of the first day of month  $m$  is on or after 1 April 2012, then:

(aa) if  $h \geq 548$  days, be calculated as follows:

$$\begin{aligned} \text{NIOEnC}_{i,m,h} &= 0.9 \times \text{IBEnC}_{i,m,h} + \sum_{p=0}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{EnCST}_{i,(m-p),W} - \\ &\quad \sum_{p=0}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{EnCSA}_{i,(m-p),W} + \\ &\quad \sum_{p=60}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{FIOEnC}_{i,(m-p),W} \end{aligned}$$

(bb) if  $h < 548$  days, be calculated as follows:

$$\begin{aligned} \text{NIOEnC}_{i,m,h} &= \text{IBEnC}_{i,m,h} + \sum_{p=0}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{EnCST}_{i,(m-p),W} - \\ &\quad \sum_{p=0}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{EnCSA}_{i,(m-p),W} + \\ &\quad \sum_{p=60}^{(m-61)} \sum_{W=h}^{FP2_{m-p}^I} \text{FIOEnC}_{i,(m-p),W} \end{aligned}$$

where:

- IBEnC<sub>i,m,h</sub> shall have the same meaning as given in paragraph 9(c)(ii) of this condition;
- EnCST<sub>i,(m-p),W</sub> shall have the same meaning as given in paragraph 9(c)(ii) of this condition;
- EnCSA<sub>i,(m-p),W</sub> shall have the same meaning as given in paragraph 9(c)(ii) of this condition; and
- FIOEnC<sub>i,(m-p),W</sub> means the volume of funded incremental obligated entry capacity at NTS entry point i (in units of GWh per day), for use from the first day of the first month (m-p), for which the obligation to offer such capacity for sale (being a date on or after 1 April 2007) commenced as at W days in advance of the first day of the first month (m-p), as shall be implemented in accordance with an approved

application made pursuant to paragraph 9(f) of this condition. For the avoidance of doubt, such funded incremental obligated entry capacity shall be treated as non-incremental obligated entry capacity from the period commencing on the first day of month (m-p+60) and shall have a non-zero value only for the first month (m-p) and the day that is W days in advance of the first day of the first month (m-p).

**Table 7:**

<b>NTS Entry Point i</b>	<b>IBEnC<sub>i,m,h</sub> (in GWh/day)</b>
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
Wytech 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

- d) For the purposes of paragraph 9(a) of this condition, the volume of cumulative funded incremental obligated entry capacity (CFIOEnC<sub>i,d,m,w</sub>) shall be calculated as follows:

$$\text{CFIOEnC}_{i,d,m,w} = \text{CFIOEnC}_{i,m,h} \quad \text{for all days } d \text{ in month } m$$

where:

CFIOEnC<sub>i,m,h</sub> means the cumulative volume of funded incremental obligated entry capacity at NTS entry point i that the licensee shall offer for sale, during the day that is h days in advance of the first day of month m in which day d occurs (where the day that is h days in advance of the first day of month m in which day d occurs is the same day as the day that is w days in advance of day d in month m), for use at NTS entry point i for all days d in month m and shall be calculated as follows:

$$\text{CFIOEnC}_{i,m,h} = \text{PREVCFOEnC}_{i,m,h} + \text{NEWCFIOEnC}_{i,m,h}$$

where:

$$\text{PREVCFOEnC}_{i,m,h} = \sum_{p=0}^{(m-1)FP_{m-p}^I} \sum_{W=h} \text{PREVFIOEnC}_{i,(m-p),W}$$

where:

PREVFIOEnC<sub>i,(m-p),W</sub> means the volume of funded incremental obligated entry capacity (in units of GWh per day), for use at NTS entry point i from the first day of the first month (m-p), for which the obligation to offer such capacity for sale (being a date before 1 April 2007) commenced as at W

days in advance of the first day of the first month (m-p), as specified in the Table 8 below. For the avoidance of doubt, such funded incremental obligated entry capacity shall have a non-zero value only for the first month (m-p) and the day that is W days in advance of the first day of the first month (m-p):

**Table 8:**

NTS entry point i	Obligation to offer for sale commenced following the annual invitation period in	First month of use at NTS entry point i (m-p)	First month of use at NTS entry point i (m-p)	PREVFIOEnC <sub>i,(m-p),W</sub> (GWh/d)
Barton Stacey	Sep-04	Apr-06	49	90
Garton	Feb-04	Oct-06	55	420
Milford Haven	Dec-04	Oct-07	67	650
Milford Haven	Dec-04	Jan-09	82	300
Isle of Grain	Nov-05	Oct-08	79	235.4
Easington	Sep-06	Oct-09	91	345
Hornsea	Sep-06	Jan-10	94	58.1
Fleetwood	Sep-06	Oct-10	103	650
Cheshire	Sep-06	Oct-10	103	64.2
Cheshire	Sep-06	Jan-12	118	192.6

$$NEWCFIOEnC_{i,m,h} = \sum_{p=0}^{59} \sum_{W=h}^{FP2'_{m-p}} FIOEnC_{i,(m-p),W}$$

where:

FIOEnC<sub>i,(m-p),W</sub> shall have the meaning given to that term in paragraph 9(c)(iii) of this condition.

### **Obligation to offer capacity for sale in a clearing allocation**

- e) The licensee shall:
- i) unless otherwise directed by the Authority in writing, use all reasonable endeavours to offer for sale all obligated entry capacity at each NTS entry point *i* in at least one clearing allocation. For the avoidance of doubt, where a clearing allocation would contravene the provisions of paragraph 4(b) of Standard Special Condition A4 (Charging - General) the licensee shall offer for sale such capacity in accordance with provisions of Standard Special Condition A5(5)(aa)(ii) (Obligations as Regard Charging Methodology); and
  - ii) in respect of any NTS entry point *i*, use reasonable endeavours to offer for sale to gas shippers obligated entry capacity, which at the commencement of the day *d* to which it relates is unsold, such that at the end of day *d* in month *m* such obligated entry capacity has been sold, except where, and to the extent that, the Authority has otherwise consented in writing. For the avoidance of doubt, where a clearing allocation would contravene the provisions of paragraph 4(b) of Standard Special Condition A4 (Charging - General) the licensee shall offer for sale such capacity in accordance with provisions of Standard Special Condition A5(5)(aa)(ii) (Obligations as Regard Charging Methodology).

### **Determination of incremental obligated entry capacity**

- f) Where the licensee reasonably believes that there is or will be demand for additional firm entry capacity as a result of calculations carried out by the licensee in accordance with its incremental entry capacity release methodology, established pursuant to Special Condition C15 (Licensee's methodology for determining incremental entry capacity volumes) in force at that time, it shall make a written application to the Authority setting out its proposals, in respect of each NTS entry point *i*, for that additional firm entry capacity to be treated as incremental obligated entry capacity (the “incremental obligated entry capacity proposal”).

- g) Where the licensee makes an application pursuant to paragraph 9(f) of this condition it shall in that application set out as part of its incremental obligated entry capacity proposal for that additional firm entry capacity to be treated for the purposes of this condition as either:
- i) funded incremental obligated entry capacity ( $FIOEnC_{i,(m-p),W}$ ) for the purposes of paragraphs 2(b), 9(c)(iii) and 9(d) of this condition; or
  - ii) non-incremental obligated entry capacity provided by entry capacity substitution ( $EnCST_{i,(m-p),W}$ ), in accordance with its obligations set out in paragraph 10 of this condition, for the purposes of paragraphs 9(c)(ii) and 9(c)(iii) of this condition.
- h) The written application to the Authority made pursuant to paragraph 9(f) of this condition shall include, in sufficient detail to enable the Authority to decide whether the licensee should implement the proposal in accordance with paragraph 9(k) of this condition, the following:
- i) how the incremental entry capacity release methodology has been applied by the licensee for the purpose of determining the amount of additional firm entry capacity that it proposes to treat as incremental obligated entry capacity, including the provision of all relevant input data;
  - ii) the results of applying the incremental entry capacity release methodology and the rationale for why the licensee considers that its proposal or proposals are justified;
  - iii) the NTS entry point to which the application relates;
  - iv) the volume of incremental obligated entry capacity that the licensee proposes to treat as:
    - (aa) funded incremental obligated entry capacity ( $FIOEnC_{i,(m-p),W}$ ) for the purposes of paragraphs 2(b), 9(c)(iii) and 9(d) of this condition; and

- (bb) non-incremental obligated entry capacity substituted to that NTS entry point to which the application relates ( $EnCST_{i,(m-p),W}$ ), in accordance with the entry capacity substitution methodology set out in paragraph 10(a) of this condition, for the purposes of paragraphs 9(c)(ii) and 9(c)(iii) of this condition.
- v) the volumes of unsold non-incremental obligated entry capacity that has been substituted from one or more other NTS entry points  $j$ , in accordance with the entry capacity substitution methodology set out in paragraph 10(a) of this condition, that the licensee proposes to treat as non-incremental obligated entry capacity substituted away from NTS entry points  $j$  ( $EnCSA_{j,(m-p),W}$ ) for the purposes of providing the volume of non-incremental obligated entry capacity ( $EnCST_{i,(m-p),W}$ ) referred to in paragraph 9(h)(iv)(bb) of this condition.
- vi) the first month in which the additional firm entry capacity referred to in paragraph 9(h)(iv) of this condition would be used at NTS entry point  $i$  or in which the additional firm entry capacity referred to in paragraph 9(h)(v) of this condition would cease to be used at NTS entry points  $j$  (for the avoidance of doubt, the capacity will be deemed to be used from the first day of this month);
- vii) the date on which the licensee's obligations to offer for sale that volume of additional firm entry capacity referred to in paragraph 9(h)(iv) of this condition would commence and the date on which the licensee's obligations to offer for sale that volume of non-incremental obligated entry capacity substituted away at those NTS entry points  $j$  referred to in paragraph 9(h)(v) of this condition would cease.
- i) The licensee shall keep a record of each application made pursuant to paragraph 9(f) of this condition.
- j) The licensee shall provide the Authority with such additional information as the Authority reasonably requests for the purposes of considering the application made by the licensee.

- k) The licensee shall implement the proposal as set out within the written application made pursuant to paragraph 9(f) of this condition or as modified in accordance with paragraph 9(l)(ii) of this condition, unless:
  - i) the Authority has, within 7 days from the receipt by the Authority of the written application, notified the licensee in writing, on or before that date, to suspend implementation of the proposal because in its opinion the application made pursuant to paragraph 9(f) of this condition requires further consideration to evaluate whether the proposal, and the supporting information, is consistent with the licensee's incremental entry capacity release methodology (established pursuant to Special Condition C15 (Licensee's methodology for determining incremental entry capacity volumes)) and the licensee's entry capacity substitution methodology (established pursuant to paragraph 10 of this condition); and
  - ii) the Authority has, within 28 days from the receipt by the Authority of the written application, directed the licensee, on or before that date, not to implement that proposal.
- l) Where the Authority has notified the licensee in writing to suspend implementation of the proposal in accordance with paragraph 9(k)(i) of this condition,
  - i) the Authority may direct the licensee, within 28 days from the receipt by the Authority of the written application, to implement the proposal in accordance with the application made pursuant to paragraph 9(f) of this condition; or
  - ii) the Authority may direct the licensee, within 28 days from the receipt by the Authority of the written application, to implement the proposal in a modified form, subject to the agreement of the licensee, where such modifications relate to:
    - (aa) the volume of incremental obligated entry capacity that the licensee proposes to treat as non-incremental obligated entry

capacity substituted to NTS entry point i and funded incremental obligated entry capacity; and

- (bb) the first month in which the additional firm entry capacity referred to in paragraph 9(h)(iv) of this condition would be used at NTS entry point i or in which the additional firm entry capacity referred to in paragraph 9(h)(v) of this condition would cease to be used at NTS entry points j .
- (m) The licensee may withdraw a proposal made pursuant to paragraph 9(f) of this condition within 7 days from receipt by the Authority of the application.
- (n) Where the Authority has notified the licensee under paragraph 9(k)(i) of this condition to suspend implementation of the proposal made pursuant to paragraph 9(f) of this condition, the licensee may withdraw such a proposal within 28 days from receipt by the Authority of the application unless the Authority has otherwise directed the licensee to implement the proposal in accordance with paragraph 9(l) of this condition.
- (o) Where the Authority has made a direction that the licensee should not implement the proposal under paragraph 9(k)(ii) 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 entry capacity for the purposes of this condition.
- (p) The licensee shall publish the effect of implementing each proposal on the cumulative volume of funded incremental obligated entry capacity and non-incremental obligated entry capacity for each NTS entry point i for each month m (as at h days in advance of the first day of month m) in a form and manner approved by the Authority. The licensee shall use reasonable endeavours to ensure that the information published pursuant to this paragraph is accurate and up-to-date.

**10. Entry capacity substitution obligation**

- (a) The licensee shall:
- i) by no later than 7 days after the date on which the Authority issues a decision giving effect to this licence condition, or such later date as the Authority may otherwise direct in writing:
    - (aa) prepare an entry capacity substitution methodology, in such manner that is necessary to facilitate the achievement of the entry capacity substitution objectives (as set out in paragraph 10(c) of this condition), which the licensee shall apply for the purposes of fulfilling its obligations in respect of entry capacity substitution; and
    - (bb) submit to the Authority for its approval a statement setting out the methodology prepared in accordance with paragraph 10(a)(i)(aa) of this condition (“the entry capacity substitution methodology statement”);
  - ii) use reasonable endeavours to have in force, by no later than 14 days after the date on which the Authority issues a decision giving effect to this licence condition, or such later date as the Authority may otherwise direct in writing, an approved entry capacity substitution methodology statement.
- (b) The licensee shall, unless and insofar as the Authority may otherwise direct from time to time in writing, use reasonable endeavours to substitute entry capacity in accordance with the approved entry capacity substitution methodology statement prepared pursuant to paragraph 10(a) of this condition, as may be modified from time to time in accordance with paragraph 10(e) of this condition.
- (c) For the purposes of paragraph 10(a)(i)(aa) of this condition, the licensee shall use reasonable endeavours to ensure that the entry capacity substitution

methodology facilitates the achievement of the following objectives (the “entry capacity substitution objectives”):

- (i) ensuring that entry capacity substitution is effected in a manner which minimises the costs associated with funded incremental obligated entry capacity;
  - (ii) ensuring that entry capacity substitution is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
  - (iii) avoiding material increases in the costs (including entry capacity constraint management costs in respect of obligated entry capacity previously allocated by the licensee to relevant shippers) that are reasonably expected to be incurred by the licensee as a result of substituting entry capacity; and
  - (iv) in so far as is consistent with (i), (ii) and (iii) above, facilitating effective competition between relevant shippers and between relevant suppliers.
- (d) For the purposes of paragraph 10(a)(ii), the entry capacity substitution methodology statement shall be deemed approved from the earlier of:
- i) the date of receipt of a notice by the licensee from the Authority approving the entry capacity substitution methodology statement; or
  - ii) the date being two months after the entry capacity substitution methodology statement was submitted to the Authority,
- unless the Authority otherwise directs the licensee (such direction to be made within two months of the receipt by the Authority of the entry capacity substitution methodology statement) that the entry capacity substitution methodology statement has not been approved.
- (e) The licensee shall, if so directed by the Authority, and in any event at least once a year, review the entry capacity substitution methodology set out in the

entry capacity substitution methodology statement in force, in consultation with relevant shippers and interested parties and seek to make such modifications to the entry capacity substitution methodology as it considers reasonably necessary to better meet the entry capacity substitution objectives set out in paragraph 10(c) of this condition.

- (f) Except where the Authority otherwise directs in writing, before submitting the entry capacity substitution methodology statement pursuant to paragraph 10(a) of this condition or before modifying that statement, the licensee shall:
- (i) when modifying its entry capacity substitution methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
  - (ii) consult relevant shippers and interested parties and allow them a period of not less than 28 days, which for the avoidance of doubt may commence before the date on which the Authority issues a decision giving effect to this licence condition, in which to make representations;
  - (iii) within 14 days of the close of the consultation referred to in paragraph 10(f)(ii) of this condition submit to the Authority a report setting out:
    - (aa) the modifications originally proposed (if any);
    - (bb) the representations made by relevant shippers or interested parties (if any) to the licensee and not withdrawn; and
    - (cc) any changes to the modifications proposed as a result of such representations;
  - (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 reasonable requirements as are specified in that direction.

- (g) The licensee shall be entitled to modify its entry capacity substitution methodology statement at any time pursuant to paragraph 10(e) of this condition, save that it shall not modify such statement:
- (i) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 10(f)(iii) of this condition) from the date on which the Authority receives the report referred to in paragraph 10(f)(iii) of this condition the Authority directs the licensee not to make the modification; or
  - (ii) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 10(f)(iii) of this condition) from the date on which the Authority receives the report referred to in paragraph 10(f)(iii) of this condition; or
  - (iii) where paragraph 10(f)(iv) in this condition applies, before the day specified in any direction made pursuant to that paragraph.
- (h) The licensee shall make the entry 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).

## 11. Entry Capacity Transfer Obligations

- (a) The licensee shall:
- i) by the date on which the Authority issues a decision giving effect to this licence condition, or such later date as the Authority may otherwise direct in writing:
    - (aa) prepare an entry capacity transfer methodology, in such manner that is necessary to facilitate the achievement of the entry capacity transfer objectives (as set out in paragraph 11(d) of this condition), which it shall apply for the purposes of facilitating entry capacity transfer, including the calculation of entry capacity transfer rates; and
    - (bb) submit to the Authority for its approval a statement setting out the methodology prepared in accordance with paragraph 11(a)(i)(aa) of this condition (“the entry capacity transfer methodology statement”);
  - ii) use reasonable endeavours to have in force, by no later than 3 days after the date on which the Authority issues a decision giving effect to this licence condition, or such later date as the Authority may otherwise direct in writing, an approved entry capacity transfer methodology statement.
- (b) The licensee shall use reasonable endeavours, unless and insofar as the Authority may otherwise direct from time to time in writing, to meet any requests from a relevant shipper for an entry capacity transfer rate or rates calculated in accordance with the approved methodology statement prepared pursuant to paragraph 11(a) of this condition, as may be modified from time to time in accordance with paragraph 11(f) of this condition, and shall use reasonable endeavours to respond to any queries raised by that relevant shipper in respect of the calculation of the entry capacity transfer rate in a timely manner.

- (c) Where the licensee has provided an entry capacity transfer rate or rates pursuant to paragraph 11(b) of this condition and the relevant shipper requests that the licensee enacts an entry capacity transfer then the licensee shall effect that entry capacity transfer.
- (d) For the purposes of paragraph 11(a)(i)(aa) of this condition, the licensee shall use reasonable endeavours to ensure that the entry capacity transfer methodology facilitates the achievement of the following objectives (the “entry capacity transfer objectives”):
  - (i) ensuring that entry capacity transfer is effected in a manner which makes effective use of the pipeline system to which this licence relates;
  - (ii) ensuring that entry capacity transfer is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
  - (iii) avoiding material increases in the costs (including entry capacity constraint management costs in respect of obligated entry capacity previously allocated by the licensee to relevant shippers) that are reasonably expected to be incurred by the licensee as a result of facilitating entry capacity transfer; and
  - (iv) in so far as is consistent with (i), (ii) and (iii) above, facilitating effective competition between relevant shippers and between relevant suppliers.
- (e) For the purposes of paragraph 11(a)(ii), the entry capacity transfer methodology statement shall be deemed approved from the earlier of:
  - i) the date of receipt of a notice by the licensee from the Authority approving the entry capacity transfer methodology statement; or
  - ii) the date being two months after the entry capacity transfer methodology statement was submitted to the Authority,

unless the Authority otherwise directs the licensee (such direction to be made within two months of the receipt by the Authority of the entry capacity transfer methodology statement) that the entry capacity transfer methodology statement has not been approved.

- (f) The licensee shall, if so directed by the Authority, and in any event at least once a year, review the entry capacity transfer methodology set out in the entry capacity transfer methodology statement in force, in consultation with relevant shippers and interested parties and seek to make such modifications to the entry capacity transfer methodology as it considers reasonably necessary to better meet the entry capacity transfer objectives set out in paragraph 11(d) of this condition.
- (g) Except where the Authority directs otherwise, before submitting the entry capacity transfer methodology statement pursuant to paragraph 11(a) of this condition or before modifying that statement, the licensee shall:
  - (i) when modifying its entry capacity transfer methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
  - (ii) consult relevant shippers and interested parties and allow them a period of not less than 28 days, which for the avoidance of doubt may commence before the date on which the Authority issues a decision giving effect to this licence condition, in which to make representations;
  - (iii) within 14 days of the close of the consultation referred to in paragraph 11(g)(ii) of this condition submit to the Authority a report setting out:
    - (aa) the modifications originally proposed (if any);
    - (bb) the representations made by relevant shippers or interested parties (if any) to the licensee and not withdrawn; and
    - (cc) any changes to the modifications proposed as a result of such representations;

- (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 reasonable requirements as are specified in that direction.
- (h) The licensee shall be entitled to modify its entry capacity transfer methodology statement at any time pursuant to paragraph 11(f) of this condition, save that it shall not modify such statement:
  - (i) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 11(g)(iii) of this condition) from the date on which the Authority receives the report referred to in paragraph 11(g)(iii) of this condition the Authority directs the licensee not to make the modification; or
  - (ii) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 11(g)(iii) of this condition) from the date on which the Authority receives the report referred to in paragraph 11(g)(iii) of this condition; or
  - (iii) where paragraph 11(g)(iv) in this condition applies, before the day specified in any direction made pursuant to that paragraph.
- (i) The licensee shall, by 31 May 2008 and 31 May in each subsequent formula year, provide the Authority with a report on the application and implementation of the entry capacity transfer methodology during the previous formula year setting out the extent to which, in the licensee's opinion, the entry capacity transfer objectives were achieved during that previous formula year.
- (j) The licensee shall make its entry capacity transfer methodology statement from time to time applicable to the pipe-line system to which this licence

relates available on its website (and in such other manner as appears to the licensee to be appropriate).

