

Appendix 10 – Proposed Special Conditions in Part E for IDNs**SPECIAL CONDITIONS APPLICABLE TO THE LICENSEE (DN): PART E - IDN****TABLE OF CONTENTS**

Special Condition E1: Revenue restriction definitions in respect of the Distribution Network.....	1
Special Condition E2: Restriction of revenue in respect of the Distribution Network Transportation Activity.....	12
Special Condition E3: Distribution Network allowed pass-through items (F_t)	18
Special Condition E4: Distribution Network Transportation Activity Revenue adjustment (K_t)	25
Special Condition E5: Mains and Services Replacement expenditure adjustment ($MSRA_t$)	27
Special Condition E6: Distribution Network Exit Capacity costs and incentive revenue (Ex_t).....	37
Special Condition E7: Determination of any adjustment factor to be applied to MR_t (IAE_t)	56
Special Condition E8: Distribution Network shrinkage allowance (Sh_t)	73
Special Condition E9: Distribution Network environmental emissions incentive revenue (EE_t)	79
Special Condition E10: Distribution Network discretionary reward scheme revenue (DRS_t)	84
Special Condition E11: Distribution Network innovation funding incentive for sustainable development scheme ($IFISD_t$)	85
Special Condition E12: Distribution Network loss of meter work revenue driver (LM_t) ...	87
Special Condition E13: “Not Used”	90
Special Condition E14: “Not Used”	91
Special Condition E15: “Not Used”	92
Special Condition E16: Disapplication of the Distribution Network Transportation Activity Revenue restriction	94
Special Condition E17: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network	98
Special Condition E18: Excluded Services	101

Special Condition E19: Restriction of prices in respect of Tariff Capped Metering
Activities..... 104

Special condition E20: Revenue Reporting and Associated Information to be provided to
the Authority in connection with the Distribution Network transportation activity revenue
restriction 109

Special Condition E1: Revenue restriction definitions in respect of the Distribution Network

1. In this Part E: Special Conditions applicable to the licensee (DN):

Approved Market Price Report means the European Spot Gas Markets (ESGM) report published by Heren Energy Limited or another published market price report (published by a comparable price reporting service) which, in the opinion of the Authority, notified in writing to the licensee is equivalent to ESGM in the United Kingdom;

Connected System Exit Point has the meaning given to that term in the network code;

Curtailment Day means any ~~day~~Day in ~~formula-year~~Formula YearFormula Year t in respect of which rights to offtake gas at a given ~~supply point~~Supply Point, ~~connected system exit point~~Connected System Exit Point or ~~storage connection point~~Storage Connection Point have been curtailed by the licensee;

Daily Metered Supply Meter Points means a supply meter point which is read on a daily basis in accordance paragraph 1.3.1 of Section M (Supply Point Metering) or paragraphs 1.5.1(b) and 1.5.3 of section G (Supply Points) of the network code having effect on 1 April 2002;

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

Deemed Cost means the cost of the actual quantity allocated to the

licensee in each year, priced in accordance with subparagraphs 11 and 12 of Special Condition E6 (Distribution Network Exit Capacity costs and incentive revenue (Ext));

Distribution Network means the relevant gas distribution network defined with reference to the aggregate of its constituent Local Distribution Zones (LDZs) as set out in the table below:

Distribution Network	Local Distribution Zone (LDZ)
<u>Northern</u>	<u>Northern, North East</u>
<u>Scotland</u>	<u>Scotland</u>
<u>Southern</u>	<u>South East, Southern</u>
<u>Wales and West</u>	<u>Wales North, Wales South, South West</u>

Distribution Network ~~C~~apacity means LDZ capacity (having the meaning given to that term in the network code) within the relevant Distribution Network;

Distribution Network ~~C~~apacity ~~C~~urtailment ~~R~~ights means ~~exit capacity curtailment rights~~ Exit Capacity Curtailment Rights held by the licensee in respect of ~~Distribution Network capacity~~ Distribution Network Capacity within the relevant Distribution Network;

Distribution Network ~~E~~xit ~~Z~~one has the meaning given to the term DN exit zone in the ~~NTS gas transportation statement~~ NTS Gas Transportation Statement;

Distribution Network Licence Fee means payments made by the licensee in respect of the Distribution Network transportation activity under Standard Condition 3 (Payments by the Licensee to the

	<u>Authority) in respect of formula-yearFormula Year t;</u>
<u>Distribution Network Prescribed Rates</u>	<u>means the amount of the charge deemed to be incurred in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of the licensee's Distribution Network transportation activity: it will be the amount of the separate rating assessment for the licensee's Distribution Network transportation activity including (where relevant) metering;</u>
<u>Distribution Network Pension Deficit Charge</u>	<u>means payments made by the licensee to meet the charge made by the NTS operator to the Distribution Network and specified by the NTS operator as Distribution Network Pensions Deficit Charge payments;</u>
<u>Distribution Network Transportation Activity</u>	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 <u>Supply of Distribution Network Services;</u>
<u>Distribution Network Transportation Activity Revenue</u>	means the revenue derived by the licensee from the supply of Distribution Network services <u>Supply of Distribution Network Services</u> to gas shippers in respect of the Distribution Network transportation activity <u>Distribution Network Transportation Activity</u> (such revenue to be measured on an accruals basis);
<u>Distribution Network Transportation Activity Revenue Restriction Conditions</u>	<u>means Special Conditions E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity) to E12 (Distribution Network loss of meter work revenue driver (LM_t);</u>
<u>Distribution Network</u>	means the aggregate quantity of gas in kilowatt

T ransportation Q uantity	hourKilowatt Hours introduced into the Distribution Network as a result of arrangements with gas shippers and the licensee in respect of formula year Formula Year Formula Year t less LDZ shrinkage LDZ Shrinkage calculated in accordance with the network code;
D omestic C redit M eter I nstallation	means a domestic sized <u>Domestic Sized Supply Meter</u> and associated installations (excluding housing) within the definition of a comprised in a Supply Meter Installation within the meaning in paragraph 1.2.2(a) of section M (Supply Point Metering) of the network code and is not a prepayment meter <u>Prepayment Meter Installation</u> ;
D omestic S sized	means designed for a maximum rate of gas flow which does not exceed six (6) cubic metres per hour;
E xcluded S services	means any activities y or engagements s undertaken by the licensee or any affiliate or related undertaking of the licensee that has es been determined by the Authority to be an excluded services <u>Excluded Services</u> in line with the principles outlined in Special Condition E1 872 (Supplementary provisions of the revenue restrictions in respect of the Distribution Network);
Exit C apacity C urtailment R ights	exit capacity curtailment rights means rights held by the licensee to curtail rights to off-take 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); means rights held by the licensee to curtail rights to off-take gas from the transportation system <u>Transportation System</u> , 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);

~~F~~formula ~~Y~~year

means a period of twelve months commencing on 1 April at 06:00 hours, the first such ~~formula—year~~Formula Year (t=1) commencing 1 April 2008~~—at 06:00 hours~~;

~~G~~gigawatt ~~H~~hour or
GWh

means one million ~~kilowatt—hour~~Kilowatt Hours;

Independent Systems

has the meaning given to it in [new GDN licence condition, set out in Appendix 14 of the second licence drafting consultation document, the number of which is yet to be determined];

Interruptible Exercise Cost

is the total cost in £ that the licensee has incurred (irrespective of interruption) in respect of each day of the interruption period, in respect of the designation of such Supply Point capacity as interruptible;

Interruptible Option Cost

is the total cost in £ that the licensee has incurred in respect of each day upon which the licensee interrupts a Supply Point capacity that is designated as interruptible;

~~K~~kilowatt ~~H~~hour or
kWh

means 3,600,000 Joules;

~~LDZ S~~shrinkage

~~means the sum of LDZ own use gas and LDZ unaccounted for gas (both having the meanings given to those terms in the network code);~~

LDZ ~~T~~throughput
~~Q~~quantity

means the aggregate quantity of gas measured in ~~gigawatt hour~~Gigawatt Hours introduced into the LDZ as a result of

	arrangements with gas shippers and the licensee in each month of the formula year <u>Formula Year</u> <u>Formula Year</u> ;
Local Distribution Zone or LDZ	has the meaning given in Section A 1.2.2(a) of the network code as at 1 January 2006;
M <u>m</u> ains R <u>r</u> eplacement	<u>i</u> n relation to a pipe-line system to which this licence relates, means the replacement of any distribution main (within the meaning given to those words in section 48(1) of the Gas Act 1986) and any associated works;
M <u>m</u> aximum A <u>a</u> ctual A <u>a</u> llocation	means the maximum quantity over the relevant formula year <u>Formula Year</u> <u>Formula Year</u> in GWh/d allocated to the relevant Distribution Network by the NTS operator;
MW <u>N</u> ational Balancing P <u>P</u> oint	has the meaning given to that term in the approved market price report <u>Approved Market Price Report</u> ;
National Grid Gas plc	means the company (registered in England and Wales under company number 02006000) which had that name on 10 October 2005 and was previously known as “Transco plc”;
NTS B <u>N</u> aseline F <u>F</u> irm E <u>E</u> xit C <u>C</u> apacity	means in respect of each period the NTS firm exit capacity <u>NTS Firm Exit Capacity</u> specified in Table A3: NTS baseline firm exit capacity <u>NTS Baseline Firm Exit Capacity</u> (GWh/day) <u>Day</u> of Schedule A (NTS Output Measures for the Price Control) to Part C: Special Conditions Applicable to the Licensee (NTS) within the NTS gas transporter licence of National Grid Gas plc or subsequently modified (subject to the prior written consent of the Authority) within the statement produced by National Grid Gas plc in accordance with Standard Special

	Condition A4 (Charging – General);
NTS B <u>baseline</u> I <u>nterruptible E</u> <u>xit</u> C <u>apacity</u>	means in respect of each period the NTS interruptible exit capacity <u>NTS Interruptible Exit Capacity</u> specified in Table A4: NTS baseline interruptible exit capacity <u>NTS Baseline Interruptible Exit Capacity (GWh/dayDay)</u> of Schedule A (NTS Output Measures for the Price Control) to Part C: Special Conditions Applicable to the Licensee (NTS) within the NTS gas transporter licence of National Grid Gas plc or subsequently modified (subject to the prior written consent of the Authority) within the NTS gas transportation statement <u>NTS Gas Transportation Statement</u> ; produced by National Grid Gas plc in accordance with Standard Special Condition A4 (Charging – General);
NTS F <u>firm E</u> <u>xit</u> C <u>apacity</u>	means NTS exit capacity other than NTS interruptible exit capacity <u>NTS Interruptible Exit Capacity</u> ;
NTS G <u>gas</u> T <u>ransportation</u> S <u>tatement</u>	means that the statement produced by National Grid Gas plc in accordance with Standard Special Condition A4 (Charging – General);
NTS I <u>ncremental E</u> <u>xit</u> C <u>apacity</u>	means that NTS exit capacity in excess of NTS baseline firm exit capacity <u>NTS Baseline Firm Exit Capacity</u> and NTS baseline interruptible exit capacity <u>NTS Baseline Interruptible Exit Capacity</u> ;
NTS I <u>nterruptible E</u> <u>xit</u> C <u>apacity</u>	means NTS exit capacity subject to exit capacity curtailment rights <u>Exit Capacity Curtailment Rights</u> ;
NTS (TO) E <u>xit</u> C <u>apacity C</u> <u>harge</u>	means the charge in p/peak day <u>Day</u> kWh/d for NTS exit capacity as set out in the NTS gas transportation

~~statement~~ NTS Gas Transportation Statements published pursuant to Standard Special Condition A4 (Charging – General) and Standard Special Condition A5 (Obligations as Regard Charging Methodology) of the National Grid Gas plc gas transporter licence;

Price Control Period
End Date

means for the purpose of Special Condition E16 (Disapplication of the ~~Distribution Network transportation activity—revenue~~ Distribution Network Transportation Activity Revenue restriction) only the end of the period during which, apart from paragraph 9 of that condition, MR_t can be calculated pursuant to paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~ Distribution Network Transportation Activity);

Plus 15 Curtailment
Day

means any ~~curtailment—day~~ Curtailment Day in ~~formula~~ Formula Year t at a given ~~supply point~~ Supply Point, ~~connected system exit point~~ Connected System Exit Point or ~~storage connection point~~ Storage Connection Point after the first 15 ~~curtailment~~ Days in that ~~formula—year~~ Formula Year for the given ~~supply point~~ Supply Point, ~~connected system exit point~~ Connected System Exit Point or ~~storage connection point~~ Storage Connection Point connected to the ~~transportation—system~~ Transportation System to which this licence relates;

Prepayment Meter
Installation

means a ~~domestic sized~~ Domestic Sized Supply Meter and associated installations (excluding housing)—comprised in a Supply Meter Installation within the meaning in paragraph 1.2.2(a) of Section M (Supply Point Metering) of the network code through which gas, which is charged for as it

is used, is supplied;

Sservices Replacement in relation to a pipe-line system to which this licence relates, means the replacement of a service pipe (within the meaning given in section 48(1) of the ~~Gas Act 1986~~), and any associated works;

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;

Shrinkage means, for the purposes of Part E only, the sum of LDZ own use gas and LDZ unaccounted for gas (both having the meanings given to those terms in the network code);

Sstorage Connection Point has the meaning given to that term in paragraph 1.5.1 of Section A (System Classification) of the network code;

subscript t means the relevant ~~formula-year~~Formula-YearFormula Year;

Supply of Distribution Network Services means the undertaking and performance for gain or reward of engagements:

(a) in connection with the conveyance of gas through the ~~transportation system~~Transportation System;

(b) for the prevention of the escape of gas which has been taken off the ~~transportation system~~Transportation System; and

(c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:

- (i) the balancing of the ~~transportation system~~Transportation System through the acquisition or disposal of gas to replace gas lost from the ~~transportation system~~Transportation System; and
- (ii) facilitating constraint management;

~~S~~Supply Point has the meaning given to that term in the network code;

~~T~~Tariff Capped
~~M~~Metering Aactivities means those activities provided by the licensee listed in paragraph 3 of Special Condition E18~~3~~ (Restriction of prices in respect of ~~tariff capped metering activities~~Tariff Capped Metering Activities);

~~T~~Transportation
~~B~~Business for the purposes of Special Condition E17 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network), means any activity or engagement undertaken by the licensee or any affiliate or related undertaking of the licensee related to the operation, planning, expansion and maintenance of its ~~transportation system~~Transportation System and shall include the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity, the metering and meter reading activity and ~~excluded services~~Excluded Services; and

~~T~~Transportation ~~S~~System means the system (having the meaning given to that term in the network code) to which this licence relateshas the meaning given to 'transportation system' in Standard Special Condition A3 (Definitions and Interpretation) of the licence.

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

Special Condition E2: Restriction of revenue in respect of the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity Revenue

1. The purpose of this condition is to set out the ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue restriction which determines the allowed revenue that may be recovered through Distribution transportation charges by the licensee and to set out the obligations of the licensee in respect of the restriction.

The principal ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue restriction

2. The licensee shall use its best endeavours in setting its charges to ensure that in respect of any ~~formula-year~~Formula Year ~~Formula Year~~ t the ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue for the Distribution Network (R_t) covered by this condition shall not exceed the maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue (MR_t) in that year.
3. (a) If in respect of any ~~formula-year~~Formula Year ~~Formula Year~~ the ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue in respect of a relevant Distribution Network exceeds the maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue by more than 4 per cent of the latter, the licensee shall provide the Authority with a written explanation and, in the next following ~~formula-year~~Formula Year ~~Formula Year~~, the licensee shall not effect any increase in prices for use of the Distribution Network unless ~~either~~:
 - (i) it has demonstrated to the reasonable satisfaction of the Authority that the ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue in respect of the Distribution Network would not be likely to exceed the

maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue in respect of the Distribution Network in that next following ~~formula year~~Formula Year~~Formula Year~~; or

(ii) the Authority has, on the written application of the licensee, consented to such an increase in prices.

