

Appendix 16 – Proposed Special Conditions in Part E for RDNs**SPECIAL CONDITIONS APPLICABLE TO THE LICENSEE (DN): PART E -RDN****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	10
Special Condition E3: Distribution Network allowed pass-through items (F_t)	15
Special Condition E4: Distribution Network Transportation Activity Revenue adjustment (K_t)	23
Special Condition E5: Mains and Services Replacement expenditure adjustment ($MSRA_t$)	25
Special Condition E6: Distribution Network Exit Capacity costs and incentive revenue (Ex_t).....	34
Special Condition E7: Determination of any adjustment factor to be applied to MR_t (IAE_t)	52
Special Condition E8: Distribution Network shrinkage allowance (Sh_t)	61
Special Condition E9: Distribution Network environmental emissions incentive revenue (EE_t)	67
Special Condition E10: Distribution Network discretionary reward scheme revenue (DRS_t)	71
Special Condition E11: Distribution Network innovation funding incentive for sustainable development scheme ($IFISD_t$)	72
Special Condition E12: Distribution Network loss of meter work revenue driver (LM_t) ...	74
Special Condition E13: “Not Used”	77
Special Condition E14: “Not Used”	78
Special Condition E15: “Not Used”	79
Special Condition E16: Disapplication of the Distribution Network Transportation Activity Revenue restriction	80
Special Condition E17: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network	84

Special Condition E18: Excluded Services	87
Special Condition E19: Restriction of prices in respect of Tariff Capped Metering Activities	89
Special condition E20: Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue restriction	93
Special Condition E21. Undertaking from ultimate controller concerning non- discrimination between the Distribution Network transportation activity and the NTS transportation activity	98
Special Condition E22. Separation of NTS and Distribution Network Businesses.....	100

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;

Curtailement Day means any Day in Formula Year t in respect of which rights to offtake gas at a given Supply Point, Connected System Exit Point or Storage Connection Point have been curtailed by the licensee;

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 each individual relevant gas distribution network owned by the licensee which is 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)
East of England	East Midlands, Eastern
London	North Thames
North West	North West
West Midlands	West Midlands

For the avoidance of doubt, where the licensee also holds one or more individual relevant Distribution Network under a single relevant gas transporters licence, nothing in this condition shall permit the licensee to consolidate or otherwise aggregate its individual Distribution Networks for the purpose of its reporting obligations under this licence and any reference to Distribution Network shall be construed as a reference to each individual Distribution Network owned by that licensee;

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

Distribution Network Capacity Curtailment Rights means Exit Capacity Curtailment Rights held by the licensee in respect of Distribution Network Capacity within the relevant Distribution Network;

Distribution Network Exit Zone	has the meaning given to the term DN exit zone in the 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 Authority) in respect of Formula Year t;
Distribution Network Prescribed Rates	means the amount of the charge deemed to be incurred in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of the licensee's Distribution Network transportation activity: it will be the amount of the separate rating assessment for the licensee's Distribution Network transportation activity including (where relevant) metering;
Distribution Network Pension Deficit Charge	means payments made by the licensee to meet the charge made by the NTS operator to the Distribution Network and specified by the NTS operator as Distribution Network Pensions Deficit Charge payments;
Distribution Network Transportation Activity	means the activities of the licensee connected with the development, administration, maintenance and operation of the Distribution Network and with the Supply of Distribution Network Services;
Distribution Network Transportation Activity Revenue	means the revenue derived by the licensee from the Supply of Distribution Network Services to gas shippers in respect of the Distribution Network Transportation Activity (such revenue to be measured on an accruals basis);
Distribution Network Transportation Activity	means Special Conditions E2 (Restriction of revenue in respect of the Distribution Network Transportation

Revenue Restriction Conditions	Activity) to E12 (Distribution Network loss of meter work revenue driver (LM _t);
Domestic Credit Meter Installation	means a Domestic Sized Meter and associated installations (excluding housing) within the definition of 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 Installation;
Domestic Sized	means designed for a maximum rate of gas flow which does not exceed six (6) cubic metres per hour;
Excluded Services	means any activities or engagements undertaken by the licensee or any affiliate or related undertaking of the licensee that have been determined by the Authority to be Excluded Services in line with the principles outlined in Special Condition E18 (Supplementary provisions of the revenue restrictions in respect of the Distribution Network);
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);
Formula Year	means a period of twelve months commencing on 1 April at 06:00 hours, the first such Formula Year (t=1) commencing 1 April 2008;
Gigawatt Hour or GWh	means one million 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 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;
Kilowatt Hour or kWh	means 3,600,000 Joules;
LDZ Throughput Quantity	means the aggregate quantity of gas measured in Gigawatt Hours introduced into the LDZ as a result of arrangements with gas shippers and the licensee in each month of the Formula Year;
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;
Mains Replacement	in 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 Act) and any associated works;
Maximum Actual Allocation	means the maximum quantity over the relevant Formula Year in GWh/d allocated to the relevant Distribution Network by the NTS operator;
National Balancing Point	has the meaning given to that term in the Approved Market Price Report;
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 Gas Transportation Statement means the statement produced by National Grid Gas plc in accordance with Standard Special Condition A4 (Charging – General);

NTS (TO) Exit Capacity Charge means the charge in p/peak Day kWh/d for NTS exit capacity as set out in the 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;