## **12. Entry Capacity Trade Obligations**

- (a) The licensee shall:
  - i) by the date on which the Authority issues a decision giving effect to this licence condition, or such later date as the Authority may otherwise direct in writing:
    - (aa) prepare an entry capacity trade methodology, in such manner that is necessary to facilitate the achievement of the entry capacity trade objectives (as set out in paragraph 12(d) of this condition), which it shall apply for the purposes of facilitating entry capacity trade, including the calculation of entry capacity trade rates; and
    - (bb) submit to the Authority for its approval a statement setting out the methodology prepared in accordance with paragraph 12(a)(i)(aa) of this condition (“the entry capacity trade methodology statement”);
  - ii) use reasonable endeavours to have in force, by no later than 3 days after the date on which the Authority issues a decision giving effect to this licence condition, or such later date as the Authority may otherwise direct in writing, an approved entry capacity trade methodology statement.
- (b) The licensee shall, unless and insofar as the Authority may otherwise direct from time to time in writing, use reasonable endeavours to meet any requests from a relevant shipper for an entry capacity trade rate or rates calculated in accordance with the approved methodology statement prepared pursuant to paragraph 12(a) of this condition, as may be modified from time to time in accordance with paragraph 12(f) of this condition, and shall use reasonable endeavours to respond to any queries raised by that relevant shipper in respect of the calculation of the entry capacity trade rate in a timely manner.
- (c) Where the licensee has provided an entry capacity trade rate or rates pursuant to paragraph 12(b) of this condition and the relevant shipper requests that the

licensee enacts an entry capacity trade then the licensee shall effect that entry capacity trade.

- (d) For the purposes of paragraph 12(a)(i)(aa) of this condition, the licensee shall use reasonable endeavours to ensure that the entry capacity trade methodology facilitates the achievement of the following objectives (the “entry capacity trade objectives”):
- (i) ensuring that entry capacity trade is effected in a manner which makes effective use of the pipeline system to which this licence relates;
  - (ii) ensuring that entry capacity trade is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
  - (iii) avoiding material increases in the costs (including entry capacity constraint management costs in respect of obligated entry capacity previously allocated by the licensee to relevant shippers) that are reasonably expected to be incurred by the licensee as a result of facilitating entry capacity trade; and
  - (iv) in so far as is consistent with (i), (ii) and (iii) above, facilitating effective competition between relevant shippers and between relevant suppliers.
- (e) For the purposes of paragraph 12(a)(ii), the entry capacity trade methodology statement shall be deemed approved from the earlier of:
- i) the date of receipt of a notice by the licensee from the Authority approving the entry capacity trade methodology statement; or
  - ii) the date being two months after the entry capacity trade methodology statement was submitted to the Authority,

unless the Authority otherwise directs the licensee (such direction to be made within two months of the receipt by the Authority of the entry capacity trade

methodology statement) that the entry capacity trade methodology statement has not been approved.

- (f) The licensee shall, if so directed by the Authority, and in any event at least once a year, review the entry capacity trade methodology set out in the entry capacity trade methodology statement in force, in consultation with relevant shippers and interested parties and seek to make such modifications to the entry capacity trade methodology as it considers reasonably necessary to better meet the entry capacity trade objectives set out in paragraph 12(d) of this condition.
- (g) Except where the Authority directs otherwise, before submitting the entry capacity trade methodology statement pursuant to paragraph 12(a) of this condition or before modifying that statement, the licensee shall:
  - (i) when modifying its entry capacity trade methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
  - (ii) consult relevant shippers and interested parties and allow them a period of not less than 28 days, which for the avoidance of doubt may commence before the date on which the Authority issues a decision giving effect to this licence condition, in which to make representations;
  - (iii) within 14 days of the close of the consultation referred to in paragraph 12(g)(ii) of this condition submit to the Authority a report setting out:
    - (aa) the modifications originally proposed (if any);
    - (bb) the representations made by relevant shippers or interested parties (if any) to the licensee and not withdrawn; and
    - (cc) any changes to the modifications proposed as a result of such representations;

- (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 reasonable requirements as are specified in that direction.
- (h) The licensee shall be entitled to modify its entry capacity trade methodology statement at any time pursuant to paragraph 12(f) of this condition, save that it shall not modify such statement:
- (i) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 12(g)(iii) of this condition) from the date on which the Authority receives the report referred to in paragraph 12(g)(iii) of this condition the Authority directs the licensee not to make the modification; or
  - (ii) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 12(g)(iii) of this condition) from the date on which the Authority receives the report referred to in paragraph 12(g)(iii) of this condition; or
  - (iii) where paragraph 12(g)(iv) in this condition applies, before the day specified in any direction made pursuant to that paragraph.
- (i) The licensee shall, by 31 May 2008 and 31 May in each subsequent formula year, provide the Authority with a report on the application and implementation of the entry capacity trade methodology during the previous formula year setting out the extent to which, in the licensee's opinion, the entry capacity trade objectives were achieved during that previous formula year.
- (j) The licensee shall make its entry capacity trade methodology statement from time to time applicable to the pipe-line system to which this licence relates

available on its website (and in such other manner as appears to the licensee to be appropriate).

## **Part D – Entry capacity constraint management cost allocation**

### **13. Statement of entry capacity constraint management cost allocation rules**

- (a) The licensee shall, by the date that is 30 days after the date on which the Authority issues a decision giving effect to this licence condition or such later date as the Authority may direct, prepare and submit for approval by the Authority a statement of entry capacity constraint management cost allocation rules, setting out the rules that it shall apply in attributing entry capacity constraint management costs for the purposes of paragraph 3(n) of this condition.
- (b) Unless the Authority otherwise directs (such direction to be made within two months of the receipt by the Authority of the statement of entry capacity constraint management cost allocation rules prepared pursuant to paragraph 13(a) of this condition) the licensee shall, in attributing entry capacity constraint management costs for the purposes of paragraph 3(n) of this condition, apply the rules set out in that statement from the earlier of:
  - (i) the date of receipt of a notice from the Authority approving the statement of entry capacity constraint management cost allocation rules; or
  - (ii) the date being two months after the statement of entry capacity constraint management cost allocation rules was submitted to the Authority.
- (c) Except where the Authority directs otherwise, before submitting the statement of entry capacity constraint management cost allocation rules pursuant to paragraph 13(a) of this condition or before modifying that statement, the licensee shall when modifying its statement of entry capacity constraint management cost allocation rules send a copy of the proposed modifications to the Authority.

- (d) The licensee shall be entitled to modify its statement of entry capacity constraint management cost allocation rules at any time pursuant to paragraph 13(c) of this condition, save that it shall not modify such statement:
- (i) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the modifications referred to in paragraph 13(c) of this condition) from the date on which the Authority receives the proposed modifications referred to in paragraph 13(c) of this condition the Authority directs the licensee not to make the modification; or
  - (ii) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the proposed modifications referred to in paragraph 13(c) of this condition) from the date on which the Authority receives the proposed modifications referred to in paragraph 13(c) of this condition.
- (e) The licensee shall make its statement of entry capacity constraint management cost allocation rules from time to time applicable to the pipe-line system to which this licence relates available on its website (and in such other manner as appears to the licensee to be appropriate).

**Annex A to Special Condition C8D (NTS gas entry incentives, costs and revenues)**

**Part A**

1. Solely for the purposes of paragraph 1(a) of Special Condition C8D (NTS gas entry incentive, revenues and costs), the maximum entry capacity investment incentive revenue allowed to the licensee in respect of formula year  $t$  ( $ECIIR_t$ ) that arises due to funded incremental obligated entry capacity that was released prior to 1 April 2007 that would have been determined in accordance with Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity) of this licence in force at that time shall be calculated in accordance with Part C of this Annex, where:

(i) for the purposes of those calculations, terms shall have the meanings as defined in Part B of this Annex; and

(ii) for the purposes of paragraph 14(5)(f)(ii) of Part C of this Annex A, where the Authority has made a direction pursuant to paragraph 9(e) of Part C of Special Condition C8D (NTS entry incentives, costs and revenues) or where paragraph 9(e)(ii) of Part C of Special Condition C8D (NTS entry incentives, costs and revenues) applies the licensee shall be deemed to have offered for sale all unsold obligated entry capacity, such that  $OSELL_{m,d,0}^j = 0$ .

## **Part B: Definitions appropriate to this Annex**

1. For the purposes of this Annex to Special Condition C8D (NTS gas entry incentives, revenues and costs) only:

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;
clearing allocation	means in respect of a terminal and period an allocation of entry capacity which either: - 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:

<b>Distribution Network</b>	<b>Local Distribution Zone (LDZ)</b>
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;

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;
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 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	<p>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:</p> <ul style="list-style-type: none"> <li>(i) incremental entry capacity services;</li> <li>(ii) incremental exit capacity services;</li> <li>(iii) residual gas balancing services;</li> <li>(iv) balancing management;</li> <li>(v) constraint management services; and</li> <li>(vi) the provision of services in relation to gas quality;</li> </ul>
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	means the undertaking and performance for gain or reward of engagements: <ul style="list-style-type: none"> <li>a) in connection with the conveyance of gas through the Distribution Network;</li> <li>b) for the prevention of the escape of gas which has been taken off the Distribution Network; and</li> <li>c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of: <ul style="list-style-type: none"> <li>(i) the balancing of the Distribution Network through the acquisition or disposal of gas to replace gas lost from the Distribution Network; and</li> <li>(ii) facilitating constraint management;</li> </ul> </li> </ul>
supply of NTS services	means the undertaking and performance for gain and reward of engagements:

(c) 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

(d) 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.

### **Part C: Calculations of $ECIIR_t$**

1. Solely for the purposes of paragraph 1(a) of Special Condition C8D (NTS gas entry incentive, revenues and costs), the maximum entry capacity investment incentive revenue allowed to the licensee in respect of formula year  $t$  ( $ECIIR_t$ ) shall be calculated in accordance with this Part C of Annex A to Special Condition C8D (NTS gas entry incentive, revenues and costs). For the avoidance of doubt, the provisions of this Part C shall be used solely for the purposes of calculating the maximum entry capacity investment incentive revenue allowed to the licensee and shall not give rise to any obligations for the licensee.
2. For the purposes of those calculations, this Part C of Annex A to Special Condition C8D (NTS gas entry incentive, revenues and costs) replicates the provisions of paragraph 14(5) of Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity) that would have been in force had that condition not been modified, as follows:

### **Part 2 The NTS system operation activity revenue restrictions**

#### **14. Definition of maximum NTS system operation revenue ( $SOMR_t$ )**

##### **(5) Entry capacity investment incentive revenue ( $ECIIR_t$ )**

##### **(a) Principal formula**

For the purposes of paragraph 1 of Special Condition C8D (NTS gas entry incentive, revenues and costs) the entitlement to system operator revenue as a legacy of incremental obligated entry capacity release prior to 1 April 2007 ( $ECIIR_t$ ) shall be derived in the following manner:

If  $t \leq 5$  then:

$$ECIIR_t = \sum_{\text{all } j} \text{SOREVOIEC}_t^j$$

Otherwise:

$$ECIIR_t = \sum_{all\ j} SOREVOIEC_t^j + \frac{RI_t}{RI_0} \sum_{all\ j} \sum_{m=12t-11}^{12t} SOREVIBEC_m^j$$

where:

$SOREVOIEC_t^j$  means the maximum NTS system operation incentive revenue from the sale of obligated incremental entry capacity in respect of formula year t at terminal j and shall be derived in accordance with paragraph 14(5)(d) of Part 2 of this condition;

$\sum_{all\ j} SOREVOIEC_t^j$  means the sum across all terminals j of  $SOREVOIEC_t^j$ ;

$RI_t$  means the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1;

$RI_0$  means the arithmetic average of the retail price index published or determined with respect to each of the six months from April to September (both inclusive) in the year 1999;

$SOREVIBEC_m^j$  means the NTS system operator incentive revenue from the sales of permanent obligated incremental entry capacity in respect of periods where month m is more than 5 years after the first month to which capacity relates and in respect of terminal j that is included in the calculation of NTS SO baseline entry capacity pursuant to paragraph 14(5)(g) of Part 2 of this condition and shall be derived from the following formula:

$$SOREVIBEC_m^j =$$

$$\sum_{p=60}^{(m-1)} \left[ \left( \sum_{w=0}^{Q^1} \text{IPOEC}_{(m-p),w}^j \right) \times \frac{\text{UCAG}^j}{12} \times \left( \text{OPEX} + \frac{1}{\text{UEL}} + \frac{\text{ARR}}{2\text{UEL}} \left[ 2 \left[ \text{UEL} - \beta - \text{RND} \left( \frac{p}{12} \right) \right] - 1 \right] \right) \right]$$

where:

$Q^1$  means the number of days between 1 April 2002 and the first day of month  $m$  (and for the avoidance of doubt when month  $m$  is April 2002  $Q^1$  shall have the value zero (0));

$\text{IPOEC}_{(m-p),w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this condition;

$\sum_{p=60}^{(m-1)} \gamma_p$  means the sum calculated in the following manner:

$$\sum_{p=60}^{(m-1)} \gamma_p = \gamma_{60} + \gamma_{61} + \dots + \gamma_{m-1}$$

where:

$$\gamma_p = \left( \sum_{w=0}^{Q^1} \text{IPOEC}_{(m-p),w}^j \right) \times \frac{\text{UCAG}^j}{12} \times \left( \text{OPEX} + \frac{1}{\text{UEL}} + \frac{\text{ARR}}{2\text{UEL}} \left[ 2 \left[ \text{UEL} - \beta - \text{RND} \left( \frac{p}{12} \right) \right] - 1 \right] \right)$$

where:

$\sum_{w=0}^{Q^1} (\text{IPOEC}_{(m-p),w}^j)$  means the sum calculated in the following manner:

$$\sum_{w=0}^{Q^1} (\text{IPOEC}_{(m-p),w}^j) = \text{IPOEC}_{(m-p),0}^j + \text{IPOEC}_{(m-p),1}^j + \dots + \text{IPOEC}_{(m-p),Q^1}^j$$

$\text{UCAG}^j$  means the unit cost allowance in pounds per kilowatt hour in respect of terminal  $j$  and has the value set out in the following tables:

<b>Terminal j</b>	<b>UCAG<sup>j</sup> (£/kWh)</b>
Bacton	0.182
Barrow	0.014
Easington	0.034
St. Fergus	0.639
Teesside	0.059
Theddlethorpe	0.031
Glenmavis	0.532
Partington	0.009
Avonmouth	0.064
Isle of Grain	0.186
Dynevor Arms	0.000
Hornsea	0.153
Hatfield Moor (storage)	0.042
Hatfield Moor (onshore)	0.042
Cheshire	0.003
Hole House Farm	0.002
Wytch Farm	0.000
Burton Point	0.002
Barton Stacey	0.000
Garton	0.039
Burton Agnes (Caythorpe)	0.075
Winkfield	0.083
Blyborough (Welton)	0.035
Tatsfield	0.083
Albury	0.360
Palmers Wood	0.131

Terminal j	UCAG <sup>j</sup> (£/kWh)	UCAG <sup>j</sup> (£/kWh)
Milford Haven	0.343 where PRIORCIOEC <sup>j</sup> <sub>m</sub> ≤ 500 GWh/d	0.257 where PRIORCIOEC <sup>j</sup> <sub>m</sub> > 500 GWh/d

Terminal j	UCAG <sup>j</sup> (£/kWh)	UCAG <sup>j</sup> (£/kWh)
Fleetwood	0.162  where 0 GWh/d < PRIORCIOEC <sup>j</sup> <sub>m</sub> < 580 GWh/d	0.267  where 580 GWh/d ≤ PRIORCIOEC <sup>j</sup> <sub>m</sub> < 740 GWh/d
	0.224  where 740 GWh/d ≤ PRIORCIOEC <sup>j</sup> <sub>m</sub> < 1000 GWh/d	0.214  where 1000 GWh/d ≤ PRIORCIOEC <sup>j</sup> <sub>m</sub> < 1200 GWh/d
	0.263  where 1200 GWh/d ≤ PRIORCIOEC <sup>j</sup> <sub>m</sub> ≤ 1400 GWh/d	

PRIORCIOEC<sup>j</sup><sub>m</sub> shall mean the cumulative obligated incremental entry capacity in respect of each day in month m at terminal j at a date to be determined by the Authority.

OPEX has a value equal to 0.015;

UEL has a value equal to 45;

ARR has a value equal to 0.0625;

$\beta$  has a value equal to 0.2; and

RND(x) means the value of x rounded down to the next integer value; and

$\sum_{\text{all } j} \sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m}^j$  means the sum across all terminals  $j$  of  $\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m}^j$ ; and

$\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m}^j$  means the sum across all months  $m$  in formula year  $t$  at terminal  $j$  of  $\text{SOREVIBEC}_{m}^j$  calculated in the following manner:

$$\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m}^j = \text{SOREVIBEC}_{(12t-11)}^j + \text{SOREVIBEC}_{(12t-10)}^j + \dots + \text{SOREVIBEC}_{12t}^j$$

**(b) Determination of obligated incremental entry capacity**

(i) In this paragraph 14(5)(b) of Part 2 of this condition:

proposal means a proposal by the licensee to undertake to sell or to offer for sale entry capacity additional to the then current level of obligated entry capacity and for such entry capacity to be treated as obligated incremental entry capacity for the purposes of Part 2 of this condition.

(ii) Where the licensee reasonably believes that there is or will be demand for firm entry capacity additional to the then current level of obligated entry capacity 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 Part 2 of this condition in accordance with the following paragraphs.

- (iii) 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 14(5)(b)(vii) of Part 2 of this condition, the following:
  - (aa) The inputs that have been applied to the incremental entry capacity release methodology;
  - (bb) The results of applying the incremental entry capacity release methodology and the rationale for why the licensee believes implementation of the proposal is justified;
  - (cc) The terminal to which the proposal relates;
  - (dd) The volume of firm entry capacity subject to the proposal;
  - (ee) The duration for which the licensee will be obliged to offer for sale the firm entry capacity subject to the proposal (for the avoidance of doubt this must be at least one year);
  - (ff) 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);
  - (gg) The amount of capital expenditure which the licensee reasonably expects to incur in implementing the proposal;

- (hh) A technical description of the manner in which the licensee proposes to provide the firm entry capacity subject to the proposal;
  - (ii) The day on which the obligation to offer for sale such capacity would commence; and
  - (jj) 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, giving their opinion as to the extent to which the licensee has complied with its incremental entry capacity release methodology specified and the reasonableness of the inputs used.
- (iv) The licensee shall keep a record of each application made pursuant to paragraph 14(5)(b)(iii) of Part 2 of this condition.
- (v) 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.
- (vi) 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 14(5)(b)(iii) in Part 2 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 14(5)(b)(iii) in Part 2 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 14(5)(b)(iii) in Part 2 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.

(vii) Where the Authority has notified the licensee under paragraph 14(5)(b)(vi) in Part 2 of this condition to suspend implementation of the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 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 14(5)(b)(iii) in Part 2 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.

(viii) Pursuant to a proposal made by the licensee under paragraph 14(5)(b)(iii) in Part 2 of this condition, and implemented in accordance with paragraph 14(5)(b)(vi) or (vii) in Part 2 of this condition, as the case may be, the licensee shall treat as:

(aa) permanent obligated incremental entry capacity that capacity which it has proposed to offer for sale in respect of every day of a period of five years or more; and

(bb) annual obligated incremental capacity, that capacity which it has proposed to offer for sale in respect of every day of a period of less than five years

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 14(5)(b)(vii) in Part 2 of this condition) in accordance with paragraphs 14(5)(c) and 14(5)(f) in Part 2 of this condition;

- (ix) The licensee may withdraw a proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this condition within 5 business days from receipt by the Authority of that proposal. Where the Authority has notified the licensee under paragraph 14(5)(b)(vi) in Part 2 of this condition to suspend implementation of the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 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; and
- (x) For the avoidance of doubt where the Authority has made a direction not to implement the proposal under paragraph 14(5)(b)(vii) in Part 2 of this condition the licensee shall remain entitled to make available firm entry capacity additional to the then current level of obligated entry capacity and any such additional firm entry capacity sold by the licensee shall be treated as non-obligated incremental entry capacity.

**(c) The allocation of firm entry capacity**

- (i) The licensee shall use all reasonable endeavours to ensure that by 1 February 2003 it has offered for sale all long-term NTS SO baseline entry capacity available in respect of at least formula years 1 to 5 inclusive in one or more allocations, such allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this condition.

- (ii) The licensee shall use all reasonable endeavours to offer for sale all obligated entry capacity in at least one clearing allocation such allocation or allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this condition, for the avoidance of doubt where a clearing allocation would contravene the provisions of Standard Special Condition A4 (Charging - General) the licensee shall allocate such capacity in accordance with provisions of Standard Special Condition A5(5)(aa)(ii) (Obligations as Regard Charging Methodology).
  
- (iii) Where the licensee serves a termination notice (having the meaning given to that term in the network code) on a gas shipper (the terminated gas shipper), the licensee shall:
  - (aa) use all reasonable endeavours to offer for sale, in at least one clearing allocation (for the avoidance of doubt where a clearing allocation would contravene the provisions of Standard Special Condition A4 (Charging - General) the licensee shall allocate such capacity in accordance with provisions of Standard Special Condition A5(5)(aa)(ii) (Obligations as Regard Charging Methodology)), any such obligated entry capacity relating to any day that has not commenced that was held by the terminated gas shipper and which obligated capacity has not been registered to another gas shipper pursuant to section B (System use and capacity) of the network code, such clearing allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this condition; and
  
  - (bb) at the earliest possible opportunity, submit a written proposal to the Authority, for approval by the

Authority, in relation to the allocation of revenues derived from the sale of capacity pursuant to subparagraph (aa) of this paragraph, between  $REVBEC_{m,d,w}^j$  and  $REVOIEC_{m,d,w}^j$  (as the same are defined in paragraph 14(5)(i) of Part 2 of this condition) for each day d of month m to which the capacity relates, for each of the allocations occurring w days prior to day d of month m which proposal shall be reviewed, revised (if necessary in the Authority's opinion) and, if approved by the Authority, implemented.