(b) If, in respect of any two successive ~~formula year~~Formula Year~~Formula Years~~, the sums of the amounts by which the ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue has exceeded the maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue is more than 6 per cent of the maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue for the second of those ~~formula year~~Formula Year~~Formula Years~~, then in the next following ~~formula year~~Formula Year~~Formula Year~~ the licensee shall if required by the Authority adjust its prices in respect of the relevant Distribution Network such that the ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue would not be likely in the judgement of the Authority to exceed maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue in that next following ~~formula year~~Formula Year~~Formula Year~~.

~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue (R_t)

4. For the purposes of paragraph 2 of this condition, the ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue for ~~formula year~~Formula Year~~Formula Year~~ t (R_t) shall exclude for the avoidance of doubt, any revenues derived from ~~excluded services~~Excluded Services within the meaning given in Special Condition E1728 (~~Supplementary provisions of the revenue restrictions in respect of the Distribution Network~~E).

~~Maximum Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue (MR_t)

Principal formula

5. For the purposes of paragraph 2 of this condition the maximum ~~Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue in respect of ~~formula year~~ Formula Year ~~Formula Year~~ t MR_t shall be an amount equal to that derived from the following formula:

$$MR_t = (Z_t \times RPI_t) + F_t + Ex_t + IAE_t + MSRA_t + Sh_t + EE_t + DRS_t + IFISD_t + LM_t - K_t$$

where:

~~Z_t~~ means the base revenue in the ~~formula year~~ Formula Year ~~t~~ and shall have the values set out in Annex A;

~~RPI_t~~ RPI_t means the RPI adjustment and shall be calculated as the arithmetic average of the retail price index numbers published or determined with respect to each of the six months from July to December in year t-1 divided by the arithmetic average of the retail price index numbers published or determined with respect to the period from July to December 2004, where t-1 is one year immediately prior to the Formula Year t;

~~means the RPI adjustment and shall be calculated as the arithmetic average of the retail price index numbers published or determined with respect to each of the six months from July to December in year t-1 divided by the arithmetic average of the retail price index numbers published or determined with respect to the period from July to December 2004, divided by 100, where t-1 is one year immediately prior to the relevant~~ formula year Formula

Year t;

F_t means the Distribution Network pass through costs in respect of ~~formula-year~~Formula Year t and shall be derived in accordance with Special Condition E3 (Distribution Network allowed pass-through items (F_t));

Ex_t means the DN exit capacity costs and incentive revenue in respect of ~~formula-year~~Formula Year t and shall be derived in accordance with Special Condition E6 (Distribution Network Exit Capacity costs and incentive revenue (Ex_t));

IAE_t means any allowance in respect of approved income adjusting events (whether of a positive or negative value) to be made in respect of ~~formula-year~~Formula Year t and shall be derived in accordance with Special Condition E7 (Determination of any adjustment factor to be applied to MR_t) (IAE_t);

$MSRA_t$ means the ~~mains~~Mains and ~~services replacement~~Services Replacement expenditure adjustment (whether positive or negative value) in respect of ~~formula-year~~Formula Year t and shall be derived in accordance with Special Condition E5: (Mains and ~~services replacement~~Services Replacement expenditure adjustment ($MSRA_t$));

Sh_t means the maximum shrinkage incentive revenue and shall be derived in accordance with Special condition E8 (Distribution Network shrinkage incentive revenue(Sh_t));

DRS_t means the discretionary reward scheme revenue and shall

	be derived in accordance with Special Condition E109 (Distribution Network discretionary reward revenue (DRS _t));
	IFISD _t means the innovation funding incentive for sustainable development scheme and shall be derived in accordance with Special Condition E110 (Distribution Network innovation funding incentive for sustainable development scheme (IFISD _t));
	<u>EE_t</u> means the environmental emissions incentive in respect of formula-year <u>Formula Year</u> Formula Year t and shall be derived in accordance with Special Condition E98A (<u>Distribution Network environmental emissions incentive revenue</u>) of this condition <u>licence</u> ;
	LM _t means the loss of meter work revenue driver and shall be derived in accordance with Special Condition E142 (Distribution Network loss of meter work revenue driver (LM _t)); and
	K _t means the Distribution Network transportation activity revenue <u>Distribution Network Transportation Activity Revenue</u> adjustment factor to the Distribution Network transportation activity revenue <u>Distribution Network Transportation Activity Revenue</u> over or under recovery in respect of formula-year <u>Formula Year</u> Formula Year t-1 and shall be derived in accordance with Special Condition E4 (Distribution Network transportation activity revenue <u>Distribution Network Transportation Activity Revenue</u> adjustment (K _t)).

Annex A – Gas ~~Distribution~~ Distribution base allowed-revenue (Z_t) 2005-6 prices *Z_t term for each GDN per year*

Distribution Network	t=1	t=2	t=3	t=4	t=5
North of England	<u>£271,225,988</u>	<u>£286,051,337</u>	<u>£276,893,652</u>	<u>£283,658,353</u>	<u>£287,955,672</u>
Scotland	<u>£183,677,453</u>	<u>£186,929,607</u>	<u>£191,688,229</u>	<u>£195,756,086</u>	<u>£197,940,559</u>
South of England	<u>£441,266,162</u>	<u>£454,963,117</u>	<u>£454,184,263</u>	<u>£459,695,985</u>	<u>£466,873,062</u>
Wales & West	<u>£245,821,108</u>	<u>£257,495,858</u>	<u>£259,886,418</u>	<u>£262,829,254</u>	<u>£264,876,873</u>

Special Condition E3: Distribution Network allowed pass-through items (F_t)

1. The purpose of this condition is to provide for adjustments to the maximum Distribution Network transportation activity ~~allowed transportation~~ revenue to reflect certain costs that can be passed through to customers of the licensee.

Formula for Distribution Network allowed pass-through items (F_t)

2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~ Distribution Network Transportation Activity), F_t is derived from the following formula:

$$F_t = RB_t + LF_t + PD_t + TG_t + TPWI_t + MP_t$$

where:

RB_t means an amount (whether positive or negative), as derived from the formula set out in paragraph 3, representing a business rates adjustment;

LF_t means an amount (whether positive or negative), as derived from the formula set out in paragraph 4, representing a licence fee adjustment;

PD_t means an amount (whether positive or negative), as derived from the formula set out in paragraph 5, representing a NTS pensions deficit charge adjustment;

TG_t means an amount equal to any allowance made, in aggregate, for the reasonable cost incurred by a supplier as set out in paragraphs 5, 6 and 7 of standard condition 7 (Provision of Information Relating to Gas Illegally Taken) of this licence;

TPWI_t means an amount as derived from the formula set out in paragraph 6 in respect of the standard of performance for supply restoration caused by a third party damage and water ingress imposed on the licensee for domestic customers under regulation 7 of the Gas (Standards of Performance) Regulations 2005 (as amended) and for customers whose annual consumption exceeds 73,200kWh, under paragraph 3.5.3 of section J (Exit Requirements) of the network code; and

MP_t means the amount payable by the licensee in respect of costs incurred by the licensee in the ~~relevant formula year~~ Formula Year t for items which the licensee considers should be treated as miscellaneous pass-through items not reflected in any other part of this condition, and which have been directed by the Authority to be so treated following consultation with the licensee.

Formula for the business rates adjustment (RB_t)

3. (a) For the purposes of paragraph 2, RB_t is an amount calculated in accordance with the following formula:

$$RB_t = RBA_t - (RBE_t \times RPI_t)$$

Where:

RBA_t is the amount of the charge incurred in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of the licensee's ~~Distribution Network transportation activity~~ Distribution Network Transportation Activity: it is the amount of the separate rating assessment for the licensee's ~~Distribution Network transportation activity~~ Distribution Network

	<u>Transportation Activity</u> including (where relevant) metering;
	RBE _t is the amount of the Distribution N network P prescribed R rates allowance in financial <u>formula year</u> <u>Formula Year</u> 2005/06 prices and is represented by the amount given in Annex B that applies to the licensee; and
	RPI _t has the value given to it by paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network transportation activity <u>Distribution Network Transportation Activity</u>).
	(b) (i) For the purposes of paragraph 3(a) of this condition, in the formula year <u>Formula Year</u> <u>Formula Year</u> commencing 1 April 2010 and each subsequent formula year <u>Formula Year</u> <u>Formula Year</u> , RB _t shall take the value zero, unless otherwise directed by the Authority; and
	(ii) For the purposes of paragraph 3(b)(i) of this condition, the Authority may direct that, in respect of the formula year <u>Formula Year</u> <u>Formula Year</u> commencing on 1 April 2010 and each subsequent formula year <u>Formula Year</u> <u>Formula Year</u> , RB _t be calculated in accordance with the formula set out above in paragraph 3(a) of this condition where the Authority is satisfied that the licensee has used reasonable endeavours to minimise the amount of Distribution Network prescribed rates.

Formula for the licence fee adjustment (LF_t)

4. For the purposes of paragraph 2, LF_t is an amount calculated in accordance with the following formula:

$$LF_t = LFA_t - (LFE_t \times RPI_t)$$

Where:

LFA_t is the amount paid by the licensee in respect of the

~~Distribution Network transportation activity~~Distribution Network Transportation Activity in the ~~relevant formula year~~Formula Year t in accordance with its obligations set out in standard condition 3 (Payments by the licensee to the Authority) of this licence; and

LFE_t is the amount of the Distribution Network Licence Fee payments allowance in 2005/06 prices and is represented by the amount given in Annex C that applies to the licensee; and

~~RPI_t has the value given to it by paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network transportation activity)~~Distribution Network Transportation Activity).

RPI_t has the value given to it by paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity).

Formula for the Distribution Network Pension Deficit Charge (PD_t)

5. For the purposes of paragraph 2, PD_t is an amount calculated in accordance with the following formula:

$$PD_t = PDA_t - (PDE_t \times RPI_t)$$

Where:

PDA_t is the amount of payments made by the licensee to meet the charge made by the NTS operator to the Distribution Network and specified by the NTS operator as Distribution Network Pensions Deficit Charge payments;

PDE_t is the amount of the Distribution Network Pensions Deficit Charge allowance in 2005/06 prices and is represented by

the amount given in table 3 of Annex D that applies to the licensee; and

RPI_t has the value given to it by paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity).

Formula for the Distribution Network Third Party Water Ingress Adjustment (TPWI_t)

6. For the purposes of paragraph 2, TPWI_t is an amount calculated in accordance with the following formula:

$$TPWI_t = \max[0.95 \times (((TPWR_{t-1} + TPWU_{t-1}) \times RPI_t) - (0.015 \times Z_t)), 0]$$

Where:

TPWR_{t-1} ~~means~~ the total amount of payments that the licensee has made to customers in ~~relevant formula year~~Formula Year t-1 in respect of failure to meet the standard of performance for restoration of supply regarding interruptions resulting from third party damage and water ingress imposed on the licensee under regulation 7 of the Gas (Standards of Performance) Regulations 2005 as amended;

TPWU_{t-1} ~~means~~ the total amount of payments that the licensee has made to customers in ~~relevant formula year~~Formula Year t-1 in respect of failure to make gas available for offtake resulting from third party damage and water ingress imposed on the licensee under ~~Section J~~ paragraph 3.5 of Section J (Exit Requirements) of the network code; ~~and~~

RPI_t has the value given to it by paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network Transportation Activity~~); ~~and~~.

Z_t

means the base revenue in the ~~formula-year~~Formula Year ~~Year~~Formula Year t and shall be derived in accordance with paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution—Network transportation activity~~Distribution Network Transportation Activity).

Annex B – Distribution Network Prescribed Rates allowance (RBE_t) 2005-6 prices RBE_t terms for each GDN

Distribution Network	t=1	t=2	t=3	t=4	t=5
North of England	<u>£29,600,000</u>	<u>£29,600,000</u>	<u>£29,600,000</u>	<u>£29,600,000</u>	<u>£29,600,000</u>
Scotland	<u>£14,800,000</u>	<u>£14,800,000</u>	<u>£14,800,000</u>	<u>£14,800,000</u>	<u>£14,800,000</u>
South of England	<u>£49,399,000</u>	<u>£49,399,000</u>	<u>£49,399,000</u>	<u>£49,399,000</u>	<u>£49,399,000</u>
Wales & West	<u>£21,194,000</u>	<u>£21,194,000</u>	<u>£21,194,000</u>	<u>£21,194,000</u>	<u>£21,194,000</u>

Annex C – Distribution Network Licence Fee allowance (LFE_t) 2005-6 prices LFE_t term for each GDN

Distribution Network	t=1	t=2	t=3	t=4	t=5
North of England	<u>£1,300,000</u>	<u>£1,300,000</u>	<u>£1,300,000</u>	<u>£1,300,000</u>	<u>£1,300,000</u>
Scotland	<u>£761,000</u>	<u>£761,000</u>	<u>£761,000</u>	<u>£761,000</u>	<u>£761,000</u>
South of England	<u>£1,998,000</u>	<u>£1,998,000</u>	<u>£1,998,000</u>	<u>£1,998,000</u>	<u>£1,998,000</u>
Wales & West	<u>£1,071,171</u>	<u>£1,071,171</u>	<u>£1,071,171</u>	<u>£1,071,171</u>	<u>£1,071,171</u>

Annex D – Distribution Network Pensions Deficit Charge allowance (PDE_t), 2005-6 prices

Distribution Network	t=1	t=2	t=3	t=4	t=5
North of England	<u>£2,830,544</u>	<u>£2,761,507</u>	<u>£2,694,153</u>	<u>£2,628,442</u>	<u>£2,564,333</u>
Scotland	<u>£1,952,491</u>	<u>£1,904,870</u>	<u>£1,858,409</u>	<u>£1,813,082</u>	<u>£1,768,861</u>
South of England	<u>£4,524,326</u>	<u>£4,413,976</u>	<u>£4,306,318</u>	<u>£4,201,286</u>	<u>£4,098,816</u>
Wales & West	<u>£2,715,077</u>	<u>£2,648,856</u>	<u>£2,584,250</u>	<u>£2,521,219</u>	<u>£2,459,726</u>

 PDE_t term for each GDN

Special Condition E4: ~~Distribution Network transportation activity~~**revenue Distribution Network Transportation Activity Revenue adjustment (K_t)**

1. The purpose of this condition is to provide for adjustments to the maximum ~~Distribution Network allowed T~~ transportation ~~Activity R~~ revenue to take account of any under or over recovery of ~~distribution network~~ Distribution Network Transportation Activity allowed R revenue from the previous year t-1.

Formula for ~~Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue adjustment (K_t)

2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~ Distribution Network Transportation Activity) the ~~Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue adjustment in respect of ~~formula year~~ Formula Year t (K_t) shall be derived from the following formula:

$$K_t = (R_{t-1} - MR_{t-1}) \times \left(1 + \frac{(I_t + PR_t)}{100} \right)$$

where:

I_t means the percentage interest rate in respect of ~~formula year~~ Formula Year t which is equal to, ~~where K_t (taking no account of I_t for this purpose) has a positive value,~~ the average ~~specified rate~~ Specified Rate; ~~plus 3 or, where K_t (taking no account of I_t for this purpose) has a negative value, the average specified rate;~~

PR_t means the interest rate adjustment which is equal to:
 3 if (R_{t-1}) exceeds (MR_{t-1}) by 3 per cent or more; or
 0 if (R_{t-1}) is less than (MR_{t-1}) by 3 per cent or more;
~~a~~ And otherwise, ÷
~~it~~ it shall take the value of 1.5~~;~~

R_{t-1} means the Distribution network transportation activity revenue in respect of the ~~relevant formula year~~ Formula Year t-1; and

MR_{t-1} means the maximum revenue in the ~~relevant formula year~~ Formula Year t-1, as defined in paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~ Distribution Network Transportation Activity), except where t=1, where it shall be the maximum Distribution Network transportation activity revenue (DNMR_t) as defined by paragraph 8 (1) of part 1b of Special ~~C~~ ondition E2B: Restriction of revenue in respect of the distribution Network transportation activity in the licence in force on 31 March 2008.

Special Condition E5: Mains and ~~services replacement~~Services Replacement expenditure adjustment (MSRA_t)

1. The purpose of this condition is to provide adjustments to the maximum Distribution Network transportation activity ~~allowed transportation~~ revenue to reflect yearly variations in mains and related services costs.