NTS Transportation Owner activity means the activities of National Grid Gas plc connected with the development, administration and maintenance of the NTS and with the supply of such NTS services as it is authorised to supply under its gas transporter licence;

Price Control Period End Date means for the purpose of Special Condition E16 (Disapplication of the 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);

Plus 15 Curtailment Day means any Curtailment Day in Formula Year t at a given Supply Point, Connected System Exit Point or Storage Connection Point after the first 15 Curtailment Days in that Formula Year for the given Supply Point, Connected System Exit Point or Storage Connection Point connected

to the Transportation System to which this licence relates;

Prepayment Meter Installation	means a Domestic Sized 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;
Services 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 Act), 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);
Storage 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;
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; (b) for the prevention of the escape of gas which has

been taken off the 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 through the acquisition or disposal of gas to replace gas lost from the Transportation System; and

(ii) facilitating constraint management;

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

Tariff Capped Metering Activities means those activities provided by the licensee listed in paragraph 3 of Special Condition E18 (Restriction of prices in respect of Tariff Capped Metering Activities);

Transportation 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 and shall include the Distribution Network Transportation Activity, the metering and meter reading activity and Excluded Services;

Transportation System has the meaning given to 'transportation system' in Standard Special Condition A3 (Definitions and Interpretation) of this 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

1. The purpose of this condition is to set out the 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 restriction

2. The licensee shall use its best endeavours in setting its charges to ensure that in respect of any Formula Year t the 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 (MR_t) in that year.
3. (a) If in respect of any Formula Year the Distribution Network Transportation Activity Revenue in respect of a relevant Distribution Network exceeds the maximum 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, the licensee shall not effect any increase in prices for use of the Distribution Network unless:
 - (i) it has demonstrated to the reasonable satisfaction of the Authority that the Distribution Network Transportation Activity Revenue in respect of the Distribution Network would not be likely to exceed the maximum Distribution Network Transportation Activity Revenue in respect of the Distribution Network in that next following 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 Years, the sums of the amounts by which the Distribution Network Transportation Activity Revenue has exceeded the maximum Distribution Network Transportation Activity Revenue is more than 6 per cent of the maximum Distribution Network Transportation Activity Revenue for the second of those Formula Years, then in the next following 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 would not be likely in the judgment of the Authority to exceed maximum Distribution Network Transportation Activity Revenue in that next following Formula Year.

Distribution Network Transportation Activity Revenue (R_t)

4. For the purposes of paragraph 2 of this condition, the Distribution Network Transportation Activity Revenue for Formula Year t (R_t) shall exclude for the avoidance of doubt, any revenues derived from Excluded Services within the meaning given in Special Condition E18 (Excluded Services).

Maximum 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 in respect of 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 t and shall have the values set out in Annex A;

- 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;
- F_t means the Distribution Network pass through costs in respect of 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 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 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 and Services Replacement expenditure adjustment (whether positive or negative value) in respect of Formula Year t and shall be derived in accordance with Special Condition E5: (Mains and 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 E10 (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 E11 (Distribution Network innovation funding incentive for sustainable development scheme ($IFISD_t$));

EE_t means the environmental emissions incentive in respect of Formula Year t and shall be derived in accordance with Special Condition E9 (Distribution Network environmental emissions incentive revenue) of this licence;

LM_t means the loss of meter work revenue driver and shall be derived in accordance with Special Condition E12 (Distribution Network loss of meter work revenue driver (LM_t)); and

K_t means the Distribution Network Transportation Activity Revenue adjustment factor to the Distribution Network Transportation Activity Revenue over or under recovery in respect of Formula Year t-1 and shall be derived in accordance with Special Condition E4 (Distribution Network Transportation Activity Revenue adjustment (K_t)).

Annex A – Gas Distribution base revenue (Z_t) 2005-6 prices

Distribution Network	t=1	t=2	t=3	t=4	t=5
East of England	£409,613,378	£414,566,397	£418,437,488	£422,973,022	£427,085,886
London	£272,316,406	£268,816,091	£275,296,420	£279,431,792	£280,313,248
North West	£286,011,743	£287,411,005	£289,538,163	£293,393,031	£295,701,718
West Midlands	£220,797,022	£229,812,796	£222,683,002	£224,562,421	£225,631,437

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 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), 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 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 means the amount of the charge deemed to be incurred in respect of the prescribed rates or equivalent tax or duty replacing such rates levied on the licensee in respect of the licensee's Distribution Network Transportation Activity and shall be calculated as follows;

a) in the event that separate rating assessments are provided in respect of each Distribution Network Transportation Activity carried out by National Grid Gas plc or an affiliate of National Grid Gas plc, and in respect of the NTS Transportation Owner Activity carried out either by National Grid Gas plc or by an affiliate of National Grid Gas plc, the charge shall be the amount so assessed;

b) In the event that a separate rating assessment is not provided in respect of any of the Distribution Network Transportation Activities carried out by National Grid Gas plc or an affiliate of National Grid Gas plc and of the NTS Transportation Owner Activity carried out either by National Grid Gas plc or by an affiliate of National Grid Gas plc, and that neither National Grid Gas plc nor its affiliates own any of the Scotland Distribution Network, the North of England Distribution Network, the Wales & the West Distribution Network and the South of England Distribution Network, but continue to own the North West Distribution Network, the East of England Distribution Network, the West Midlands Distribution Network and the London Distribution Network and the NTS, the total charge in respect of the licensee's Distribution Network Transportation Owner Activity shall be calculated according to the formula:

$$RDNF \times TTR,$$

Where:

RDNF is the RDN factor for each Distribution Network opened by the licensee and is represented by the percentage given in Annex B part 1 that applies to each

Distribution Network owned by the licensee; and

TTR_t is the prescribed rates or equivalent tax replacing them levied in respect of the licensee and its affiliates' NTS Transportation Owner Activity in England and Distribution Network Transportation Activity in England; and/or

c) in any other circumstance, the licensee shall perform attributions and allocations of cost between the NTS Transportation Owner Activity, the Distribution Network Transportation Activity, and (where relevant) metering activities on a basis consistent with Special Condition E17 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

In the event that the licensee receives a separate rating assessment or assessments in respect of gas meters connected to the pipe-line system to which this licence relates in respect of periods from 1 April 2005 onwards, the resultant charges shall be deemed to constitute an element of the Distribution Network prescribed rates and shall be treated by the licensee in accordance with Special Condition E17 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network).

RBE_t is the amount of the Distribution Network Prescribed Rates allowance in Formula Year 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).

- (b) (i) For the purposes of paragraph 3(a) of this condition, in the Formula Year commencing 1 April 2010 and each subsequent Formula Year, 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 commencing on 1 April 2010 and each subsequent Formula Year, RB_t be calculated in accordance with the formula set out 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 in the Formula Year t in accordance with its obligations set out in standard condition 3 (Payments by the licensee to the Authority) of this licence;

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).

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).

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 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 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 paragraph 3.5 of Section J (Exit Requirements) of the network code;

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 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).

Annex B part 1 – RDN factor (RDNF)

Distribution Network	RDNF
East of England	30.3646%
London	14.2086%
North West	14.5918%
West Midlands	11.5621%

Annex B Part 2-Distribution Network Prescribed Rates allowance (RBE_t) 2005-6 prices

Distribution Network	t=1	t=2	t=3	t=4	t=5
East of England	£59,305,340	£59,305,340	£59,305,340	£59,305,340	£59,305,340
London	£33,065,912	£33,065,912	£33,065,912	£33,065,912	£33,065,912
North West	£31,652,664	£31,652,664	£31,652,664	£31,652,664	£31,652,664
West Midlands	£24,739,806	£24,739,806	£24,739,806	£24,739,806	£24,739,806

Annex C – Distribution Network Licence Fee allowance (LFE_t) 2005-6 prices

Distribution Network	t=1	t=2	t=3	t=4	t=5
East of England	£0	£0	£0	£0	£0
London	£0	£0	£0	£0	£0
North West	£0	£0	£0	£0	£0
West Midlands	£0	£0	£0	£0	£0

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

Distribution Network	t=1	t=2	t=3	t=4	t=5
East of England	£4,447,883	£4,339,398	£4,233,559	£4,130,302	£4,029,563
London	£2,587,100	£2,524,000	£2,462,439	£2,402,379	£2,343,785
North West	£3,048,852	£2,974,490	£2,901,942	£2,831,162	£2,762,110
West Midlands	£2,202,249	£2,148,535	£2,096,132	£2,045,007	£1,995,129

Special Condition E4: Distribution Network Transportation Activity Revenue adjustment (K_t)

1. The purpose of this condition is to provide for adjustments to the maximum Distribution Network Transportation Activity Revenue to take account of any under or over recovery of Distribution Network Transportation Activity Revenue from the previous year t-1.

Formula for 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) the Distribution Network Transportation Activity Revenue adjustment in respect of 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 t which is equal to 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;
and otherwise, it shall take the value of 1.5;
- R_{t-1} means the Distribution network transportation activity revenue in respect of the Formula Year t-1; and
- MR_{t-1} means the maximum revenue in the Formula Year t-1, as defined in paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the 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 Condition 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 expenditure adjustment (MSRA_t)

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

Formula for the Mains and 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) the mains and services expenditure adjustment in respect of 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:

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 t; and

J_t means the price control initial projection for the mains and services allowance in respect of 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 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);

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 t excluding costs reasonably attributable to rechargeable diversions;

Standard Mains Materials 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.

Matrix mains and services cost (AM_t)

3. For the purposes of paragraph 2 of this condition the matrix mains and services cost in respect of the Distribution Network in 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 t for the Distribution Network where the diameter bands shall be defined as set out in the following table, 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;

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

U_{nt} means the specific matrix costs in respect of diameter band n and 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 replaced in respect of Formula Year t for the Distribution Network;

USR_t means the unit cost for domestic services replaced in respect of 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 t for the Distribution Network as set out in Annex H to this condition;
SN_t	means the number of non domestic services replaced and non domestic services transferred in respect of Formula Year t for the Distribution Network; and
USN_t	means the unit cost for non domestic services replaced and non domestic services transferred in respect of Formula Year t for the Distribution Network as set out in Annex H to this condition;
domestic premises	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 not to exceed 73,200 Kilowatt Hours a year;
non domestic premises	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;
domestic services replaced	means the laying of a new polyethylene service to an existing property to replace an existing non-polyethylene service at a domestic premises and includes associated purge and re-light costs;

domestic services transferred	means the transfer of an existing polyethylene service to a new main at a domestic premises and includes associated purge and re-light costs;
non domestic services replaced	means the laying of a new polyethylene service to an existing property to replace an existing non-polyethylene service at a non-domestic premises and includes associated purge and re-light costs; and
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_t)