- (iv) An allocation has been duly notified for the purposes of paragraphs 14(5)(c)(i), (ii) and (iii) of Part 2 of this condition if the licensee has in accordance with the network code notified gas shippers of the allocations forthcoming occurrence.
- (v) Revenue derived by the licensee from the sale of obligated incremental entry capacity may only be taken into account, except where the Authority otherwise accepts, in the calculation of  $ECIIR_t$  to the extent that the capacity to which it relates has been offered for sale by the licensee in accordance with paragraphs 14(5)(c) (ii) and where applicable (iii) above and paragraph 14(5)(f)(ii) in Part 2 of this condition.
- (vi) To the extent that any revenue derived by the licensee from the sale of obligated incremental entry capacity is not taken into account in the calculation of  $REVOIEC_t$  or  $SOREVOIEC_t$  pursuant to paragraph 14(5)(c)(v) above, in respect of formula year t, it shall be taken into account in the calculation of  $REVBEC_t$ .

**(d) NTS system operation incentive revenue in respect of obligated incremental entry capacity (SOREVOIEC<sub>t</sub><sup>j</sup>)**

For the purposes of paragraph 14(5)(a) of Part 2 of this condition, the maximum NTS system operation incentive revenue from the sale of obligated incremental entry capacity in respect of formula year t at terminal j (SOREVOIEC<sub>t</sub><sup>j</sup>) shall be derived from the following formula:

SOREVOIEC<sub>t</sub><sup>j</sup> =

$$\text{MIN} \left[ \text{CAPOIEC}_t^j, \text{MAX} \left( \text{COLOIEC}_t^j, \sum_{m=12t-11}^{12t} \left( \sum_{\text{All } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j \right) - \text{DQREV}_t^j \right) \right]$$

where:

MIN(x,y)	means the value equal to the lesser of x and y;
CAPOIEC <sub>t</sub> <sup>j</sup>	means the maximum entry capacity investment incentive revenue allowed to the licensee in respect of sales of obligated incremental entry capacity in respect of formula year t at terminal j, and shall be derived in accordance with paragraph 14(5)(e) in Part 2 of this condition;
MAX(x,y)	means the value equal to the greater of x and y;
COLOIEC <sub>t</sub> <sup>j</sup>	means the minimum entry capacity investment incentive revenue allowed to the licensee in respect of sales of obligated incremental entry capacity in respect of formula year t at terminal j, and shall be derived in accordance with paragraph 14(5)(h) in Part 2 of this condition;

$Q^d$  means the number of days between 1 April 2002 and day  $d$  of month  $m$  (and for the avoidance of doubt when day  $d$  of month  $m$  is 1 April 2002  $Q^d$  shall have the value zero (0));

$REVOIEC_{m,d,w}^j$  means the entry capacity incentive revenue derived by the licensee in respect of sales of obligated incremental entry capacity in respect of day  $d$  of month  $m$  for terminal  $j$  made  $w$  days in advance of day  $d$  and shall be derived in accordance with paragraph 14(5)(i) of Part 2 of this condition; and

$\sum_{m=12t-11}^{12t} \left( \sum_{\text{All } d} \sum_{w=1}^{Q^d} REVOIEC_{m,d,w}^j \right)$  means the sum across all months  $m$  in formula year  $t$  of  $\sum_{\text{All } d} \sum_{w=1}^{Q^d} REVOIEC_{m,d,w}^j$  and shall be calculated in the following manner:

$$\sum_{m=12t-11}^{12t} \left( \sum_{\text{All } d} \sum_{w=1}^{Q^d} REVOIEC_{m,d,w}^j \right) = \sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC_{(12t-11),d,w}^j + \sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC_{(12t-10),d,w}^j + \dots + \sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC_{12t,d,w}^j$$

where:

$\sum_{\text{all } d} \sum_{w=1}^{Q^d} REVOIEC_{m,d,w}^j$  means the sum across all days  $d$  in month  $m$  of  $\sum_{w=1}^{Q^d} REVOIEC_{m,d,w}^j$  for each terminal  $j$  and shall be calculated in the following manner:

$$\sum_{\text{all } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j =$$

$$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,1,w}^j + \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,2,w}^j + \dots + \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,D,w}^j$$

where:

D means the number of days in month m; and

$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j$  means the sum across all days w between day d of month m and 1 April 2002 of  $\text{REVOIEC}_{m,d,w}^j$  and shall be calculated in the following manner:

$$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j =$$

$$\text{REVOIEC}_{m,d,1}^j + \text{REVOIEC}_{m,d,2}^j + \dots + \text{REVOIEC}_{m,d,Q^d}^j$$

$\text{DQREV}_t^j$  means the sum of all revenue derived by the licensee in formula year t from the sale of obligated incremental entry capacity in respect of terminal j that has not been taken into account in the calculation of  $\text{REVOIEC}_t$  pursuant to paragraph 14(5)(c)(vi) of Part 2 of this condition.

**(e) The maximum entry capacity investment incentive revenue (CAPOIEC<sub>t</sub><sup>j</sup>)**

For the purposes of paragraph 14(5)(d) of Part 2 of this condition, the maximum entry capacity investment incentive revenue allowed to the licensee in respect of obligated

incremental entry capacity in respect of formula year t at terminal j (CAPOIEC<sub>t</sub><sup>j</sup>) shall be derived from the following formula:

$$\text{CAPOIEC}_t^j =$$

$$\frac{RI_t}{RI_0} \times \left( \sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} \left( \text{MAX} \left( \text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0 \right) \right) \right) \right) \times \text{UCACAP}_t^j$$

where:

RI<sub>t</sub> shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

RI<sub>0</sub> shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

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

CIOEC<sub>m,0</sub><sup>j</sup> means the total obligated incremental entry capacity in respect of month m at terminal j and shall be derived in accordance with paragraph 14(5)(g) of Part 2 of this condition where w is equal to zero;

OSELL<sub>m,d,0</sub><sup>j</sup> means that obligated entry capacity in respect of day d of month m at terminal j which the licensee on day d continues to have an obligation to offer for sale and shall be derived in accordance with paragraph 14(5)(f) of Part 2 of this condition where w is equal to zero; and

UCACAP<sub>t</sub><sup>j</sup> means the entry capacity unit cost multiplier relating to the maximum allowed entry capacity investment incentive revenue in respect of each day of formula year t

and terminal j and shall be derived from the following formula:

$$UCACAP_t^j = UCAG^j \times \frac{UCACAPCONV}{y_t}$$

where:

UCAG<sup>j</sup> means the entry capacity unit cost allowance in respect of terminal j and has the value set out in paragraph 14(5)(a) in Part 2 of this condition;

UCACAPCONV has a value equal to 0.17438; and

y<sub>t</sub> means the number of days in formula year t.

$\sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0) \right) \right)$  means the sum across all months m in formula year t of  $\sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0) \right)$  and shall be calculated in the following manner:

$$\begin{aligned} \sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0) \right) \right) = & \\ & \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{(12t-11),0}^j - \text{OSELL}_{(12t-11),d,0}^j, 0) \right) \right) \\ & + \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{(12t-10),0}^j - \text{OSELL}_{(12t-10),d,0}^j, 0) \right) \right) \\ & + \dots + \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{12t,0}^j - \text{OSELL}_{12t,d,0}^j, 0) \right) \right) \end{aligned}$$

where:

$\sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^i - \text{OSELL}_{m,d,0}^i, 0))$  means the sum across all days d in month m of  $(\text{MAX}(\text{CIOEC}_{m,0}^i - \text{OSELL}_{m,d,0}^i, 0))$  and shall be calculated in the following manner:

$$\begin{aligned} \sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^i - \text{OSELL}_{m,d,0}^i, 0)) = & \\ & \text{MAX}(\text{CIOEC}_{m,0}^i - \text{OSELL}_{m,1,0}^i, 0) \\ & + \text{MAX}(\text{CIOEC}_{m,0}^i - \text{OSELL}_{m,2,0}^i, 0) + \\ & \dots + \text{MAX}(\text{CIOEC}_{m,0}^i - \text{OSELL}_{m,D,0}^i, 0) \end{aligned}$$

where:

D means the number of days in month m.

**(f) Obligated entry capacity for which the licensee still has an obligation to offer for sale**

**(i) Calculation of obligated entry capacity for which the licensee still has an obligation to offer for sale**  
 $(\text{OSELL}_{m,d,w}^j)$

For the purposes of paragraph 14(5)(e) of Part 2 of this condition, the obligated entry capacity which the licensee continues to have an obligation to offer for sale in respect of day d of month m at terminal j during the day that is w days in advance of day d  $(\text{OSELL}_{m,d,w}^j)$  shall be derived from the following formula:

$$OSELL_{m,d,w}^j = TOEC_{m,w}^j - \sum_{W=w}^{Q^d} OMET_{m,d,W}^j - \text{Min}(\text{PRIORSELL}_{m,d}^j, TOEC_{m,w}^j)$$

where:

$TOEC_{m,w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this condition;

$Q^d$  means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002  $Q^d$  shall have the value zero (0))

$OMET_{m,d,W}^j$  means the obligated entry capacity in respect of day d of month m at terminal j in respect of which the licensee has fulfilled its obligation to sell or offer for sale that obligated entry capacity in any allocations occurring W days in advance of day d of month m and shall be derived in the following manner:

On 1 April 2002:

$$OMET_{m,d,W}^j = \text{MIN} \left( \left[ \text{CAPOFFER}_{m,d,W}^j + \text{CAPSALE}_{m,d,W}^j \right], \left[ \text{TOEC}_{m,W}^j - \text{MIN}(\text{PRIORSELL}_{m,d}^j, \text{TOEC}_{m,W}^j) \right] \right)$$

Otherwise:

$$\text{OMET}_{m,d,W}^j = \text{MIN} \left( \left[ \text{CAPOFFER}_{m,d,W}^j + \text{CAPSALE}_{m,d,W}^j \right], \left[ \text{TOEC}_{m,W}^j - \sum_{\varpi=W+1}^{Q^d} \text{OMET}_{m,d,\varpi}^j - \text{MIN} \left( \text{PRIORSELL}_{m,d}^j, \text{TOEC}_{m,W}^j \right) \right] \right)$$

where:

$\text{CAPOFFER}_{m,d,W}^j$  means that entry capacity in respect of day d of month m and terminal j offered for sale in clearing allocations occurring W days in advance of day d of month m;

$\text{CAPSALE}_{m,d,W}^j$  means that entry capacity in respect of day d of month m and terminal j sold in allocations other than clearing allocations occurring W days in advance of day d of month m;

$\sum_{\varpi=W+1}^{Q^d} \text{OMET}_{m,d,\varpi}^j$  means the sum across all days  $\varpi$  between W+1 and  $Q^d$  of  $\text{OMET}_{m,d,W}^j$  and shall be calculated in the following manner:

$$\sum_{\varpi=W+1}^{Q^d} \text{OMET}_{m,d,\varpi}^j = \text{OMET}_{m,d,(W+1)}^j + \text{OMET}_{m,d,(W+2)}^j + \dots + \text{OMET}_{m,d,Q^d}^j$$

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

and

$PRIORSELL_{m,d}^j$  means that entry capacity, measured in kWh, in respect of day d of month m and terminal j allocated in any allocation occurring prior to 1 April 2002.

**(ii) Obligation to offer for sale obligated entry capacity**

(a) In respect of any terminal j the licensee has an obligation to offer for sale obligated entry capacity at the commencement of the day to which it relates (that is,  $(OSELL_{m,d,w}^j) > 0$  at 06:00 on day d) the licensee shall use all reasonable endeavours to offer for sale all such capacity to gas shippers such that  $(OSELL_{m,d,w}^j) = 0$  at the end of day d of month m except where, and to the extent that, the Authority has otherwise consented in writing. For the avoidance of doubt, where such an allocation would contravene the provisions of Standard Special Condition A4 (Charging– General) the licensee shall allocate such capacity in accordance with the provisions of Standard Special Condition A5(5)(aa)(ii) (Obligations as Regard Charging Methodology);

(b) Where the licensee has complied with its obligations pursuant to paragraph 14(5)(f)(ii)(a) of Part 2 of this condition then at the end of day d of month m  $OSELL_{m,d,0}^j$  shall have a value equal to zero.

**(g) Calculation of obligated entry capacity ( $TOEC_{m,w}^j$ )**

For the purposes of paragraph 14(5)(f) of Part 2 of this condition, the obligated entry capacity in respect of month m at terminal j as at w days in advance of the first day of month m (TOEC<sub>m,w</sub><sup>j</sup>) shall be derived from the following formula:

$$\text{TOEC}_{m,w}^j = \text{MOEC}_{m,w}^j + \text{CIOEC}_{m,w}^j$$

where:

MOEC<sub>m,w</sub><sup>j</sup> means the NTS SO baseline entry capacity in respect of month m at terminal j as at w days in advance of the first day of month m (for the avoidance of doubt m=1 is April 2002) and shall be derived in the following manner:

If m > 60:

$$\text{MOEC}_{m,w}^j = \text{LBEC}_m^j + \alpha (\text{SBEC}_m^j) + \left( \sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^1} \text{IPOEC}_{(m-p),W}^j \right)$$

Otherwise:

$$\text{MOEC}_{m,w}^j = \text{LBEC}_m^j + \alpha (\text{SBEC}_m^j)$$

where:

LBEC<sub>m</sub><sup>j</sup> means the long-term NTS SO baseline entry capacity measured in kWh in respect of month m at terminal j and shall be derived from the following formula:

$$\text{LBEC}_m^j = (1 - \text{STR}_m^j) \times \text{IBEC}_m^j \times 1,000,000$$

where:

STR<sub>m</sub><sup>j</sup> has the value 0.2; and

IBEC<sub>m</sub><sup>j</sup> means the initial NTS SO baseline entry capacity in respect of month m at terminal j

and shall have the value set out in table A2 of schedule A;

$\alpha$  equals one (1) if  $w < 548$ , otherwise it equals zero (0);

$SBEC_m^j$  means the short-term NTS SO baseline entry capacity measured in kWh in respect of month  $m$  at terminal  $j$  and shall be derived from the following formula:

$$SBEC_m^j = STR_m^j \times IBEC_m^j \times 1,000,000$$

where:

$STR_m^j$  has the meaning given above;  
and

$IBEC_m^j$  has the meaning given above;

$Q^1$  means the number of days between 1 April 2002 and the first day of month  $m$  (and for the avoidance of doubt when month  $m$  is April 2002  $Q^1$  shall have the value zero (0));

$IPOEC_{(m-p),w}^j$  means that permanent obligated incremental entry capacity, measured in kWh, in respect of terminal  $j$  which is first delivered in month  $(m-p)$  and in respect of which the obligation to offer such capacity for sale commenced as at  $W$  days in advance of the first day of the first month to which such capacity relates;  
and

$\sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j)$  means the sum across all permanent obligated incremental entry capacity in respect of terminal j, for which the first month to which it relates is month (m-p), that the licensee has undertaken to offer for sale or sell as at W days prior to the first day of month m (provided that month (m-p) is not prior to April 2002) and shall be calculated in the following manner:

$$\begin{aligned}
 \sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j) = & \\
 & \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-60),W}^j) + \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-61),W}^j) \\
 & + \dots + \sum_{W=0}^{Q^1} (\text{IPOEC}_{1,W}^j)
 \end{aligned}$$

where:

$\sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j)$  means the sum across all days W between the first day of the first month to which such capacity relates and 1 April 2002 of  $\text{IPOEC}_{(m-p),W}^j$  and shall be calculated in the following manner:

$$\begin{aligned}
 \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j) = & \\
 & \text{IPOEC}_{(m-p),0}^j + \text{IPOEC}_{(m-p),1}^j + \dots + \text{IPOEC}_{(m-p),Q^1}^j
 \end{aligned}$$

$\text{CIOEC}_{m,w}^j$  means the cumulative obligated incremental entry capacity in respect of every day in month m at terminal j

as at w days in advance of the first day of month m and is derived from the following formula:

$$\text{CIOEC}_{m,w}^j = \sum_{p=0}^{\text{MIN}((m-1),59)} \sum_{W=w}^{Q^1} (\text{IPOEC}_{(m-p),W}^j) + \sum_{p=0}^{\text{MIN}((m-1),11)} \sum_{W=w}^{Q^1} (\text{IAOEC}_{(m-p),W}^j)$$

where:

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

$\text{IPOEC}_{(m-p),W}^j$  has the meaning given above

$\text{IAOEC}_{(m-p),W}^j$  means that annual obligated incremental entry capacity, measured in kWh in respect of terminal j which is first delivered in month (m-p) and in respect of which the obligation to offer such capacity for sale commenced as at W days in advance of the first day of the first month to which such capacity relates.

$\sum_{p=0}^{\text{MIN}((m-1), \varphi)} \sum_{W=w}^{Q^1} (\lambda_{(m-p),W}^j)$  means the sum across all incremental obligated entry capacity  $\lambda_{(m-p),W}^j$  (where  $\lambda$  equals IPOEC or IAOEC as the case may be) for which the first month to which it relates is month (m-p), that the licensee has undertaken to offer for sale or sell as at W days prior to

the first day of month m (provided that month (m-p) is not prior to April 2002) and shall be calculated in the following manner:

$$\sum_{p=0}^{\text{MIN}((m-1), \phi)} \sum_{W=w}^{Q^1} (\lambda_{(m-p), W}^j) =$$

$$\sum_{W=w}^{Q^1} (\lambda_{m, W}^j) + \sum_{W=w}^{Q^1} (\lambda_{(m-1), W}^j)$$

$$+ \dots + \sum_{W=w}^{Q^1} (\lambda_{(m-\text{MIN}((m-1), \phi)), W}^j)$$

where:

$\phi$  takes a value of 59 where  $\lambda$  equals IPOEC and a value of 11 where  $\lambda$  equals IAOEC;

$\sum_{W=w}^{Q^1} (\lambda_{(m-p), W}^j)$  means the sum across all days W between w and 1 April 2002 of  $\lambda_{(m-p), W}^j$  and shall be calculated in the following manner:

$$\sum_{W=w}^{Q^1} (\lambda_{(m-p), W}^j) =$$

$$\lambda_{(m-p), w}^j + \lambda_{(m-p), (w+1)}^j + \dots + \lambda_{(m-p), Q^1}^j$$

**(h) The minimum entry capacity investment incentive revenue (COLOIEC<sub>t</sub><sup>j</sup>)**

For the purposes of paragraph 14(5)(d) of Part 2 of this condition, the minimum entry capacity investment incentive revenue allowed to the licensee in respect of formula year t at terminal j (COLOIEC<sub>t</sub><sup>j</sup>) shall be derived from the following formula:

$$\text{COLOIEC}_t^j = \frac{RI_t}{RI_0} \times \left( \sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0)) \right) \right) \times \text{UCACOL}_t^j$$

where:

$RI_t$  shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

$RI_0$  shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

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

$\text{CIOEC}_{m,0}^j$  shall have the meaning given to the term  $\text{CIOEC}_{m,w}^j$  in paragraph 14(5)(g) of Part 2 of this condition where w is equal to zero;

$\text{OSELL}_{m,d,0}^j$  shall have the meaning given to the term  $\text{OSELL}_{m,d,w}^j$  in paragraph 14(5)(f) of Part 2 of this condition where w is equal to zero;

$\sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0)) \right)$  shall have the meaning given to that term in paragraph 14(5)(e) of Part 2 of this

condition; and

$UCACOL_t^j$  means the entry capacity unit cost multiplier relating to the entry capacity investment incentive revenue collar in respect of each day of formula year t and terminal j and shall be derived from the following formula:

$$UCACOL_t^j = UCAG^j \times \frac{UCACOLCONV}{y_t}$$

where:

$UCAG^j$  means the entry capacity unit cost allowance in respect of terminal j and has the value set out in paragraph 14(5)(a) in Part 2 of this condition;

$y_t$  means the number of days in formula year t; and

$UCACOLCONV$  has a value equal to 0.09661.

**(i) Calculation of entry capacity incentive revenue ( $REVOIEC_{m,d,w}^j$ )**

- (i) Except where paragraph 14(5)(c)(vi) of Part 2 of this condition or sub-paragraph (aa) below applies, the entry capacity incentive revenue in respect of sales of obligated incremental entry capacity in respect of day d of month m and terminal j made w days in advance of day d ( $REVOIEC_{m,d,w}^j$ ) shall be derived in the manner set out in sub-paragraphs (ii), (iii) and (iv);

(aa) In the case of revenues from the sales of obligated incremental entry capacity which have been sold pursuant to paragraph 14(5)(c)(iii)(aa) of Part 2 of this condition, then, for the purposes of this paragraph only, such revenues shall only be included in the calculation of entry capacity incentive revenue where the Authority has so agreed, pursuant to paragraph 14(5)(c)(iii)(bb) of Part 2 of this condition.

(ii) Firm entry capacity in respect of day d of month m at terminal j allocated w days in advance of day d shall be defined as either  $SOLDBEC_{m,d,w}^j$ ,  $SOLDOIEC_{m,d,w}^j$  or  $SOLDIEC_{m,d,w}^j$  in accordance with the following sub-paragraphs of this paragraph 14(5)(i)(ii) of Part 2 of this condition;

(aa) Allocated volumes of NTS SO baseline entry capacity ( $SOLDBEC_{m,d,w}^j$ )

The NTS SO baseline entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

$$SOLDBEC_{m,d,w}^j = \text{MIN} \left( \text{CAPSOLD}_{m,d,w}^j, \left( \text{MOEC}_{m,w}^j - \sum_{W=w+1}^{Q^d} \text{SOLDBEC}_{m,d,W}^j \right) \right)$$

where:

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

CAPSOLD<sub>m,d,w</sub><sup>j</sup> means that entry capacity in respect of day d of month m and terminal j sold in allocations occurring w days in advance of day d of month m;

MOEC<sub>m,w</sub><sup>j</sup> shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this condition;

Q<sup>d</sup> means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002 Q<sup>d</sup> shall have the value zero (0)); and

$\sum_{W=w+1}^{Q^d} \text{SOLDBEC}_{m,d,W}^j$  means the sum across days W between (w+1) and 1 April 2002 of SOLDBEC<sub>m,d,W</sub><sup>j</sup> and shall be calculated in the following manner:

$$\sum_{W=w+1}^{Q^d} \text{SOLDBEC}_{m,d,W}^j = \text{SOLDBEC}_{m,d,(w+1)}^j + \text{SOLDBEC}_{m,d,(w+2)}^j + \dots + \text{SOLDBEC}_{m,d,Q^d}^j$$

Where more than one allocation occurs on day w, values for SOLDBEC<sub>m,d,W</sub><sup>j</sup>, shall be separately calculated in chronological order of the allocations, for each allocation.