Formula for the ~~mains~~Mains and ~~services replacement~~Services Replacement expenditure adjustment (MSRA_t)

2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity) the mains and services expenditure adjustment in respect of ~~formula year~~Formula Year t (MSRA_t) shall be derived from the following formula:

$$MSRA_t = (([1 - IQI_t] \times E_t) + ([IQI_t] \times AM_t)) - (RPI_t \times J_t) \times 1,000,000$$

Where, for the purposes of this paragraph ~~and paragraph 3~~:

- IQI_t means the information quality incentive factor and shall have the value set out in Annex E;
- E_t means the outturn mains and services costs in respect of the Distribution Network in ~~formula year~~Formula Year t; and
- J_t means the price control initial projection for the mains and services allowance in respect of ~~formula year~~Formula Year t and shall have the values set out in Annex F.

For the purposes of this paragraph and paragraph 3:

AM_t means the matrix mains and services cost in respect of the Distribution Network in ~~formula—year~~Formula Year t and shall be derived in accordance with paragraph 4 of this condition;

RPI_t has the value given in paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network—transportation—activity~~Distribution Network Transportation Activity);

where:

included mains and services means all mains which prior to decommissioning formed mains which operated at low, medium or intermediate distribution pressures and comprised of non Standard Mains Materials; and all decommissioned and replaced services;

outturn mains cost and services costs means the costs reasonably attributable to the replacement and decommissioning of included mains (composed of non standard mains materials) and services in respect of the Distribution Network in ~~formula—year~~Formula Year t excluding costs reasonably attributable to rechargeable diversions;

SStandard Mmains Mmaterials means polyethylene or a similar polymer based material (other than polyvinyl chloride (PVC)) or steel provided with cathodic protection; and

decommissioning means, for the purposes of this paragraph, removing mains and/ or services from physical operation.

$$\sum_{t=1}^5 ([1 - IQI_t] \times E_t) + (IQI_t \times AM_t)$$

shall not exceed:

$$\sum_{t=1}^5 (RPI_t \times J_t \times 1,000,000)$$

where:

$$\sum_{t=1}^5$$

means the sum over the years t

Matrix mains and services cost (AM_t)

3. For the purposes of paragraph 2 ~~and 3~~ of this condition the matrix mains and services cost in respect of the Distribution Network in ~~formula year~~ Formula Year ~~Formula Year~~ Formula Year t (AM_t) shall be derived in the following manner:

$$AM_t = RPI_t \times \left(\sum_{n=1}^8 (L_{nt} \times U_{nt}) \right) \times 1,000 + (SR_t \times USR_t) + (ST_t \times UST_t) + (SN_t \times USN_t)$$

where:

L_{nt}

means the length of mains in kilometres decommissioned in respect of diameter band n and ~~formula year~~ Formula Year ~~Formula Year~~ Formula Year t for the Distribution Network where the diameter bands shall be defined as set out in the following table ~~Annex G to this condition~~, save that in respect of any diameter of mains not covered by the table or mains measured in metric measurement shall be reported in the diameter band corresponding to the nearest imperial equivalent;

<u>Diameter band n</u>	<u>Nominal internal diameter of mains decommissioned (inches)</u>
<u>1</u>	<u>2-3</u>
<u>2</u>	<u>4-5</u>
<u>3</u>	<u>6-7</u>
<u>4</u>	<u>8-9</u>
<u>5</u>	<u>10-12</u>
<u>6</u>	<u>>12-18</u>

<u>7</u>	<u>>18-24</u>
<u>8</u>	<u>>24</u>

U_{nt} means the specific matrix costs in respect of diameter band n and ~~formula-year~~Formula-Year~~Formula Year~~ t for the Distribution Network as set out in Annex G;

$\sum_{n=1}^8$ means the sum over the diameter bands n;

SR_t means the number of domestic services ~~re-laid~~replaced in respect of ~~formula-year~~Formula-Year~~Formula Year~~ t for the Distribution Network;

USR_t means the unit cost for domestic services ~~replaced~~re-laid in respect of ~~formula-year~~Formula-Year~~Formula Year~~ t for the Distribution Network as set out in Annex H to this condition;

ST_t means the number of domestic services transferred in respect of formula t for the Distribution Network;

UST_t means the unit cost for domestic services transferred in respect of ~~formula-year~~Formula-Year~~Formula Year~~ t for the Distribution Network as set out in Annex H to this condition;

SN_t means the number of non domestic services ~~re-laid~~replaced and non domestic services transferred in respect of ~~formula-year~~Formula-Year~~Formula Year~~ t for the Distribution Network;

USN_t means the unit cost for non domestic services ~~re-~~

	<p>re-laid <u>replaced and non domestic services transferred</u> in respect of formula year <u>Formula Year</u> Formula Year t for the Distribution Network as set out in Annex H to this condition;</p>
domestic premises	<p>means, for the purposes of Special Condition E5 (mains <u>Mains</u> and services—replacement <u>Services Replacement</u> expenditure adjustment (MSRA_t)) only, premises at which a supply is taken at a rate which is reasonably expected not to exceed 73,200 kilowatt hour <u>Kilowatt Hours</u> a year;</p>
<u>non domestic premises</u>	<p><u>means, for the purposes of Special Condition E5 (Mains and Services Replacement expenditure adjustment (MSRA_t)) only, premises at which a supply is taken at a rate which is reasonably expected to exceed 73,200 Kilowatt Hours a year;</u></p>
domestic services re-laid <u>replaced</u>	<p>means the laying of a new polyethylene service to an existing property to replace an existing non-polyethylene service at a domestic premises <u>and includes associated purge and re-light costs;</u></p>
domestic services transferred	<p>means the transfer of an existing polyethylene service to a new main at a domestic premises <u>and includes associated purge and re-light costs;</u></p>
non domestic services re-laid <u>replaced</u>	<p>means transferring—the laying of a new <u>existing</u> polyethylene service to an <u>existing property to replace an existing non-polyethylene service —new main</u> at a non-domestic premises <u>and includes associated purge and re-light costs; and</u></p>

non domestic services transferred

means transferring an existing polyethylene service to new main at a non-domestic premises and includes associated purge and re-light costs.

Annex E – Distribution Network information quality incentive factor (IQI_i)

Distribution Network	IQI factor
North of England	<u>0.36</u>
Scotland	<u>0.33</u>
South of England	<u>0.33</u>
Wales & West	<u>0.33</u>

Annex F – Distribution Network price control initial projection for mains and services allowance (J_t) (£m, 2005-6 prices)

Distribution Network Price control mains and services allowance £ million	Formula year Formula Year t				
	t=1	t=2	t=3	t=4	t=5
North of England	<u>64.8</u>	<u>67.4</u>	<u>68.8</u>	<u>69.2</u>	<u>70.1</u>
Scotland	<u>46.4</u>	<u>48.2</u>	<u>47.4</u>	<u>47.9</u>	<u>48.0</u>
South of England	<u>120.8</u>	<u>125.2</u>	<u>127.7</u>	<u>126.8</u>	<u>129.7</u>
Wales & West	<u>57.6</u>	<u>58.7</u>	<u>60.5</u>	<u>61.9</u>	<u>62.4</u>

Annex G

Diameter band n	Nominal internal diameter of mains decommissioned (inches)
1	2-3
2	4-5
3	6-7
4	8-9
5	10-11
6	12-17
7	18-23
8	>24

Annex G-H- Distribution Network specific matrix costs (£ per metre, 2005-6 prices)

Distribution Network – North of England

	Specific matrix costs (£ per metre)				
Diameter band n	t=1	t=2	t=3	t=4	t=5
1	<u>59.8</u>	<u>60.3</u>	<u>60.6</u>	<u>60.7</u>	<u>60.7</u>
2	<u>65.3</u>	<u>65.8</u>	<u>66.1</u>	<u>66.3</u>	<u>66.3</u>
3	<u>91.9</u>	<u>92.6</u>	<u>93.1</u>	<u>93.3</u>	<u>93.2</u>
4	<u>170.0</u>	<u>171.2</u>	<u>172.1</u>	<u>172.6</u>	<u>172.5</u>
5	<u>237.5</u>	<u>239.2</u>	<u>240.5</u>	<u>241.2</u>	<u>241.0</u>
6	<u>344.4</u>	<u>346.9</u>	<u>348.7</u>	<u>349.7</u>	<u>349.5</u>
7	<u>481.3</u>	<u>484.8</u>	<u>487.4</u>	<u>488.8</u>	<u>488.4</u>
8	<u>594.0</u>	<u>598.3</u>	<u>601.5</u>	<u>603.2</u>	<u>602.8</u>

Distribution Network – Scotland

	Specific matrix costs (£ per metre)				
Diameter band n	t=1	t=2	t=3	t=4	t=5
1	<u>62.5</u>	<u>62.4</u>	<u>62.5</u>	<u>63.1</u>	<u>61.8</u>
2	<u>68.2</u>	<u>68.1</u>	<u>68.3</u>	<u>68.9</u>	<u>67.5</u>
3	<u>96.0</u>	<u>95.8</u>	<u>96.1</u>	<u>96.9</u>	<u>95.0</u>
4	<u>177.6</u>	<u>177.2</u>	<u>177.7</u>	<u>179.3</u>	<u>175.6</u>
5	<u>248.1</u>	<u>247.6</u>	<u>248.2</u>	<u>250.5</u>	<u>245.4</u>
6	<u>359.8</u>	<u>359.1</u>	<u>360.0</u>	<u>363.2</u>	<u>355.8</u>
7	<u>502.8</u>	<u>501.8</u>	<u>503.1</u>	<u>507.6</u>	<u>497.3</u>
8	<u>620.5</u>	<u>619.3</u>	<u>620.9</u>	<u>626.4</u>	<u>613.8</u>

Distribution Network – South of England

	Specific matrix costs (£ per metre)				
Diameter band n	t=1	t=2	t=3	t=4	t=5
1	<u>66.4</u>	<u>66.4</u>	<u>66.4</u>	<u>66.0</u>	<u>66.0</u>
2	<u>72.5</u>	<u>72.5</u>	<u>72.5</u>	<u>72.0</u>	<u>72.0</u>

3	<u>102.0</u>	<u>102.0</u>	<u>102.0</u>	<u>101.3</u>	<u>101.4</u>
4	<u>188.8</u>	<u>188.6</u>	<u>188.7</u>	<u>187.5</u>	<u>187.5</u>
5	<u>263.7</u>	<u>263.5</u>	<u>263.7</u>	<u>261.9</u>	<u>261.9</u>
6	<u>382.4</u>	<u>382.1</u>	<u>382.4</u>	<u>379.8</u>	<u>379.8</u>
7	<u>534.5</u>	<u>534.1</u>	<u>534.4</u>	<u>530.9</u>	<u>530.9</u>
8	<u>659.6</u>	<u>659.1</u>	<u>659.5</u>	<u>655.1</u>	<u>655.2</u>

Distribution Network –Wales & West

Diameter band n	Specific matrix costs (£ per metre)				
	t=1	t=2	t=3	t=4	t=5
1	<u>59.3</u>	<u>59.5</u>	<u>59.3</u>	<u>59.1</u>	<u>58.4</u>
2	<u>64.7</u>	<u>65.0</u>	<u>64.7</u>	<u>64.6</u>	<u>63.8</u>
3	<u>91.0</u>	<u>91.4</u>	<u>91.1</u>	<u>90.9</u>	<u>89.8</u>
4	<u>168.4</u>	<u>169.1</u>	<u>168.4</u>	<u>168.1</u>	<u>166.1</u>
5	<u>235.3</u>	<u>236.2</u>	<u>235.3</u>	<u>234.8</u>	<u>232.0</u>
6	<u>341.2</u>	<u>342.6</u>	<u>341.2</u>	<u>340.5</u>	<u>336.4</u>
7	<u>476.9</u>	<u>478.8</u>	<u>476.9</u>	<u>475.9</u>	<u>470.2</u>
8	<u>588.5</u>	<u>590.8</u>	<u>588.6</u>	<u>587.3</u>	<u>580.3</u>

Annex H- Distribution Network unit costs for: services relaid (USR); services transferred (UST) and non domestic services (USN) (£ per service, 2005-6 prices)

North of England

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	<u>474.0</u>	<u>473.7</u>	<u>474.5</u>	<u>475.9</u>	<u>477.0</u>
UST	<u>288.8</u>	<u>288.7</u>	<u>289.2</u>	<u>290.1</u>	<u>290.8</u>
USN	<u>1,618.1</u>	<u>1,615.4</u>	<u>1,618.1</u>	<u>1,623.5</u>	<u>1,626.2</u>

Scotland

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	<u>493.5</u>	<u>496.0</u>	<u>496.7</u>	<u>501.6</u>	<u>495.7</u>
UST	<u>301.1</u>	<u>302.7</u>	<u>303.2</u>	<u>306.1</u>	<u>302.4</u>
USN	<u>1,680.9</u>	<u>1,687.8</u>	<u>1,691.6</u>	<u>1,704.9</u>	<u>1,687.1</u>

South of England

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	<u>543.0</u>	<u>539.8</u>	<u>542.7</u>	<u>541.2</u>	<u>550.2</u>
UST	<u>331.3</u>	<u>329.4</u>	<u>331.1</u>	<u>330.1</u>	<u>335.6</u>
USN	<u>1,849.0</u>	<u>1,838.6</u>	<u>1,848.0</u>	<u>1,844.1</u>	<u>1,872.8</u>

Wales & West

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	<u>490.4</u>	<u>491.1</u>	<u>491.2</u>	<u>491.7</u>	<u>493.1</u>
UST	<u>299.4</u>	<u>299.8</u>	<u>299.9</u>	<u>300.2</u>	<u>301.0</u>
USN	<u>1,669.5</u>	<u>1,672.5</u>	<u>1,672.5</u>	<u>1,672.5</u>	<u>1,678.4</u>

Special Condition E6: Distribution Network Exit Capacity costs and incentive revenue (Ex_t)

1. The purpose of this condition is to provide adjustments to the maximum Distribution Network allowed-transportation activity revenue to reflect Distribution Network exit capacity costs and to set out the incentive payments that adjust the maximum Distribution Network allowed-transportation activity revenue to reflect the performance of the licensee against the ~~distribution network~~Distribution Network exit capacity incentive.

Part A: Formula for Distribution Network exit capacity costs and incentive revenue (Ex_t)

2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity) the Distribution Network Exit Capacity costs and incentive revenue (Ex_t) shall be derived from the following formula:

$$Ex_t = ExCIR_t + ExIIC_t + ExC_t + CO_t$$

where:

ExCIR_t means the DN exit capacity incentive revenue in respect of ~~formula year~~Formula Year~~Formula Year~~ t and shall be derived in accordance with paragraph 3 of this condition;

ExIIC_t means the costs incurred by the licensee in respect of the total payments made by the licensee to the relevant NTS operator in respect of ~~formula year~~Formula Year~~Formula Year~~ t in accordance with paragraph 10 of this condition in respect of the curtailment of rights to off-take gas from the Distribution Network on ~~P~~plus 15 ~~curtailment day~~Curtailment s~~Days~~; ~~and~~

CO_t means the Distribution Network capacity outputs incentive revenue and shall be derived in accordance with paragraph 14 of this condition; and

ExC_t means in respect of ~~formula-year~~ Formula Year Year t, an amount equal to the actual payments made by the licensee in respect of NTS exit flat capacity and NTS exit flow flexibility in respect of the Distribution Network and shall be derived from the following formula:

$$ExC_t = ExCC_t + ExFFC_t$$

Where

$ExCC_t$ means in respect of ~~formula-year~~ Formula Year Year t, the total costs incurred by the licensee for NTS exit flat capacity in respect of all NTS offtakes within the Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit flat capacity; and

$ExFFC_t$ means in respect of ~~formula-year~~ Formula Year Year t, the total costs incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the Distribution Network less any revenues received from the NTS operator by the licensee in respect of NTS exit flow flexibility.

