

To the Company Secretary:

National Grid Gas plc

Company No. 02006000

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London

WC2N 5EH

**MODIFICATION TO THE DN OPERATOR'S GAS TRANSPORTER  
LICENCE OF NATIONAL GRID GAS PLC PURSUANT TO  
SECTION 23 OF THE GAS ACT 1986, AND**

**NOTICE PURSUANT TO SECTION 38A OF THE GAS ACT 1986  
OF THE REASONS FOR THE DECISION OF THE GAS AND  
ELECTRICITY MARKETS AUTHORITY TO MODIFY THE DN  
OPERATOR'S GAS TRANSPORTER LICENCE OF  
NATIONAL GRID GAS PLC**

**WHEREAS**

1. National Grid Gas plc holds a gas transporter licence (the "Licence") granted by the Gas and Electricity Markets Authority (the "Authority") under section 7 of the Gas Act 1986 (the "Act") and is a "DN Operator" (within the meaning in Standard Special Condition A3(1) (Definitions and Interpretation) of the gas transporter's licence.
2. In accordance with section 23(3) of the Gas Act 1986, the Authority gave notice on 21 February 2008 on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)) (the "Notice") that it proposed to modify the Licence by omitting the Special Conditions in, and the Schedule to Part E, of the Licence and to replace them by adding the following new Special Conditions in Part E of the Licence:
  - a. E1 (Revenue restriction definitions in respect of the Distribution Network);
  - b. E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity);
  - c. E3 (Distribution Network allowed pass-through items ( $F_t$ ));
  - d. E4 (Distribution Network Transportation Activity Revenue adjustment ( $K_t$ ));
  - e. E5 (Mains and Services Replacement expenditure adjustment ( $MSRA_t$ ));
  - f. E6 (Distribution Network Exit Capacity costs and incentive revenue ( $Ex_t$ ));
  - g. E7 (Determination of any adjustment factor to be applied to  $MR_t$  ( $IAE_t$ ));
  - h. E8 (Distribution Network shrinkage allowances) ( $Sh_t$ );
  - i. E9 (Distribution Network environmental emissions incentive revenue ( $EE_t$ ));
  - j. E10 (Distribution Network discretionary reward scheme revenue ( $DRS_t$ ));
  - k. E11 (Distribution Network innovation funding incentive for sustainable development scheme ( $IFISD_t$ ));

- l. E12 (Distribution Network loss of meter work revenue driver (LM<sub>t</sub>) -;
  - m. E13 (Not Used);
  - n. E14 (Not Used);
  - o. E15 (Not Used);
  - p. E16 (Disapplication of the Distribution Network Transportation Activity Revenue restriction);
  - q. E17 (Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network);
  - r. E18 (Excluded Services);
  - s. E19 (Restriction of prices in respect of Tariff Capped Metering Activities);
  - t. E20 (Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue restriction) - each DN operator licence;
  - u. E21 (Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity); and
  - v. E22 (Separation of NTS and Distribution Network Businesses),
- and the Authority specified that any representations or objections to the proposed modifications to the Conditions must be made on or before 20 March 2008.

3. In accordance with section 38A(1)(b) of the Act, the reasons for the decision of the Authority to modify make the proposed modifications are to implement those changes to the regulatory framework which have been consulted on as part of, or in conjunction with the Gas Distribution Price Control Review; in particular, those changes required to remove and terminate the existing gas distribution price controls and give effect to the revised price controls for National Grid Gas plc set out in the Authority's '*Gas Distribution Price Control Review, Final Proposals Decision and Supplementary Appendices Documents, December 2007, ref: 285 and 285a/07.*
4. Further details of the reasons are set out in various other documents including:
  - a. '*Gas Distribution Price Control Review Initial Proposals Document, 29 May 2007, ref: 125/07;*
  - b. '*GDPCR: Initial Licence Drafting Consultation*', 10 September 2007, ref: 221/07;
  - c. '*Gas Distribution Price Control Review Updated Proposals Document* Ofgem 24 September 2007, ref: 226/07;

- d. *'Open letter on Ofgem's proposals to implement revised standards of performance arrangements for gas transporters'*, November 2007, ref: 279/07;
- e. *'Gas Distribution Price Control Review', Final Proposals Decision and Supplementary Appendices Documents*, December 2007, ref: 285 and 285a/07; and
- f. *'GDCPR: Second Licence Drafting Consultation'*, 11 December 2007, ref: 290/07,

all of which are available (free of charge) from the Ofgem library, 9 Millbank, London SW1P 3GE (020 7901 7003) or the Ofgem website.