(bb) Allocated volumes of obligated incremental entry capacity (SOLDOIEC<sub>m,d,w</sub><sup>j</sup>)

The obligated incremental entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

$$\text{SOLDOIEC}_{m,d,w}^j =$$

$$\text{MIN} \left( \text{CAPSOLD}_{m,d,w}^j - \text{SOLDBEC}_{m,d,w}^j, \left( \text{CIOEC}_{m,w}^j - \sum_{W=w+1}^{Q^d} \text{SOLDOIEC}_{m,d,W}^j \right) \right)$$

where:

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

$\text{CAPSOLD}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this condition;

$\text{SOLDBEC}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this condition;

$\text{CIOEC}_{m,w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this condition;

$Q^d$  means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002  $Q^d$  shall have the value zero (0)); and

$$\sum_{W=w+1}^{Q^d} \text{SOLDOIEC}_{m,d,W}^j$$

means the sum across days W between (w+1) and 1 April 2002 of  $\text{SOLDOIEC}_{m,d,W}^j$  and shall be calculated in the following manner:

$$\sum_{W=w+1}^{Q^d} \text{SOLDOIEC}_{m,d,W}^j =$$

$$\begin{aligned} & \text{SOLDOIEC}_{m,d,(w+1)}^j + \text{SOLDOIEC}_{m,d,(w+2)}^j \\ & + \dots + \text{SOLDOIEC}_{m,d,Q^d}^j \end{aligned}$$

Where more than one allocation occurs on day w, values for  $\text{SOLDOIEC}_{m,d,W}^j$ , shall be separately calculated in chronological order of the allocations, for each allocation.

- (cc) Allocated volumes of non-obligated incremental entry capacity ( $\text{SOLDIEC}_{m,d,w}^j$ )

The non-obligated incremental entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

$$\text{SOLDIEC}_{m,d,w}^j =$$

$$\left( \text{CAPSOLD}_{m,d,w}^j - \text{SOLDBEC}_{m,d,w}^j - \text{SOLDOIEC}_{m,d,w}^j \right)$$

where:

$$\text{CAPSOLD}_{m,d,w}^j$$

shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of

Part 2 of this condition;

$SOLDBEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this condition; and

$SOLDOIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this condition.

Where more than one allocation occurs on day  $w$ , values for  $SOLDIEC_{m,d,w}^j$ , shall be separately calculated in chronological order of the allocations, for each allocation.

- (iii) The NTS SO baseline entry capacity revenue in respect of sales of NTS SO baseline entry capacity in respect of day  $d$  of month  $m$  and terminal  $j$  as at  $w$  days in advance of day  $d$  ( $REVBEC_{m,d,w}^j$ ) shall be the revenue allocated in respect of  $SOLDBEC_{m,d,w}^j$  where it is assumed that firm entry capacity allocated on day  $d$  of month  $m$  was allocated to gas shippers in descending order of price accepted to be paid in respect of each allocation of firm entry capacity in chronological order throughout day  $d$  of month  $m$  starting with the highest paid in the amount applied for allocating first up to the total volume of  $SOLDBEC_{m,d,w}^j$  then up to the total volume of  $SOLDOIEC_{m,d,w}^j$  then up to the total volume of  $SOLDIEC_{m,d,w}^j$ ;

where:

$SOLDBEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this condition;

$SOLDOIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this condition; and

$SOLDIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(cc) of Part 2 of this condition.

(iv) The obligated incremental entry capacity revenue derived by the licensee in respect of sales of obligated incremental entry capacity in respect of day  $d$  ( $REVOIEC_{m,d,w}^j$ ) of month  $m$  and terminal  $j$ , as at  $w$  days in advance of  $d$  shall be the revenue allocated in respect of  $SOLDOIEC_{m,d,w}^j$  where it is assumed that firm entry capacity allocated on day  $d$  of month  $m$  was allocated to gas shippers in descending order of price accepted to be paid in respect of each allocation of firm entry capacity in chronological order throughout day  $d$  of month  $m$  starting with the highest paid in the amount applied for, allocating first up to the total volume of  $SOLDBEC_{m,d,w}^j$  then up to the total volume of  $SOLDOIEC_{m,d,w}^j$  then up to the total volume of  $SOLDIEC_{m,d,w}^j$  ;

where:

$SOLDBEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this condition;

$SOLDOIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this condition; and

SOLDIEC<sub>m,d,w</sub><sup>j</sup>

shall have the meaning given to that term in paragraph 14(5)(i)(ii)(cc) of Part 2 of this condition.

**Part D – Schedule A: NTS output measures for the price control**

1. With regard to the maximum revenue allowances provide to the licensee pursuant to Part I a and Part 2 of Special Condition C8B (Restriction of revenue in respect of the NTS transportation owner activity and the NTS system operation activity), the following baseline output measures shall apply.

**Table A1: NTS TO baseline entry capacity (GWh/day)**

<b>Terminal</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
Bacton	1527	1646	1839	1939	1939
Barrow	812	790	790	791	791
Easington	1105	985	1141	1180	1180
St. Fergus	1689	1721	1809	1831	1863
Teesside	910	823	834	845	845
Theddlethorpe	758	628	879	942	942
Glenmavis	110	110	110	110	110
Partington	239	239	239	239	239
Avonmouth	165	165	165	165	165
Isle of Grain	243	243	243	243	243
Dynevor Arms	55	55	55	55	55
Hornsea	195	195	195	195	195
Hatfield Moor (storage)	60	60	60	60	60
Hatfield Moor (onshore)	1.1	1.1	1.1	1.1	1.1
Cheshire	0	0	119	179	238
Hole House Farm	29	29	29	29	29
Wytch Farm	3.6	3.6	3.6	3.6	3.6
Burton Point	61.3	61.3	61.3	61.3	61.3
Milford Haven	0	0	0	0	0
Barton Stacey	0	0	0	0	0
Garton	0	0	0	0	0

Burton Agnes (Caythorpe)	0	0	0	0	0
Winkfield	0	0	0	0	0
Blyborough (Welton)	0	0	0	0	0
Tatsfield	0	0	0	0	0
Albury	0	0	0	0	0
Palmers Wood	0	0	0	0	0
Fleetwood	0	0	0	0	0

**Table A2: Initial NTS SO baseline entry capacity (GWh/day)**

	$1 \leq m \leq 12$	$13 \leq m \leq 24$	$25 \leq m \leq 36$	$37 \leq m \leq 48$	$49 \leq m$
<b>Terminal</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
Bacton	1374	1481	1655	1745	1745
Barrow	731	711	711	712	712
Easington	995	887	1027	1062	1062
St. Fergus	1520	1549	1628	1648	1677
Teesside	819	741	751	761	761
Theddlethorpe	682	565	791	848	848
Glenmavis	99	99	99	99	99
Partington	215	215	215	215	215
Avonmouth	149	149	149	149	149
Isle of Grain	218	218	218	218	218
Dynevor Arms	50	50	50	50	50
Hornsea	175	175	175	175	175
Hatfield Moor (storage)	54	54	54	54	54
Hatfield Moor (onshore)	1	1	1	1	1
Cheshire	0	0	107	161	214
Hole House Farm	26	26	26	26	26
Wytech Farm	3.2	3.2	3.2	3.2	3.2
Burton Point	55	55	55	55	55
Milford Haven	0	0	0	0	0
Barton Stacey	0	0	0	0	0
Garton	0	0	0	0	0
Burton Agnes (Caythorpe)	0	0	0	0	0
Winkfield	0	0	0	0	0
Blyborough (Welton)	0	0	0	0	0
Tatsfield	0	0	0	0	0
Albury	0	0	0	0	0
Palmers Wood	0	0	0	0	0
Fleetwood	0	0	0	0	0

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

### **1. NTS system operation exit incentives and costs (SOExIRC<sub>t</sub>)**

#### **(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<sub>t</sub>) 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<sub>t</sub>** 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<sub>t</sub>** 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)(i) of this condition;

**ExCIIR<sub>t</sub>** 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 <sub>t</sub>	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 <sub>t</sub>	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 <sub>t</sub>	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 <sub>t</sub>	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.

**(b) Buy-back and interruptions incentive revenue (ExCBBIIR<sub>t</sub>)**

This incentive shall apply, unless otherwise directed in writing by the Authority, in respect of the interim exit period and transitional exit period. For the purposes of paragraph 1(a) of this condition the maximum buy-back and interruptions incentive revenue allowed to the licensee in respect of formula year t (ExCBBIIR<sub>t</sub>) shall be derived as follows:

- (i) For all days from and including 1 October 2011 (or such later date as the Authority may direct from time to time in writing) ExCBBIIR<sub>t</sub> shall have the value zero (0); and
- (ii) otherwise, ExCBBIIR<sub>t</sub> shall be derived from the following formula:

If  $ExCBBIIT_t \geq ExCBBICP_t$ , then:

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

Otherwise:

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

Where:

ExCBBICP<sub>t</sub> 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<sub>t</sub> 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;

$ExCBBIIT_t$  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.

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:

$$ExCBBICP_t = ExCCMC_t + ExNTSIIC_t$$

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:

$\text{ExBBC}_{d,t}$  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  $\text{ExNTSIIC}_t$ ; and

$\text{ExCCC}_{d,t}$  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  $\text{ExBBC}_{d,t}$  or those included within either  $\text{ExNTSIIC}_t$  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 later date as the Authority may direct from time to time in writing),  $\text{ExCCMC}_t$  shall have the value zero (0).

$\text{ExNTSIIC}_t$  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:

$\text{ExNTSIIC}_{y,d}$  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  $t$  ( $\text{ExCBBIT}_t$ ) shall be derived in accordance with the following formula:

$$\text{ExCBBIT}_t = (\text{ExCBBIT}_t + \text{ExNTSIIT}_t) \times \text{PIT}_t$$

Where:

$\text{ExCBBIT}_t$  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

$\text{ExNTSIIT}_t$  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 later date as the Authority may direct from time to time in writing)  $ExNTSIIT_t$  shall take the values set out in the following table:

Variable	Formula year	
	$t=6$	$t \geq 7$
$ExNTSIIT_t$ £	£1,730,000	£1,680,000

provided that, for the avoidance of doubt, where the relevant period commences on 1 April 2008 and ends on 30 September (inclusive),  $ExNTSIIT_t$  shall take a value being equal to the same proportion of £1,680,000 as the relevant period is to a complete formula year (that is £840,000).

- (bb) for all days from 1 October 2008 (or such later date as the Authority may direct from time to time 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 later date as the Authority may direct from time to time in writing) shall be calculated as:

$$\text{ExCBBICOL}_t = -£7,000,000 \times \text{PIT}_t$$

in each relevant formula year (or pro-rated to the relevant part thereof); and

- (bb) for all days from 1 October 2008 until 30 September 2011 (inclusive) (or such later date as the Authority may direct from time to time in writing) shall be calculated:

$$\text{ExCBBICOL}_t = -£2,000,000 \times \text{PIT}_t$$

in each relevant formula year (or pro-rated to the relevant part thereof);

- (D) Unless the Authority otherwise directs in writing, in any formula year  $t$   $\text{ExNTSIIT}_t$  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  $t$  ( $\text{AExNTSIIC}_t$ ) shall be equal to the value derived from the following formula:

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

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)(i) Constrained storage target (ExCIT<sub>t</sub>)**

This target shall apply for all exit periods. 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<sub>t</sub>) shall be calculated as:

$$ExCIT_t = RExCIT_t \times PIT_t$$

	Formula year				
Variable	t=6	t=7	t=8	t=9	t≥10
RE <sub>XCIT</sub> <sub>t</sub>	2,600,000	2,100,000	4,300,000	3,600,000	2,900,000
£					

**(c)(ii) Constrained storage cost (ExCC<sub>t</sub>)**

For the purposes of paragraph 1(b) of Special Condition C8G (NTS system operator internal incentives, costs and revenues) the term ExCC<sub>t</sub> shall mean the payments made by the licensee in respect of 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 meaning given to those terms in the network code).

**(d) Exit capacity investment incentive revenue (ExCIIR<sub>t</sub>)**

This incentive shall apply in respect of all exit periods. 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<sub>t</sub>) shall be derived as follows:

$$\text{ExCIIR}_t = (\text{ExCIIR}_t^{\text{projspec}} + \text{ExCIIR}_t^{\text{swquad}}) \times \text{RIEx}_t / \text{RIEx}_0$$

where:

ExCIIR<sub>t</sub><sup>projspec</sup> 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, in respect of the formula year t, the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) that falls with the previous formula year;

$RIEx_0$  means the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) that falls with the year 2004.

**(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;

<b>Anticipated project p</b>	<b>Project description</b>	<b><math>RDPROJSPEC_{p,t}</math> £ /year</b>
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	£9,500,000

	pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	
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;	£5,500,000
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;	£4,500,000
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	£6,400,000
Grain power station	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 55GWh/day at the Grain power station 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.	£10,600,000

$INDEX_p$  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 set out in the table below:

<b>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</b>	<b><math>INDEX_p</math></b>
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 in the 4 subsequent formula years if NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity associated with the anticipated project p, as defined in the following table, is delivered in formula year t following the receipt of a user commitment signal consistent with the methodology published pursuant to paragraph 1 of Special Condition C18 (Licensee’s methodology for determining the release of exit capacity volumes) for the delivery of the anticipated project p in formula year t; and

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

**(ii) Determination of  $ExCIIR_t^{swquad}$**

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

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: 
$$\text{ExCIIR}_t^{\text{swquad}} = \text{£}820,000 \times \text{INCCAP}_t^{\text{swquad}}$$

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:

<b>NTS exit points <math>z</math> in the south west quadrant</b>
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)

$$INCCAP_{z,t} = TINCCAP_{z,t} + OIExC_{z,t}$$

where:

$TINCCAP_{z,t}$  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 later date as the Authority may direct from time to time 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(d)(v); and

OIExC<sub>z,t</sub> 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<sub>z,t</sub> (A) shall take a value of one (1) in respect of formula year t and the 4 subsequent formula years if the NTS incremental exit capacity or NTS obligated incremental exit flat capacity taken into account in the calculation of INCCAP<sub>z, t</sub> is delivered in formula year t; and

(B) shall otherwise take a value of zero (0); and

INDEX<sub>z</sub> means the relevant input price indexation factor given the formula year in which the NTS incremental exit shipper capacity, 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:

<b>Formula year in which the NTS incremental exit shipper capacity, NTS incremental exit capacity or NTS obligated incremental exit flat capacity associated with the NTS exit point <math>z</math> is delivered</b>	<b>INDEX<sub><math>z</math></sub></b>
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<sub>t</sub>)**

This incentive shall apply, unless otherwise directed in writing by the Authority, in respect of the enduring exit period. 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<sub>t</sub>) shall be derived as follows:

- (i) For all days until 30 September 2011 (inclusive) (or such later date as the Authority may direct from time to time in writing) ExLRCIR<sub>t</sub> shall have the value zero (0); and
- (ii) otherwise, ExLRCIR<sub>t</sub> 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<sub>t</sub> means the costs incurred by the licensee in respect of formula year t in relation to the delivery of NTS baseline exit flat capacity that the licensee is obliged to offer for sale 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<sub>t</sub> means the long run contracting sharing factor in respect of formula year t and shall take a value of 50 per cent in each relevant formula year; and

ExLRCIT<sub>t</sub> means the long run contracting incentive target in respect of formula year t and shall be calculated as:

$$(A) \quad \text{ExLRCIT}_t = \text{£}2,800,000 \times \text{PIT}_t$$

in each relevant and complete formula year; and

(B) in respect of each relevant and partial formula year, the same proportion of (£2,800,000 x PIT<sub>t</sub>) as the relevant period is to a complete formula year.

**(f) Incentive revenue from sale of NTS non-obligated exit capacity (ExNOCIR<sub>t</sub>)**

This incentive shall apply, unless otherwise directed in writing by the Authority, in respect of the enduring exit period. 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<sub>t</sub>) shall be derived as follows:

If  $ExREVANOC_t \geq ExNOCIT_t$ , then:

$$ExNOCIR_t = \text{MIN} [ExNOCUSF_t \times (ExREVANOC_t - ExNOCIT_t), ExNOCCAP_t]$$

Otherwise:

$$ExNOCIR_t = 0$$

where:

ExREVANOC<sub>t</sub> means the revenue allowance 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)(ii) of this condition;

ExNOCUSF<sub>t</sub> means the NTS non-obligated exit capacity incentive upside sharing factor in respect of formula year t and shall take a value of 50 per cent in each relevant formula year;

ExNOCIT<sub>t</sub> means the NTS non-obligated exit capacity incentive target in respect of formula year t and shall have the value zero (0); and

ExNOCCAP<sub>t</sub> means the maximum revenue from the sale of NTS non-obligated exit capacity in respect of formula year t and shall be calculated as:

(i) 
$$\text{ExNOCCAP}_t = \text{£}20,000,000 \times \text{PIT}_t$$

in respect of each relevant and complete formula year;  
and

(ii) in respect of each relevant and partial formula year, the same proportion of ( $\text{£}20,000,000 \times \text{PIT}_t$ ) as the relevant period is to a complete formula year.

**(g) Cap on incremental investment buy-back exposure (ExXSIBBC<sub>t</sub>)**

This incentive shall apply, unless otherwise directed in writing by the Authority, in respect of the enduring exit period. 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<sub>t</sub>) shall be derived as follows:

$$\text{ExXSIBBC}_t = \text{MAX} (0, (\text{ExIBBC}_t - \text{MIN}(\text{ExIBBCAP}_t, \text{ExIBBE}_t)))$$

where:

ExIBBC<sub>t</sub> 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<sub>t</sub> means the amount above which the costs represented by the term ExIBBC<sub>t</sub> shall be revenue allowed to the licensee in respect of formula year t and shall be calculated as:

(i)  $ExIBBCAP_t = £36,000,000 \times PIT_t$

in respect of each relevant and complete formula year;  
and

(ii) in respect of each relevant and partial formula year, the same proportion of (£36,000,000 x PIT<sub>t</sub>) as the relevant period is to a complete formula year.

ExIBBE<sub>t</sub> 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<sub>m,t</sub>) and shall be derived in accordance with the following formula:

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

where:

ExIBBC<sub>m,t</sub> 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<sub>m,t</sub> means the cap on the costs incurred by the licensee represented by the term ExIBBC<sub>m,t</sub> in respect of month m of formula year t and shall take a value of £4,000,000 x PIT<sub>t</sub> in each month of each relevant formula year.

However, in deriving ExIBBC<sub>t</sub>, the licensee shall use reasonable endeavours to ensure that it does not pay more than 0.52p/kWh/day in respect of exit capacity constraint management costs in respect of NTS obligated incremental exit flat capacity or NTS obligated incremental exit flow flexibility. This obligation shall apply until that NTS obligated incremental exit flat capacity or that NTS obligated incremental exit flow flexibility has been delivered.

For the purposes of this paragraph, the licensee may submit a report to the Authority demonstrating how it considers that it has met these obligations. Where the Authority considers that the licensee has used reasonable endeavours to satisfy the obligation referred to in that paragraph, the Authority may direct in writing that the licensee has satisfied its obligation thereunder.

**(h) Charges foregone (ExNTSSIC<sub>t</sub>)**

This incentive shall apply, unless otherwise directed in writing by the Authority, in respect of the interim exit period and transitional exit period. 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<sub>t</sub>) shall be derived from the following formula:

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

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 later date as the Authority may direct from time to time in writing),  $ExNTSSIC_t$  shall have the value zero (0).

**(i) Buy back cost allocation rules**

For the purposes of this condition, in the enduring exit period, the licensee is not permitted to recover:

(aa) any costs for NTS exit constraint management other than those arising from delays in the delivery of NTS obligated incremental exit flat capacity and/or NTS obligated incremental exit flow flexibility, which would be included in  $ExIBBC_t$

(bb) any costs for NTS exit constraint management other than those arising from delays in the delivery of NTS baseline exit flat capacity that the licensee is obliged to offer for sale 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 , which would be included in  $ExLRCCP_t$  .

**2. NTS gas exit revenues**

**(a) NTS transportation owner revenues (TOExR<sub>t</sub>)**

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<sub>t</sub>) shall be derived from the following formula:

$$TOExR_t = TOExRF_t + ExNTSSIC_t + TOREVBExC_t$$

where:

TOExRF<sub>t</sub> shall, in respect of the interim exit period and the transitional exit period, mean the revenue derived by the licensee in respect of formula year t in respect of charges levied on relevant

shippers in respect of its provision of NTS baseline exit shipper capacity. In the enduring exit period, this term shall take the value of zero;

ExNTSSIC<sub>t</sub> shall, in respect of the interim exit period and the transitional exit period, mean 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. In the enduring exit period, this term shall take the value of zero; and

TOREVBExC<sub>t</sub> 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)(i) of this condition.