For the avoidance of doubt, unless the Authority otherwise directs in writing:
until 31 March 2011~~before 1 October 2011~~ ExC_t and CO_t shall have the value zero (0);
on or after 1 October 2008 $ExIIC_t$ shall have the value zero (0); and
on or after 1 April 2011 $ExCIR_t$ shall have the value zero (0).

~~(or such other date that the Authority shall otherwise direct in writing), ExC_t shall have the value zero (0).~~

Part B: Formula for Distribution Network Exit Capacity incentive revenue (ExCIR_t)

3. For the purposes of paragraph 2 of this condition the maximum Distribution Network exit capacity incentive revenue allowed to the licensee in respect of ~~formula year~~Formula Year ~~Formula Year~~ t (ExCIR_t) shall be derived from the following formula:

If $ExIT_t \geq ExCP_t$, then

$$ExCIR_t = MIN((ExUSF_t \times (ExIT_t - ExCP_t)), ExCAP_t)$$

Otherwise:

$$ExCIR_t = MAX((ExDSF_t \times (ExIT_t - ExCP_t)), ExCOL_t)$$

Where:

ExIT_t means the Distribution Network exit incentive target in respect of ~~formula year~~Formula Year ~~Formula Year~~ t and shall be derived in accordance with paragraph 4 of this condition;

ExCP_t means the Distribution Network exit performance measure in respect of ~~formula year~~Formula Year ~~Formula Year~~ t, and shall be derived in accordance with paragraph 10 of this condition;

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

ExUSF_t means the Distribution Network exit upside sharing factor in respect of ~~formula year~~Formula Year ~~Formula Year~~ t as set out in the following table:

	Formula year <u>Formula</u>
--	--

	<u>Year</u>
Variable	t
ExUSFt	100%

ExDSF_t means the Distribution Network exit downside sharing factor in respect of ~~formula-year~~Formula-YearFormula-Year t as set out in the following table:

	<u>Formula-year</u> <u>Formula-Year</u>
Variable	t
ExDSFt	100%

ExCAP_t means the maximum Distribution Network exit capacity revenue in respect of ~~formula-year~~Formula-YearFormula-Year t derived from the following formula:

$$ExCAP_t = \text{MIN} (ExCAPP_t \times ExIT_t, \text{£}5,000,000)$$

where ExCAPP_t is set out in the following table:

	<u>Formula-year</u> <u>Formula-Year</u>
Variable	t
ExCAPPt	7.5%

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

ExCOL_t means the minimum Distribution Network exit capacity revenue in respect of ~~formula-year~~Formula-YearFormula-Year t derived from the following formula:

$$ExCOL_t = \text{MAX} (ExCOLP_t \times ExIT_t, -\text{£}5,000,000)$$

where ExCOLP_t is set out in the following table:

	Formula year <u>Formula</u> Year
Variable	t
ExCOLP _t	-7.5%

Formula for Distribution Network exit incentive target (ExIT_t)

4. For the purpose of paragraph 3 of this condition the Distribution Network exit incentive target in respect of ~~formula year~~Formula Year~~Formula Year~~ t (ExIT_t) shall be derived from the following formula:

$$ExIT_t = (ExCTC_t + ExFFTC_t + ExIIT_t) \times 1,000,000$$

where:

ExCTC_t means the target cost in £million of the target volume of NTS exit flat capacity in respect of ~~formula year~~Formula Year~~Formula Year~~ t calculated in accordance with sub-paragraph 5 of this condition in respect of the relevant Distribution Network;

ExFFTC_t means the target cost in £million of the target volume of NTS exit flow flexibility in respect of ~~formula year~~Formula Year~~Formula Year~~ t calculated in accordance with sub-paragraph 6 of this condition in respect of the relevant Distribution Network; and

ExIIT_t means the incentive target in £million in respect of the curtailment of rights to off-take gas from the Distribution Network on ~~P~~plus 15 curtailment day~~Curtailment s~~Days in respect of ~~formula year~~Formula Year~~Formula Year~~ t calculated in accordance with sub-paragraph 7 of this condition.

5. The target cost in £ million of the target volume of NTS exit flat capacity $ExCTC_t$ shall be calculated as follows:

$$ExCTC_t = \frac{\sum_{all\ v} \left[\sum_{all\ d} NTSRExCh_{v,t,d} \times NTSBAExC_{v,t} \right]}{100}$$

where:

$NTSRExCh_{v,t,d}$ means the relevant ~~NTS (TO) Exit capacity charge~~NTS (TO) Exit Capacity Charge in p/peak ~~day~~Day kWh/d for ~~Distribution Network exit zone~~Distribution Network Exit Zone v within the relevant Distribution Network for ~~day~~Day d in respect of ~~formula year~~Formula Year ~~Formula Year~~Formula Year t as set out in the ~~NTS gas transportation statement~~NTS Gas Transportation Statement which applies for ~~formula year~~Formula Year ~~Formula Year~~Formula Year t;

$NTSBAExC_{v,t}$ means the target volume of NTS exit flat capacity in GWh/d for ~~Distribution Network exit zone~~Distribution Network Exit Zone v within the relevant Distribution Network in respect of ~~formula year~~Formula Year ~~Formula Year~~Formula Year t as given in Annex I to this condition;

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

$\sum_{all\ v}$ means the sum across all ~~Distribution Network exit zone~~Distribution Network Exit Zones v within the relevant Distribution Network.

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

6. The target cost in £ million of the target volume of NTS exit flow flexibility $ExFFTC_t$ shall be calculated as follows:

$$ExFFTC_t = \frac{\sum_{all\ v} \left[\sum_{all\ d} NTSRExCh_{v,t,d} \times NTSBAExFF_{v,t} \right]}{100}$$

where:

NTSRExCh_{v,t,d} has the meaning given in paragraph 5 of this condition;

NTSBAExFF_{v,t} means the target volume of NTS exit flow flexibility in GWh/d for ~~Distribution Network exit zone~~Distribution Network Exit Zone v within the relevant Distribution Network in respect of ~~formula year~~Formula Year t as given in Annex ~~JK~~ to this condition;

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

$\sum_{all\ v}$ means the sum across all ~~Distribution Network exit zone~~Distribution Network Exit Zones v within the relevant Distribution Network.

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

7. The incentive target ExIIT_t in respect of payments made by the licensee (in accordance with sub-paragraph 9 of this condition) in respect of the curtailment of rights to off-take gas from the Distribution Network on ~~P~~plus 15 ~~curtailment day~~Curtailment sDays subject to sub-paragraph 8 of this condition is as set out in Annex ~~KL~~ to this condition (until such date as the Authority otherwise directs in writing):

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

8. Unless the Authority otherwise directs in writing, in any ~~formula-year~~Formula Year ~~Formula Year~~ Formula Year t $ExIIT_t$ shall be equal to zero if:

(a) the weighted average charge payable by the licensee to gas shippers in respect of the curtailment of rights to off-take gas from the Distribution Network on ~~P~~plus 15 ~~curtailment-day~~Curtailment sDays does not conform with sub-paragraph 9 below; or

(b) no charge is payable by the licensee to gas shippers in respect of the curtailment of rights to off-take gas from the Distribution Network on ~~P~~plus 15 ~~curtailment-day~~Curtailment sDays in respect of ~~formula-year~~Formula Year ~~Formula Year~~ Formula Year t .

9. ~~Unless the Authority otherwise directs, T~~the licensee shall use ~~all~~reasonable endeavours to ensure that the weighted average unit charge payable by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on ~~P~~plus 15 ~~curtailment-day~~Curtailment sDays in respect of ~~formula-year~~Formula Year ~~Formula Year~~ Formula Year t ($AExIIC_t$) shall be equal to the value derived from the following formula:

$$AExIIC_t = \frac{SIC_t}{\left(\sum_{\text{all } z} ExC_z^{\text{Jan15th}} \times 15 \right)}$$

where:

SIC_t means the total value accrued in respect of ~~formula-year~~Formula Year ~~Formula Year~~ Formula Year t of charges foregone by the licensee in respect of ~~Distribution Network capacity~~curtailment—rightsDistribution Network Capacity Curtailment Rights;

$ExC_z^{\text{Jan 15th}}$ means the volume of ~~Distribution—Network capacity~~Distribution Network Capacity within the relevant Distribution Network registered in respect of ~~supply point~~Supply Point, ~~connected-system-exit point~~Connected System Exit Point or ~~storage-connection-point~~Storage

Connection Point z in respect of which the licensee has Distribution Network capacity curtailment rights Distribution Network Capacity Curtailment Rights on 15 January in respect of formula-year Formula Year t; and

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

means the sum across all supply point Supply Points, connected system exit point Connected System Exit Points and storage connection point Storage Connection Points, z.

The Distribution Network exit performance measure (ExCP_t)

10. For the purposes of paragraph 3 of this condition, the Distribution Network exit performance measure in respect of formula-year Formula Year Formula Year t (ExCP_t) shall be derived from the following formula:

$$\text{ExCP}_t = (\text{ExCDC}_t + \text{ExFFDC}_t + \text{ExIIC}_t) \times 1,000,000$$

where

ExCDC_t means the deemed cost Deemed Costs in £million incurred by the licensee for NTS exit flat capacity in respect of all NTS offtakes within the relevant Distribution Network in respect of formula-year Formula Year Formula Year t in accordance with sub-paragraph 11 of this condition;

ExFFDC_t means the deemed cost Deemed Costs in £million incurred by the licensee for NTS exit flow flexibility in respect of all NTS offtakes within the relevant Distribution Network in respect of formula-year Formula Year Formula Year t in accordance with sub-paragraph 12 of this condition; and

ExIIC_t means the costs in £million incurred by the licensee in respect of total payments made by the licensee to the relevant NTS operator shipper or relevant shippers in

respect of the curtailment of rights to off-take gas from the Distribution Network on ~~P~~plus 15 ~~curtailment day~~Curtailment sDays in respect of ~~formula-year~~Formula Year ~~Formula Year~~ t in accordance with sub-paragraph 13 of this condition.

11. The ~~deemed-cost~~Deemed Costs in £million incurred by the licensee for NTS exit flat capacity $ExCDC_t$ shall be calculated as follows:

$$ExCDC_t = \frac{\sum_{all\ v} \left[\sum_{all\ d} NTSRExCh_{v,t,d} \times NTSMAExC_{v,t} \right]}{100}$$

where:

$NTSMAExC_{v,t}$ means the ~~maximum-actual-allocation~~Maximum Actual Allocation of NTS exit flat capacity in GWh/d in respect of ~~Distribution Network exit zone~~Distribution Network Exit Zone v within the relevant Distribution Network in respect of ~~formula-year~~Formula Year ~~Formula Year~~ t;

$NTSRExCh_{v,t,d}$ has the meaning given in paragraph 5 of this condition;

$\sum_{all\ d}$ means the sum across all ~~days~~Days d in ~~formula-year~~Formula Year ~~Formula Year~~ t; and

$\sum_{all\ v}$ means the sum across all ~~Distribution Network exit zone~~Distribution Network Exit Zones v within the relevant Distribution Network;

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

12. The ~~deemed-cost~~Deemed Costs in £million incurred by the licensee for NTS exit flow flexibility $ExFFDC_t$ shall be calculated as follows:

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

where:

$NTSMAExFF_{v,t}$ means the ~~maximum actual allocation~~ Maximum Actual Allocation of NTS exit flow flexibility in GWh/d in respect of ~~Distribution Network exit zone~~ Distribution Network Exit Zone v within the relevant Distribution Network in respect of ~~formula year~~ Formula Year Formula Year t;

$NTSRExCh_{v,t,d}$ has the meaning given to that term in paragraph 5 of this condition;

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

$\sum_{all\ v}$ means the sum across all ~~Distribution Network exit zone~~ Distribution Network Exit Zones v within the relevant Distribution Network;

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

13. The costs incurred by the licensee (in £ million) in respect of total payments made by the licensee to the relevant NTS operator in respect of curtailment of rights to off-take gas from the Distribution Network on ~~P~~ plus 15 ~~curtailment day~~ Curtailment s Days in respect of ~~formula year~~ Formula Year Formula Year t $ExIIC_t$ shall be derived from the following formula:

$$ExIIC_t = \sum_{all\ d} \sum_{all\ z} ExIIC_{z,d}$$

where:

$$\sum_{\text{all } d}$$

means the sum across all ~~days~~Days d in ~~formula~~ ~~year~~Formula Year ~~Formula Year~~ t ;

$$\sum_{\text{all } v}$$

means the sum across all ~~supply point~~Supply Points, ~~connected system exit point~~Connected System Exit Points and ~~storage connection point~~Storage Connection Points z ; and

$$\text{ExIIC}_{z,d}$$

means the total payments made by the licensee in respect of the curtailment of rights to off-take gas from the Distribution Network on ~~p~~Plus 15 ~~curtailment~~ ~~day~~Curtailment ~~s~~Days on ~~day~~Day d in respect of ~~formula~~ ~~year~~Formula Year ~~Formula Year~~ t to the extent that such amount relates to a ~~P~~plus 15 ~~curtailment day~~Curtailment Day in respect of ~~supply point~~Supply Point, ~~connected system exit point~~Connected System Exit Point or ~~storage connection point~~Storage Connection Point z , until such date as the Authority otherwise directs in writing.

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

Part C: Formula for Distribution Network capacity outputs incentive revenue (CO_t)

14. For the purposes of paragraph 2 of this condition the maximum Distribution Network capacity outputs incentive revenue (CO_t) in respect of Formula Year t shall be derived from the following formula:

$$\underline{CO_t = EI_t + II_t}$$

Where:

EI_t

means the exit capacity incentive in respect of the Distribution Network for Formula Year t and shall be derived in accordance with paragraph 15 of this condition;
and

II_t means the interruption incentive in respect of the Distribution Network for Formula Year t and shall be derived in accordance with paragraph 18 of this condition.

Formula for the Distribution Network exit capacity incentive (EI_t)

15. For the purposes of paragraph 14 of this condition the Distribution Network exit capacity incentive revenue in Formula Year t (EI_t) shall be derived from the following formula:

If $EIT_t \geq EDC_t$

then

$$EI_t = \text{MIN}((0.5 \times (EIT_t - EDC_t)), ECAP_t)$$

Otherwise

$$EI_t = \text{MAX}((0.5 \times (EIT_t - EDC_t)), ECOLLAR_t)$$

Where:

EIT_t means the Distribution Network exit incentive target and is determined by the target cost in £ of the target volume of NTS exit flat capacity in respect of the Distribution Network for Formula Year t calculated in accordance with paragraph 16 of this condition;

EDC_t means the Distribution Network exit performance measure and is determined by the Deemed Costs in £ incurred by the licensee for NTS exit flat capacity in respect of all NTS offtakes within the relevant Distribution Network in respect for formula year t and shall be derived in accordance with paragraph 17 of this condition;

$ECAP$ means the maximum exit capacity revenue in respect of the Distribution Network for Formula Year t derived from the

following formula:

$$\underline{ECAP = MIN(0.075 \times EIT_t, \pounds 5,000,000)}$$

ECOLLAR

means the minimum exit capacity revenue in respect of the Distribution Network for Formula Year t derived from the following formula:

$$\underline{ECOLLAR = MAX(-0.075 \times EIT_t, -\pounds 5,000,000)}$$

Formula for Distribution Network exit incentive target (EIT_t)

16. For the purposes of paragraph 15 of this condition the condition the Distribution Network exit incentive target in Formula Year t (EIT_t) shall be derived from the following formula:

$$\underline{EIT_t = \frac{\sum_{allv} \left[\left(\sum_{1Oct-31Mar} NTSIChE_{v,t,d} \times NTSTVE_{v,t} \right) * (Y_t / P_t) \right]}{100}}$$

where:

NTSIChE_{v,t,d}

means the relevant NTS (TO) Exit capacity charge in p/peak day kWh/d for Distribution Network Exit Zone v within the relevant Distribution for each day d between 1 October and 31 March of the Formula Year t-4 as set out in the NTS gas transportation statement which applies to Formula Year t;

NTSTVE_{v,t}

means the target volume of NTS exit flat capacity in GWh/d for Distribution Network Exit Zone v within the relevant Distribution Network for Formula Year t as set out in Annex L to this condition;

Y_t

means the number of days in year t;

P_t

means the number of days between 1 October and 31 March inclusive in year t;

$$\sum_{10ct-31Mar}$$

means the sum across all days between 1 October to 31 March in Formula Year t; and

$$\sum_{allv}$$

means the sum across all Distribution Network Exit Zones v within the relevant Distribution Network.