- 5. In accordance with section 23(4) of the Act the Authority sent a copy of the Notice to National Grid Gas plc, the Secretary of State, other DN operators, the Health and Safety Executive and the Consumer Council and did not receive by 20 March 2008 or at all, a direction from the Secretary of State not to make any modification.
- 6. By 20 March 2008 the Authority received five representations from the DN operators and received no objections to the proposed modifications.
- 7. Most of the representations suggested textual revisions to the proposed Special Conditions in Part E of the Licence. In addition one respondent suggested that in paragraph 4 of Special Condition E8 (Distribution Network shrinkage allowances) the words "or as otherwise agreed" should be added after the words "for the period commencing 1 October 2008" because that particular respondent considers that it is likely that the system changes may not be in place by that date.
- 8. The Authority has duly considered all the representations and; concluded that Special Condition E8 (Distribution Network shrinkage allowances) should not be revised to allow for delays in system changes because the Authority considers that every effort should be made by the DN operator to ensure that the system changes are in place; and made, across the Special Conditions in Part E of the Licence the following revisions in response to suggestions about the textual revisions:
  - i. Special Condition E1 – in the definition of Distribution Network replace the words "purpose if" with the words "purpose of";
  - ii. Special Condition E1 – in the definition of DN Operator delete the word "it" and replace with the words "DN operator";
  - iii. Special Condition E1 – in the definition of Interruptible Exercise Cost insert the word "million" after the symbol "£";

- iv. Special Condition E1 – in the definition of Interruptible Option Cost insert the word “million” after the symbol “£”;
- v. Special Condition E1 – in the definition of NTS insert the word “in” after the words “meaning as”;
- vi. Special Condition E1 – in the definition of NTS Operator delete the word “it” and replace with the words “NTS operator”;
- vii. Special Condition E1 – in the definition of NTS Transportation Owner Activity insert the words “the applicable” after the words “supply under” and delete the word “its”;
- viii. Special Condition E1 – in the definition of Own Use Gas replace the words “(LDZ own use gas)” with the words “(“LDZ Own Use Gas”)”;
- ix. Special Condition E1 – in the definition of Unaccounted For Gas replace the words “(LDZ unaccounted for gas)” with the words “(“LDZ Unaccounted For Gas”)” and delete the words “the NTS (“NTS unaccounted for gas”) or from” and the words “and (in respect of the NTS) CV shrinkage”;
- x. Special Condition E2 – in paragraph 6 replace the words “formula year” with the words “Formula Year”;
- xi. Special Condition E5 – in paragraph 2 in the definition of “ $E_t$ ” replace the words “outturn mains and services costs” with the words “Outturn Mains And Services Costs”;
- xii. Special Condition E5 – in paragraph 2 amend the definition “included mains and services” by capitalising the first letter of those words to read “Included Mains And Services”;
- xiii. Special Condition E5 – in paragraph 2 in the definition of “included mains and services” replace the word “decommissioning” with the word “Decommissioning”;
- xiv. Special Condition E5 – in paragraph 2 amend the definition of “outturn mains and services costs” by capitalising the first letter of those words to read “Outturn Mains And Services Costs”;
- xv. Special Condition E5 – in paragraph 2 in the definition of “outturn mains and services costs” replace the word “decommissioning” with the word “Decommissioning” and replace the words “included mains and services” with the words “Included Mains And Services”;
- xvi. Special Condition E5 – in paragraph 2 amend the definition of “decommissioning” by capitalising the first letter of that word to read “Decommissioning”;
- xvii. Special Condition E5 – in paragraph 3 in the definition of “ $SR_t$ ” replace the words “domestic services replaced” with the words “Domestic Services Replaced”;
- xviii. Special Condition E5 – in paragraph 3 in the definition of “ $USR_t$ ” replace the words “domestic services replaced” with the words “Domestic Services Replaced”;

- xix. Special Condition E5 – in paragraph 3 in the definition of “ST<sub>t</sub>” replace the words “domestic services transferred” with the words “Domestic Services Transferred”;
- xx. Special Condition E5 – in paragraph 3 in the definition of “UST<sub>t</sub>” replace the words “domestic services transferred” with the words “Domestic Services Transferred”;
- xxi. Special Condition E5 – in paragraph 3 in the definition of “SN<sub>t</sub>” replace the words “non domestic services replaced and non domestic services transferred” with the words “Non-Domestic Services Replaced and Non-Domestic Services Transferred”;
- xxii. Special Condition E5 – in paragraph 3 in the definition of “USN<sub>t</sub>” replace the words “non domestic services replaced and non domestic services transferred” with the words “Non-Domestic Services Replaced and Non-Domestic Services Transferred”;
- xxiii. Special Condition E5 – in paragraph 3 amend the definition of “domestic premises” by capitalising the first letter of those words to read “Domestic Premises”;
- xxiv. Special Condition E5 – in paragraph 3 amend the definition “domestic services replaced” by capitalising the first letter of those words to read “Domestic Services Replaced”;
- xxv. Special Condition E5 – in paragraph 3 in the definition of “domestic services replaced” replace the words “domestic premises” with the words “Domestic Premises” and replace the words “purge and re-light costs” with the words “Purge and Re-Light Costs”;
- xxvi. Special Condition E5 – in paragraph 3 amend the definition of “domestic services transferred” by capitalising the first letter of those words to read “Domestic Services Transferred”;
- xxvii. Special Condition E5 – in paragraph 3 in the definition of “domestic services transferred” replace the words “domestic premises” with the words “Domestic Premises” and replace the words “purge and re-light costs” with the words “Purge and Re-Light Costs”;
- xxviii. Special Condition E5 – in paragraph 3 amend the definition of “non domestic premises” by capitalising the first letter of those words to read “Non-Domestic Premises”;
- xxix. Special Condition E5 – in paragraph 3 amend the definition of “non domestic services replaced” by capitalising the first letter of those words to read “Non-Domestic Services Replaced”;
- xxx. Special Condition E5 – in paragraph 3 in the definition of “non domestic services replaced” replace the words “non-domestic premises” with the words “Non-Domestic Premises” and replace the words “purge and re-light costs” with the words “Purge and Re-Light Costs”;