**(i) TOREVBExC<sub>t</sub>**

This shall apply, unless otherwise directed in writing by the Authority, in respect of the enduring exit period. For the purposes of paragraph 2(a) of this condition and in respect of all days from 1 October 2011 (or such later date as the Authority may direct from time to time in writing), TOREVBExC<sub>t</sub> shall be derived from the following formula:

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

where:

REVBExC<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from the sale of NTS baseline exit flat capacity; and

REVBFF<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from the sale of NTS baseline exit flow flexibility;

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

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

This term shall apply, unless otherwise directed in writing by the Authority, in respect of all exit periods. For the purposes of paragraph 2(a) of Special Condition C8C (The NTS system operation activity revenue restriction) the revenue derived by the licensee in respect of the system operation activity in respect of formula year t ( $SOExRF_t$ ) shall be derived from the following formula:

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

where:

$TOEx_t$  this term shall apply in respect of the interim exit period and transitional exit period and 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 except that for all days from and including 1 October 2011 (or such later date as the Authority may direct from time to time in writing),  $TOEx_t$  shall have the value zero (0);

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

$REVOIExC_t$  this term shall apply, unless otherwise directed in writing by the Authority, in respect of the enduring exit period and means the revenue derived by the licensee in respect of formula year t from sales of NTS obligated incremental exit flat capacity;

$REVOIFF_t$  this term shall apply, unless otherwise directed in writing by the Authority, in respect of the enduring exit period and means the revenue derived by the licensee in respect of formula year t

from sales of NTS obligated incremental exit flow flexibility;  
and

ExREVNOC<sub>t</sub> this term shall apply, unless otherwise directed in writing by the Authority, in respect of the enduring exit period and 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<sub>t</sub>)**

For the purposes of paragraph 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<sub>t</sub>) shall be derived as follows:

- (A) For all days until 30 September 2011 (inclusive) (or such later date as the Authority may direct from time to time in writing) ExREVNOC<sub>t</sub> shall have the value zero (0); and
- (B) otherwise, ExREVNOC<sub>t</sub> shall be derived from the following formula:

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

Where:

REVNOIExC<sub>t</sub> 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<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from the sale of NTS short term interruptible exit capacity; and

REVAIFF<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from the sale of NTS non-obligated incremental exit flow flexibility.

**(ii) NTS exit capacity allowed revenue from the sale of NTS non-obligated exit capacity (ExREVANOC<sub>t</sub>)**

For the purposes of paragraph 1(f) of this condition the allowed revenue derived by the licensee from the sale of NTS non-obligated exit capacity in respect of formula year t (ExREVANOC<sub>t</sub>) shall be derived as follows:

- (A) For all days until 30 September 2011 (inclusive) (or such later date as the Authority may direct from time to time in writing) ExREVANOC<sub>t</sub> shall have the value zero (0); and
- (B) otherwise, ExREVANOC<sub>t</sub> shall be derived from the following formula:

$$\text{ExREVANOC}_t = \text{REVNOIExC}_t + \text{REVIExC}_t + \text{REVAIFF}_t$$

Where:

REVNOIExC<sub>t</sub> 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<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from the sale of NTS short term interruptible exit capacity; and

REVAIFF<sub>t</sub> means the allowed 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)(iii) of this condition.

**(iii) NTS exit capacity allowed revenue from the sale of NTS non-obligated incremental exit flow flexibility (REVAIFF<sub>t</sub>)**

For the purposes of paragraph 2(b)(ii) of this condition the allowed revenue derived by the licensee from the sale of NTS non-obligated incremental exit flow flexibility in respect of formula year t (REVAIFF<sub>t</sub>) shall be derived from the following formula:

$$\text{REVAIFF}_t = \text{PIT}_t \times \sum_{\text{all } d} \text{VOLIFF}_d \times \text{£}369$$

Where:

VOLIFF<sub>d</sub> means the volume in GWh per day 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 exit periods, the licensee shall release NTS exit capacity in accordance with the statement made pursuant to Special Condition C18 (Licensee's methodology for determining the release of NTS exit capacity volumes).
- (b) In respect of the enduring exit period, the licensee shall, in relation to all NTS exit capacity registered or capable of being registered on or after 1 October 2011 (or such later date as the Authority may direct from time to time in writing), use all reasonable endeavours, unless and insofar as the Authority may otherwise direct from time to time in writing, to offer for sale:
- (i) in respect of any NTS exit point, and any day in formula year t, 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); and

- (ii) in respect of any NTS exit point, and any day in formula year  $t$ , 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).
- (c) For the purposes of paragraph 3(b), the licensee shall use reasonable endeavours, unless and insofar as the Authority may otherwise direct from time to time in writing, to:
- (i) substitute unsold NTS baseline exit flat capacity between NTS exit points in accordance with the methodology statement from time to time in force pursuant to paragraph 4(b) of this condition such that the level of NTS obligated incremental exit flat capacity and NTS obligated incremental exit flow flexibility is minimised;
  - (ii) revise the level of NTS baseline exit flat capacity and NTS baseline exit flow flexibility in accordance with the methodology statement from time to time in force pursuant to paragraph 4(c) of this condition in the event that the release of incremental obligated entry capacity changes the availability of NTS exit capacity;
  - (iii) revise the level of NTS baseline exit flow flexibility in accordance with the methodology statement from time to time in force pursuant to paragraph 4(c) of this condition in the event that

the release of NTS obligated incremental exit flat capacity changes the availability of NTS exit flow flexibility.

- (d) Where the licensee intends to modify the level of baseline exit flat capacity or baseline exit flow flexibility as a result of exit capacity substitution or exit capacity revision as a result of its obligations set out in paragraph 3(c) of this condition, the licensee shall modify the level of baseline exit flat capacity or baseline exit flow flexibility in accordance with the provisions of paragraph 4(a) of this condition

#### 4. **Statements required from the licensee**

##### **(a) NTS exit capacity baseline statement**

- (i) The licensee shall, by 1 April 2008 or such later date as the Authority may otherwise direct in writing, prepare and submit for approval by the Authority an exit capacity baseline statement, setting out the level of NTS baseline exit flat capacity and the level of NTS baseline exit flow flexibility which is to be offered for sale (the “NTS exit capacity baseline statement”).
- (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(a)(i) of this condition) the NTS exit capacity baseline statement shall come in to force from the earlier of:
  - (aa) the date of receipt of a notice from the Authority approving the statement; or
  - (bb) the date being two months after the statement was submitted to the Authority.
- (iii) The licensee shall modify the NTS exit capacity baseline statement within 7 days of consent being granted by the Authority pursuant to

paragraph 4(a)(xi) of this condition in response to the licensee's proposal, made pursuant to paragraph 4(a)(iv) of this condition, in a manner consistent with the licensee's proposal.

**Process for modifying NTS baseline exit flat capacity or NTS baseline exit flow flexibility**

- (iv) The licensee shall provide the Authority with a written statement of any proposed exit capacity substitution or exit capacity revision in accordance with its obligations under paragraphs 3(c) of this condition.
- (v) The statement referred to in paragraph 4(a)(iv) of this condition shall include the following:
  - (aa) The NTS exit point(s) to which the proposed exit capacity substitution or exit capacity revision relate;
  - (bb) The proposed changes in volume of NTS baseline exit flat capacity and NTS baseline exit flow flexibility in GWh per day at those NTS exit points;
  - (cc) The date from which it is proposed that the changes in volume of NTS baseline exit flat capacity and NTS baseline exit flow flexibility should take effect; and
  - (dd) such information necessary to demonstrate that the licensee has determined its proposals for exit capacity substitution or exit capacity revision in accordance with the methodology statements prepared pursuant to paragraphs 4(b) and 4(c) of this condition including the derivation of relevant exchange rates.

- (vi) The licensee shall keep a record of the statement made pursuant to paragraph 4(a)(iv) of this condition for seven (7) years after it has provided that statement to the Authority.
- (vii) The licensee shall provide the Authority with such additional information as the Authority may reasonably request for the purposes of ascertaining the basis upon which the licensee has determined its proposals for exit capacity substitution or exit capacity in order for the Authority to establish whether the licensee has complied with its obligations pursuant to paragraphs 3(c);
- (viii) The licensee shall publish the statement within twenty-eight (28) days of making it available to the Authority (unless the Authority otherwise directs 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 that person's interests;
- (ix) The Authority shall consider the information provided by the licensee pursuant to paragraphs 4(a)(v)(dd) and 4(a)(vii) of this condition and shall determine whether to consent to the proposed exit capacity substitution or exit capacity revision set out in the statement made pursuant to paragraph 4(a)(iv);
- (x) Any consent granted by the Authority pursuant to paragraph 4(a)(ix) of this condition shall be:
  - (aa) in writing;
  - (bb) copied to the licensee;
  - (cc) published by the Authority; and
  - (dd) include any relevant information provided by the licensee and used by the Authority for the purposes of making the direction.;

- (xi) Following the granting of consent to the proposed modification of NTS baseline exit flat capacity or NTS baseline exit flow flexibility, the licensee shall modify (in such a manner as the Authority may approve) the NTS exit capacity baseline statement incorporating such revisions.

**(b) Exit substitution methodology statement**

- (i) The licensee shall, on or before 1 April 2008 or such later date as the Authority may direct in writing, prepare and submit for approval by the Authority an exit capacity substitution methodology statement, setting out the exit capacity substitution methodology which it shall use to substitute NTS exit capacity.
- (ii) 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 4(b)(i) of this condition) the licensee shall, when substituting NTS exit capacity, use reasonable endeavours to apply the methodology set out in that statement, from the earlier of:
  - (aa) the date of receipt of a notice from the Authority approving the statement; or
  - (bb) the date being two months after the statement was submitted to the Authority.
- (iii) The licensee shall if so directed by the Authority and in any event at least once a year, review the exit capacity substitution methodology prepared pursuant to paragraph 4(b)(i) of this condition in consultation with relevant shippers, DN operators and interested parties and seek to make such modifications as it considers reasonably necessary to better meet the objectives (the “exit capacity substitution objectives”) set out below:

- (aa) ensuring that exit capacity substitution is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
  - (bb) avoiding material increases in the costs (including NTS exit constraint management costs in respect of NTS exit capacity previously allocated by the licensee to relevant shippers or DN operators) that are reasonably expected to be incurred by the licensee as a result of substituting NTS exit capacity; and
  - (cc) in so far as is consistent with (aa) and (bb) above, facilitating effective competition between relevant shippers.
- (iv) Except where the Authority directs otherwise, before submitting the exit capacity substitution methodology statement prepared pursuant to paragraph 4(b)(i) of this condition or before modifying its exit capacity substitution methodology statement, the licensee shall:
- (aa) when modifying its exit capacity substitution methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
  - (bb) consult relevant shippers, DN operators and interested parties and allow them a period of not less than 28 days in which to make representations;
  - (cc) within 14 days of the close of the consultation referred to in paragraph 4(b)(iv)(bb) of this condition submit to the Authority a report setting out:
    - (A) the modifications originally proposed (if any);
    - (B) the representations made by relevant shippers, DN operators and interested parties (if any) to the licensee and not withdrawn; and

- (C) any changes to the modifications proposed as a result of such representations;
- (dd) where the Authority directs that sub-paragraphs (aa), (bb) and (cc) of paragraph 4(b)(iv) of this condition or any of them shall not apply, comply with such other reasonable requirements as are specified in that direction.
- (v) The licensee shall be entitled to modify its exit capacity substitution methodology statement at any time pursuant to paragraph 4(b)(iii) of this condition, save that it shall not modify such statement:
  - (aa) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(b)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(b)(iv)(cc) of this condition the Authority directs the licensee not to make the modification; or
  - (bb) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(b)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(b)(iv)(cc) of this condition; or
  - (cc) where paragraph 4(b)(iv)(dd) in this condition applies, before the day as agreed with the licensee and specified in any direction made pursuant to that paragraph.
- (vii) The licensee shall make the exit 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).

**(c) Exit revision methodology statement**

- (i) The licensee shall, on or before 1 April 2008 or such later date as the Authority may direct in writing, prepare and submit for approval by the Authority an exit capacity revision methodology statement, setting out the exit capacity revision methodology which it shall use to revise the level of NTS baseline exit capacity or NTS baseline flow flexibility a result of its obligations set out in paragraphs 3(c)(ii) and 3(c)(iii) of this condition.
- (ii) 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 4(c)(i) of this condition) the licensee shall, when revising the level of NTS baseline exit capacity or NTS baseline flow flexibility, use reasonable endeavours to apply the methodology set out in that statement, from the earlier of:
  - (aa) the date of receipt of a notice from the Authority approving the statement; or
  - (bb) the date being two months after the statement was submitted to the Authority.
- (iii) The licensee shall, if so directed by the Authority, and in any event at least once a year, review the exit capacity revision methodology set out in the statement prepared pursuant to paragraph 4(c)(i) of this condition in consultation with relevant shippers, DN operators and interested parties and seek to make such modifications as it considers reasonably necessary to better meet the exit capacity revision objectives (the “exit capacity revision objectives”) set out below:

- (aa) ensuring that exit capacity revision is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
  - (bb) avoiding material increases in the costs (including NTS exit capacity constraint management costs in respect of NTS exit capacity previously allocated by the licensee to relevant shippers or DN operators) that are reasonably expected to be incurred by the licensee as a result of revising the level of NTS baseline exit capacity or NTS baseline flow flexibility; and
  - (cc) in so far as is consistent with (aa) and (bb) above, facilitating effective competition between relevant shippers.
- (iv) Except where the Authority directs otherwise, before submitting the exit capacity revision methodology statement pursuant to paragraph 4(c)(i) of this condition or before modifying its exit capacity revision methodology statement, the licensee shall:
- (aa) when modifying its exit capacity revision methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
  - (bb) consult relevant shippers, DN operators and interested parties and allow them a period of not less than 28 days in which to make representations;
  - (cc) within 14 days of the close of the consultation referred to in paragraph 4(c)(iv)(bb) of this condition submit to the Authority a report setting out:
    - (A) the modifications originally proposed (if any);
    - (B) the representations made by relevant shippers, DN operators and interested parties (if any) to the licensee and not withdrawn; and

- (C) any changes to the modifications proposed as a result of such representations;
- (dd) where the Authority directs that sub-paragraphs (aa), (bb) and (cc) of this paragraph or any of them shall not apply, comply with such other reasonable requirements as are specified in that direction.
- (v) The licensee shall be entitled to modify its exit capacity revision methodology statement at any time pursuant to paragraph 4(c)(iii) of this condition, save that it shall not modify such statement:
  - (aa) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(c)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(c)(iv)(cc) of this condition the Authority directs the licensee not to make the modification; or
  - (bb) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(c)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(c)(iv)(cc) of this condition; or
  - (cc) where paragraph 4(c)(iv)(dd) in this condition applies, before the day as agreed with the licensee and specified in any direction made pursuant to that paragraph.
- (vii) The licensee shall make the exit capacity revision 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).

**(d) Report of incremental investment in the transitional period**

- (i) In respect of each formula year commencing on or after 1 April 2008, the licensee shall, by 30 April of that formula year (or such other date as the Authority may direct in writing), provide the Authority with a written report in respect of NTS incremental exit capacity which has been registered or is likely to be registered within the period from 1 October 2008 to 30 September 2011 (inclusive) (or such dates that the Authority otherwise directs in writing).
- (ii) The report referred to in paragraph 4(d)(i) of this condition shall include the following:
  - (aa) the NTS exit point(s) at which the NTS incremental exit capacity has been registered or is likely to be registered;
  - (bb) the volume of such NTS incremental exit capacity in GWh per day by NTS exit point;
  - (cc) the date from which such NTS incremental exit capacity has been registered or is likely to be registered; and
  - (dd) where the licensee has not received:
    - (A) a specific user commitment as defined in the statement published pursuant to paragraph 1 of Special Condition C18 (Licensee's methodology for determining the release of exit capacity volumes); and
    - (B) a determination has not already been made by the Authority pursuant to paragraph 4(d)(v) 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 report made pursuant to paragraph 4(d)(i) of this condition for seven (7) years following publication.
- (iv) The licensee shall publish the report referred to in paragraph 4(d) of this condition within twenty-eight (28) days of making it available to the Authority (unless the Authority otherwise directs in writing) provided that the licensee shall exclude from the published report, 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.
- (v) The Authority may direct that NTS incremental exit capacity, where the licensee has not received a specific user commitment for such capacity, may be treated, for the purposes of ExCIIR<sub>t</sub> (pursuant to paragraph 1(d)(ii)), as if such a user commitment had been received.
- (vi) For the purposes of paragraph 4(d)(v), the Authority may request any information that it considers reasonably necessary to determine that there was or would be sufficient demand to justify the provision of such NTS incremental exit capacity.
- (vii) Any direction made by the Authority pursuant to paragraph 4(d)(v) of this condition shall:
  - (aa) be in writing;
  - (bb) be copied to the licensee;
  - (cc) be published by the Authority; and

(dd) include any relevant information provided by the licensee and used by the Authority for the purposes of making the direction.

**(e) Statement of obligated incremental exit 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 from time to time in writing), provide the Authority with a written statement of all 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 or NTS baseline exit flow flexibility 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 may reasonably request for the purposes of ascertaining the reason or reasons why the licensee considered that the substitution or revision of NTS baseline exit flat capacity or NTS baseline exit flat capacity 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 whether the licensee has complied with the substitution obligation pursuant to paragraph 3(c)(i) 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 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 that person's interests.

**(f) Statement of actual interruption**

- (i) The licensee shall, unless otherwise directed by the Authority in writing, 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 have been 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 onto 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(f)(i) of this condition for at least seven (7) years following publication.

**5. Project permits**

- a) This scheme shall apply, unless otherwise directed by the Authority in writing, in respect of the enduring exit period.
- b) The licensee may, with the consent of the Authority, vary the lead time for the contractual delivery of NTS obligated incremental exit flat capacity at an individual NTS exit point from the default of 38 months starting from the first day of the month following the end of the annual invitation period (as defined in the network code). Consent shall be deemed to have been granted if:

- (i) the licensee is proposing to reduce the lead time for the contractual delivery to a period of less than 38 months,
- or
- (ii) if the volume of NTS exit capacity being deferred (in units of GWh per day) is, at day n, less than the licensee’s “exit lead time deferment volume entitlement” defined in paragraph 5(c).
- c) The licensee shall notify the Authority in writing and in a timely manner of each instance where it varies the lead time for the contractual delivery of NTS incremental exit flat capacity from the default of 38 months specifying:
- (i) The NTS exit point affected;
  - (ii) The volume of capacity (in units of GWh per day) for which the contractual delivery date is being brought forward; or
  - (iii) The volume of capacity (in units of GWh per day) for which the contractual delivery date is being put back.
- d) The licensee’s exit lead time deferment volume entitlement on day n ( $LTDVE_{x_n}$ ) (in units of GWh per day) shall be calculated in accordance with the following formula:

$$LTDVE_{x_n} = 10,950 + \sum_{v, n-1} DLTDVE_{x_v}$$

where

$DLTDVE_{x_v}$  means the variation v to the lead time for contractual delivery pursuant to notices provided to the Authority under paragraph 5(b) of this condition;

v indexes each variation pursuant to paragraph 5(b) of this condition; and

DLTDVEx<sub>v</sub>

shall, where there are have been no variations to the lead time for contractual delivery ( $v=0$ ), take the value zero (0).

**Annex A to Special Condition C8E (NTS gas exit incentives, costs and revenues)**

**Table 1 –NTS baseline exit flat capacity and NTS baseline exit shipper capacity**

<b>Offtake Point</b>	<b>Type of Offtake</b>	<b>Transitional baseline (GWh/day)</b>
Bacton	GDN (EA)	3.66
Brisley	GDN (EA)	3.11
Cambridge	GDN (EA)	0
Great Wilbraham	GDN (EA)	35.59
Matching Green	GDN (EA)	83.85
Peterborough Eye/Tee	GDN (EA)	25.45
Roudham Heath	GDN (EA)	14.7
Royston	GDN (EA)	2.67
Whitwell	GDN (EA)	161.87
West Winch	GDN (EA)	11.69
Yelverton	GDN (EA)	84.44
Alrewas	GDN (EM)	92.15
Blaby	GDN (EM)	11.03
Blyborough	GDN (EM)	90.89
Caldecott	GDN (EM)	11.08
Thornton Curtis (DN)	GDN (EM)	106.64
Drointon	GDN (EM)	107.51
Gosberton	GDN (EM)	15.79
Kirkstead	GDN (EM)	1.21
Market Harborough	GDN (EM)	9.48
Silk Willoughby	GDN (EM)	3.53
Sutton Bridge	GDN (EM)	1.15
Tur Langton	GDN (EM)	82.52
Walesby	GDN (EM)	0.93
Asselby	GDN (NE)	3.64
Baldersby	GDN (NE)	1.34
Burley Bank	GDN (NE)	20.31
Ganstead	GDN (NE)	23.15
Pannal	GDN (NE)	148.41
Paull	GDN (NE)	38.14
Pickering	GDN (NE)	9.38
Rawcliffe	GDN (NE)	3.42
Towton	GDN (NE)	81.13
Bishop Auckland	GDN (NO)	69.26
Coldstream	GDN (NO)	1.93
Corbridge	GDN (NO)	0.07
Cowpen Bewley	GDN (NO)	53.71
Elton	GDN (NO)	33.26
Guyzance	GDN (NO)	2.19
Humbleton	GDN (NO)	0.15

Keld	GDN (NO)	1.7
Little Burdon	GDN (NO)	17.75
Melkintorpe	GDN (NO)	0.34
Saltwick Pressure Controlled	GDN (NO)	9.22
Saltwick Volumetric Controlled	GDN (NO)	69.26
Thrintoft	GDN (NO)	5.16
Towlaw	GDN (NO)	0.55
Wetheral	GDN (NO)	26.86
Horndon	GDN (NT)	46.41
Luxborough Lane	GDN (NT)	165.3
Peters Green	GDN (NT)	348.98
Peters Green South Mimms	GDN (NT)	0
Winkfield	GDN (NT)	15.91
Audley	GDN (NW)	8.2
Blackrod	GDN (NW)	136.81
Ecclestone	GDN (NW)	21.14
Holmes Chapel	GDN (NW)	20.83
Lupton	GDN (NW)	16.23
Malpas	GDN (NW)	0.49
Mickle Trafford	GDN (NW)	29.58
Partington	GDN (NW)	96.29
Samlesbury	GDN (NW)	140.68
Warburton	GDN (NW)	107.25
Weston Point	GDN (NW)	30.64
Aberdeen	GDN (SC)	38.44
Armadale	GDN (SC)	3.01
Balgray	GDN (SC)	11.4
Bathgate	GDN (SC)	24.22
Broxburn	GDN (SC)	64.37
Careston	GDN (SC)	3.05
Drum	GDN (SC)	77.53
St Fergus	GDN (SC)	0.88
Glenmavis	GDN (SC)	145.79
Hume	GDN (SC)	1.22
Kinknockie	GDN (SC)	2.35
Langholm	GDN (SC)	0.15
Lauderhill	GDN (SC)	0
Lockerbie	GDN (SC)	5.7
Netherhowcleugh	GDN (SC)	0.2
Pitcairngreen	GDN (SC)	1.59
Soutra	GDN (SC)	8.94
Stranraer	GDN (SC)	0.68
Mosside	GDN (SC)	0
Farningham	GDN (SE)	135.12
Shorne	GDN (SE)	67.06
Tatsfield	GDN (SE)	276.46
Winkfield	GDN (SE)	106.26