Formula for the Distribution Network exit performance measure (EDC_t)

17. For the purpose of paragraph 15 of this condition Distribution Network exit performance measure in Formula Year t (EDC_t) shall be derived from the following formula:

$$EDC_t = \frac{\sum_{allv} \left[\left(\sum_{10ct-31Mar} NTSICHE_{v,t,d} \times NTSMAE_{v,t} \right) * (Y_t / P_t) \right]}{100}$$

NTSICHE_{v,t,d}

has the meaning given in paragraph 16 of this condition;

NTSMAE_{v,t}

means the Maximum Actual Allocation of NTS exit flat capacity in GWh/d for Distribution Network Exit Zone v within the relevant Distribution Network for each day between 1 October and 31 March for Formula Year t;

$$\sum_{10ct-31Mar}$$

means the sum across all days between 1 October to 31 March in Formula Year t;

$$\sum_{allv}$$

means the sum across all Distribution Network Exit Zones v within the relevant Distribution Network;

Y_t

has the meaning given in paragraph 16 of this condition;
and

P_t

has the meaning given in paragraph 16 of this condition

Formula for the Distribution Network interruption incentive (II_t)

18. For the purpose of paragraph 14 of this condition the Distribution Network interruption incentive in Formula Year t (II_t) shall be derived from the following formula:

$$II_t = \frac{((IOC_t + IEC_t) - (IA_t \times RPI_t)) \times 0.5 + (IA_t \times RPI_t)}{}$$

where:

IOC_t means the sum of Interruptible Option Cost in £ that has been incurred across all Supply Points designated as interruptible and for all days in respect of the Distribution Network for Formula Year t;

IEC_t means the sum of Interruptible Exercise Cost which has been incurred across all Supply Points designated as interruptible and for all days in respect of the Distribution Network for Formula Year t;

IA_t means the interruption allowance in respect of the Distribution Network for Formula Year t as set out in Annex M; and

RPI_t has the value given in paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity).

Annex I: Distribution Network target volume of NTS exit flat capacity (NTSBAExC_{v,t}) (GWh/d)

<u>Distribution Network</u>	<u>Distribution Network Exit Zone v</u>	NTSBAExC _{v,t} (GWh/d)				
		t=1	t=2	t=3	t=4	t=5
<u>Northern</u>	NO1	<u>254.86</u>	<u>249.74</u>	<u>252.23</u>		
	NO2	<u>27.18</u>	<u>28.08</u>	<u>28.45</u>		
	NE1	<u>228.08</u>	<u>242.52</u>	<u>245.72</u>		
	NE2	<u>62.4</u>	<u>66.7</u>	<u>67.58</u>		
<u>Scotland</u>	SC1	<u>60.67</u>	<u>55.53</u>	<u>56.08</u>		
	SC2	<u>74.18</u>	<u>75.97</u>	<u>77.04</u>		
	SC4	<u>249.23</u>	<u>245.95</u>	<u>248.9</u>		
<u>Southern</u>	SE1	<u>421.1</u>	<u>454.73</u>	<u>460.09</u>		
	SE2	<u>110.19</u>	<u>102.46</u>	<u>103.67</u>		
	SO1	<u>121.22</u>	<u>120.72</u>	<u>121.88</u>		
	SO2	<u>298.56</u>	<u>308.34</u>	<u>313.89</u>		
<u>Wales and West</u>	SW1	<u>38.72</u>	<u>39.12</u>	<u>39.76</u>		
	SW2	<u>166.65</u>	<u>168.96</u>	<u>171.76</u>		
	SW3	<u>96.72</u>	<u>97.69</u>	<u>99.31</u>		
	WA1	<u>54.81</u>	<u>53.78</u>	<u>54.55</u>		
	WA2	<u>195.98</u>	<u>198.25</u>	<u>200.05</u>		

Annex J – Distribution Network target volume of NTS exit flow flexibility (NTSBAExFF_{v,t}) (GWh/d):

<u>Distribution Network</u>	<u>Distribution Network exit zone Distribution Network Exit Zone v</u>	NTSBAExFF _{v,t} (GWh/d)				
		t=1	t=2	t=3	t=4	t=5
<u>Northern</u>	NO1	<u>0.69</u>	<u>-2.36</u>	<u>-2.33</u>		
	NO2	<u>2.65</u>	<u>2.61</u>	<u>2.64</u>		

	NE1	<u>10.59</u>	<u>20.3</u>	<u>20.56</u>		
	NE2	<u>0.37</u>	<u>1.08</u>	<u>1.1</u>		
<u>Scotland</u>	SC1	<u>5.71</u>	<u>6.17</u>	<u>6.23</u>		
	SC2	<u>8.24</u>	<u>8.31</u>	<u>8.39</u>		
	SC4	<u>14.32</u>	<u>13.94</u>	<u>14.08</u>		
<u>Southern</u>	SE1	<u>0</u>	<u>0</u>	<u>0</u>		
	SE2	<u>0</u>	<u>0</u>	<u>0</u>		
	SO1	<u>3.17</u>	<u>5.22</u>	<u>5.3</u>		
	SO2	<u>7.59</u>	<u>7.54</u>	<u>7.66</u>		
<u>Wales and West</u>	SW1	<u>2.18</u>	<u>2.13</u>	<u>2.23</u>		
	SW2	<u>4.92</u>	<u>5.38</u>	<u>5.62</u>		
	SW3	<u>2.81</u>	<u>3.69</u>	<u>4</u>		
	WA1	<u>0</u>	<u>0</u>	<u>0</u>		
	WA2	<u>-0.01</u>	<u>0</u>	<u>0</u>		

Annex K: --- Distribution Network incentive target (ExIIT_t) (£million, 2005-6 prices)

Distribution Network	Formula year Formula Year t				
	t=1	t=2	t=3	t=4	t=5
<u>Northern</u>	<u>0.24</u>				
Scotland	<u>0.13</u>				
South of England	<u>0.12</u>				
Wales & West	<u>0.21</u>				

Annex L – Distribution Network target volume of NTS exit flat capacity (NTSTVE_{v,t}) (GWh/d):

Distribution Network	Distribution Network Exit Zone v	NTSTVE _{v,t} (GWh/d)				
		t=1	t=2	t=3	t=4	t=5
<u>Northern</u>	<u>NO1</u>				<u>267.66</u>	<u>271.07</u>
	<u>NO2</u>				<u>32.03</u>	<u>33.12</u>

	<u>NE1</u>				<u>268.74</u>	<u>272.75</u>
	<u>NE2</u>				<u>74.11</u>	<u>74.96</u>
<u>Scotland</u>	<u>SC1</u>				<u>69.87</u>	<u>70.34</u>
	<u>SC2</u>				<u>89.70</u>	<u>90.87</u>
	<u>SC4</u>				<u>268.84</u>	<u>271.81</u>
<u>Southern</u>	<u>SE1</u>				<u>492.57</u>	<u>500.73</u>
	<u>SE2</u>				<u>111.52</u>	<u>113.36</u>
	<u>SO1</u>				<u>124.08</u>	<u>126.34</u>
	<u>SO2</u>				<u>347.80</u>	<u>354.12</u>
<u>Wales and West</u>	<u>SW1</u>				<u>38.88</u>	<u>40.77</u>
	<u>SW2</u>				<u>177.03</u>	<u>178.21</u>
	<u>SW3</u>				<u>105.12</u>	<u>106.55</u>
	<u>WA1</u>				<u>60.47</u>	<u>61.13</u>
	<u>WA2</u>				<u>269.65</u>	<u>272.18</u>

Annex M: Distribution Network allowed interruption allowance (IA_t) (£million, 2005-6 prices)

<u>Distribution Network</u>	<u>IA_t £ million, 2005-6 prices</u>				
	<u>t=1</u>	<u>t=2</u>	<u>t=3</u>	<u>t=4</u>	<u>t=5</u>
<u>Northern</u>				<u>3.3</u>	<u>3.3</u>
<u>Scotland</u>				<u>2.8</u>	<u>2.8</u>
<u>Southern</u>				<u>3.8</u>	<u>3.8</u>
<u>Wales and West</u>				<u>8.1</u>	<u>8.1</u>

Special Condition E7: Determination of any adjustment factor to be applied to MR_t (IAE_t)

1. The purpose of this condition is to enable the licensee (and in the case of an exit income adjusting event, a shipper,) to propose;³ and to provide for the Authority to determine, whether any adjustment to the ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue restriction is appropriate.

Part A: Formula for the Distribution Network adjustment factor (IAE_t)

2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity) an income adjusting event (IAE_t) is derived from the following formula:

$$\underline{IAE_t = IE_t + ITMA_t + ITL_t}$$

Where:

IE_t means an exit income adjusting event resulting from an increase or decrease in the value of $ExCP_t$ or EIT_t (having the meanings given in paragraph 10 and paragraph 16 respectively) of Special Condition E6 (Distribution Network Exit capacity costs and incentive revenue (Ex_t)) and shall be derived in accordance with paragraph 3;

$ITMA_t$ means a TMA income adjusting event resulting from an increase in the costs associated with any order or regulation made pursuant to Part 3 of the Traffic Management Act 2004 or any equivalent provision in the Transport (Scotland) Act 2005 and shall be derived in accordance with paragraph 8; and

ITL_t means a tax liability income adjusting event resulting from

~~an increase in the costs associated with any corporation tax liability that arises from a change in the rate in which replacement expenditure is treated as a deductible expense for the purposes of the calculation of the licensee's profits chargeable to corporation tax, to the extent that this change arises from a mandatory change in the way that such expenditure is accounted for in the licensee's statutory accounts, and providing that the licensee has used reasonable endeavours to maintain the current rate at which such expenditure is deductible~~ and shall be derived in accordance with paragraphs 1232.

Part B: Obligations in respect of an exit income adjusting event (IE_t)

~~2.~~—may arise from any of the following:

3. For the purposes of paragraphs 2 of this condition an exit income adjusting event (IE_t) may arise from any of the following:

(a) ~~Any order or regulation made pursuant to Part 3 of the Traffic Management Act 2004 and or the Transport (Scotland) Act 2005 which imposes a permit scheme (for which the category of costs is “permit scheme costs”);~~

(b) ~~Any corporation tax liability that arises from a change in the rate in which replacement expenditure is treated as a deductible expense for the purposes of the calculation of the licensee's profits chargeable to corporation tax, to the extent that this change arises from a mandatory change in the way that such expenditure is accounted for in the licensee's statutory accounts, and providing that the licensee has taken all reasonable steps to maintain the current rate at which such expenditure is deductible; or~~

~~3.~~—

(c) ~~a~~Any event or circumstance that increases or decreases the value of ExCP_t (having the meaning given in paragraph 10 of Special Condition E6 (Distribution Network Exit Capacity costs and incentive revenue (Ex_t))) and:

~~(d)~~ constituting force majeure under the network code;

(a)

(b) an event or circumstance resulting in results in the declaration of a Network Gas Supply Emergency (having the meaning given to such term in the network code);
or

(c) an event or circumstance other than those listed above which is, in the opinion of the Authority, an exit income adjusting event and is approved by it as such in accordance with paragraph 7~~X~~ of this condition,

where the event has, for Formula Year t, increased or decreased the value of $ExCP_t$ or EIT_t ((having the meaning given in paragraphs 10 and 16 of Special Condition E6 (Distribution Network Exit capacity costs and incentive revenue (Ex_t))) by more than:

- (i) £1,500,000 for Formula Year t=1;
- (ii) £1,000,000 for Formula Year t=2;
- (iii) £1,000,000 for Formula Year t=3;
- (iv) £1,500,000 for Formula Year t=4; or
- (v) 0.5 per cent of base revenue (Z_t) for all other years,

(the “Threshold Amount”). This threshold amount does not apply in respect of sub-paragraph (b) above.

- (i) ~~in the opinion of the Authority is an income adjusting event and is approved by it as such in accordance with paragraph 8 of this condition.~~

~~4. Subject to the provisions of paragraphs 6 and 7, where:~~

4. Where the licensee considers, and can provide supporting evidence that, in respect of ~~formula year~~ Formula Year ~~Formula Year~~ t, there have been costs and/ or expenses that

have been efficiently incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.

~~by complying with the obligations, events or requirements arising under as a consequence of paragraph 2 are, or are likely to be, a material amount~~

~~5.—Where ; or~~

~~6.—~~

~~(b)5. any shipper considers, and can provide supporting evidence that, in respect of formula year Formula Year Formula Year t, there have been costs and/ or expenses that have been incurred or saved by an exit income adjusting event, then a shipper may give notice of this event to the Authority. by; complying with obligations, as a consequence of any s or requirements circumstance arising under paragraph 2(c) are, or are likely to be, a material amount~~

6. A notice provided to the Authority under paragraphs 4 and 5 of this condition shall in the case of the licensee, and shall, in so far as it 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 the 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 any relevant shipper to fully assess the event to which the notice relates.

~~If the Authority considers that the analysis or information provided in sub paragraphs 6(a) to 6(d) of this condition 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 adjusting event that should be approved, the Authority can request that~~

~~the supporting evidence be supplemented with additional material that it considers appropriate.~~

~~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.~~

~~The Authority will make public, excluding any confidential information, which it has received under paragraph 4 or 5 of this condition any notice of an income adjusting event following its receipt.~~

~~Any notice submitted to the Authority under either paragraphs 4 or 5 of this condition shall clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality for the purpose of paragraph 9 of this condition having regard to:~~

~~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~~

~~the extent to which the disclosure of the information mentioned in subparagraph 10(a) of this condition is necessary for the purpose of enabling shippers to fully assess the event to which the notice relates.~~

7. Following consultation with such ~~FF~~persons including the licensee and any relevant shippers~~}}~~ as the Authority considers likely to be affected by its determination the Authority shall determine:

(a) whether any or all of the costs and/or expenses referred to in a notice pursuant to paragraphs 4 or paragraph 5 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 $ExCP_t$ or EIT_t ((having the meaning given in paragraphs 10 and 16 respectively

of Special Condition E6 (Distribution Network Exit capacity costs and incentive revenue (Ex_t)) by more than the threshold amount, save in the case of sub-paragraph 3 (b) of this condition where the threshold amount shall not apply; and

- (c) if so, whether the amount of the proposed income adjustment secures 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.

~~In relation to formula year t , the approved allowance in respect of an income adjustment (IE_t) shall be:~~

~~the value determined by the Authority under paragraph 11 above; or~~

~~if the Authority has not made a determination under paragraph 11 above 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 sub-paragraph 6(c) of this condition; or~~

~~in all other cases zero, including situations where the Authority has not made a determination under paragraph 11 of this condition within three months of the date on which notice under paragraphs 4 or 5 of this condition 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 6 or 7 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.~~

~~The Authority's decision in relation to any notice given under paragraphs 4 or 5 shall be in writing, shall be copied to the licensee and shall be in the public domain.~~

~~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.~~

Part C: Obligations in respect of a TMA income adjusting event (ITMA_t)

~~8. the licensee or any shipper may, by notice to the Authority, propose a relevant adjustment to the Distribution Network transportation activity revenue Distribution Network Transportation Activity Revenue restriction conditions.~~

8. For the purposes of paragraph 2 of this condition where the licensee reasonably believes that a TMA income adjusting event (ITMA_t) has arisen as a result of reasonable costs incurred from:

- (a) permit costs;
- (b) fixed penalties;
- (c) ongoing administration; or
- (d) [other costs that the Authority directs should be treated as TMA costs],

~~associated with any order or regulation made pursuant to Part 3 of the Traffic Management Act 2004 or equivalent provisions under the Transport (Scotland) Act 2005, which has not already been deemed by the Authority to be already included in the licensee's allowance, and where the cumulative costs have exceeded, in the period from 1 April 2008 up to and including 31 March of the relevant year t and/or is likely to be exceeded in subsequent years, the sum of 1 per cent of base revenue (Z_t) and any amounts that the licensee considers to be included in its base revenue allowance (Z_t) on a cumulative basis (the "threshold amount"), the licensee may, by notice to the Authority, propose a relevant adjustment to the Distribution Network Transportation Activity Revenue Restriction Conditions.~~

9. A relevant adjustment under paragraph ~~8~~³ is one which, in the opinion of ~~either~~ the licensee, ~~or, where appropriate, any shipper,~~ would if made, have the effect of enabling the licensee to recover the efficient costs ~~and/or expenses that have been efficiently incurred or saved or like or likely by it~~ to be incurred in the period from the date of the proposal to 31 March 2013 ~~or saved~~ in relation to the obligations, events or requirements referred to in that paragraph.