- Special Condition E5 – in paragraph 3 amend the definition of “non domestic services transferred” by capitalising the first letter of those words to read “Non-Domestic Services Transferred”;
- xxxii. Special Condition E5 – in paragraph 3 in the definition of “non domestic services transferred” after the words “service to” insert the word “a”, replace the words “non-domestic premises” with the words “Non-Domestic Premises” and replace the words “purge and re-light costs” with the words “Purge and Re-Light Costs”;
- xxxiii. Special Condition E5 – in paragraph 3 amend the definition of “purge and re-light costs” by capitalising the first letter of those words to read “Purge and Re-Light Costs”;
- xxxiv. Special Condition E5 – in paragraph 3 in the definition of “purge and re-light costs” replace the word “for” with the word “of”;
- xxxv. Special Condition E6 – in paragraph 3 replace “ExUSF<sub>t</sub>” in the table with “ExUSF<sub>t</sub>”;
- xxxvi. Special Condition E6 – in paragraph 3 replace “ExDSF<sub>t</sub>” in the table with “ExDSF<sub>t</sub>”;
- xxxvii. Special Condition E6 – in paragraph 3 replace “ExCAPP<sub>t</sub>” in the table with “ExCAPP<sub>t</sub>”;
- xxxviii. Special Condition E6 – in paragraph 15 in the definition of “EIT<sub>t</sub>” insert the word “million” after the symbol “£”;
- xxxix. Special Condition E6 – in paragraph 15 in the definition of “EDC<sub>t</sub>” insert the word “million” after the symbol “£”;
- xl. Special Condition E6 – in paragraph 15 in the definition of “EDC<sub>t</sub>” replace the words “formula yeat” with the words “Formula Year”;
- xli. Special Condition E6 – in paragraph 18 in the definition of “IOC<sub>t</sub>” insert the word “million” after the symbol “£”;
- xlii. Special Condition E6 – in paragraph 18 in the definition of “IEC” insert the words “in £ million” after the words “Exercise Cost”;
- xliii. Special Condition E6 – in paragraph 19 replace “(t)” with “t”;
- xliv. Special Condition E7 – in paragraph 9 replace the words “would if made” with the words “would, if made,”;
- xlv. Special Condition E7 – in paragraph 11 replace the words “including the licensee” with the words “including the licensee,” and replace the word “determination” with the word “determination,”;
- xlvi. Special Condition E7 – in paragraph 13 replace the words “be exceeded,” with the word “exceed,”;
- xlvii. Special Condition E7 – in paragraph 16 replace the words “persons including the licensee” with the words “persons, including the licensee,” and replace the word “determination” with the word “determination,”;
- xlviii. Special Condition E8 – in paragraph 5 replace “(GPCR<sub>t</sub>)” with “(GPRC<sub>t</sub>)”;

- xlix. Special Condition E8 – in paragraph 5 in the definition of “Wdy” insert the word “point” after the words “national balancing”;
- I. Special Condition E9 – in paragraph 1 after the words “DN Operators)” delete the words “by the licensee,”;
  - li. Special Condition E9 – in paragraph 2 in the definition of “LB<sub>t,i</sub>” after the words “set out in” delete the words “the in”;
  - lii. Special Condition E9 – in paragraph 9(b)(v) replace the words “paragraph 12” with the words “paragraph 11”;
  - liii. Special Condition E9 – in paragraph 9(b)(vii) replace the words “paragraph 11” with the words “paragraph 10”;
  - liv. Special Condition E9 – in paragraph 9(d) replace the word “Authority” with the word “Authority,”;
  - lv. Special Condition E9 – in paragraph 14 replace the words “paragraph 11” with the words “paragraph 13”;
  - lvi. Special Condition E9 – in paragraph 16 replace the word “such,” with the word “such”;
  - lvii. Special Condition E10 – in paragraph 2 replace the following formula:
 