Braishfield A	GDN (SO)	99.23
Braishfield B	GDN (SO)	46.65
Hardwick	GDN (SO)	118.68
Ipsden	GDN (SO)	12.39
Ipsden 2	GDN (SO)	14.25
Mappowder	GDN (SO)	47.68
Winkfield	GDN (SO)	79.91
Aylesbeare	GDN (SW)	22.75
Cirencester	GDN (SW)	9.18
Coffinswell	GDN (SW)	0
Easton Grey	GDN (SW)	30.89
Evesham	GDN (SW)	6.58
Fiddington	GDN (SW)	26.64
Ilchester	GDN (SW)	33.07
Kenn	GDN (SW)	70.91
Littleton Drew	GDN (SW)	2.84
Lyneham	GDN (SW)	0
Pucklechurch	GDN (SW)	28.38
Ross	GDN (SW)	4.28
Seabank (DN)	GDN (SW)	57.62
Alrewas	GDN (WM)	130.79
Aspley	GDN (WM)	84.65
Audley	GDN (WM)	21.83
Austrey	GDN (WM)	86.09
Leamington	GDN (WM)	4.26
Lower Quinton	GDN (WM)	29.91
Milwich	GDN (WM)	21.04
Ross	GDN (WM)	16.52
Rugby	GDN (WM)	80.08
Shustoke	GDN (WM)	44.76
Stratford-upon-Avon	GDN (WM)	4.68
Maelor	GDN (WN)	57.56
Dowlais	GDN (WS)	113.11
Dyffryn Clydach	GDN (WS)	47.92
Gilwern	GDN (WS)	46.67
Abson (Seabank Power Station phase I)	DC - FIRM	27.8
Bacton (Great Yarmouth)	DC - FIRM	20.04
Barking (Horndon)	DC - INTERRUPTIBLE	58.59
Billingham ICI (Terra Billingham)	DC - FIRM	43.54
Blackness (BP Grangemouth)	DC - FIRM	27.29
Blyborough (Brigg)	DC - INTERRUPTIBLE	16.89
Blyborough (Cottam)	DC - INTERRUPTIBLE	17.54

Burton Point (Connahs Quay)	DC - INTERRUPTIBLE	73.21
Caldecott (Corby Power Station)	DC - FIRM	21.12
Deeside	DC - FIRM	28.48
Didcot A	DC - INTERRUPTIBLE	0
Didcot B	DC - FIRM	50.47
Eastoft (Keadby Blackstart)	DC - INTERRUPTIBLE	2.38
Eastoft (Keadby)	DC - FIRM	36.06
Enron Billingham	DC - INTERRUPTIBLE	121.51
Epping Green (Enfield Energy, aka Brimsgate)	DC - FIRM	18.41
Ferny Knoll (AM Paper)	DC - FIRM	1.08
Goole (Guardian Glass)	DC - FIRM	1.62
Gowkhall (Longannet)	DC - FIRM	43.32
Harwarden (Shotton, aka Shotton Paper)	DC - FIRM	11.59
Hollingsgreen (Hays Chemicals)	DC - INTERRUPTIBLE	3.25
Medway (aka Isle of Grain Power Station, NOT Grain Power)	DC - INTERRUPTIBLE	38.12
Middle Stoke (Damhead Creek, aka Kingsnorth Power Station)	DC - FIRM	40.94
Moffat (Irish Interconnector)	INTERCONNECTOR - FIRM, EXIT ONLY	433.4
Peterborough (Peterborough Power Station)	DC - INTERRUPTIBLE	23.28
Phillips Petroleum, Teeside	DC	3.69
Pickmere (Winnington Power, aka Brunner Mond)	DC - FIRM	15.38
Rosecote (Rosecote Power Station)	DC - INTERRUPTIBLE	14.73
Rosehill (Saltend Power Station)	DC - FIRM	57.83
Ryehouse	DC - FIRM	38.66
Saddle Bow (Kings Lynn)	DC - FIRM	17.98
Saltend BPHP (BP Saltend HP)	DC - FIRM	9.1
Sandy Lane (Blackburn CHP, aka Sappi Paper Mill)	DC - FIRM	4.55
Seabank (Seabank Power Station phase II)	DC - FIRM	19.1
Sellafield Power Station	DC - INTERRUPTIBLE	12.35
Shellstar (aka Kemira, not Kemira CHP)	DC - FIRM	13.97

Shellstar (aka Kemira, not Kemira CHP)	DC - INTERRUPTIBLE	2.27
Shotwick (Bridgewater Paper)	DC - FIRM	5.52
St. Fergus (Peterhead)	DC - FIRM	108.3
St. Neots (Little Barford)	DC - FIRM	35.2
Stallingborough	DC - FIRM	28.16
Stallingborough	DC - FIRM	38.34
Stanford Le Hope (Coryton)	DC - FIRM	36.61
Staythorpe PH1	DC - FIRM	38.12
Staythorpe PH2	DC - FIRM	38.12
Sutton Bridge	DC - FIRM	37.47
Teesside (BASF, aka BASF Teesside)	DC - FIRM	9.75
Teesside Hydrogen	DC - FIRM	6.61
Terra Nitrogen (aka ICI/Terra Severnside)	DC - FIRM	0.65
Thornton Curtis (Humber Refinery, aka Immingham)	DC - FIRM	46.89
Thornton Curtis (Killingholm B)	DC - INTERRUPTIBLE	44.94
Thornton Curtis (Killingholme A)	DC - FIRM	36.28
Tonna (Baglan Bay)	DC - FIRM	26.75
Weston Point (Castner Kelner, aka ICI Runcorn)	DC - FIRM	11.7
Weston Point (Rocksavage)	DC - FIRM	38.19
Wragg Marsh (Spalding)	DC - FIRM	42.02
Zeneca (ICI Avecia, aka 'Zenica')	DC - FIRM	0.11
Hatfield Moor Max Refill	STORAGE SITE	30.21
Hole House Max Refill	STORAGE SITE	119.58
Partington Max Refill	STORAGE SITE	2.41
Glenmavis Max Refill	STORAGE SITE	1.62
Barton Stacey Max Refill	STORAGE SITE	0
Avonmouth Max Refill	STORAGE SITE	0
Dynevor Max Refill	STORAGE SITE	2.61
Garton Max Refill	STORAGE SITE	211.01
Hornsea Max Refill	STORAGE SITE	22.43
Rough Max Refill	STORAGE SITE	160
Bacton (IUK)	INTERCONNECTOR	623.58
Bacton (BBL)	INTERCONNECTOR	0

**Table 2 –NTS baseline exit flat capacity**

<b>Offtake Point</b>	<b>Type of Offtake</b>	<b>Enduring flat baseline (GWh/day)</b>
Bacton	GDN (EA)	3.66
Brisley	GDN (EA)	3.11
Cambridge	GDN (EA)	0
Great Wilbraham	GDN (EA)	35.59
Matching Green	GDN (EA)	83.85
Peterborough Eye/Tee	GDN (EA)	25.45
Roudham Heath	GDN (EA)	14.7
Royston	GDN (EA)	2.67
Whitwell	GDN (EA)	161.87
West Winch	GDN (EA)	11.69
Yelverton	GDN (EA)	84.44
Alrewas	GDN (EM)	92.15
Blaby	GDN (EM)	11.03
Blyborough	GDN (EM)	90.89
Caldecott	GDN (EM)	11.08
Thornton Curtis (DN)	GDN (EM)	106.64
Drointon	GDN (EM)	107.51
Gosberton	GDN (EM)	15.79
Kirkstead	GDN (EM)	1.21
Market Harborough	GDN (EM)	9.48
Silk Willoughby	GDN (EM)	3.53
Sutton Bridge	GDN (EM)	1.15
Tur Langton	GDN (EM)	82.52
Walesby	GDN (EM)	0.93
Asselby	GDN (NE)	3.64
Baldersby	GDN (NE)	1.34
Burley Bank	GDN (NE)	20.31
Ganstead	GDN (NE)	23.15
Pannal	GDN (NE)	148.41
Paull	GDN (NE)	38.14
Pickering	GDN (NE)	9.38
Rawcliffe	GDN (NE)	3.42
Towton	GDN (NE)	81.13
Bishop Auckland	GDN (NO)	69.26
Coldstream	GDN (NO)	1.93
Corbridge	GDN (NO)	0.07
Cowpen Bewley	GDN (NO)	53.71
Elton	GDN (NO)	33.26
Guyzance	GDN (NO)	2.19
Humbleton	GDN (NO)	0.15
Keld	GDN (NO)	1.7
Little Burdon	GDN (NO)	17.75

Melkinthorpe	GDN (NO)	0.34
Saltwick Pressure Controlled	GDN (NO)	9.22
Saltwick Volumetric Controlled	GDN (NO)	69.26
Thrintoft	GDN (NO)	5.16
Towlaw	GDN (NO)	0.55
Wetheral	GDN (NO)	26.86
Horndon	GDN (NT)	46.41
Luxborough Lane	GDN (NT)	165.3
Peters Green	GDN (NT)	348.98
Peters Green South Mimms	GDN (NT)	0
Winkfield	GDN (NT)	15.91
Audley	GDN (NW)	8.2
Blackrod	GDN (NW)	136.81
Ecclestone	GDN (NW)	21.14
Holmes Chapel	GDN (NW)	20.83
Lupton	GDN (NW)	16.23
Malpas	GDN (NW)	0.49
Mickle Trafford	GDN (NW)	29.58
Partington	GDN (NW)	96.29
Samlesbury	GDN (NW)	140.68
Warburton	GDN (NW)	107.25
Weston Point	GDN (NW)	30.64
Aberdeen	GDN (SC)	38.44
Armadale	GDN (SC)	3.01
Balgray	GDN (SC)	11.4
Bathgate	GDN (SC)	24.22
Broxburn	GDN (SC)	64.37
Careston	GDN (SC)	3.05
Drum	GDN (SC)	77.53
St Fergus	GDN (SC)	0.88
Glenmavis	GDN (SC)	145.79
Hume	GDN (SC)	1.22
Kinknockie	GDN (SC)	2.35
Langholm	GDN (SC)	0.15
Lauderhill	GDN (SC)	0
Lockerbie	GDN (SC)	5.7
Netherhowcleugh	GDN (SC)	0.2
Pitcairngreen	GDN (SC)	1.59
Soutra	GDN (SC)	8.94
Stranraer	GDN (SC)	0.68
Mosside	GDN (SC)	0
Farningham	GDN (SE)	135.12
Shorne	GDN (SE)	67.06
Tatsfield	GDN (SE)	276.46
Winkfield	GDN (SE)	106.26
Braishfield A	GDN (SO)	99.23
Braishfield B	GDN (SO)	46.65

Hardwick	GDN (SO)	118.68
Ipsden	GDN (SO)	12.39
Ipsden 2	GDN (SO)	14.25
Mappowder	GDN (SO)	47.68
Winkfield	GDN (SO)	79.91
Aylesbeare	GDN (SW)	22.75
Cirencester	GDN (SW)	9.18
Coffinswell	GDN (SW)	0
Easton Grey	GDN (SW)	30.89
Evesham	GDN (SW)	6.58
Fiddington	GDN (SW)	26.64
Ilchester	GDN (SW)	33.07
Kenn	GDN (SW)	70.91
Littleton Drew	GDN (SW)	2.84
Lyneham	GDN (SW)	0
Pucklechurch	GDN (SW)	28.38
Ross	GDN (SW)	4.28
Seabank (DN)	GDN (SW)	57.62
Alrewas	GDN (WM)	130.79
Aspley	GDN (WM)	84.65
Audley	GDN (WM)	21.83
Austrey	GDN (WM)	86.09
Leamington	GDN (WM)	4.26
Lower Quinton	GDN (WM)	29.91
Milwich	GDN (WM)	21.04
Ross	GDN (WM)	16.52
Rugby	GDN (WM)	80.08
Shustoke	GDN (WM)	44.76
Stratford-upon-Avon	GDN (WM)	4.68
Maelor	GDN (WN)	57.56
Dowlais	GDN (WS)	113.11
Dyffryn Clydach	GDN (WS)	47.92
Gilwern	GDN (WS)	46.67
Abson (Seabank Power Station phase I)	DC - FIRM	36.59
Bacton (Great Yarmouth)	DC - FIRM	20.04
Barking (Horndon)	DC - INTERRUPTIBLE	58.59
Billingham ICI (Terra Billingham)	DC - FIRM	43.54
Blackness (BP Grangemouth)	DC - FIRM	27.29
Blyborough (Brigg)	DC - INTERRUPTIBLE	16.89
Blyborough (Cottam)	DC - INTERRUPTIBLE	17.54
Burton Point (Connahs Quay)	DC - INTERRUPTIBLE	73.21
Caldecott (Corby Power Station)	DC - FIRM	21.12
Deeside	DC - FIRM	28.48

Didcot A	DC - INTERRUPTIBLE	87.29
Didcot B	DC - FIRM	50.47
Eastoft (Keadby Blackstart)	DC - INTERRUPTIBLE	2.38
Eastoft (Keadby)	DC - FIRM	36.06
Enron Billingham	DC - INTERRUPTIBLE	121.51
Epping Green (Enfield Energy, aka Brimsgate)	DC - FIRM	18.41
Ferny Knoll (AM Paper)	DC - FIRM	1.08
Goole (Guardian Glass)	DC - FIRM	1.62
Gowkhall (Longannet)	DC - FIRM	43.32
Harwarden (Shotton, aka Shotton Paper)	DC - FIRM	11.59
Hollingsgreen (Hays Chemicals)	DC - INTERRUPTIBLE	3.25
Medway (aka Isle of Grain Power Station, NOT Grain Power)	DC - INTERRUPTIBLE	38.12
Middle Stoke (Damhead Creek, aka Kingsnorth Power Station)	DC - FIRM	40.94
Moffat (Irish Interconnector)	INTERCONNECTOR - FIRM, EXIT ONLY	433.4
Peterborough (Peterborough Power Station)	DC - INTERRUPTIBLE	23.28
Phillips Petroleum, Teeside	DC	3.69
Pickmere (Winnington Power, aka Brunner Mond)	DC - FIRM	15.38
Roosecote (Roosecote Power Station)	DC - INTERRUPTIBLE	14.73
Rosehill (Saltend Power Station)	DC - FIRM	57.83
Ryehouse	DC - FIRM	38.66
Saddle Bow (Kings Lynn)	DC - FIRM	17.98
Saltend BPHP (BP Saltend HP)	DC - FIRM	9.1
Sandy Lane (Blackburn CHP, aka Sappi Paper Mill)	DC - FIRM	4.55
Seabank (Seabank Power Station phase II)	DC - FIRM	19.1
Sellafield Power Station	DC - INTERRUPTIBLE	12.35
Shellstar (aka Kemira, not Kemira CHP)	DC - FIRM	13.97
Shellstar (aka Kemira, not Kemira CHP)	DC - INTERRUPTIBLE	2.27
Shotwick (Bridgewater Paper)	DC - FIRM	5.52
St. Fergus (Peterhead)	DC - FIRM	108.3
St. Neots (Little Barford)	DC - FIRM	35.2

Stallingborough	DC - FIRM	28.16
Stallingborough	DC - FIRM	38.34
Stanford Le Hope (Coryton)	DC - FIRM	36.61
Staythorpe PH1	DC - FIRM	38.12
Staythorpe PH2	DC - FIRM	38.12
Sutton Bridge	DC - FIRM	37.47
Teesside (BASF, aka BASF Teesside)	DC - FIRM	9.75
Teesside Hydrogen	DC - FIRM	6.61
Terra Nitrogen (aka ICI/Terra Severnside)	DC - FIRM	13.1
Thornton Curtis (Humber Refinery, aka Immingham)	DC - FIRM	46.89
Thornton Curtis (Killingholm B)	DC - INTERRUPTIBLE	44.94
Thornton Curtis (Killingholme A)	DC - FIRM	36.28
Tonna (Baglan Bay)	DC - FIRM	26.75
Weston Point (Castner Kelner, aka ICI Runcorn)	DC - FIRM	11.7
Weston Point (Rocksavage)	DC - FIRM	38.19
Wragg Marsh (Spalding)	DC - FIRM	42.02
Zeneca (ICI Avecia, aka 'Zenica')	DC - FIRM	0.11
Hatfield Moor Max Refill	STORAGE SITE	30.21
Hole House Max Refill	STORAGE SITE	119.58
Partington Max Refill	STORAGE SITE	2.41
Glenmavis Max Refill	STORAGE SITE	1.62
Barton Stacey Max Refill	STORAGE SITE	100.94
Avonmouth Max Refill	STORAGE SITE	2.3
Dynevor Max Refill	STORAGE SITE	2.61
Garton Max Refill	STORAGE SITE	211.01
Hornsea Max Refill	STORAGE SITE	22.43
Rough Max Refill	STORAGE SITE	160
Bacton (IUK)	INTERCONNECTOR	623.58
Bacton (BBL)	INTERCONNECTOR	0

**Special Condition C8F: NTS System Operator external incentives, costs and revenues**

**(1) External cost incentive revenue (SOOIRC<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 3(a) of Special Condition C8C (NTS System Operation Activity Revenue Restriction) of this condition, the maximum external cost incentive revenue allowed to the licensee in respect of formula year t (SOOIRC<sub>t</sub>) shall be derived in the following manner:

$$SOOIRC_t = SBIRC_t + RBIRC_t + QIIR_t$$

where

SBIRC<sub>t</sub> means the system balancing cost incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with paragraph 2 of this condition; and

RBIRC<sub>t</sub> means the maximum residual gas balancing incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance paragraph 3 of this condition.

QIIR<sub>t</sub> means the quality of information incentive revenue in respect of formula year t and shall be calculated in accordance with paragraph 4 of this condition.

**(2) System balancing incentive revenue (SBIRC<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 1(a) of this condition, the system balancing incentive revenue allowed to the licensee in respect of formula year t ( $SBIRC_t$ ) shall be derived in the following manner:

$$SBIRC_t = SBIR_t + SBIC_t$$

where:

$SBIR_t$  means the maximum total system balancing cost incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with paragraph 2(b) of this condition; and

$SBIC_t$  means the revenue equivalent to the system balancing costs incurred by the licensee in respect of formula year t and shall be derived in accordance with paragraph 2(g) of this condition.

**(b) Maximum total system balancing cost incentive revenue**

For the purposes of paragraph 2(a) of this condition, the maximum total system balancing incentive revenue allowed to the licensee in respect of formula year t ( $SBIR_t$ ) shall be derived in the following manner:

$$SBIR_t = GCIR_t + SRIR_t$$

where:

$GCIR_t$  means the maximum gas cost incentive revenue allowed to the licensee in respect of formula year t and shall be

calculated in accordance with paragraph 2(c) of this condition; and

**SRIR<sub>t</sub>** means the maximum system reserve incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with paragraph 2(d) of this condition.