~~10. The licensee, or where appropriate any shipper, may not propose a relevant adjustment under paragraph 3 ~~15~~ in respect of any costs of whatever description incurred in any relevant ~~formula year~~ Formula Year before the year commencing 1 April 2008.~~

~~11. The licensee, or where appropriate any shipper, may propose a relevant adjustment under paragraph 3 on or after 1 April 2008 in relation to any of the following costs incurred, or likely to be incurred, after that date:~~

~~(a) Permit scheme costs;~~

~~(b) Corporation tax liability, to the extent it arises in the circumstances set out in paragraph 2 (b); and~~

~~(c) ExCP, costs to the extent it arises in the circumstances set out in paragraph 2(c).~~

10. A notice served by the licensee, ~~or any shipper,~~ in accordance with paragraph ~~15~~³ must:

(a) state the obligations, events or requirements to which the notice relates;

(b) set out by reference to each such obligation or requirement the basis on which the licensee ~~or any shipper~~ has calculated the relevant adjustment; and

(c) state the date from which the licensee, ~~or any shipper,~~ wishes the Authority to agree that the relevant adjustment shall have effect (“the adjustment date”).

11. Following consultation with such [parties] [persons, including the licensee] as the Authority considers likely to be affected by its determination, including the licensee, the Authority shall determine whether any or all of the costs and/or expenses referred to in a notice pursuant to paragraph 8 of this condition were incurred as a result of a TMA income adjusting event; having particular regard to the purpose of this condition; and taking no account of the financial performance of the licensee relative to any of the assumptions, whether express or implied, by reference to which the Distribution Network Transportation Activity Revenue Restriction Conditions may have been framed.

~~13. Where the licensee, or any shipper, serves a notice under paragraph 153, the Authority:~~

~~(a) following consultation with the licensee;~~

~~having particular regard to the purpose of this condition; and~~

~~taking no account of the financial performance of the licensee relative to any of the assumptions, whether express or implied, by reference to which the Distribution Network transportation activity revenue Distribution Network Transportation Activity Revenue Restriction Conditions may have been framed,~~

~~may, within four months of receiving such notice, determine the relevant adjustment to the Distribution Network transportation activity revenue Distribution Network Transportation Activity Revenue Restriction Conditions in such a manner as it considers appropriate.~~

~~14. If the Authority has not determined the relevant adjustment within four months of receiving the notice from the licensee under paragraph 153, and such a notice has not been withdrawn, the licensee may give notice to the Authority that the relevant adjustment shall take effect from the adjustment date for all relevant purposes under the Distribution Network transportation activity revenue Distribution Network Transportation Activity Revenue Restriction Conditions.~~

15. A “material amount” within the meaning of paragraph 3 is:

~~(a) the amount which exceeds, or is likely to exceed, 1 per cent of base revenue arising from each of the circumstances set out in paragraph 2(a) and 2(b);~~

~~(b) an increase or decrease in the value of $ExCP_t$ (having the meaning given to that term in paragraph 10 of Special Condition E6 (Distribution Network Exit Capacity costs and incentive revenue Ext_t)) arising from circumstances set out in paragraph 2(e) by more than:~~

~~(aa) — £1,500,000 for formula year $\underline{\text{Formula Year Formula Year } t=1}$;~~

~~(aa) £1,000,000 for formula year $\underline{\text{Formula Year Formula Year } t=2}$;~~

~~(cc) — £1,000,000 for formula year $\underline{\text{Formula Year Formula Year } t=3}$;~~

~~(dd) — £1,500,000 for formula year $\underline{\text{Formula Year Formula Year } t=4}$; or~~

~~(ee) — £2,000,000 for formula year $\underline{\text{Formula Year Formula Year } t=5}$~~

~~The material amount does not apply in respect of sub-paragraph 2(c)(ii) above.~~

~~16. A relevant adjustment proposed in accordance with paragraph 3 may, so long as the requirement of paragraph 6 and 7 are satisfied, be framed on the basis of a material amount that has been calculated:~~

~~(a) by reference to only one of the categories of cost described in paragraph 2; or~~

~~(b) by reference to more than one of those categories (in which case, it shall be a material amount for the purposes of each relevant category).~~

~~17. For the purposes of this condition:~~

~~(a) the power of the Authority to determine a relevant adjustment in accordance with paragraph 198 is the power to confirm, reject, or vary the relevant adjustment~~

~~proposed by the licensee, or where appropriate proposed by any shipper, under paragraph 153;~~

~~(b) without prejudice to sub-paragraph (a), in determining a relevant adjustment to the Distribution Network transportation activity revenue Distribution Network Transportation Activity Revenue ~~r~~ Restriction e Conditions the Authority may include in its determination such adjustments as it thinks fit in respect of those costs likely to be incurred by the licensee in subsequent relevant years within the category of costs to which the relevant adjustment applies; and~~

~~(c) where the Authority's determination or an adjustment made by the licensee under paragraph 208 has the effect of adjusting the Distribution Network transportation activity revenue Distribution Network Transportation Activity Revenue ~~r~~ Restriction e Conditions in relation to the relevant formula year Formula Year (other than the normal operation of the correction factor K_t derived in accordance with Special Condition E4: (Distribution Network transportation activity revenue Distribution Network Transportation Activity Revenue adjustment (K_t))), the licensee may not propose any additional relevant adjustment in respect of the same category of costs in that year.~~

Part D: Obligations in respect of a tax liability income adjusting event (ITL_t)

12. For the purposes of paragraph 2 of this condition, a tax liability income adjusting event is one resulting from an increase in the costs associated with any corporation tax liability that arises from a change in the rate in which replacement expenditure is treated as a deductible expense for the purposes of the calculation of the licensee's profits chargeable to corporation tax, to the extent that this change arises from a mandatory change in the way that such expenditure is accounted for in the licensee's statutory accounts, and providing that the licensee has used reasonable endeavours to maintain the current rate at which such expenditure is deductible.
13. Where the licensee reasonably believes that a tax liability income adjusting event (ITL_t) has arisen which has not already been included in the licensee's allowance and where the cumulative costs have exceeded, in the period from 1 April 2008 up to and

~~including 31 March of the relevant year t, the sum of 1 per cent of base revenue (Z_t) where the costs have exceeded, in relevant year t and/ or are likely to be exceeded in subsequent years, 1 per cent of base revenue (Z_t) on a cumulative basis, (“the threshold amount”)~~, the licensee may by notice to the Authority, propose a relevant adjustment to the Distribution Network Transportation Activity Revenue Restriction Conditions.

14. A relevant adjustment under paragraph ~~1315~~ is one which, in the opinion of the licensee would if made, have the effect of enabling the licensee to recover efficient costs incurred or likely to be incurred in relation to the obligations, events or requirements referred to in that paragraph.

~~The licensee may not propose a relevant adjustment under paragraph 22 in respect of any costs of whatever description in any Formula Year before the year commencing 1 April 2008.~~

15. A notice served by the licensee in accordance with paragraph ~~1322~~ must:

- (a) ~~state the obligations, events or requirements to which the notice relates~~ amount of the tax liability and any associated costs the licensee believes it has incurred as a result of the tax liability income adjusting event;
- (b) ~~set out by reference to each such obligation or requirement~~ the basis on which the licensee has calculated the relevant adjustment;
- (c) ~~set out the steps that the licensee has taken in order to minimise the costs arising from the tax liability income adjusting event; and~~
- (d) ~~state the date from which the licensee wishes the Authority to agree that the relevant adjustment shall have effect (“the adjustment date”).~~

16. ~~Following consultation with such [parties] [persons including the licensee] as the Authority considers likely to be affected by its determination, including the licensee, the Authority shall determine whether any or all of the costs and/or expenses referred to~~

~~in a notice given pursuant to paragraph 13 of this condition were incurred as a result of a tax liability income adjusting event; having particular regard to the purpose of this condition; and taking no account of the financial performance of the licensee relative to any of the assumptions, whether express or implied, by reference to which the Distribution Network Transportation Activity Revenue Restriction Conditions may have been framed.~~

~~Where the licensee serves a notice under paragraph 22 the Authority:~~

~~_____ following consultation with the licensee;~~

~~_____ having particular regard to the purpose of this condition; and~~

~~_____ taking no account of the financial performance of the licensee relative to any of the assumptions, whether express or implied, by reference to which the Distribution Network Transportation Activity Revenue Restriction Conditions may have been framed,~~

~~may, within four months of receiving such notice, determine the relevant adjustment to the Distribution Network Transportation Activity Revenue Restriction Conditions in such a manner as it considers appropriate.~~

~~_____ If the Authority has not determined the relevant adjustment within four months of receiving the notice from the licensee under paragraph 22, and such a notice has not been withdrawn, the licensee may give notice to the Authority that the relevant adjustment shall take effect from the adjustment date for all relevant purposes under the Distribution Network Transportation Activity Revenue Restriction Conditions.~~

~~_____ For the purposes of this condition:~~

~~_____ the power of the Authority to determine a relevant adjustment in accordance with paragraph 26 is the power to confirm, reject, or vary the relevant adjustment proposed by the licensee under paragraph 22;~~

~~without prejudice to sub-paragraph (a), in determining a relevant adjustment to the Distribution Network Transportation Activity Revenue Restriction Conditions the Authority may include in its determination such adjustments as it thinks fit in respect of those costs likely to be incurred by the licensee in subsequent relevant years within the category of costs to which the relevant adjustment applies; and~~

~~where the Authority's determination or an adjustment made by the licensee under paragraph 27 has the effect of adjusting the Distribution Network Transportation Activity Revenue Restriction Conditions in relation to the Formula Year (other than the normal operation of the correction factor K_t derived in accordance with Special Condition E4 (Distribution Network Transportation Activity Revenue adjustment (K_t)), the licensee may not propose any additional relevant adjustment in respect of the same category of costs in that year.~~

Part E: Further Obligations in respect of an exit, TMA or tax liability income adjusting event (IET), (ITMAT) or (ITL_t)

17. ~~For the purposes of Part E of this condition, an income adjusting event is one or more of:~~
- ~~(a) An exit income adjusting event;~~
 - ~~(b) An TMA income adjusting event; and~~
 - ~~(c) A tax liability income adjusting event.~~
18. ~~If the Authority considers that the analysis or information provided by the licensee (or in the case of an exit income adjusting event, by a shipper) in respect of an income adjusting event is insufficient to enable both the Authority (and in the case of an exit income adjusting event, any relevant shippers) to assess whether an income adjusting event has occurred and/ or the amount of any allowed income adjusting event that should be approved, the Authority can request that the supporting evidence be supplemented with additional material that it considers appropriate.~~
19. ~~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 F Formula Y year t in which it occurs.
20. The Authority will make public information, excluding any confidential information, which it has received under paragraphs 4, 5, 8 or 13 of this condition. ~~any notice of an income adjusting event following its receipt.~~
21. Any notice submitted to the Authority under ~~either~~ paragraphs 4, 5, 8 or 13 of this condition shall clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality for the purpose of paragraph 20 of this condition 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 any person to which it relates; and
 - (b) in the case of an exit income adjusting event, the extent to which the disclosure of the information mentioned in sub-paragraph 21 (a) of this condition is necessary for the purpose of enabling any relevant shippers to fully assess the event to which the notice relates.
22. In relation to F formula Y year t , the approved allowance in respect of an income adjustment (IE_t) shall be:
- (a) the value determined by the Authority under paragraph 7, 11 or 16 above; ~~or~~
 - (b) if the Authority has not made a determination under paragraph 7, 11 or 16 above within six 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 paragraphs 4, 5, 8 or 13 of this condition; or
 - (c) in all other cases zero, including situations where the Authority has not made a determination under paragraph 7, 11 or 16 of this condition within three months

of the date on which notice under paragraphs 4, 5, 8 or 13 of this condition was provided to the Authority and the Authority has, before the end of that three month period, informed the relevant parties persons that the Authority considers that the analysis or information provided in accordance with paragraphs 6, 10, 15 or 18 is insufficient to enable the Authority and any relevant shippers to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.

23. For the purposes of this condition:

- (a) the power of the Authority to determine a relevant adjustment in accordance with paragraphs 7, 11 and 16 is the power to confirm, reject, or vary the relevant adjustment proposed by the licensee under paragraphs 4, 5, 8 or 13;
- (b) without prejudice to sub-paragraph (a), in determining a relevant adjustment to the Distribution Network Transportation Activity Revenue Restriction Conditions the Authority may include in its determination such adjustments as it thinks fit in respect of those costs likely to be incurred by the licensee in subsequent relevant years within the category of costs to which the relevant adjustment applies; and
- (c) where the Authority's determination or an adjustment made by the licensee under paragraph 22–(b) of this condition has the effect of adjusting the Distribution Network Transportation Activity Revenue Restriction Conditions in relation to the Formula Year (other than the normal operation of the correction factor K_t derived in accordance with Special Condition E4 (Distribution Network Transportation Activity Revenue adjustment (K_t))), the licensee may not propose any additional relevant adjustment in respect of the same category of costs in that year.

24. The Authority's decision in relation to any notice given under paragraphs 4, 5, 8 or 13 shall be in writing, shall be copied to the licensee and shall be in the public domain.

25. 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 any relevant 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.

Special Condition E8: Distribution Network shrinkage allowance (Sh_t)

1. The purpose of this condition is to set out the licensee's allowance for the cost of shrinkage gas which adjusts the maximum Distribution Network Transportation Activity revenue.

Formula for the Distribution Network shrinkage allowance (Sh_t) for the period commencing 1st April 2008 and ending 30th September 2008.

2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity), the maximum Distribution Network shrinkage allowance for the period commencing 1st April 2008 and ending 30th September 2008 shall be derived from the following formula:

$$Sh_t = \sum_{all\ i} \left(\sum_{m=1}^6 GPRC_{t,m} \times \frac{SF_{t,i}}{100} \times ZTQ_{t,m,i} \right)$$

Where:

Sh_t means the maximum shrinkage incentive revenue in respect of the relevant Distribution Network for Formula Year t;

i means each LDZ i of the Distribution Network;

$\sum_{all\ i}$ means the sum across all LDZs i ;

m means each calendar month where $m=1$ commences on 1 April 2008;

$\sum_{m=1}^6$ means the sum for months $m=1$ to $m=6$ in Formula Year t;

$SF_{t,i}$ means the LDZ allowed shrinkage factor SF in respect of

the Formula Year t for each constituent LDZ i of the Distribution Network as set out in Annex N;

$ZTQ_{t,m,i}$ means the LDZ throughput quantity ZTQ for LDZ i in each month m of Formula Year t measured in Gigawatt Hours; and

$GPRC_{t,m}$ means the gas price reference cost GPRC in respect of month m of Formula Year t and shall be derived from the formula in paragraph 3.

3. For the purpose of paragraph 2 the gas price reference cost $GPRC_{t,m}$ shall be derived from the following formula:

$$GPRC_{t,m} = UF \times CF \times \frac{\sum_{all\ d} FP_{m-3,d}}{n_{m-3}}$$

Where:

UF means Uplift Factor UF and has the value of 1.035;

CF means Conversion Factor CF and is used to convert $FP_{m-3,d}$ from pence per therm, to pounds sterling per Gigawatt Hour and is equal to 341.2;

d means a “working day” with the definition given in Standard Special Condition A3 (Definitions and Interpretation) and is a day on which the forward price for month m is published in an Approved Market Price Report;

m has the same meaning given in paragraph 2;

$\sum_{all\ d}$ means the sum $FP_{m-3,d}$ of the for all working days d in month $m-3$;

n_{m-3} means the number of working days d upon which the Approved Market Price Report publishes a forward price for month m in month $m-3$; and

$FP_{m-3,d}$ means the Forward Offer Price $FP_{m-3,d}$ of gas at close of business on day d of month $m-3$ published in an Approved Market Price Report for delivery at the National Balancing Point in respect of month m of Formula Year t .