$$DRS_t = DRA_{t-2} \times \frac{I_t}{100} \times \frac{I_{t-1}}{100}$$
 with the following formula:
 
$$DRS_t = DRA_{t-2} \times \left(1 + \frac{I_t}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$
  - lviii. Special Condition E11 – in paragraph 1 insert the word “(IFI)” after the words “innovation funding incentive”;
  - lix. Special Condition E11 – in paragraph 2 in the definition of “IFIE<sub>t</sub>” after the word “report” delete the words “for that”;
  - lx. Special Condition E12 – in paragraph 1 after “.” delete “.”;
  - lxi. Special Condition E18 – in paragraph 3 replace the words “excluded service” with the words “Excluded Service”;
  - lxii. Special Condition E19 – in paragraph 3(b) replace the following formula:
 
$$M_t^A = M_{t-1}^A \times RPI_t$$
 with the following formula and words:
 
$$M_t^A = M_{t-1}^A \times RPI_t \text{ (rounded up or down to the nearest penny)}$$
  - lxiii. Special Condition E19 – in paragraph 3(b) in the definition of “RPI<sub>t</sub>” replace the words “November 2007” with the words “November t-2” and after the words “of this licence” insert the words “except for t=1 where the RPI<sub>t</sub> adjustment will not apply”;
  - lxiv. Special Condition E20 – in paragraphs 7(a), 7(b) and 7(c) after the words “revenue reporting” insert the word “regulatory”;

- lxv. Special Condition E20 – in paragraphs 7(b) and 7(c) after the words “in accordance with” insert the words “Standard Special Condition A4 (Charging – General),”;
- lxvi. Special Condition E20 – in paragraph 7(b) replace the words “five months” with the words “150 days”;
- lxvii. Special Condition E20 – in paragraph 7(c) replace the words “three months” with the words “two months”; and
- lxviii. Special Condition E20 – in paragraph 8(a) replace the word “7(b)” with the word “7(a)”.

9. National Grid Gas plc has consented to the modifications.

### **NOW THEREFORE**

In accordance with its powers under section 23(1)(a) of the Act the Authority **HEREBY MODIFIES** the DN operator’s gas transporter licence granted under section 7 of the Act to National Grid Gas plc in the manner contained in the attached Schedule **WITH EFFECT** on and from 1 April 2008 and **THE NEW SPECIAL CONDITIONS IN PART E OF THE LICENCE SHALL HAVE EFFECT ON AND FROM 1 APRIL 2008.**

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

Dated the 31<sup>st</sup> day of March 2008

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

Steve Smith



**Managing Director, Networks**  
**Authorised on behalf of the Gas and Electricity Markets Authority**

## **SCHEDULE**

(Conditions)

## **SPECIAL CONDITIONS APPLICABLE TO THE LICENSEE (DN): PART E**

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**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) or 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:

<b>Distribution Network</b>	<b>Local Distribution Zone (LDZ)</b>
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 Networks 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 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 $t$ ;
DN Operator	has the meaning given to DN operator in Standard Special Condition A3 (Definitions and Interpretation);
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;
Distribution Network Transportation Activity Revenue Restriction Conditions	means Special Conditions E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity) to E12 (Distribution Network loss of meter work revenue driver ( $LM_t$ )) inclusive;
Domestic Credit Meter Installation	means a Domestic Sized Meter and associated equipment and 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);
Exit Zone	has the meaning given to the term exit zone in Section A 1.3.2 of 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;
Interruptible Exercise Cost	is the total cost in £ million that the licensee has incurred in respect of each Day upon which the licensee interrupts the flow of gas at a Supply Point capacity that is designated as interruptible in accordance with paragraph 6.1.2 (g)(i) of section G of the network code having effect on 1 April 2008;

Interruptible Option Cost	is the total cost in £ million that the licensee has incurred (irrespective of interruption) for each Day of the interruption period for the designation of such Supply Point capacity as interruptible in accordance with paragraph 6.1.2 (g)(ii) of section G of the network code having effect on 1 April 2008;
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;
NTS	shall bear the same meaning as in Standard Special Condition A3 (Definitions and Interpretation);

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) of its licence in respect of the NTS;
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 National Grid Gas plc’s gas transporter licence in respect of the NTS;
NTS Offtake (Flat) Capacity	means capacity which causes or permits gas to flow from the NTS at a rate which is even over the course of the Day in accordance with paragraph 1.2.3 (d) (i) of section B of the network code having effect on 15 December 2007;
NTS Offtake (Flexibility) Capacity	means capacity which causes or permits gas to flow from the NTS at a rate of offtake or flow which is not even over the course of a Day in accordance with paragraph 1.2.3 (d) (ii) of section B of the network code having effect on 15 December 2007;
NTS Operator	has the meaning given to NTS operator in Standard Special Condition A3 (Definitions and Interpretation);
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 the applicable gas transporter licence;