**(c) The maximum gas cost incentive revenue (GCIR<sub>t</sub>)**

For the purposes of paragraph 2(b) of this condition, the maximum gas cost incentive revenue allowed to the licensee in respect of formula year t (GCIR<sub>t</sub>) shall be derived in the following manner:

If  $GCIT_t \geq GCCP_t$ , then:

$$GCIR_t = \text{MIN}[GCUSF_t \times (GCIT_t - GCCP_t), GCCAP_t]$$

Otherwise:

$$GCIR_t = \text{MAX}[GCDSF_t \times (GCIT_t - GCCP_t), GCCOL_t]$$

where:

**GCIT<sub>t</sub>** means the NTS SO gas cost incentive target in respect of formula year t and shall be calculated in accordance with paragraph 2(e) of this condition;

**GCCP<sub>t</sub>** means the NTS SO gas cost incentive performance measure in respect of formula year t and shall be calculated in accordance with paragraph 2(h) of this condition;

MIN (x,y) is the value which is the lesser of x and y;

GCUSF<sub>t</sub> means the gas cost upside sharing factor in respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
GCUSF <sub>t</sub>	25%	25%

GCCAP<sub>t</sub> means the maximum gas cost incentive revenue in respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
GCCAP <sub>t</sub> £million	4	4

MAX(x,y) is the value which is the greater of x and y;

GCDSF<sub>t</sub> means the gas cost downside sharing factor in respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
GCDSF <sub>t</sub>	20%	20%

GCCOL<sub>t</sub> means the minimum gas cost incentive revenue in respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
GCCOL <sub>t</sub> £million	-3	-3

(d) The maximum system reserve incentive revenue (SRIR<sub>t</sub>)

For the purposes of paragraph 2(b) of this condition, the maximum system reserve incentive revenue allowed to the licensee in respect of formula year t ( $SRIR_t$ ) shall be derived in the following manner:

If  $SRIT_t \geq SRCP_t$ , then:

$$SRIR_t = SRUSF_t \times (SRIT_t - SRCP_t)$$

Otherwise:

$$SRIR_t = SRDSF_t \times (SRIT_t - SRCP_t)$$

where:

$SRIT_t$  means the system reserve incentive target in respect of formula year t (in £m), which shall be derived in the following manner:

$$SRIT_t = ((RPAV_t \times 213) + (RPDY_t \times 116) + (RPGL \times 135) + (RPPA \times 266)) / 100 + 11$$

where:

$RPAV_t$  means the applicable price for reserved space, in formula year t (in pence per kWh per annum), with respect to the Avonmouth LNG storage facility, as determined by Special Condition C3 (Restriction of Prices for LNG Storage Services);

$RPDY_t$  means the applicable price for reserved space, in formula year t (in pence per kWh per annum), with respect to the Dynevor Arms LNG storage facility, as determined by Special Condition C3 (Restriction of Prices for LNG

Storage Services);

$RPGL_t$  means the applicable price for reserved space, in formula year  $t$  (in pence per kWh per annum), with respect to the Glenmavis LNG storage facility, as determined by Special Condition C3 (Restriction of Prices for LNG Storage Services);

$RPPA_t$  means the applicable price for reserved space, in formula year  $t$  (in pence per kWh per annum), with respect to the Partington LNG storage facility, as determined by Special Condition C3 (Restriction of Prices for LNG Storage Services);

$SRCP_t$  means the system reserve performance measure in respect of formula year  $t$  and shall be the total payments made by the licensee in respect of costs incurred by the licensee in respect of storage capacity or LNG Importation capacity that has been paid for or gas delivery service fee that has been paid for the purposes of satisfying operating margins requirements (having the meaning given to that term in the network code);

$SRUSF_t$  means the system reserve upside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$SRUSF_t$	100%	100%

$SRDSF_t$  means the system reserve downside sharing factor in respect of formula year  $t$  as set out in the following the

following table:

Variable	Formula year	
	t=1	t≥2
SRDSF <sub>t</sub>	100%	100%

**(e) The NTS SO gas cost incentive target (GCIT<sub>t</sub>)**

For the purposes of paragraph 2(c) of this condition, the NTS SO gas cost incentive target in respect of formula year t (GCIT<sub>t</sub>) shall be derived from the following formula:

$$GCIT_t = (GCRP_t \times GVTP_t \times 10,000) + ECT_t$$

where:

GCRP<sub>t</sub> means the NTS SO gas cost reference price in respect of formula year t and shall be calculated in accordance with paragraph 2(f) of this condition;

GVTP<sub>t</sub> means the NTS SO gas target volumes in respect of formula year t, as set out in the table below. The value of GVTP<sub>t</sub> is dependant upon the level of SFAF<sub>t</sub>, where SFAF<sub>t</sub> means the average daily gas flows through the St. Fergus terminal in mcm/day in the formula year commencing on 1 April 2007, calculated as:

$$\frac{\text{(Total annual volumetric flow through St Fergus terminal)}}{366}$$

SFAF <sub>t</sub> (mcm/day)	GVTP <sub>t</sub> (GWh)
SFAF <sub>t</sub> > 100	8,312

$85 \leq \text{SFAF}_t \leq 100$	7,129
$\text{SFAF}_t < 85$	6,393

$\text{ECT}_t$  means the target electric compression costs in respect of formula year  $t$  as set out in the following table:

	Formula Year				
	t=1	t=2	t=3	t=4	t≥5
$\text{ECT}_t$ £million	0.5	0.5	0.5	0.5	0.5

**(f) The NTS SO gas cost reference price ( $\text{GCRP}_t$ )**

For the purposes of paragraph 2(e) of Part 2 of this condition, the NTS SO gas cost reference price in respect of formula year  $t$  ( $\text{GCRP}_t$ ) shall be derived in the following manner:

- (i) In respect of formula years 1 and 2,  $\text{GCRP}_t$  shall have the values set out in the following table:

Variable	Formula year	
	t=1	t=2
$\text{GCRP}_t$ pence per kWh	0.702	0.712

In respect of all subsequent formula years,  $\text{GCRP}_t$  shall be derived from the following formula:

$$\text{GCRP}_t = \frac{\sum_{\text{all } q} \sum_{\text{all } d} [\text{NTST}_{t-2,q,d} \times \text{FQRP}_{t,q}]}{\sum_{\text{all } q} \sum_{\text{all } d} \text{NTST}_{t-2,q,d}} + 0.055 \text{ p/kWh}$$

where:

q means each quarter in formula year t where a quarter is a continuous period of three calendar months and where q=1 covers the days between 1 April and 30 June inclusive;

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

$\sum_{\text{all } d}$  means the sum of across all days d in quarter q;

$NTST_{t-2,q,d}$  shall be calculated from the following formula:

$$NTST_{t-2,q,d} = UDQI_{t-2,q,d} + \sum_{\text{all } S} \text{Max}[UDQI_{t-2,q,d}^S - UDQO_{t-2,q,d}^S, 0]$$

where

$UDQI_{t-2,q,d}$  means the sum of gas shippers' user daily quantity inputs (having the meaning given to that term in the network code) at the terminals at each of Bacton, Barrow, Easington, St Fergus, Teesside, Theddlethorpe, Isle of Grain and Milford Haven on day d of quarter q of formula year t-2;

$UDQI_{t-2,q,d}^S$  means the sum of gas shippers' user daily quantity input (having the meaning given to that term in the network code) in respect of storage

connection point S on day d of quarter q of formula year t-2;

$UDQO_{t-2,q,d}^S$  means the sum of gas shippers' user daily quantity outputs (having the meaning given to that term in the network code) in respect of storage connection point S on day d of quarter q of formula year t-2; and

$\sum_{\text{all S}}$  means the sum over all storage connection points S.

$FQRP_{t,q}$  means the forward quarterly reference price in respect of quarter q of formula year t and shall be derived from the following formula:

$$FQRP_{t,q} = \frac{\sum_{d=a}^b FP_{t,q,d}}{n}$$

where:

- a In respect of formula years ( $t \leq 3$ ) means 1 March in formula year (t-1) and in respect of formula years ( $t \geq 4$ ) 1 April in formula year (t-1);
- b In respect of formula years ( $t \leq 3$ ) means 20 March in formula year (t-1) and in respect of formula years ( $t \geq 4$ )

31 March in formula year (t - 1);

$$\sum_{d=a}^b$$

means the sum of all business days d between day a and day b (both inclusive);

$FP_{t,q,d}$

means the forward price quoted in an approved published price reporting service on day d for a gas contract for delivery at the national balancing point (having the meaning given to that term in the published price reporting service approved in accordance with sub-paragraph (iii) below) in respect of quarter q of formula year t, measured in p/kWh; and

n

means the number of business days between a and b inclusive.

For the purposes of this paragraph, a published price reporting service will be proposed by the licensee prior to 1 March in each formula year t. If after 30 days from the receipt of such a proposal the Authority has not disallowed the proposal, the proposed published price reporting service will be deemed to be approved.

**(g) The NTS SO system balancing costs (  $SBIC_t$  )**

For the purposes of paragraph 2(a) of this condition, the NTS SO system balancing costs in respect of formula year t ( $SBIC_t$ ) shall be derived from the following formula:

$$SBIC_t = GCCP_t + SRCP_t$$

where:

$GCCP_t$  means the NTS SO gas cost performance measure and shall be calculated in accordance with paragraph 2(h) of this condition; and

$SRCP_t$  shall have the meaning given to that term in paragraph 2(d) of this condition.

**(h) The NTS SO gas cost performance measure ( $GCCP_t$ )**

For the purposes of paragraph 2(c) of this condition, the NTS SO gas cost performance measure in respect of formula year t ( $GCCP_t$ ) shall be derived from the following formula:

$$GCCP_t = GC_t + ECC_t$$

where:

$GC_t$  means the payments made by the licensee in respect of the total costs incurred by the licensee (less any revenues received from DN operators) in respect of formula year t in the provision of NTS Shrinkage other than  $ECC_t$ ; and

$ECC_t$  means the payments made by the licensee in respect of the total costs incurred by the licensee in respect of formula

year t in procuring and purchasing fuel for the purposes of operating electric compressors on the NTS.

**(3) Residual gas balancing incentive revenue ( $RBIRC_t$ )**

**(a) Principal formula**

For the purposes of paragraph 1(a) of this condition, the maximum residual gas balancing incentive revenue allowed to the licensee in respect of formula year t ( $RBIRC_t$ ) shall be derived from the following formula:

$$RBIRC_t = RBIR_t + RBIC_t$$

where:

$RBIR_t$  means the maximum residual gas balancing incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with paragraph 3(b) of this condition; and

$RBIC_t$  means an amount equal to the revenue equivalent to the net residual balancing costs incurred by the licensee in respect of formula year t and shall be equal to the sum of the basic net neutrality amount and the adjustment neutrality amount (both having the meanings given to those terms in the network code) across all days in formula year t.

**(b) Maximum residual gas balancing incentive revenue ( $RBIR_t$ )**

For the purposes of paragraph 3(a) of this condition, the maximum residual gas balancing incentive revenue allowed to the licensee in respect of formula year  $t$  ( $RBIR_t$ ) shall be derived in the following manner:

$$RBIR_t = \text{MIN}[RBCAP_t, \text{MAX}[STIP_t, RBCOL_t]]$$

where:

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

$RBCAP_t$  means the maximum residual gas balancing incentive revenue in respect of formula year  $t$  as set out in the following table:

Variable	Formula year	
	$t=1$	$t \geq 2$
$RBCAP_t$ £million	3.5	3.5

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

$STIP_t$  means the sum of the total daily incentive payments under the residual gas balancing incentive in respect of formula year  $t$  and shall be calculated in accordance with paragraph 3(c) of this condition; and

$RBCOL_t$  means the minimum residual gas balancing incentive revenue in respect of formula year  $t$  as set out in the following table:

	Formula year

Variable	t=1	t≥2
RBCOL <sub>t</sub> £million	-3.5	-3.5

**(c) The sum of the total daily incentive payments under the residual gas balancing incentive (STIP<sub>t</sub>)**

For the purposes of paragraph 3(b) of this condition, the sum of the total daily incentive payments under the residual gas balancing incentive in respect of formula year t (STIP<sub>t</sub>) shall be derived from the following formula:

$$STIP_t = SDPIP_t + SDLIP_t$$

where:

SDPIP<sub>t</sub> means the sum of daily price incentive payments and shall be calculated in accordance with paragraph 3(d) of this condition; and

SDLIP<sub>t</sub> means the sum of daily linepack incentive payments and shall be calculated in accordance with paragraph 3(e) of this condition.

**(d) The sum of daily price incentive payments (SDPIP<sub>t</sub>)**

For the purposes of paragraph 3(c) of this condition, the sum of the daily price incentive payments in respect of formula year t (SDPIP<sub>t</sub>) shall be derived from the following formula:

$$SDPIP_t = \sum_{\text{all } d} DPPIP_{d,t}$$

where:

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

$\text{DPIP}_{d,t}$  means the daily price incentive payment and shall be calculated in accordance with paragraph 3(f) of this condition.

**(e) The sum of daily linepack incentive payments ( $\text{SDLIP}_t$ )**

For the purposes of paragraph 3(c) of this condition, the sum of daily linepack incentive payments in respect of formula year  $t$  ( $\text{SDLIP}_t$ ) shall be derived from the following formula:

$$\text{SDLIP}_t = \sum_{\text{all } d} \text{DLIP}_{d,t}$$

where:

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

$\text{DLIP}_{d,t}$  means the sum of daily linepack incentive payment and shall be calculated in accordance with paragraph 3(h) of this condition.

**(f) The daily price incentive payment ( $\text{DPIP}_{d,t}$ )**

For the purposes of paragraph 3(d) of this condition, the daily price incentive payment in respect of day  $d$  of formula year  $t$  ( $\text{DPIP}_{d,t}$ ) shall be derived in the following manner:

If  $PPM_{d,t} < PIR_t$ , then:

$$DPIP_{d,t} = DPMCAP_t \times \frac{(PIR_t - \text{MAX}(PPM_{d,t}, PIMUL_t))}{(PIR_t - PIMUL_t)}$$

Otherwise:

$$DPIP_{d,t} = DPMCOL_t \times \frac{(PIR_t - \text{MIN}(PPM_{d,t}, PIMLL_t))}{(PIR_t - PIMLL_t)}$$

where:

$PPM_{d,t}$  means the daily residual balancing price performance measure and shall be calculated in accordance with paragraph 3(g) of this condition;

$PIR_t$  means the price incentive reference measure in respect of formula year t as set out in the following table:

Variable	Formula years	
	t=1	t≥2
$PIR_t$	10%	10%

$DPMCAP_t$  means the daily price incentive cap in respect of formula year t as set out in the following table:

Variable	Formula years	
	t=1	t≥2
$DPMCAP_t$ £	5,000	5,000

$\text{MAX}(x,y)$  is the value equal to the greater of x and y;

$PIMUL_t$  means the price incentive measure upper limit in respect of formula year t as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
PIMUL <sub>t</sub>	0%	0%

DPMCOL<sub>t</sub> means the daily price measure incentive collar in respect of formula year t as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
DPMCOL <sub>t</sub>	-30,000	-30,000
£		

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

PIMLL<sub>t</sub> means the price incentive measure lower limit in respect of formula year t as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
PIMLL <sub>t</sub>	85%	85%

**(g) The daily residual balancing price performance measure (PPM<sub>d,t</sub>)**

For the purposes of paragraph 3(f) of this condition, the licensee's daily residual balancing price performance measure in respect of day d in formula year t (PPM<sub>d,t</sub>) shall be derived from the following formula:

In formula year  $t \leq 2$

$$PPM_{d,t} = \frac{1}{2} \times \left( \frac{(TMIBP_{d,t} - TMISP_{d,t})}{SAP_{d,t}} \right) \times 100$$

In formula year  $t \geq 3$

$$\text{PPM}_{d,t} = \left( \frac{(\text{TMIBP}_{d,t} - \text{TMISP}_{d,t})}{\text{SAP}_{d,t}} \right) \times 100$$

where:

$\text{TMIBP}_{d,t}$  means in formula year ( $t \leq 2$ ) the price in pence per kilowatt hour which is equal to the highest market offer price (having the meaning given to that term in the network code) in relation to a eligible balancing action (having the meaning given to that term in the network code) taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case  $\text{TMIBP}_{d,t}$  will equal  $\text{SAP}_{d,t}$ ; and

means in formula year ( $t \geq 3$ ) the price in pence per kilowatt hour which is equal to the highest market offer price (having the meaning given to that term in the network code) in relation to a eligible balancing action (having the meaning given to that term in the network code) excluding any locational actions taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case  $\text{TMIBP}_{d,t}$  will equal  $\text{SAP}_{d,t}$ ;

$\text{TMISP}_{d,t}$  means in formula year ( $t \leq 2$ ) the price in pence per kilowatt hour which is equal to the lowest market offer price (having the meaning given to that term in the network code) in relation to a eligible balancing action (having the meaning given to that term in the network code) taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case  $\text{TMISP}_{d,t}$  will equal  $\text{SAP}_{d,t}$ ; and

means in formula year ( $t \geq 3$ ) the price in pence per kilowatt hour which is equal to the lowest market offer price (having the meaning given to that term in the network code) in relation to a eligible balancing action (having the meaning given to that term in the network code) excluding any locational actions taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case  $TMISP_{d,t}$  will equal  $SAP_{d,t}$ ;

$SAP_{d,t}$  means the system average price (having the meaning given to that term in the network code) in respect of day d of formula year t

**(h) The daily linepack incentive payment ( $DLIP_{d,t}$ )**

For the purposes of paragraph 3(e) of this condition, the daily linepack incentive payment in respect of day d of formula year t ( $DLIP_{d,t}$ ) shall be derived from the following formula:

If  $LPM_{d,t} < LIR_t$ , then:

$$DLIP_{d,t} = DLMCAP_t \times \frac{(LIR_t - \text{MAX}[LPM_{d,t}, LIMUL_t])}{(LIR_t - LIMUL_t)}$$

Otherwise:

$$DLIP_{d,t} = DLMCOL_t \times \frac{(LIR_t - \text{MIN}[LPM_{d,t}, LIMLL_t])}{(LIR_t - LIMLL_t)}$$

where:

$LPM_{d,t}$  means the linepack performance measure in respect of day d of formula year t and shall be calculated in accordance

with paragraph 3(i) of this condition;

$LIR_t$  means the linepack incentive reference measure in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
$LIR_t$	2.4 mcm	2.4 mcm

$DLMCAP_t$  means the daily linepack maximum incentive cap in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
$DLMCAP_t$ £	5,000	5,000

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

$LIMUL_t$  means the linepack incentive measure upper limit, in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
$LIMUL_t$	0 mcm	0 mcm

$DLMCOL_t$  means the daily linepack measure incentive collar, in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
$DLMCOL_t$ £	-30,000	-30,000

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

LIMLL<sub>t</sub> means the linepack incentive measure lower limit in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
LIMLL <sub>t</sub>	20.4 mcm	20.4 mcm

**(i) The linepack performance measure (LPM<sub>d,t</sub>)**

For the purposes of paragraph 3(h) of this condition, the linepack performance measure, in respect of day d of formula year t (LPM<sub>d,t</sub>) shall be derived from the following formula:

$$LPM_{d,t} = \text{MAX}[(OLP_{d,t} - CLP_{d,t}), (CLP_{d,t} - OLP_{d,t})]$$

where:

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

OLP<sub>d,t</sub> means the total NTS linepack in respect of day d of formula year t as at 06:00 hours on day d;

CLP<sub>d,t</sub> means the NTS linepack in respect of day d of formula year t as at 06:00 hours on day d+1; and

NTS linepack means the volume of gas within the NTS as calculated by the licensee in accordance with the methodology proposed by the licensee for that purpose from time to time and approved by the Authority.

**(4) Quality of information incentive (QIIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 1(a) of this condition, the quality of information incentive revenue allowed to the licensee in respect of formula year  $t$  ( $QIIR_t$ ) shall be derived in the following manner:

$$QIIR_t = QDIIR_t + QWIIR_t$$

where:

$QDIIR_t$  means the quality of demand information incentive revenue, and shall be derived in accordance with Table (A) below.

$QWIIR_t$  means the quality of website information incentive revenue, and shall be derived in accordance with Table (B) below.

The value of  $QDIIR_t$  is dependant upon the level of  $QDIP_t$ , where  $QDIP_t$  means the quality of demand information performance measure as defined in paragraph 4(b)

**Table (A)**

$QDIP_t$	$QDIIR_t$
$QDIP_t \leq -0.05$	£1.6m
$-0.05 < QDIP_t < 0$	$(QDIP_t \times 100) \times \text{£}0.32\text{m}$
$QDIP_t = 0$	0
$0 < QDIP_t < 0.05$	$(QDIP_t \times 100) \times \text{£}0.32\text{m}$

$QDIP_t = 0.05$	£1.6m
$0.05 < QDIP_t < 1$	$[((QDIP_t - 0.05) \times 100) \times £0.08m] + £1.6m$
$QDIP_t \geq 1$	£9.2m

The value of  $QWIIR_t$  is dependant upon the level of  $QWIP_t$ , where  $QWIP_t$  means the quality of website information performance measure as defined in paragraph 4(c).

**Table (B)**

$QWIP_t$	$QWIIR_t$
$QWIP_t \leq 0$	0
$0 < QWIP_t < 0.27$	$(QWIP_t \times 100) \times £0.037m$
$QWIP_t = 0.27$	£1m
$0.27 < QWIP_t < 0.67$	$[((QWIP_t - 0.27) \times 100) \times £0.01261m] + £1m$
$QWIP_t \geq 0.67$	£1.5m

**(b) Quality of demand information performance measure**

For the purposes of paragraph 4(a) of this condition the quality of demand information performance measure ( $QDIP_t$ ) shall be derived from the following formula

$$QDIP_t = \frac{\left( 0.040 - \frac{\sum_d^D |DADF_d - AD_d|}{\sum_d^D AD_d} \right)}{0.040}$$

Where d is the first day of formula year t, and D is the final day of formula year t and where,

$DADF_d$  means the day-ahead forecast NTS throughput value (in mcm) published by the licensee (in accordance with the network code) on its website not later than 14:00 hours at day ahead (d-1) in respect of each day of formula year t. Where the day ahead 14:00 forecast NTS throughput value is not published by 14:00 hours at day ahead (d-1), the next forecast published on the licensee's website for the gas day concerned shall be used;

$AD_d$  means Actual NTS Throughput (in mcm) on a given day (d), calculated five days following the day (d+5), on each day of formula year t where,

Actual NTS Throughput means the total offtake of gas from the NTS on each day (measured in mcm), including gas offtakes by DN Operators, Storage Facilities, interconnectors and Very Large Daily Metered Consumers (VLDMC) connected to the NTS, plus the physical elements of NTS Shrinkage; and

DN Operators, Shrinkage, Storage Facilities and VLDMC have the meaning given to those terms in the network code.