Formula for the Distribution Network shrinkage incentive revenue (Sh_t) for the period commencing 1st October 2008

4. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity), the maximum Distribution Network shrinkage allowance for the period commencing 1st October 2008 in respect of the Formula Year t shall be derived from the following formula:

$$Sh_t = \sum_{all\ i} GPRC_t \times SV_{t,i}$$

Where:

Sh_t means the maximum shrinkage allowance in respect of the relevant Distribution Network for Formula Year t;

i means each LDZ i of the Distribution Network;

$\sum_{all\ i}$ means the sum across all LDZs i;

$GPRC_t$ means the gas price reference cost in respect of Formula Year t and shall be derived in accordance with paragraph 5 of this condition; and

$SV_{t,i}$ means the LDZ allowed shrinkage volume in respect of the Formula Year t for each of the constituent LDZ i of the Distribution Network as set out in Annex O.

5. For the purposes of paragraph 4 of this condition the gas price reference cost in respect of Formula Year t ($GPCR_t$) shall be derived from the following formula:

$$GPCR_t = CF \times \left(\frac{\sum_{all d} (Wdy + Wed)}{WD} \right)$$

Where:

- CF means conversion factor and is used to convert the factor $\sum_{all d} (Wdy + Wed)$ from pence per therm, to pounds sterling per Gigawatt Hour and is equal to 341.2;
- d means each calendar Day where d=1 commences on 1 October 2008;
- $\sum_{all d}$ means the sum across all Days d within a given period;
- Wdy means the Forward Offer Price Wdy of gas at close of business on the day before the relevant day d published in an Approved Market Price Report for delivery at the National Balancing Point;
- Wed means the Forward Offer Price Wed of gas at close of business on the day before the relevant weekend price Wed published in an Approved Market Price Report for delivery at the National Balancing Point;
- WD Means for the period commencing 1st October 2008 the number of days within the relevant year t, except when t=1 when WD=182;

Annex N: LDZ allowed shrinkage factor SF for the period commencing 1st April 2008 and ending on 30th September 2008.

Distribution Network	LDZ	Shrinkage Factor SF (%)				
		t=1	t=2	t=3	t=4	t=5
North of England	Northern	0.584%				
	North East	0.638%				
Scotland	Scotland	0.458%				
South of England	South East	0.648%				
	Southern	0.698%				
Wales and West	Wales North	0.796%				
	Wales South	0.563%				
	South West	0.886%				

Annex O: LDZ allowed shrinkage volume SV for the period commencing 1st October 2008 and ending on 31st March 2013.

Distribution Network	LDZ	Shrinkage Factor SF (%)				
		t=1	t=2	t=3	t=4	t=5
North of England	Northern	120	234	230	227	224
	North East	151	296	292	288	283
Scotland	Scotland	148	284	278	272	266
South of England	South East	232	445	433	421	409
	Southern	156	303	298	292	286
Wales and West	Wales North	34	64	61	60	59
	Wales South	88	170	163	157	153
	South West	155	299	292	285	278

Special Condition E9: Distribution Network environmental emissions incentive revenue (EE_t)

1. The purpose of this condition is to set out the total amount of incentive payments that adjust the maximum Distribution Network Transportation Activity revenue to reflect the licensee's performance in respect of the environmental emissions incentive and to specify how emissions shall be reported.

Formula for the environmental emissions incentive (EE_t)

2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity), the maximum Distribution Network environmental emissions incentive revenue (EE_t) in respect of the Formula Year t shall be derived from the following formula:

$$EE_t = \text{MAX}[\text{MIN}((LB_{t,i} - LV_{t,i}) \times CC_t, CAP_{t,i}), COLLAR_{t,i}]$$

Where:

the terms 'MAX' and 'MIN' are used, for any two given amounts x and y, 'MIN (x,y)' means x if x-y is negative and otherwise y, and 'MAX (x,y)' means y if x-y is negative otherwise x;

$LB_{t,i}$ means the LDZ allowed baseline leakage volume in respect of the Formula Year t for each of the constituent LDZ i of the Distribution Network as set out in Annex P;

$LV_{t,i}$ means the LDZ actual leakage volume, as calculated in accordance with the leakage model regulatory instructions and guidance;

CC_t means the environmental emissions factor and is set out in

Annex Q;

$CAP_{t,i}$ means the maximum Distribution Network environmental emissions revenue in respect of Formula Year t and is set at Annex R; and

$COLLAR_{t,i}$ means the minimum Distribution Network environmental emissions revenue in respect of Formula Year t and is set at Annex S.

3. For the purposes of this condition:

- a. “leakage model 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 4 and, subject to paragraphs 4, 5 and 6, shall include without limitation:
 - (i) provisions with respect to the meaning of words and phrases used in defining the leakage model;
 - (ii) requirements as to the basis of measurement or determination of the inputs to the leakage model;
 - (iii) requirements as to the operation of the leakage model;
 - (iv) requirements as to the timing of the operation of the leakage model; and
 - (v) requirements as to the process of changing the leakage model “the leakage model change process” and rebasing the LDZ allowed environmental emissions leakage baseline.
- b. “leakage model” means the processes used to determine reported leakage from the LDZ and includes a spreadsheet used for the purposes of calculating the leakage over a specified period for a specified LDZ based on factors pertaining to the physical state of the LDZ during the specified time.

Modification of the leakage model regulatory instructions and guidance

4. Where the Authority considers that the leakage model 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 5 and 6, modify the revenue reporting regulatory instructions and guidance by issuing a direction to the licensee.
5. Before issuing a direction under paragraph 4, 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.
6. The Authority may direct changes to the leakage model and leakage baselines but shall not do so without the consent of the company, provided such consent is not unreasonably withheld.

Annex P: Allowed baseline leakage volume LB for the period commencing 1st April 2008

Distribution Network	LDZ	Leakage Volume (GWh)				
		t=1	t=2	t=3	t=4	t=5
North of England	Northern	224	220	217	213	210
	North East	284	280	276	271	265
Scotland	Scotland	270	264	258	252	245
South of England	South East	433	421	409	396	383
	Southern	294	288	282	276	270
Wales and West	Wales North	64	61	58	57	56
	Wales South	164	160	153	147	142
	South West	296	286	279	272	265

Annex Q: Environmental emissions factor CC_t for the period commencing 1st April 2008

Environmental emissions factor CC (£ per MWh 2005 -06 prices)					
	t=1	t=2	t=3	t=4	t=5
CC_t	28.50	29.07	29.65	30.24	30.84

Annex R: Maximum environmental emissions revenue CAP for the period commencing 1st April 2008

Distribution Network	LDZ	Cap-Environmental emissions revenue (£million 2005-06 prices)				
		t=1	t=2	t=3	t=4	t=5
North of England	Northern	0.64	0.64	0.64	0.65	0.65
	North East	0.81	0.81	0.82	0.82	0.82
Scotland	Scotland	0.77	0.77	0.76	0.76	0.76
South of England	South East	1.24	1.22	1.21	1.20	1.18
	Southern	0.84	0.84	0.84	0.84	0.83
Wales and West	Wales North	0.18	0.18	0.17	0.17	0.17
	Wales South	0.47	0.47	0.45	0.44	0.44
	South West	0.84	0.83	0.83	0.82	0.82

Annex S: Minimum environmental emissions revenue COLLAR for the period commencing 1st April 2008

Distribution Network	LDZ	Collar-Environmental emissions revenue (£million 2005-06 prices)				
		t=1	t=2	t=3	t=4	t=5
North of England	Northern	- 0.64	- 0.64	- 0.64	- 0.65	- 0.65
	North East	- 0.81	- 0.81	- 0.82	- 0.82	- 0.82
Scotland	Scotland	- 0.77	- 0.77	- 0.76	- 0.76	- 0.76
South of England	South East	- 1.24	- 1.22	- 1.21	- 1.20	- 1.18
	Southern	- 0.84	- 0.84	- 0.84	- 0.84	- 0.83
Wales and West	Wales North	- 0.18	- 0.18	- 0.17	- 0.17	- 0.17
	Wales South	- 0.47	- 0.47	- 0.45	- 0.44	- 0.44
	South West	- 0.84	- 0.83	- 0.83	- 0.82	- 0.82

Special Condition E10: Distribution Network discretionary reward scheme revenue (DRS_t)

1. The purpose of this condition is to provide for adjustments to ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue ~~set out a mechanism~~ to reward best practice by gas transporters.
2. For the purpose of paragraph 5 of Special Condition E2: (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity):

DRS_t means such positive adjustment (if any) to allowed transportation revenue in respect of the discretionary reward scheme for ~~gas distributors transporters~~ Distribution Networks regarding best practice in relation to reducing the environmental impact of gas distribution, facilitating gas network extensions and promoting gas safety as may be determined by the Authority in respect of performance in ~~formula year~~Formula Year Formula Year t-2.

Special Condition E11: Distribution Network innovation funding incentive for sustainable development scheme (IFISD_t)

1. The purpose of this condition is to provide for adjustments to Distribution Network Transportation Activity Revenue to reflect the performance of the licensee in relation to its investment in innovation for sustainable development under the innovation funding incentive for sustainable development scheme (IFISD_t).
2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity) the innovation funding incentive for sustainable development (IFISD_t) is derived for the Formula Year t from the formula:

$$IFISD_t = 0.80 \times (\min(IFIE_t, ((0.005 \times Z_t) + KIFI_t)))$$

IFIE_t means the eligible IFI expenditure in the Formula Year t as reported in the IFISD annual report for that for that Formula Year;

Z_t means the maximum Distribution Network Transportation Activity Revenue in the Formula Year t as defined in paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity(MR_t));

KIFI_t is the IFI carry-forward in relation to the incentive scheme as set out in the IFISD annual report for the Formula Year t-1, and is calculated from the following formula:

$$\text{if } IFIE_{t-1} \leq 0.5 \times 0.005 \times Z_{t-1} : KIFI_t = 0.5 \times 0.005 \times Z_{t-1}$$

$$\text{if } IFIE_{t-1} > 0.5 \times 0.005 \times Z_{t-1} \text{ and } IFIE_{t-1} \leq 0.005 \times Z_{t-1} :$$

$$KIFI_t = (0.005 \times Z_{t-1}) - IFIE_{t-1}$$

$$\text{if } IFIE_{t-1} > 0.005 \times Z_{t-1} : KIFI_t = 0$$

where, for the Formula Year commencing 1 April 2008, $KIFI_t$ shall be zero.

3. For the purposes of the incentive scheme, the eligible IFI internal expenditure in the Formula Year t ($IFIIE_t$) shall not exceed the amount determined by the formula:

$$IFIIE_t \leq z \times IFIE_t$$

where:

z shall take the value, except insofar as the Authority consents otherwise, of 0.15.

4. For the purposes of this condition:

“eligible IFI internal expenditure” means that amount of eligible IFI expenditure for sustainable development spent or accrued on the internal resources of the licensee;

“eligible IFI expenditure” means expenditure in respect of those projects that meet the requirements described for such 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 in innovation,

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 E20 (Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network Transportation Activity Revenue restriction in respect of the Distribution Network) in relation to the innovation funding incentive for sustainable development scheme.

Special Condition E12: Distribution Network loss of meter work revenue driver (LM_t)

1. The purpose of this condition is to provide for adjustments to the maximum Distribution Network Transportation Activity Revenue to reflect any stranded costs associated with the loss of meter work revenue which is incurred by the licensee in the provision of emergency services.
2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity) the loss of meter work revenue driver in respect of Formula Year t (LM_t) shall be derived from the following formula:

If $MV_t \leq TPV$, then:

Otherwise:

$$LM_t = 0$$

where:

MV_t means the number of emergency staff metering jobs in respect of the Distribution Network in Formula Year t;

TPV means the number of emergency staff metering jobs at the tipping point and is set out in Annex T;

$LMRD_t$ means the loss of meter work revenue driver in Formula Year t and is set out in Annex U; and

RPI_t has the value given to it by paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity).

3. For the purposes of this condition, an “emergency staff metering job” is a Metering Job carried out by a person engaged, by the licensee, or by a third party at any premises to which gas is conveyed by the licensee in order to enable the licensee to meet its

obligations under Standard Special Condition A8 (Emergency Services and Enquiry Service Obligations).

4. For the purposes of this condition a Metering Job means any of the following services, with in each case a “meter” including all parts of a meter installation as defined within Section M 1.2. of the UNC, including the LP regulator/governor: -
- (a) installing a meter;
 - (b) exchanging a meter;
 - (c) carrying out an accuracy test;
 - (d) exchanging or repairing a damaged meter;
 - (e) replacing a meter;
 - (f) exchanging a meter battery;
 - (g) altering the position of a meter;
 - (h) attending or checking a meter (where chargeable);
 - (i) removing a meter;
 - (j) Fitting or removing a clamp (lock) or security collar to a meter; and
 - (k) hiring a person (up to a full day’s hire) to carry out work within the meaning of metering services in Standard Special Condition A3 (Definitions and Interpretations).

and any other activity associated with metering which is not included in sub-paragraphs (a) to (k) and which is counted as a chargeable visit to a customer’s premises.

Annex T – Distribution Network metering work tipping point volume (TPV)

Distribution Network	metering work tipping point volume (TPV)
North of England	118,753
Scotland	183,696
South of England	369,657
Wales & West	246,060

Annex U – Distribution Network loss of meter work revenue driver (LMRD_t) (2005-6 prices)

Distribution Network	t=1	t=2	t=3	t=4	t=5
North of England	38.6	36.6	34.7	32.8	30.9
Scotland	17.6	16.7	15.8	14.9	14.1
South of England	25.0	23.7	22.5	21.2	20.0
Wales & West	23.4	22.2	21.1	19.9	18.7

Special Condition E13: “Not Used”

Special Condition E14: “Not Used”

Special Condition E15: “Not Used”

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Special Condition E16: Disapplication of the ~~Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue restriction

1. The purpose of this condition is to set out the procedures for the disapplication of the ~~DN~~ ~~Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue ~~R~~restriction Conditions.
2. The ~~Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue ~~restriction~~ Restriction ~~C~~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 3 to 8 of this condition.
3. The ~~Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue ~~R~~restriction ~~e~~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 of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 7 or ~~paragraph~~ 8 of this condition.
4. A disapplication request may be delivered at any time and shall:
 - (a) be in writing addressed to the Authority;
 - (b) specify the ~~Distribution Network transportation activity revenue~~ Distribution Network Transportation Activity Revenue restriction conditions (or any part or parts thereof) to which the request relates;
 - (c) specify the Distribution Network (or any part or parts thereof) to which the request relates; and
 - (d) state the date (being not earlier than the date referred to in paragraph 6 of this condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect, (the disapplication date).

5. The licensee may withdraw a disapplication request at any time.
6. Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to paragraph 7 of this condition shall have effect until a date being not less than 18 months after delivery of the disapplication request.
7. If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of any of the Distribution Network Transportation Activity Revenue Restriction Conditions~~Special Conditions E2 (Restriction of revenue in respect of the Distribution Network (Transportation Activity) to E109 (Discretionary Reward Scheme (DRS)))~~, referred to in this condition as the “relevant Special Condition” or the part or parts thereof specified in the disapplication request before the beginning of the period of 6 months which will end with the disapplication date and the licensee has not withdrawn this disapplication request, the licensee may deliver written notice to the Authority terminating the application of the ~~relevant Special Condition~~ Distribution Network Transportation Activity Revenue Restriction Conditions or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.
8. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the Distribution Network Transportation Activity Revenue Restriction Conditions~~relevant Special Condition~~ or the part or parts thereof specified in the disapplication request and such report does not include a conclusion that:
 - (a) the cessation of ~~those such revenue restrictions in the relevant Special C~~ conditions , in whole or in part, operates or may be expected to operate against the public interest; or
 - (b) that any adverse effects specified by the Competition Commission could be remedied or prevented by such modifications of the relevant conditions as are specified in the report,

the licensee may within 30 ~~days~~Days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of the Distribution Network Transportation Activity Revenue Restriction Conditions~~relevant Special Condition~~ or the part or parts thereof specified in the disapplication request with effect from the disapplication date or ~~such~~a later date.