**Offtake Capacity Statement** means the statement issued by the NTS Operator specifying, for the licensee, in respect of each NTS/LDZ offtake the relevant amount of NTS Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity in accordance with paragraph 6.2.1 of Section B of the network code having effect on 15 December 2007;

**Own Use Gas** means gas used by a Distribution Network in connection with the operation of an LDZ (“LDZ Own Use Gas”), including gas used for preheating and venting gas (such venting being counted for the purposes hereof as use by the relevant Distribution Network) in accordance with paragraph 1.3.1 of section N of the network code;

**Price Control Period End Date** means for the purpose of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity) only, the end of the period during which, apart from paragraph 6 of that condition,  $MR_t$  shall be calculated pursuant to paragraph 5 of that condition;

**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 equipment and 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 or as specified by the Authority in writing;

**Shrinkage** means, for the purposes of Part E only, the sum of LDZ Own Use Gas and LDZ Unaccounted For Gas;

**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 and Metering 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, development, administration 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; and
Unaccounted For Gas	means gas which is lost or otherwise not accounted for as offtaken from the LDZ (“LDZ Unaccounted For Gas”), including gas lost or unaccounted for by reason of unidentified theft, error in meter correction and leakage in accordance with paragraph 1.3.1 of section N of the network code.

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 for each relevant Distribution Network which determines the allowed revenue that may be recovered through Distribution Network transportation charges by the licensee and to set out the obligations of the licensee in respect of each relevant Distribution Network 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 each 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 in respect of that Distribution Network 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 relevant 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 relevant Distribution Network would not be likely to exceed the maximum Distribution Network Transportation Activity Revenue in respect of the relevant 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 in respect of the relevant Distribution Network has exceeded the maximum Distribution Network Transportation Activity Revenue in respect of that Distribution Network by more than 6 per cent of the maximum Distribution Network Transportation Activity Revenue in respect of the Distribution Network 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 respect of the Distribution Network 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 in respect of the relevant Distribution Network 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 the relevant Distribution Network in Formula Year  $t$   $MR_t$  shall be an amount equal to that derived from the following formula:

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

where:

$Z_t$  means the base revenue for each relevant Distribution Network in the Formula Year  $t$  and shall have the value for each relevant Distribution Network 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  $t$  and shall be calculated in accordance with paragraph 3 of Standard Condition 27 (Adjustment of Amounts by Reference to the Retail Price Index) of this licence;

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

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

$MSRA_t$	means the Mains and Services Replacement expenditure adjustment (whether of a positive or negative value) for each relevant Distribution Network in respect of Formula Year $t$ and shall be derived in accordance with Special Condition E5: (Mains and Services Replacement expenditure adjustment ( $MSRA_t$ ));
$Ex_t$	means the DN exit capacity costs and incentive revenue for each relevant Distribution Network 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 for each relevant Distribution Network 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 $MR_t$ ) ( $IAE_t$ );
$Sh_t$	means the maximum shrinkage allowance for each relevant Distribution Network and shall be derived in accordance with Special Condition E8 (Distribution Network shrinkage incentive revenue( $Sh_t$ ));
$EE_t$	means the environmental emissions incentive revenue for each relevant Distribution Network 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;
$DRS_t$	means the discretionary reward scheme revenue for each relevant Distribution Network 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 for each relevant Distribution Network and shall be derived in accordance with Special Condition E11 (Distribution Network innovation funding incentive for sustainable development scheme ( $IFISD_t$ )); and

$LM_t$  means the loss of meter work revenue driver for each relevant Distribution Network and shall be derived in accordance with Special Condition E12 (Distribution Network loss of meter work revenue driver ( $LM_t$ )).

6. Subject to paragraph 2 of Special Condition E16: (Disapplication of the Distribution Network Transportation Activity Revenue restriction) where the Authority has made a reference to the Competition Commission before the period of 6 months referred to in paragraph 7 of Special Condition E16: (Disapplication of the Distribution Network Transportation Activity Revenue restriction) and 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:

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

Where:

MRt-1 means the previous 12 months maximum Distribution Network Transportation Activity Revenue; and

InAt 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.

**Annex A – Gas Distribution base revenue ( $Z_t$ ) (£m, 2005-6 prices)**

<b>Distribution Network</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
East of England	409.61	414.57	418.44	422.97	427.09
London	272.32	268.82	275.30	279.43	280.31
North West	286.01	287.41	289.54	293.39	295.70
West Midlands	220.80	229.81	222.68	224.56	225.63

**Special Condition E3: Distribution Network allowed pass-through items (F<sub>t</sub>)**

1. The purpose of this condition is to provide for the calculation of adjustments to the maximum Distribution Network Transportation Activity Revenue for each relevant Distribution Network to reflect certain costs that can be passed through to customers of the licensee.