Distribution Network	IQI factor
East of England	0.36
London	0.36
North West	0.36
West Midlands	0.36

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

Distribution Network	Formula Year t				
	t=1	t=2	t=3	t=4	t=5
East of England	89.3	98.3	99.5	103.8	105.3
London	93.0	81.4	84.5	85.9	81.5
North West	91.2	90.6	89.3	90.1	85.4
West Midlands	72.3	69.5	66.7	66.7	64.2

Annex G- Distribution Network specific matrix costs (£ per metre, 2005-6 prices)**Distribution Network – East of England**

Diameter band n	Specific matrix costs (£ per metre)				
	t=1	t=2	t=3	t=4	t=5
1	62.3	62.0	62.0	61.4	61.5
2	68.1	67.7	67.6	67.1	67.2
3	95.8	95.3	95.2	94.4	94.5
4	177.1	176.2	176.1	174.6	174.8
5	247.5	246.2	246.0	243.9	244.2
6	358.8	357.1	356.7	353.7	354.1
7	501.5	499.1	498.5	494.4	494.9
8	618.9	615.9	615.2	610.1	610.8

Distribution Network – London

Diameter	Specific matrix costs (£ per metre)				
	t=1	t=2	t=3	t=4	t=5

band n					
1	76.5	77.6	78.6	76.3	76.9
2	83.5	84.7	85.8	83.3	84.0
3	117.5	119.1	120.7	117.2	118.2
4	217.3	220.4	223.3	216.7	218.6
5	303.6	307.9	311.9	302.8	305.4
6	440.2	446.5	452.3	439.1	442.9
7	615.3	624.1	632.2	613.7	619.0
8	759.3	770.1	780.2	757.3	763.9

Distribution Network – North West

	Specific matrix costs (£ per metre)				
Diameter	t=1	t=2	t=3	t=4	t=5
band n					
1	62.1	62.4	62.0	62.0	62.2
2	67.8	68.1	67.7	67.7	67.9
3	95.4	95.8	95.2	95.2	95.5
4	176.5	177.3	176.1	176.2	176.7
5	246.6	247.7	246.0	246.1	246.9
6	357.6	359.2	356.7	356.9	358.0
7	499.9	502.0	498.6	498.9	500.4
8	616.9	619.5	615.3	615.6	617.5

Distribution Network –West Midlands

	Specific matrix costs (£ per metre)				
Diameter	t=1	t=2	t=3	t=4	t=5
band n					
1	62.8	63.5	64.0	64.2	65.1
2	68.5	69.3	69.8	70.1	71.1
3	96.4	97.6	98.3	98.7	100.0
4	178.4	180.5	181.8	182.5	185.0
5	249.2	252.1	253.9	255.0	258.5

6	361.4	365.6	368.3	369.7	374.8
7	505.1	511.0	514.7	516.8	523.9
8	623.4	630.6	635.2	637.7	646.5

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

East of England

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	465.3	459.7	460.8	461.1	461.7
UST	286.4	282.1	282.9	283.4	283.7
USN	1,576.3	1,544.7	1,558.9	1,549.7	1,563.8

London

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	566.5	577.9	577.3	578.1	583.8
UST	338.6	345.7	345.3	345.7	349.1
USN	1,990.3	2,030.5	2,028.0	2,027.3	2,050.9

North West

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	449.3	451.3	453.8	454.9	460.0
UST	271.0	272.2	273.8	274.5	277.9
USN	1,571.6	1,571.6	1,571.6	1,588.9	1,606.1

West Midlands

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	473.6	477.2	481.5	484.2	487.8
UST	290.1	292.3	295.0	297.1	299.2

USN	1,603.7	1,612.6	1,630.3	1,630.3	1,648.0
-----	---------	---------	---------	---------	---------

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 transportation activity revenue to reflect Distribution Network exit capacity costs and to set out the incentive payments that adjust the maximum Distribution Network transportation activity revenue to reflect the performance of the licensee against the 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) 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 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 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 Plus 15 Curtailment Days;

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 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 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 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 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).

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

- 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 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 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 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 t as set out in the following table:

	Formula Year
Variable	t
ExUSFt	100%

$ExDSF_t$ means the Distribution Network exit downside sharing factor in respect of Formula Year t as set out in the following table:

	Formula Year
Variable	t
ExDSFt	100%

$ExCAP_t$ means the maximum Distribution Network exit capacity revenue in respect of Formula 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:

	Formula Year
Variable	t
$ExCAPP_t$	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 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
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 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 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 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 Plus 15 Curtailment Days in respect of 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 in p/peak Day kWh/d for Distribution Network Exit Zone v within the relevant Distribution Network for Day d in respect of Formula Year t as set out in the NTS Gas Transportation Statement which applies for Formula Year t;

$NTSBAExC_{v,t}$ means the target volume of NTS exit flat capacity in GWh/d for Distribution Network Exit Zone v within the relevant Distribution Network in respect of Formula Year t

as given in Annex I to this condition;

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

means the sum across all Days d in Formula Year t ; and

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

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

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

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

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 v within the relevant Distribution Network in respect of Formula Year t as given in Annex J to this condition;