9. ~~The contingency revenue restriction in respect of the Distribution Network transportation activity~~Distribution Network Transportation Activity shall be determined as follows:

(a) ~~Subject to paragraph 2 of this condition, where the price control period end date~~Price Control Period End Date has passed, then until not later than 6 months after the delivery of the report by the Competition Commission to the Authority pursuant to section 25(4) of the Act, or if later, 1 month after the final conclusion of any civil proceedings in respect of sections 24, 25, 26 or 26A of the Act, the maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue for the ~~formula year~~Formula Year~~Formula Year~~ commencing on 1 April immediately after the ~~price control period end date~~Price Control Period End Date and (where relevant) each subsequent formula year shall be derived, save where, on the application of the licensee, the Authority otherwise consents, in the following manner:

9. Subject to paragraph 2 of this condition, where the ~~price control period end date~~Price Control Period End Date has passed, then until not later than 6 months after the delivery of the report by the Competition Commission to the Authority pursuant to section 25(4) of the Act, or if later, 1 month after the final conclusion of any civil proceedings in respect of sections 24, 25, 26 or 26A of the Act, the maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue for the ~~formula year~~Formula Year~~Formula Year~~ commencing on 1 April immediately after the ~~price control period end date~~Price Control Period End Date and (where relevant) each subsequent formula year shall be derived, save where, on the application of the licensee, the Authority otherwise consents, in the following manner:

$$MR_t = MR_{t-1} \times \left[1 + \left(\frac{IA_t}{100} \right) \right]$$

Where:

MR_{t-1} means the previous 12 months maximum ~~Distribution Network transportation activity revenue~~Distribution Network Transportation Activity Revenue; and

IA_t means the Indexation Adjustment and is calculated as the percentage change (whether a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in ~~Formula Y~~year t-1 and the arithmetic average of the retail price index numbers published or determined with respect to the same months in ~~relevant formula year~~Formula Year t-2

(b) ~~For the purpose of this paragraph 9 of this condition, “price control period end date~~Price Control Period End Date” means the end of the period during which, apart from paragraph 9(a) of this condition, ~~DN~~MR_t can be calculated pursuant to paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity).

Special Condition E17: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network

1. The purpose of this condition is to set out how the licensee shall allocate revenues and costs for the purposes of calculating the maximum Distribution Network transportation activity ~~allowed transportation~~ revenue.
2. 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 the Distribution Network Transportation Activity Revenue Restriction Conditions ~~Special Conditions E2 (Restriction of revenue in respect of the Distribution Network transportation activity)~~ Distribution Network Transportation Activity to ~~E9 E11 (Distribution Network loss of meter work)~~ Meter Work revenue driver (LM_i) ~~Discretionary Reward Scheme (DRS_i)~~ 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 the licensee 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
 - (ddee) any other company or organisation.

- (c) The licensee shall perform, wherever practicable, all allocations and attributions on a consistent basis from one ~~formula year~~Formula Year~~Formula Year~~ to the next.
3. The licensee will allocate or attribute all revenue earned and costs incurred by the ~~transportation business~~Transportation Business to the following activities:
- (a) the ~~Distribution Network transportation activity~~Distribution Network Transportation Activity;
- (b) (where relevant) metering activities; or
- (c) ~~excluded services~~Excluded Services in accordance with the principles set out in Special Condition E1782 (Supplementary provisions of the revenue restrictions in respect of the Distribution Network).
4. The licensee shall on or before 1 October 2008 or such later date as the Authority may direct and thereafter before 1 July in each subsequent ~~formula year~~Formula Year~~Formula Year~~ (or such longer period as the Authority may approve) prepare and submit to the Authority a statement in a form approved by the Authority setting out (consistently with the licensee's duty under paragraph 2 and 3 of this condition and consistently with its other duties under the Act, and the standard conditions, Standard Special Conditions and Special Conditions) 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 3 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.
5. The licensee shall re-allocate or re-attribute revenues earned by the licensee and costs incurred by the licensee to the activities undertaken by the licensee listed in paragraph 3 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 4 of this condition so as to bring such re-allocation or attribution into compliance with paragraph 2 of this condition.

6. (a) The licensee shall no later than three months after the end of each ~~formula year~~Formula Year prepare and submit to the Authority a report on the manner in which and the extent to which the licensee has, during that ~~formula year~~Formula Year, complied with the statement prepared pursuant to paragraph 4 of this condition as modified pursuant to paragraph 5 of this condition and whether any modification should be made to that statement to reflect more closely the practice of the licensee; and
- (b) Unless the Authority otherwise consents in writing, the licensee must procure a report by an appropriate auditor that documents the procedures (and the results of those procedures) carried out by the auditor for the purposes of demonstrating the extent to which the licensee has properly prepared the report submitted pursuant to paragraph 6(a) in accordance with paragraphs 4 and 5 of this condition. The procedures to be carried out shall have been approved by the Authority. This report shall accompany the statement described in paragraph 6(a).
7. The licensee shall take ~~all~~-reasonable steps to comply with the statement for the time being in force pursuant to paragraphs 4 and 5 of this condition.
8. 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.

Special Condition E18: Excluded Services Supplementary provisions of the Distribution Network transportation activity revenue Distribution Network Transportation Activity Revenue restriction

1. The purpose of this condition is to set out the revenues which are to be treated as excluded revenues from the maximum Distribution Network transportation activity ~~allowed transportation~~ revenue.
2. There may be treated as ~~excluded services~~ Excluded Services, services provided by the licensee in the provision of its ~~Distribution Network transportation activity~~ Distribution Network Transportation Activity in respect of which charges are made which:
 - (a) do not fall within the Distribution Network Transportation Activity Revenue Restriction Conditions ~~Special Conditions E2 (Restriction of Revenue in respect of the Distribution Network transportation activity Distribution Network Transportation Activity) to E911 (Distribution Network loss of meter work Meter Work revenue driver (LM_i))~~ Discretionary Reward Scheme (DRS_i); and
 - (b) may be determined by the licensee as falling under one of the principles set out in paragraphs 3, 4 and to ~~5~~ of this condition.
3. No service provided by the licensee as part of its ~~Distribution Network transportation activity~~ Distribution Network Transportation 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 paragraph 4 of Special Condition E2 (Restriction of revenue in respect of the ~~Distribution Network transportation activity~~ Distribution Network Transportation Activity).
4. The whole or an appropriate proportion of the charges received for the following may be treated as ~~excluded services~~ Excluded Services:

- (a) ~~charges~~ revenue derived 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);
- (b) ~~revenue~~ charges 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~~ Transportation System; ~~or~~
- (c) ~~revenue~~ charges derived from services provided by the agency which are deemed to be User ~~p~~ Pays S services in accordance with Standard Special Condition A15 (Agency) and the relevant charging statement as required by A15; or
- (d) ~~any revenue received from National Grid Gas plc the NTS operator in respect of costs incurred by the licensee in operating Independent Systems as set out in [new GDN licence condition, set out in Appendix 14 of the second licence drafting consultation document, the number of which is yet to be determined].~~
5. 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 ~~Distribution Network transportation activity~~ Distribution Network Transportation Activity.
6. Where the Authority is satisfied that in light of the principles set out in paragraphs 3, 4 and ~~to~~ 5 inclusive of this condition any service treated by the licensee as an excluded service should not be so treated, the Authority shall issue directions to that effect and such service shall cease to be treated as an excluded service with effect from the date of issue of such directions or such earlier date as specified in the directions being not earlier than the commencement of the ~~relevant~~ formula year Formula Year to which the statement last furnished to the Authority pursuant to paragraph 4 of Special Condition E1~~67~~ (Allocation of Revenues and Costs for Calculations under the Price Control in

respect of the Distribution Network) prior to issue of such directions related, unless such statement or the accompanying report or certificate referred to in paragraph 6 of that Special Condition or any earlier such statement, report or certificate was incorrect or misleading in any material aspect.

Special Condition E19: Restriction of prices in respect of ~~tariff capped metering activities~~ Tariff Capped Metering Activities

1. The purpose of this condition is to set out the tariff caps on certain metering activities.

Principal restriction.

2. The licensee in setting its charges for each of its tariff-capped metering activities in any ~~formula year~~ Formula Year shall not exceed the maximum tariff cap M_t^A in respect of that metering activity in respect of that ~~formula year~~ Formula Year t.

Maximum tariff caps (M_t^A)

3. For the purposes of paragraph 2 of this condition the maximum tariff cap for each tariff-capped metering activity in respect of ~~formula year~~ Formula Year t () shall be derived in the following manner:

~~(a) In respect of the formula year Formula Year commencing on 1 April 2008 (t=1), the maximum tariff caps shall have the values set out in the following table:~~

Activity	Description	Maximum tariff caps (M_t^A)
1	Annual charge for providing and maintaining the assets that form a domestic credit meter Domestic Credit Meter <u>Installation</u> , per meter per annum	<u>£13.26</u> $\times (1 + RPI_t)$
2	Annual charge for providing and maintaining the assets that form a prepayment meter Prepayment Meter	<u>£29.45</u> $\times (1 + RPI_t)$

Installation, per meter per annum

- | | | |
|---|--|---|
| 3 | Annual charge for providing a daily meter reading for daily metered supply meter points <u>Daily Metered Supply Meter Points</u> , per supply meter point per annum | $\frac{\pounds 366.45}{\times (1 + RPI_t)}$ |
| 4 | Carrying out the work to replace a domestic credit meter <u>Domestic Credit Meter</u> -with a prepayment meter <u>Prepayment Meter</u> , per job undertaken | $\frac{\pounds 49.63}{\times (1 + RPI_t)}$ |

~~4. In respect of the formula year~~Formula Year~~Formula Year~~ commencing 1 April 2009 and subsequent ~~formula year~~Formula Year~~Formula Years~~ the value of MA_t shall be determined using the following formulae:

$$\del{M^A_t = M^A_{t-1} + (\times RPI_t)}$$

Where:

RPI_t has the value given to it in paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity)~~means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from June to November (both inclusive) in formula year~~Formula Year~~Formula Year t-1 and the arithmetic average of the retail price index numbers published or determined with respect to the same months in formula year~~Formula Year~~Formula Year t-2;~~

Departures from published statements of charges in respect of tariff-capped metering activities

5.4. Where the licensee wishes to depart from its published statement of charges prepared in accordance with Standard Special Condition A43 (Provision of Metering and Metering Reading Services) in respect of the provision of ~~tariff capped metering activities~~ Tariff Capped Metering Activities by increasing its charges to a supplier to a level which would ~~result~~ in any given ~~formula year~~ Formula Year ~~Formula Year~~ result in a breach of its obligations under paragraph 2 of this condition:

- (a) in consequence of that supplier having unbundled part of its supplier's metering portfolio; or
- (b) where it reasonably considers that the departure is necessary to comply with its duty in paragraph 1A of Standard Special Condition A43 (Provision of Metering and Meter Reading Services),

the licensee shall make a written application to the Authority specifying why the change is requested, providing specification of the metering activities to be provided to that supplier, the proposed level of charge broken down between the different types of metering activities to be provided to that supplier together with such other information to support its application as the Authority may reasonably specify in writing.

6.5. The licensee may, with effect from the date of the application, levy the charges specified in that application in respect of that supplier if:

- (a) the Authority confirms in writing that it consents to such charges with or without amendment and to such extent and on the basis of such terms and conditions as the Authority may specify; or
- (b) if the Authority has not issued a direction to the licensee requiring the licensee not to exceed the maximum tariff cap within 90 ~~days~~ Days after receipt of the application.

Disapplication of the maximum tariff caps

~~7.6.~~ The maximum tariff caps 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 ~~sub-~~ paragraphs 8 to 14 of this condition.

~~8.7.~~ The maximum tariff caps 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 9 of this condition and notice is given to the Authority by the licensee in accordance with either paragraph 12 or paragraph 13 of this condition.

~~9.8.~~ A disapplication request shall:

- (a) be in writing addressed to the Authority;
- (b) specify the maximum tariff cap or caps to which the request relates; and
- (c) state the date (being not earlier than the date referred to in paragraph 11 of this condition) from which the licensee wishes the Authority to agree that the maximum tariff cap or caps shall cease to have effect.

~~10.9.~~ The licensee may withdraw a disapplication request at any time.

~~11.10.~~ Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to paragraph ~~98(e)~~ of this condition shall have effect until a date being not less than 18 months after delivery of the disapplication request ("the disapplication date").

~~12.11.~~ If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of the maximum tariff cap or caps 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 the maximum tariff cap or caps as specified in the disapplication request with effect from the disapplication date or a later date.

13.12. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the maximum tariff cap or caps specified in the disapplication request and such report does not include a conclusion that the cessation of such maximum tariff caps, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 ~~days~~Days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of the maximum tariff cap or caps specified in the disapplication request with effect from the disapplication date or later.

14.13. A disapplication request or notice served under this condition may be served in respect of a specified geographic area.

Special condition E20: Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue restriction

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 effectively monitor the compliance by the licensee with the Distribution Network Transportation Activity Revenue Restriction Conditions.

Revenue reporting Regulatory Instructions and Guidance and specified information

2. For the purposes of this condition:

- (a) “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)(i) the definition of specified information to be collected pursuant to this condition; Provisions with respect to the meaning of words and phrases used in defining specified information;~~

~~(b)(ii) requirements for recording specified information which are reasonably necessary to enable an appropriate auditor to determine the accuracy and reliability of specified information;~~

~~(c)(iii) requirements as to the form and manner in which specified information shall be provided to the Authority (including templates for doing so);~~

~~(d)(iv) 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)(v) requirements as to the timing of the provision of specified information to the Authority in respect of each ~~relevant formula year~~ Formula Year.~~

(b) “specified information” means such items referred to within the Distribution Network Transportation Activity Revenue Restriction Conditions~~Special licence Conditions E3 to Special Condition E9~~ of this licence as the Authority considers are necessary to monitor, to an appropriate degree of accuracy, compliance with the revenue restriction conditions, and shall include:

- (i) information in respect of those terms and expressions set out in the Distribution Network Transportation Activity Revenue Restriction Conditions~~revenue restriction conditions~~; and
- (ii) 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.

3. The licensee shall:

- (a) establish and maintain appropriate systems, processes and procedures to measure and record specified information in respect of the ~~relevant formula year~~ Formula Year commencing 1 April 2008 and for each subsequent ~~relevant formula year~~ Formula 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 that 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 confirms 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, or such other date as may be specified by the Authority.

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 Price Control Return (Template A) contained in the revenue reporting regulatory instructions and guidance by no later than 30 June following the end of the ~~formula-year~~Formula Year to which the information relates;
 - (b) the information in the audited template for the Audited Price Control Return (Template B) contained in the revenue reporting regulatory instructions and guidance by no later than 31 July following the end of the ~~formula-year~~Formula Year to which the information relates; and
 - (c) the information specified in the Forecast Price Control Return (Template C) contained in the revenue reporting regulatory instructions and guidance by no later than 1 October of the ~~formula-year~~Formula Year to which the information relates, being the licensee's estimate of that information made on or before 1 October save in relation to the ~~formula-year~~Formula Year commencing 1 April 2008.]

Audit Requirements

8. Unless the Authority otherwise consents, the licensee must procure, for each ~~formula year~~Formula Year a report by an appropriate auditor that documents the procedures, and the results of those procedures, carried out by the auditor for the purposes of demonstrating the extent to which:
 - (a) the information provided in accordance with paragraph 7 (b) 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 procedures to be carried out by the auditors shall have been approved by the Authority. The report shall be delivered to the Authority by 31 July following the end of the ~~formula year~~Formula Year.
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~~Day of the ~~formula year~~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.

Modification of 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~~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.