**Formula for Distribution Network allowed pass-through items (F<sub>t</sub>)**

2. For the purposes of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity), F<sub>t</sub> is derived from the following formula:

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

where:

RB<sub>t</sub> means an amount (whether positive or negative), as derived from the formula set out in paragraph 3, representing a business rates adjustment;

LF<sub>t</sub> means an amount (whether positive or negative), as derived from the formula set out in paragraph 4, representing a licence fee adjustment;

PD<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub>** 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<sub>t</sub>** means the amount payable by the licensee in respect of costs incurred by the licensee in the Formula Year <sub>t</sub> 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<sub>t</sub>)**

3. (a) For the purposes of paragraph 2, RB<sub>t</sub> is an amount calculated in accordance with the following formula:

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

Where:

**RBA<sub>t</sub>** 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:

$$RDNF \times TTR_t$$

Where:

RDNF is the RDN factor for each relevant Distribution Network owned by the licensee and is represented by the

percentage given in Annex B part 1 that applies to each relevant 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 allowance in respect of prescribed rates or equivalent tax or duty replacing such rates for each relevant Distribution Network in Formula Year 2005/06 prices and is represented by the amount given in Annex B, part 2 that applies to each relevant Distribution Network

owned by 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 ( $RBA_t$ ).

#### **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 each relevant Distribution Network owned by 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<sub>t</sub>)**

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 Annex D that applies to the relevant Distribution Network owned by 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<sub>t</sub>)**

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 each relevant Distribution Network 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 each relevant Distribution Network 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 for each relevant Distribution Network 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)**

<b>Distribution Network</b>	<b>RDNF</b>
East of England	28.3146%
London	13.6385%
North West	14.2424%
West Midlands	11.1655%

**Annex B Part 2-Distribution Network Prescribed Rates allowance (RBE<sub>t</sub>) (£m, 2005-6 prices)**

<b>Distribution Network</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
East of England	59.31	59.31	59.31	59.31	59.31
London	33.07	33.07	33.07	33.07	33.07
North West	31.65	31.65	31.65	31.65	31.65
West Midlands	24.74	24.74	24.74	24.74	24.74

**Annex C – Distribution Network Licence Fee allowance (LFE<sub>t</sub>) (£m, 2005-6 prices)**

<b>Distribution Network</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
East of England	0.00	0.00	0.00	0.00	0.00
London	0.00	0.00	0.00	0.00	0.00
North West	0.00	0.00	0.00	0.00	0.00
West Midlands	0.00	0.00	0.00	0.00	0.00

**Annex D – Distribution Network Pension Deficit Charge allowance (PDE<sub>t</sub>), (£m, 2005-6 prices)**

<b>Distribution Network</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
East of England	4.45	4.34	4.23	4.13	4.03
London	2.59	2.52	2.46	2.40	2.34
North West	3.05	2.97	2.90	2.83	2.76
West Midlands	2.20	2.15	2.10	2.05	2.00

**Special Condition E4: Distribution Network Transportation Activity Revenue adjustment (K<sub>t</sub>)**

1. The purpose of this condition is to provide for the calculation of adjustments to the maximum Distribution Network Transportation Activity Revenue for each relevant Distribution Network in Formula Year <sub>t</sub> to take account of any under or over recovery of Distribution Network Transportation Activity Revenue from the previous Formula Year t-1.

**Formula for Distribution Network Transportation Activity Revenue adjustment (K<sub>t</sub>)**

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 for each relevant Distribution Network in respect of Formula Year <sub>t</sub> (K<sub>t</sub>) 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<sub>t</sub> means the percentage interest rate in respect of Formula Year <sub>t</sub> which is equal to the average Specified Rate;

PR<sub>t</sub> means the interest rate adjustment which is equal to:  
3 if (R<sub>t-1</sub>) exceeds (MR<sub>t-1</sub>) by 3 per cent or more; or  
0 if (R<sub>t-1</sub>) is less than (MR<sub>t-1</sub>) by 3 per cent or more;  
and otherwise, it shall take the value of 1.5;

R<sub>t-1</sub> means the Distribution Network Transportation Activity Revenue in respect of the Formula Year t-1 except in t=1 where it shall be, in respect of each relevant Distribution Network, the Distribution Network Transportation Activity Revenue (DNR<sub>t</sub>) in respect of the Formula Year commencing on 1 April 2007 calculated pursuant to

paragraph 7 of Part 1b of Special Condition E2B: (Restriction of revenue in respect of the Distribution Network transportation activity) applicable to the relevant Distribution Network and in the licence in force on 31 March 2008; and

$MR_{t-1}$

means the maximum Distribution Network Transportation Activity 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, in respect of each relevant Distribution Network, the maximum Distribution Network Transportation Activity Revenue ( $DNMR_t$ ) in respect of the Formula Year commencing on 1 April 2007 calculated pursuant to paragraph 8 (1) of part 1b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) applicable to the relevant Distribution Network and in the licence in force on 31 March 2008.