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

means the sum across all Days d in Formula Year t ; and

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

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

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 Plus 15 Curtailment Days subject to sub-paragraph 8 of this condition is as set out in Annex K to this condition (until such date as the Authority otherwise directs in writing):

However, for all 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 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 Plus 15 Curtailment Days 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 Plus 15 Curtailment Days in respect of Formula Year t .
9. Unless the Authority otherwise directs, the licensee shall use 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 Plus 15 Curtailment Days in respect of 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 t of charges foregone by the licensee in respect of Distribution Network Capacity Curtailment Rights;

$ExC_z^{\text{Jan 15th}}$ means the volume of Distribution Network Capacity within the relevant Distribution Network registered in respect of Supply Point, Connected System Exit Point or Storage Connection Point z in respect of which the licensee has Distribution Network Capacity Curtailment Rights on 15 January in respect of Formula Year t ; and

$\sum_{\text{all } z}$ means the sum across all Supply Points, Connected System Exit Points and 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 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 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 t in accordance with sub-paragraph 11 of this condition;

ExFFDC_t means the 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 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 shipper or relevant shippers in respect of the curtailment of rights to off-take gas from the Distribution Network on Plus 15 Curtailment Days in respect of Formula Year t in accordance with sub-paragraph 13 of this condition.

11. The Deemed Costs in £million incurred by the licensee for NTS exit flat capacity

$ExCDC_t$ shall be calculated as follows:

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

where:

$NTSMExC_{v,t}$ means the Maximum Actual Allocation of NTS exit flat capacity in GWh/d in respect of Distribution Network Exit Zone v within the relevant Distribution Network in respect of Formula Year t;

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

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

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

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

12. The Deemed Costs in £million incurred by the licensee for NTS exit flow flexibility

$ExFFDC_t$ shall be calculated as follows:

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

where:

$NTSMExFF_{v,t}$ means the Maximum Actual Allocation of NTS exit flow flexibility in GWh/d in respect of Distribution Network Exit Zone v within the relevant Distribution Network in

respect of Formula Year t;

NTSRExCh_{v,t,d}

has the meaning given to that term in paragraph 5 of this condition;

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

means the sum across all Days d in Formula Year t; and

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

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

However, for all Days from 1 October 2011 (or such date that the Authority otherwise directs in writing), 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 Plus 15 Curtailment Days in respect of Formula Year t ExIIC_t shall be derived from the following formula:

$$\text{ExIIC}_t = \sum_{\text{all } d} \sum_{\text{all } z} \text{ExIIC}_{z,d}$$

where:

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

means the sum across all Days d in Formula Year t;

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

means the sum across all Supply Points, Connected System Exit Points and Storage Connection Points z; and

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 Plus 15 Curtailment Days on Day d in respect of Formula Year t to the extent that such amount relates to a Plus 15 Curtailment Day in respect of Supply Point, Connected System Exit Point or Storage Connection Point z, until such date as the Authority otherwise directs in writing.

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:

$$CO_t = EI_t + II_t$$

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:

$$ECAP = MIN(0.075 \times EIT_t, £5,000,000)$$

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

$$ECOLLAR = MAX(-0.075 \times EIT_t, -£5,000,000)$$

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:

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

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;

$\sum_{1Oct-31Mar}$ 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:

$$EDC_t = \frac{\sum_{allv} \left[\left(\sum_{1Oct-31Mar} NTSIC hE_{v,t,d} \times NTSMAE_{v,t} \right) * (Y_t / P_t) \right]}{100}$$

$NTSIC hE_{v,t,d}$ 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;

$$\sum_{1Oct-31Mar}$$

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:

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

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)**

GDN	Distribution Network Exit Zone v	NTSBAExC _{v,t} (GWh/d)				
		t=1	t=2	t=3	t=4	t=5
East of England	EM1	92.92	113.88	115.35		
	EM2	98.22	107.31	108.69		
	EM3	297.55	277.06	280.63		
	EM4	19.63	21	21.27		
	EA1	40.28	40.78	41.58		
	EA2	43.82	46.29	47.08		
	EA3	66.09	76.66	71.16		
	EA4	236.33	230.17	241.5		
London	NT1	11.42	21.23	21.5		
	NT2	186.39	188.29	190.65		
	NT3	299.34	322.6	326.65		
North West	NW1	348.01	233.83	235.58		
	NW2	219.04	344.73	347.16		
West Midlands	WM1	80.48	114.18	115.63		
	WM2	255.06	240.55	243.62		
	WM3	134.67	122.53	123.56		

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

GDN	Distribution Network Exit Zone v	NTSBAExFF _{v,t} (GWh/d)				
		t=1	t=2	t=3	t=4	t=5
East of England	EM1	1.57	0.12	0.13		
	EM2	0.79	6.7	6.78		
	EM3	6.45	2.15	2.18		
	EM4	1.28	1.29	1.31		

	EA1	5.45	5.52	5.61		
	EA2	5.92	6.06	6.16		
	EA3	0.07	0.75	0.76		
	EA4	0.44	0.29	0.3		
London	NT1	0	0	0		
	NT2	0	-5.57	-4.48		
	NT3	0	-9.48	-9.03		
North West	NW1	9.31	22.82	23.61		
	NW2	8.79	15.08	15.11		
West Midlands	WM1	1.74	-0.48	-0.48		
	WM2	4.88	2.76	2.79		
	WM3	-5.06	-2.65	-2.62		