**(c) Quality of website information performance measure**

For the purposes of paragraph 4((a) of this condition the quality of website information performance measure ( $QWIP_t$ ) shall be derived from the following formula:

$$QWIP_t = \frac{\left\{ \sum_{\text{each quarter } q \text{ int}} \left\{ \frac{\text{MAX} \left[ \left( \frac{180 - WPM_q}{180} \right), 0 \right]}{4} \right\} + \text{MAX} \left[ \left( \frac{WTP_t - 0.75}{0.75} \right), 0 \right] \right\}}{2}$$

where,

$WPM_q$  means website availability performance measure, calculated as follows:

$$WPM_q = \frac{(WAPL_q + WAPNN_q + WAPNA_q + WAPDF_q)}{4},$$

“q” means each quarter year;

“quarter year” means the first, second, third and fourth three calendar months of formula year t;

“calendar month” has the meaning given to that term in the network code; and,

$WTP_t$  means the website timeliness performance measure calculated as follows:

$$WTP_t = \frac{(WTPL_t + WTPNN_t + WTPNA_t + WTPDF_t)}{4}$$

where,

$WAPL_q$  means the website availability performance measure for the licensee’s Predicted Closing Linepack Data Item or Report expressed as the number of minutes of downtime of the Predicted Closing Linepack Report published on the licensee’s website in each quarter year;

WAPNN <sub>q</sub>	means the website availability performance measure for the licensee's National Forecast Flow Data Item or Report expressed as the number of minutes of downtime of the National Forecast Flow Report published on the licensee's website in each quarter year;
WAPNA <sub>q</sub>	means the website availability performance measure for the licensee's National Physical Flow Data Item or Report expressed as the number of minutes of downtime of the National Physical Flow Report published on the licensee's website in each quarter year;
WAPDF <sub>q</sub>	means the website availability performance measure for the licensee's NTS Throughput Data Item or Report expressed as the number of minutes of downtime of the NTS Throughput Report published on the licensee's website in each quarter year;
WTPL <sub>t</sub>	means the website timeliness performance measure for the licensee's Predicted Closing Linepack Data Item or Report, and has a value between 0 and 1, representing the proportion of occasions during formula year t that hourly data updates were posted within 10 minutes of the start of the hour (i.e. the 12:00 update published by 12:10 at the latest),

expressed as a proportion of all publication occasions;

WTPNN<sub>t</sub> means the website timeliness performance measure for the licensee's National Forecast Flow Data Item or Report, and has a value between 0 and 1, representing the proportion of occasions during formula year t that hourly data updates were posted within 10 minutes of the start of the hour (i.e. the 12:00 update published by 12:10 at the latest), expressed as a proportion of all publication occasions;

WTPNA<sub>t</sub> means the website timeliness performance measure for the licensee's National Physical Flow Data Item or Report, and has a value between 0 and 1, representing the proportion of occasions during formula year t that hourly data updates were posted within 10 minutes of the start of the hour (i.e. the 12:00 update published by 12:10 at the latest), expressed as a proportion of all publication occasions;

WTPDF<sub>t</sub> means the website timeliness performance measure for the licensee's NTS Throughput Data Item or Report, and has a value between 0 and 1, representing the proportion of occasions during formula year t that the 14:00 hours (day ahead), 02:00 hours (day

ahead), 12:00 hours (within day), 15:00 hours (within day), 18:00 hours (within day) and 21:30 (within day) publication deadlines are met;

NTS Throughput Data Item or Report means a data item or report published by the licensee showing, amongst other data, the forecast level of Actual NTS throughput;

Predicted Closing Linepack Data Item or Report means an hourly data item or report published by the licensee showing, for each day, the opening NTS Linepack, two projected closing NTS Linepack figures, and Forecast Total System Demand (measured in mcm). NTS Linepack and Forecast Total System Demand have the meaning given to those terms in the network code;

National Forecast Flow Data Item or Report means an hourly data item or report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on delivery flow nominations (measured in mcm);

National Physical Flow Data Item or Report means an hourly data item or report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on actual (aggregate) physical flows into the NTS (measured in mcm).

**(d) Exceptional events**

- (i) Where:

- (aa) the licensee has notified the Authority of an event (the “notified event”) which it considers to be an exceptional event within 14 days of its occurrence; and
- (bb) the Authority is satisfied that the notified event is an exceptional event,

the Authority may issue a direction excluding from the quality of demand information performance measure (QDIP<sub>t</sub>) and/or the quality of website information performance measure (QWIP<sub>t</sub>) a specified period within formula year t during which the exceptional event has occurred.

- (ii) A notice provided to the Authority by the licensee under paragraph 4(d)(i) of this condition must give particulars of the notified event and the reasons why the licensee considers it to be an exceptional event.
- (iii) A direction made by the Authority under paragraph 4(d)(i) of this condition may be made subject to such terms and conditions as may be specified in the direction.
- (iv) A direction issued by the Authority under paragraph 4(d)(i) of this condition shall not have effect unless, before it is made, the Authority has given notice to the licensee:
  - (aa) setting out the terms of the proposed direction;
  - (bb) stating the reasons why it proposes to make the direction; and
  - (cc) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections,

and the Authority has considered such representations or objections and given reasons for its decision.

- (v) For the purposes of this paragraph, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and shall include, but not be limited to, catastrophic loss of power, sabotage, act of vandalism, flood, fire and any third party product or service failure having an industry wide impact.

**Special Condition C8G: NTS System Operator internal incentives, costs and revenues**

**(1) Internal cost incentive revenue (SOIntICR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 3 of Special Condition C8C (NTS System Operation Activity Revenue Restriction), the maximum internal costs incentive revenue allowed to the licensee in respect of formula year t (SOIntICR<sub>t</sub>) shall be derived in the following manner:

$$\text{SOIntICR}_t = \text{IOIRC}_t + \text{ICEIRC}_t + \text{NC}_t$$

where:

IOIRC<sub>t</sub> means the maximum internal operating cost incentive revenue allowed in respect of formula year t and shall be calculated in accordance with paragraph 1(b) of this condition

ICEIRC<sub>t</sub> means the maximum internal capital expenditure incentive revenue allowed in respect of formula year t and shall be calculated in accordance with paragraph 1(c) of this condition;

NC<sub>t</sub> means the non incentivised costs allowed in respect of formula year t and shall be determined in accordance with paragraph 1(d) of this condition.

**(b) Internal operating cost incentive revenue (IOIRC<sub>t</sub>)**

The maximum internal operating costs incentive revenue allowed to the licensee in respect of formula year t (*IOIRC<sub>t</sub>*) shall be derived in the following manner

If  $\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \geq \text{IOC}_t$ , then:

$$\text{IOIRC}_t = \left( \left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \left( \left( \left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \text{IOC}_t \right) \times (1 - \text{ICUSF}_t)$$

Otherwise:

$$\text{IOIRC}_t = \left( \left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \left( \left( \left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \text{IOC}_t \right) \times (1 - \text{ICDSF}_t)$$

where:

*IOIT<sub>t</sub>* means the internal cost incentive target in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5
IOIT <sub>t</sub> (£ million, 04/05 prices)	24.2	23.2	25.4	24.6	24.2

$IOC_t$  means the operating costs incurred in respect of formula year  $t$  attributable to the provision of NTS SO activity 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) other than  $ExCC_t$ ,  $EnCBBC_t$ ,  $ExCBBICP_t$ ,  $SBIC_t$ ,  $RBIC_t$ , Pension Costs and charges levied on the licensee by the agency (as defined in Standard Special Condition A15 (Agency)).

where:

$EnCBBC_t$  shall have the meaning set out in paragraph 3(c) of Special Condition C8D (NTS gas entry incentives, costs and revenues);

$ExCBBICP_t$  shall have the meaning set out in paragraph 1(b) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

$ExCC_t$  shall have the meaning set out in paragraph 1(c)(ii) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

$SBIC_t$  shall have the meaning set out in paragraph 2(g) of Special Condition C8F (NTS System Operator external incentives, costs and revenues);

$RBIC_t$  shall have the meaning set out in paragraph 3(a) of Special Condition

C8F (NTS System Operator external incentives, costs and revenues);

**Pension Costs** means the actual cash contributions made to the scheme in respect of both ongoing contributions and deficit payments attributable to the transportation system as well as scheme administration costs and payments made to the Pension Protection Fund (as defined under the Pensions Act 2004)

$ICUSF_t$  means the internal cost upside sharing factor in respect of formula year t as set out in the following table

	<b>Formula years</b>				
<b>Variable</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
$ICUSF_t$	0.4	0.4	0.4	0.4	0.4

$ICDSF_t$  means the internal cost downside sharing factor in respect of formula year t as set out in the following table

	<b>Formula years</b>				
<b>Variable</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
$ICDSF_t$	0.4	0.4	0.4	0.4	0.4

$IRPI_t$  in respect of formula year t, means the percentage change (whether of a positive or a negative value) between (a) the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1 and

(b) 182.37 (being the value for t-1 in 2004/05).

**(c) Internal capital expenditure incentive revenue (ICEIRC<sub>t</sub>)**

The maximum internal capital expenditure incentive revenue allowed to the licensee in respect of formula year t (*ICEIRC<sub>t</sub>*) shall be derived in the following manner:

$$\text{ICEIRC}_t = \text{ICED}_t + \text{ICER}_t$$

where:

*ICED<sub>t</sub>* means the depreciation on the NTS SO regulatory asset base in respect of formula year t and is calculated on a straight-line basis using a life of seven years for assets;

*ICER<sub>t</sub>* means the return on the average NTS SO regulatory asset value in respect of formula year t at a rate of 5.05%;

*NTS SO regulatory asset value* means the allocation of assets to the NTS SO activity 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 has the value £40.3m (in 2004/05 prices) on 1 April 2007. Allowed internal capital expenditure (*AICE<sub>t</sub>*) shall be added to the NTS SO regulatory asset

value in respect of any formula year t;

$AICE_t$  means the allowed internal capital expenditure that shall be added to the NTS SO regulatory asset base in respect of any formula year t and is derived in the following manner:

$$AICE_t = \left( \left[ 1 + \left( \frac{IRPI_t}{100} \right) \right] \times ICET_t \right) - \left( \left( \left( \left[ 1 + \left( \frac{IRPI_t}{100} \right) \right] \times ICET_t \right) - ICE_t \right) \times 0.75 \right)$$

where:

$ICET_t$  means the internal capital expenditure target in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5
ICET <sub>t</sub> (£ million 2004/05 prices)	12.8	8.3	6.5	10.8	10.3

$ICE_t$  means the internal capital expenditure allocated to the NTS SO activity 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) in respect of formula year t.

$IRPI_t$  shall have the meaning given to that term in paragraph 1(b) of this condition.

**(d) Non-incentivised costs (NC<sub>t</sub>)**

The non-incentivised costs allowed to the licensee in respect of formula year t (NC<sub>t</sub>) shall be derived in the following manner:

$$NC_t = (IT_t + IP_t + IX_t) \times \left[ 1 + \left( \frac{IRPI_t}{100} \right) \right]$$

where:

IT<sub>t</sub> means the licensee's tax allowance in respect its NTS system operation activity in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5
IT <sub>t</sub> (£ million, 04/05 prices)	3.1	2.1	1.3	0.0	-0.4

IP<sub>t</sub> means the licensee's pension cost allowance in respect of its NTS system operation activity in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5
IP <sub>t</sub> (£ million, 04/05 prices)	6.7	6.9	6.8	7.1	7.1

$IX_t$  means the relevant proportion (in respect of its NTS system operation activity) of the charge levied on the licensee by the agency (as defined in Standard Special Condition A15 (Agency)) in respect of formula year  $t$  as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5
$IX_t$ (£ million, 04/05 prices)	6.6				

$IRPI_t$  has the same meaning ascribed to it in paragraph 1(b) of this condition.

### Schedule 3

#### **Special Condition 1B: Amendments to Standard Special Conditions A37 (Availability of Resources) and A40 (Price Control Review Information)**

##### **Amendment to Standard Special Condition A37 – Availability of Resources**

1. In respect of the formula year commencing 1 April 2007, the amendments to paragraphs 3 and 6 of Standard Special Condition A37 (Availability of Resources) set out in paragraphs 2 and 3 of this condition shall apply.
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).”

##### **Amendment to Standard Special Condition A40: Price Control Review Information**

4. The following text shall be inserted after paragraph 3(b) in Standard Special Condition A40 (Price Control Review Information):

“(c) keep and maintain such data as will permit the assessment by the Authority of historic and forecast network performance of the pipe-line system to which the licence relates, as may be required under the 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 pipe-line system to which the licence relates, and
- (ii) pipe-line systems for the conveyance of gas within Great Britain, and
- (iii) pipe-line systems for the conveyance of gas in Great Britain and in other countries.”

5. The following text shall be inserted after paragraph 4 in Standard Special Condition A40 (Price Control Review Information) as paragraph 4A.

“4A 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 C11: Transmission Planning Code**

1. The licensee shall, in consultation with interested parties for a period of not less than 28 days, prepare and have in force by 1 October 2008 a transmission planning code, which shall be in a form approved by the Authority (the “**transmission planning code**”).
2. Once the transmission planning code is in force, the licensee shall at all times maintain the transmission planning code and comply with its provisions.
3. The transmission planning code shall cover all material technical aspects relating to the planning and development of the pipe-line system to which this licence relates, which may have a material impact upon persons connected to or using (or intending to connect to or use) the pipe-line system to which this licence relates, and shall include:
  - (a) a methodology to determine the physical capability of the pipe-line system to which this licence relates specifying in detail how the licensee is taking into account:
    - (i) its entry capacity release obligations pursuant to Special Condition C8D (NTS gas entry incentive, costs and revenues) and its exit capacity release obligations pursuant to Special Condition C8E (NTS gas exit incentive, costs and revenues);
    - (ii) the amount of capacity that may technically be transferred or traded between NTS entry points;
    - (iii) the impact of incremental gas flows upon the capability of the pipe-line system to which this licence relates at each NTS entry point and NTS exit point; and
    - (iv) statutory network security standards.
  - (b) the detailed assumptions that the licensee is using in respect of:

- (i) the likely developments in the patterns of the supply of gas and the demand for gas;
  - (ii) the likely developments in the levels of the supply of gas and the demand for gas; and
  - (iii) the likely operation of the pipe-line system to which this licence relates for any given pattern and/or level of supply of gas or demand for gas.
5. The licensee shall periodically review (being not less than once every two years including, upon the request of the Authority) the transmission planning code (maintained pursuant to paragraph 2). As part of the review, the licensee shall consult interested parties liable to be materially affected thereby.
6. Within 28 days of completing any such review, the licensee shall send to the Authority:
  - (a) a report on the outcome of such review;
  - (b) any proposed revisions to the transmission planning code from time to time as the licensee (having regard to the outcome of such review) reasonably considers fit; and
  - (c) any written representations or objections from interested parties arising during the consultation process (including any proposals by such parties for revisions to the transmission planning code not accepted by the licensee in the course of the review) and not withdrawn.
7. Revisions to the transmission planning code proposed by the licensee and sent to the Authority pursuant to paragraph 5 shall require the approval of the Authority. If the Authority does not inform the licensee in writing of its decision in respect of such revisions within 28 days from the date of the report pursuant to paragraph 5 being submitted to the Authority, the Authority shall be deemed to have approved such revisions.
8. The Authority may (following consultation with the licensee) issue directions relieving the licensee of its obligations to implement or comply with the licensee's

transmission planning code in respect of such parts of the pipe-line system to which the licence relates and/or to such extent as may be specified in the directions.

9. In this condition:

“statutory network security standards” shall have the meaning given to “gas security standard” as defined in Standard Special Condition A9 (Pipe-Line System Security Standards) ; and

“interested parties” means gas shippers, DN operators, owners of storage facilities and the owners of LNG import facilities.

## **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 pipe-line system to which this licence relates.

### **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 pipe-line system to which this licence relates (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 making assessment of the present and future ability of network assets to perform their function ("network asset condition");
  - (b) the overall level of risk to the reliability of the pipe-line system to which this licence relates as a result of network asset condition and the interdependence between network assets ("network risk");
  - (c) those aspects of the technical performance of the pipe-line system to which this licence relates which have a direct impact on the reliability and cost of services provided by the licensee as part of its transportation business ("network performance"); and

- (d) the level of capability and utilisation of the pipe-line system to which this licence relates 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 pipe-line system to which this licence relates;
  - (c) the comparative analysis over time between:
    - (i) geographic areas of, and network assets within the pipe-line system to which this licence relates;
    - (ii) pipe-line systems for the conveyance of gas within Great Britain; and
    - (iii) pipe-line systems for the conveyance of gas in Great Britain and in other countries.
  - (d) the communication of relevant information regarding the pipe-line system to which this licence relates 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 “Network Output Measures 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 Network Output Measures 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 reasonably 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 Network Output Measures 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 would, if amended, facilitate the Network Output Measures 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 Network Output Measures objectives, or if the Authority is not satisfied that the proposed methodology would facilitate the Network Output Measures 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, and which may be modified from time to time in accordance with Part D of this Condition, 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) in 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 also provide the Authority, as soon as is reasonably practicable, 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 Network Output Measures 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 Network Output Measures 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 Network Output Measures 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 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) shall 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).

**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 compliance of the licensee with the revenue restriction conditions.

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

2. For the purposes of this condition:  
  
“revenue restriction conditions” shall have the same meaning as set out in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity);  
  
“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;
  - (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 formula year.

“specified information” means such items referred to within the revenue restriction conditions as the Authority considers is necessary to monitor, to an appropriate degree of accuracy, compliance with the revenue restriction conditions, and shall include:

- (a) information in respect of those terms and expressions set out in the revenue restriction conditions;
- (b) such associated information in respect of terms and expressions set out in the revenue restriction conditions as the Authority may reasonably require to verify that costs and revenues have been allocated or attributed appropriately; and
- (c) such associated information as is required to monitor the operation of the IFI scheme set out in Special Condition C8B (NTS transportation owner activity revenue restriction).

3. The licensee shall :

- (a) establish and maintain appropriate systems, processes and procedures to measure and record specified information in respect of the formula year commencing on 1<sup>st</sup> 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 (Template A) contained in the revenue reporting regulatory instructions and guidance by no later than 31 July following the end of the formula year to which such information relates;
- (b) save in relation to the formula year commencing 1<sup>st</sup> April 2007 the information specified in the for the Forecast Price Control Return (Template B) contained in the revenue reporting regulatory instructions and guidance by no later than 1 October of the formula year to which such information relates, being the licensee's estimate of that information made on or before 1 October of the formula year to which the information relates, being the licensee's estimate of that information made on or before 1<sup>st</sup> October;

- (c) the information specified in the template for the Revenue Drivers (Template C) contained in the revenue reporting regulatory instructions and guidance by no later than 31<sup>st</sup> July following the end of the formula year to which the information relates;
- (d) the information specified in the template for the Innovation Funding Incentive (Template D) contained in the revenue reporting regulatory instructions and guidance by no later than 31<sup>st</sup> July following the end of the formula 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 formula year to which the audit relates.
- 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 is 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 to the licensee, 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 C24: Network Model**

### **Part A: Obligations to maintain a Network Model**

1. From 1 April 2009, the licensee shall have in place a computer simulation model of the pipe-line system to which this licence relates which shall be in a form approved by the Authority and designed to meet the objectives set out in paragraph 3 (the “**network model**”).
2. The licensee shall provide the Authority with reasonable access to the network model and shall use reasonable endeavours to provide the Authority with remote access to enable the Authority to operate the network model.
3. The network model shall be designed:
  - (a) to facilitate the licensee’s duty under section 9(1)(a) of the Act;
  - (b) to be consistent with the transmission planning code established in accordance with Special Condition C11 (Transmission Planning Code); and
  - (c) in such a manner so as to demonstrate that the network model is consistent with the objectives set out in paragraphs 3(a) and 3(b) of this condition,

hereinafter referred to as the “**network model objectives**”.

4. The licensee shall, prior to submitting the network model to the Authority for its approval in accordance with paragraph 1 of this condition, commission a review of the network model by an independent expert.
5. Within 28 days of completing such a review, the licensee shall provide to the Authority a report on the outcome of that review. The report shall include, but not be limited to, the independent expert’s opinion on the extent to which the network model satisfies the network model objectives.

6. The licensee shall periodically review (being not less than once every two years including, upon the request of the Authority) the network model to ensure that it meets the network model objectives. Within 28 days of completing any such review, the licensee shall furnish the Authority with a report setting out:
  - (a) the outcome of the review;
  - (b) how any proposed changes to the network model better achieve the network model objectives; and
  - (c) the date on which the licensee plans to implement any proposed revisions.
7. Save where the Authority otherwise consents, material revisions to the network model proposed by the licensee and sent to the Authority pursuant to paragraph 6 shall require the approval of the Authority. If the Authority does not inform the licensee in writing of its decision in respect of such revisions within 28 days from the date of the report pursuant to paragraph 6 being submitted to the Authority, the Authority shall be deemed to have approved such revisions.
8. The Authority, may in giving its approval in accordance with paragraph 7, require that the licensee appoint an independent expert to review the implementation of those revisions to the network model.
9. Where the Authority requires a review pursuant to paragraph 8 of this condition, the licensee shall within two months of the implementation of those revisions provide a copy of the independent expert's report to the Authority confirming that the revisions have been implemented and that the network model is in use in its modified form.

**Part B: Provision and modification of network data**

10. The licensee shall include in the network model all data necessary for the model to satisfy the network model objectives (hereinafter referred to as “relevant data”).
11. The licensee shall:
  - (a) by 1 April 2009, prepare a statement of procedures for modifying or updating the relevant data;
  - (b) keep under review the procedures set out in the statement referred to in paragraph 11(a); and
  - (c) propose revisions to those procedures as a consequence of such review referred to in paragraph 11(b).
12. The statement of procedures and (save where the Authority otherwise consents) all revisions to that statement shall require the approval of the Authority. If the Authority does not inform the licensee in writing of its decision in respect of the statement of procedures, prepared in accordance with paragraph 11(a) of this condition or any revisions to that statement, within 28 days from the date of the licensee submitting that statement or revisions thereto to the Authority, the Authority shall be deemed to have approved the statement.
13. The Authority may, by written notice, request that the licensee provide such relevant data as the Authority considers is reasonably required to operate the network model for any such period as may be specified in the notice. The licensee shall use reasonable endeavours to provide the relevant data specified in the notice.
14. The Authority may (following consultation with the licensee) issue directions relieving the licensee of its obligations in this condition to such extent as may be specified in the directions.

**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. To meet its obligations pursuant to paragraph 1 of this condition, the licensee shall, wherever it is appropriate to do so, consult upon the actions it proposes to take to promote competition in the provision of Operating Margins services widely with interested parties.
3. The licensee shall from 31 October 2007 and thereafter, by 30 April and 31 October in each formula year until 30 April 2009 (unless the Authority otherwise directs in writing) provide the Authority with a written statement, in respect of the previous six months ending on 30 September and 31 March respectively, setting out:
  - (a) the actions the licensee has taken pursuant to its obligations under this condition; and
  - (b) the actions the licensee intends to take pursuant to its obligations under this condition in the six months immediately following the date the statement is submitted to the Authority pursuant to this paragraph.
4. Where the Authority considers that competition in the provision of Operating Margins services has been achieved before 1 April 2009, the Authority shall direct that all subsequent reporting obligations under paragraph 3 of this condition shall cease to have effect.
5. In this condition, “Operating Margins” shall have the same meaning as is given to that term in the licensee’s network code as at 16 March 2007.