**Special Condition E5: Mains and Services Replacement expenditure adjustment (MSRA<sub>t</sub>)**

1. The purpose of this condition is to provide for the calculation of adjustments to the maximum Distribution Network Transportation Activity Revenue for each relevant Distribution Network to reflect yearly variations in mains and related services costs.

**Formula for the Mains and Services Replacement expenditure adjustment (MSRA<sub>t</sub>)**

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 <sub>t</sub> (MSRA<sub>t</sub>) 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<sub>t</sub>** means the information quality incentive factor for each relevant Distribution Network and shall have the value set out in Annex E;

**E<sub>t</sub>** means the Outturn Mains And Services Costs in respect of the relevant Distribution Network in Formula Year <sub>t</sub>; and

**J<sub>t</sub>** means the price control initial projection for the mains and services allowance for each relevant Distribution Network in respect of Formula Year <sub>t</sub> and shall have the values set out in Annex F.

For the purposes of this paragraph and paragraph 3:

**AM<sub>t</sub>** means the matrix mains and services costs in respect of the relevant Distribution Network in Formula Year <sub>t</sub> and shall

be derived in accordance with paragraph 3 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 materials other than Standard Mains Materials; and all decommissioned, transferred and replaced services;

**Outturn Mains t And Services Costs** means the costs reasonably attributable to the replacement and Decommissioning of Included Mains And Services in respect of the relevant 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 rust 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 each relevant 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 relevant 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;

<b>Diameter band n</b>	<b>Nominal internal diameter of mains decommissioned (inches)</b>
1	<=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 relevant Distribution Network as set out in the relevant table 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 relevant Distribution Network;

USR <sub>t</sub>	means the unit cost for Domestic Services Replaced in respect of Formula Year <sub>t</sub> for the relevant Distribution Network as set out in the relevant table in Annex H;
ST <sub>t</sub>	means the number of Domestic Services Transferred in respect of Formula Year <sub>t</sub> for the Distribution Network;
UST <sub>t</sub>	means the unit cost for Domestic Services Transferred in respect of Formula Year <sub>t</sub> for the relevant Distribution Network as set out in the relevant table in Annex H;
SN <sub>t</sub>	means the number of Non-Domestic Services Replaced and Non-Domestic Services Transferred in respect of Formula Year <sub>t</sub> for the relevant Distribution Network;
USN <sub>t</sub>	means the unit cost for Non-Domestic Services Replaced and Non-Domestic Services Transferred in respect of Formula Year <sub>t</sub> for the relevant Distribution Network as set out in the relevant table in Annex H;
Domestic Premises	means, for the purposes of Special Condition E5 (Mains and Services Replacement expenditure adjustment (MSRA <sub>t</sub> )) only, premises at which a supply is taken at a rate which is reasonably expected not 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	means the transfer of an existing polyethylene service to a

Transferred	new main at a Domestic Premises and includes associated Purge And Re-Light costs;
Non-Domestic Premises	means, for the purposes of Special Condition E5 (Mains and Services Replacement expenditure adjustment (MSRA <sub>i</sub> )) only, premises at which a supply is taken at a rate which is reasonably expected to exceed 73,200 Kilowatt Hours a year;
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;
Non-Domestic Services Transferred	means transferring an existing polyethylene service to a new main at a Non-Domestic Premises and includes associated Purge And Re-Light Costs; and
Purge And Re-Light Costs	means the costs of purging the service and other associated equipment of air and relighting the customer's appliances.

**Annex E – Distribution Network information quality incentive factor (IQI<sub>t</sub>)**

<b>Distribution Network</b>	<b>IQI factor</b>
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<sub>t</sub>) (£m, 2005-6 prices)**

<b>Distribution Network</b>	<b>Formula Year <sub>t</sub></b>				
	t=1	t=2	t=3	t=4	t=5
East of England	89.31	98.35	99.45	103.81	105.28
London	93.02	81.37	84.48	85.93	81.55
North West	91.22	90.58	89.33	90.13	85.39
West Midlands	72.32	69.54	66.69	66.74	64.22

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

**Distribution Network – East of England**

<b>Diameter band n</b>	<b>Specific matrix costs (£ per metre)</b>				
	t=1	t=2	t=3	t=4	t=5
1	62.33	62.03	61.96	61.44	61.51
2	68.05	67.72	67.64	67.08	67.15
3	95.75	95.28	95.18	94.38	94.49
4	177.12	176.25	176.06	174.58	174.78
5	247.46	246.24	245.97	243.91	244.20
6	358.84	357.07	356.69	353.70	354.11
7	501.54	499.06	498.52	494.35	494.93
8	618.93	615.88	615.21	610.06	610.77