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

Distribution Network	Formula Year t				
	t=1	t=2	t=3	t=4	t=5
East of England	0.96				
London	0.06				
North West	0.09				
West Midlands	0.00				

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

GDN	Distribution Network Exit Zone v	$NTSTVE_{v,t}$ (GWh/				
		t=1	t=2	t=3	t=4	t=5
East of England	EM1				133.76	135.33
	EM2				96.04	96.12
	EM3				309.49	314.72
	EM4				25.70	25.83
	EA1				39.55	44.05

	EA2				52.93	53.38
	EA3				62.10	63.29
	EA4				249.92	253.48
London	NT1				15.64	21.61
	NT2				177.02	184.73
	NT3				324.55	315.81
North West	NW1				305.11	307.11
	NW2				296.51	301.85
West Midlands	WM1				114.85	116.63
	WM2				224.33	226.96
	WM3				125.85	126.15

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

Distribution Network	IA_t £ million, 2005-6 prices				
	t=1	t=2	t=3	t=4	t=5
East of England				5.4	5.4
London				0.2	0.2
North West				3.6	3.6
West Midlands				0.1	0.1

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; and to provide for the Authority to determine, whether any adjustment to the 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) an income adjusting event (IAE_t) is derived from the following formula:

$$IAE_t = IE_t + ITMA_t + ITL_t$$

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 and shall be derived in accordance with paragraphs 12.

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

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) an event or circumstance constituting force majeure under the network code;
- (b) an event or circumstance resulting in the declaration of a Network Gas Supply Emergency (having the meaning given to such term in the network code); 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 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 subparagraph (b) above.

4. Where the licensee considers, and can provide supporting evidence that, in respect of 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.

5. Where any shipper considers, and can provide supporting evidence that, in respect of Formula Year t, there have been costs and/ or expenses that have been incurred or saved by an exit income adjusting event, then a shipper may give notice of this event to the Authority.
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 and relevant shipper to fully assess the event to which the notice relates.
7. Following consultation with such persons including the licensee and any relevant shipper 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.

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

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 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 , 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), 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 is one which, in the opinion of the licensee, would if made have the effect of enabling the licensee to recover the efficient costs incurred or likely to be incurred in the period from the date of the proposal to 31 March 2013 in relation to the obligations, events or requirements referred to in that paragraph.
10. A notice served by the licensee in accordance with paragraph 8 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 has calculated the relevant adjustment; and
 - (c) state the date from which the licensee wishes the Authority to agree that the relevant adjustment shall have effect (“the adjustment date”).
11. Following consultation with such persons, including the licensee as the Authority considers likely to be affected by its determination, , 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.

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 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), 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 13 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.
15. A notice served by the licensee in accordance with paragraph 13 must:
 - (a) state the 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 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 persons including the licensee as the Authority considers likely to be affected by its determination, , 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.

Part E: Further Obligations in respect of an exit, TMA or tax liability income adjusting event (IE_t), (ITMA_t) 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, shipper) 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 Formula 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..

21. Any notice submitted to the Authority under paragraph 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 shipper to fully assess the event to which the notice relates.

22. In relation to Formula 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;
- (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 paragraph 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 persons that the Authority considers that the analysis or information provided in accordance with paragraph 6, 10, 15 or 18 is insufficient to enable the Authority and any relevant shipper 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 paragraph 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 paragraph 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 shipper. 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; and
- 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
East of England	East Midlands	0.510%				
	Eastern	0.616%				
London	North Thames	0.546%				
North West	North West	0.627%				
West Midlands	West Midlands	0.727%				

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

Distribution Network	LDZ	Shrinkage Volume SV (GWh)				
		t=1	t=2	t=3	t=4	t=5
East of England	East Midlands	208	409	409	408	406
	Eastern	145	286	286	286	285
London	North Thames	201	396	393	390	386
North West	North West	261	501	488	484	480
West Midlands	West Midlands	210	403	393	391	388
Total		2108	4090	4016	3960	3904

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 period.

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
East of England	East Midlands	384	383	382	380	378
	Eastern	271	270	269	268	267
London	North Thames	375	374	371	368	364
North West	North West	488	473	460	455	450
West Midlands	West Midlands	396	385	374	371	367

Annex Q: Environmental emissions factor CC 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
East of England	East Midlands	1.09	1.11	1.13	1.15	1.17
	Eastern	0.77	0.78	0.80	0.81	0.82
London	North Thames	1.07	1.09	1.10	1.11	1.12
North West	North West	1.39	1.38	1.36	1.37	1.39
West Midlands	West Midlands	1.13	1.12	1.11	1.12	1.13

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
East of England	East Midlands	- 1.09	- 1.11	- 1.13	- 1.15	- 1.17
	Eastern	- 0.77	- 0.78	- 0.80	- 0.81	- 0.82
London	North Thames	- 1.07	- 1.09	- 1.10	- 1.11	- 1.12
North West	North West	- 1.39	- 1.38	- 1.36	- 1.37	- 1.39
West Midlands	West Midlands	- 1.13	- 1.12	- 1.11	- 1.12	- 1.13

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 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):

DRS_t means such positive adjustment (if any) to allowed transportation revenue in respect of the discretionary reward scheme for 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 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; and

“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 service staff metering jobs in respect of the Distribution Network in Formula Year t;

TPV means the number of emergency service 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, a “Metering Infill 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)
East of England	225,512
London	124,540
North West	91,040
West Midlands	161,388

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
East of England	30.8	29.2	27.7	26.2	24.6
London	33.0	31.4	29.7	28.1	26.4
North West	29.8	28.3	26.9	25.4	23.9
West Midlands	27.1	25.8	24.4	23.1	21.7

Special Condition E13: “Not Used”

Special Condition E14: “Not Used”

Special Condition E15: “Not Used”

Special Condition E16: Disapplication of the Distribution Network Transportation Activity Revenue restriction

1. The purpose of this condition is to set out the procedures for the disapplication of the Distribution Network Transportation Activity Revenue Restriction Conditions.
2. The Distribution Network Transportation Activity Revenue Restriction Conditions shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 3 to 8 of this condition.
3. The Distribution Network Transportation Activity Revenue Restriction Conditions, or any part of them, shall cease to have effect (in whole or in part as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 4 of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 7 or 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 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, 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 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 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 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 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 or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.

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

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

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

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

Where:

MR_{t-1} means the previous 12 months maximum Distribution Network Transportation Activity Revenue; 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 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 t-2.

- (b) ~~For the purpose of this paragraph 9 of this condition, “Price Control Period End Date” means the end of the period during which, apart from paragraph 9(a) of this condition, MR_i can be calculated pursuant to paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the 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 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 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
 - (dd) any other company or organisation.
 - (c) The licensee shall perform, wherever practicable, all allocations and attributions on a consistent basis from one Formula Year to the next.
3. The licensee will allocate or attribute all revenue earned and costs incurred by the Transportation Business to the following activities:

- (a) the Distribution Network Transportation Activity;
 - (b) (where relevant) metering activities; or
 - (c) Excluded Services in accordance with the principles set out in Special Condition E18 (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 (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-attribue 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 prepare and submit to the Authority a report on the manner in which and the extent to which the licensee has, during that Formula Year, complied with the statement prepared pursuant to paragraph 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 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

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 revenue.
2. There may be treated as Excluded Services, services provided by the licensee in the provision of its 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; and
 - (b) may be determined by the licensee as falling under one of the principles set out in paragraphs 3, 4 and 5 of this condition.
3. No service provided by the licensee as part of its 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).
4. The whole or an appropriate proportion of the revenue received for the following may be treated as Excluded Services:
 - (a) 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 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;

- (c) revenue derived from services provided by the agency which are deemed to be User Pays 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.
6. Where the Authority is satisfied that in light of the principles set out in paragraphs 3, 4 and 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 Formula Year to which the statement last furnished to the Authority pursuant to paragraph 4 of Special Condition E17 (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

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 shall not exceed the maximum tariff cap M_t^A in respect of that metering activity in respect of that 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 t () shall be derived in the following manner:

Activity	Description	Maximum tariff caps(M_t^A)
1	Annual charge for providing and maintaining the assets that form a Domestic Credit Meter Installation, per meter per annum	£13.26 $\times (1 + RPI_t)$
2	Annual charge for providing and maintaining the assets that form a Prepayment Meter Installation, per meter per annum	£29.45 $\times (1 + RPI_t)$
3	Annual charge for providing a daily meter reading for Daily Metered Supply Meter	£366.45 $\times (1 + RPI_t)$

Points, per supply meter point per annum

4	Carrying out work to replace a Domestic Credit Meter with a Prepayment Meter , per job undertaken	£49.63 $\times (1 + RPI_t)$
---	---	--------------------------------

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).

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

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 by increasing its charges to a supplier to a level which would in any given 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.

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 after receipt of the application.

Disapplication of the maximum tariff caps

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 paragraphs 8 to 14 of this condition.
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.
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.
9. The licensee may withdraw a disapplication request at any time.

10. Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to paragraph 8 of this condition shall have effect until a date being not less than 18 months after delivery of the disapplication request ("the disapplication date").
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.
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 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.
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):
 - (i) the definition of specified information to be collected pursuant to this condition;
 - (ii) requirements for recording specified information which are reasonably necessary to enable an appropriate auditor to determine the accuracy and reliability of specified information;
 - (iii) requirements as to the form and manner in which specified information shall be provided to the Authority (including templates for doing so);
 - (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
 - (v) requirements as to the timing of the provision of specified information to the Authority in respect of each Formula Year.

- (b) “specified information” means such items referred to in the Distribution Network Transportation Activity Revenue Restriction Conditions 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; 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 Formula Year commencing 1 April 2008 and for each subsequent 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) 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 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 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 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 commencing 1 April 2008.]

Audit Requirements

8. Unless the Authority otherwise consents, the licensee must procure, for each 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.
10. For the purposes of paragraph 8, the licensee shall at its own expense enter into a contract of appointment with the auditors which includes a term requiring that the audit be conducted in accordance with all relevant auditing standards in force on the last Day of the Formula Year to which the audit relates.
11. The licensee shall (and must procure, insofar as it is able to do so, that any affiliate or related undertaking of the licensee shall) co-operate fully with the auditors so as to enable them to complete and report to the Authority on any audit carried out in accordance with paragraph 8.

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 from the date of the notice) within which representations or objections with respect to the proposed modification may be made,

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

14. Where any proposed modification of the revenue reporting regulatory instructions and guidance relates to a requirement to provide specified information to a greater level of accuracy than was previously required, the Authority may only make such modification with the consent of the licensee, provided that such consent may not be unreasonably withheld or delayed by the licensee.
15. Any modification of the revenue reporting regulatory instructions and guidance under paragraph 12 to introduce an additional category of specified information or to enlarge an existing category of information shall not exceed what may reasonably be requested from the licensee by the Authority under paragraph 1 of Standard Special Condition A26 (Provision of Information to the Authority).
16. The provisions of the revenue reporting regulatory instructions and guidance may not exceed what is necessary to achieve the purposes of this condition.
17. Nothing in this condition should require the licensee to produce any documents which it could not be compelled to produce or give in evidence in civil proceedings before a court.

Special Condition E21. Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity

1. Consistently with the undertaking to be procured under paragraph 2 below, where the licensee:

(a) procures services from a NTS operator, the licence for which is held in the same legal entity as the licensee; and/or

(b) provides services to such NTS operator,

notwithstanding the fact that these licences are held in the same legal entity, the licensee shall enter into and comply with written arrangements for the provision and/or procurement of services between the licensee and such NTS operator. Such arrangements are to be entered into on arm's-length commercial terms having the same effect as, and not being unduly different from, those which would apply:

(i) if any relevant gas transporter entered into a contract with the NTS operator to provide and/or procure the same services (regardless of whether such contract exists or not); and

(ii) if the licensee and such NTS operator were in fact held in separate and unrelated legal entities.

2. The Licensee shall procure from each company or other person which is at any time an ultimate controller of the licensee, a legally enforceable undertaking in favour of the licensee in the form specified by the Authority that the ultimate controller will instruct, direct and procure that the licensee shall:

(i) conduct its transportation business in a manner best calculated to secure that the businesses of NTS operator, the licences for which are held by the holder of this licence in the same legal entity, do not obtain any unfair commercial advantage (including any such advantage from a preferential or discriminatory arrangement); and

(ii) enter into and comply with written arrangements, which if the businesses of such NTS operator were not held within the same legal entity, would be a contract on arm's-length commercial terms.

3. The licensee shall:

- (a) deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with its obligation to procure undertakings pursuant to paragraph 2;
 - (b) Inform the Authority immediately in writing if the directors of the licensee become aware that any such undertaking has ceased to be legally enforceable or that its terms have been breached; and
 - (c) Comply with any direction from the Authority to enforce any such undertaking; and shall not, save with the consent in writing of the Authority, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or any of the subsidiaries of any such corporate ultimate controller (other than the subsidiaries of the licensee) at a time when -
 - (i) an undertaking complying with paragraph 2 is not in place in relation to that ultimate controller; or
 - (ii) there is an unremedied breach of such undertaking; or
 - (iii) the licensee is in breach of the terms of any direction issued by the Authority under paragraph 3 of this condition.
4. In this condition, “relevant gas transporter” shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that it shall exclude National Grid Gas plc both in its capacity as the licensee and in its capacity as a NTS operator.

Special Condition E22. Separation of NTS and Distribution Network Businesses

1. The licensee shall use its best endeavours to ensure compliance with the terms of the statement prepared in accordance with paragraph 2 of Special Condition C20 (Separation of NTS and Distribution Network Businesses) of the licence which the holder of this licence holds, in the same legal entity, in respect of its operation of the NTS as from time to time revised and approved by the Authority. In particular, the licensee shall ensure that no associated gas transporter business solicits any action from the NTS operator which would constitute a breach of Standard Special Condition A6 (Conduct of the Transportation Business) and Standard Special Condition A35 (Prohibition of Cross-Subsidies). To the extent required, the statement referred to above shall also be construed appropriately in respect of the licensee's role as a DN operator.

2. The managerial and operational independence of the associated gas transporter business from any NTS operator which is required to be demonstrated by the statement referred to in paragraph 1 above shall include the establishment of separate managerial boards for each of:
 - (a) the associated gas transporter businesses, taken as a whole, as defined in this condition; and
 - (b) the transportation business in respect of the NTS, and

such managerial boards shall include at least two members, two of which shall be directors of National Grid Gas plc. These managerial boards shall be responsible for directing the affairs of, and taking all substantial decisions relating to, the business in respect of which they have been established. Each member of those managerial boards who is also a director of National Grid Gas plc shall fulfil their role in relation to the taking of such decisions as if he or she were a director of a legally incorporated company whose sole business is the business in respect of which the managerial board he or she is a member of has been established.

3. The licensee shall appoint a business separation compliance officer for the purposes of facilitating compliance with this condition on the same terms and with the same duties as the holder of this licence is required to appoint a compliance officer in respect of

Special Condition C21 (Appointment and duties of the business separation compliance officer) of any licence held with respect to an NTS operator.

4. The licensee shall establish a compliance committee (being a sub-committee of the board of directors of the licensee) for the purpose of overseeing and ensuring the performance of the duties and tasks of the compliance officer set out in paragraph 3 and the compliance of the licensee with its duties under paragraph 1. The compliance committee shall have the same duties in respect of this licence as the compliance committee established in respect of the NTS (as set out in Special Condition C21 (Appointment and duties of the business separation compliance officer) of the licence which the holder of this licence holds in respect of its operation of the NTS). Such compliance committee shall include among its members such person in the licensee's business as is responsible for the management of regulatory issues relating to the licensee.
5. In this condition "associated gas transporter business" means an affiliate, related undertaking, or business unit of the licensee which is a DN operator.