### Distribution Network – London

	Specific matrix costs (£ per metre)				
Diameter band n	t=1	t=2	t=3	t=4	t=5
1	76.47	77.56	78.57	76.27	76.93
2	83.48	84.68	85.78	83.27	83.99
3	117.46	119.14	120.69	117.16	118.17
4	217.28	220.39	223.26	216.72	218.60
5	303.57	307.92	311.92	302.79	305.41
6	440.21	446.51	452.32	439.08	442.88
7	615.25	624.07	632.19	613.68	618.99
8	759.27	770.15	780.17	757.33	763.87

### Distribution Network – North West

	Specific matrix costs (£ per metre)				
Diameter band n	t=1	t=2	t=3	t=4	t=5
1	62.12	62.39	61.97	62.00	62.19
2	67.82	68.12	67.65	67.69	67.90
3	95.43	95.85	95.19	95.24	95.53
4	176.52	177.29	176.08	176.18	176.72
5	246.63	247.70	246.00	246.14	246.89
6	357.64	359.20	356.73	356.93	358.02
7	499.85	502.03	498.59	498.87	500.39
8	616.85	619.54	615.29	615.64	617.52

### Distribution Network –West Midlands

	Specific matrix costs (£ per metre)				
Diameter band n	t=1	t=2	t=3	t=4	t=5
1	62.78	63.51	63.97	64.23	65.11
2	68.54	69.34	69.84	70.12	71.08
3	96.44	97.56	98.26	98.66	100.02
4	178.39	180.46	181.76	182.50	185.01
5	249.23	252.13	253.95	254.98	258.48
6	361.42	365.62	368.25	369.75	374.83
7	505.13	511.01	514.69	516.78	523.88
8	623.37	630.62	635.16	637.74	646.50

### 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	465.29	459.67	460.80	461.10	461.74
UST	286.42	282.13	282.87	283.38	283.67
USN	1,576.27	1,544.67	1,558.88	1,549.72	1,563.79

#### London

	Specific services costs (£/ service)				
	t=1	t=2	t=3	t=4	t=5
USR	566.46	577.85	577.28	578.06	583.80
UST	338.65	345.70	345.29	345.67	349.11
USN	1,990.29	2,030.48	2,027.96	2,027.29	2,050.95

**North West**

	<b>Specific services costs (£/ service)</b>				
	t=1	t=2	t=3	t=4	t=5
USR	449.27	451.35	453.79	454.92	460.04
UST	270.99	272.25	273.80	274.46	277.86
USN	1,571.59	1,571.59	1,571.59	1,588.86	1,606.13

**West Midlands**

	<b>Specific services costs (£/ service)</b>				
	t=1	t=2	t=3	t=4	t=5
USR	473.61	477.22	481.51	484.17	487.75
UST	290.14	292.29	295.04	297.12	299.15
USN	1,603.73	1,612.59	1,630.31	1,630.31	1,648.03

**Special Condition E6: Distribution Network Exit Capacity costs and incentive revenue (Ex<sub>t</sub>)**

1. The purpose of this condition is to provide for the calculation of adjustments to the maximum Distribution Network Transportation Activity Revenue for each relevant Distribution Network to reflect Distribution Network exit capacity costs and to set out the incentive payments that adjust the maximum Distribution Network Transportation Activity Revenue for each relevant Distribution Network to reflect the performance of the licensee against the Distribution Network exit capacity incentive and interruption incentive.

**Part A: Formula for Distribution Network exit capacity costs and incentive revenue (Ex<sub>t</sub>)**

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

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

where:

ExCIR<sub>t</sub> means the Distribution Network exit capacity incentive revenue in respect of Formula Year <sub>t</sub> and shall be derived in accordance with paragraph 3 of this condition;

ExIIC<sub>t</sub> means the costs incurred by the licensee in respect of the total payments made by the licensee to the relevant shipper in respect of Formula Year <sub>t</sub> 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 Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity in respect of the relevant 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 Offtake (Flat) Capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS Operator by the licensee in respect of NTS Offtake (Flat) Capacity; and

$ExFFC_t$  means in respect of Formula Year  $t$ , the total costs incurred by the licensee for NTS Offtake (Flexibility) Capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS Operator by the licensee in respect of NTS Offtake (Flexibility) Capacity.

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<sub>t</sub>)**

3. For the purposes of paragraph 2 of this condition the maximum Distribution Network exit capacity incentive revenue allowed to the licensee in respect of each Distribution Network in Formula Year <sub>t</sub> (ExCIR<sub>t</sub>) 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<sub>t</sub> means the Distribution Network exit incentive target in respect of Formula Year <sub>t</sub> and shall be derived in accordance with paragraph 4 of this condition;

ExCP<sub>t</sub> means the Distribution Network exit performance measure in respect of Formula Year <sub>t</sub>, 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<sub>t</sub> means the Distribution Network exit upside sharing factor in respect of Formula Year <sub>t</sub> as set out in the following table:

	<b>Formula Year</b>
<b>Variable</b>	<b>t</b>
ExUSF <sub>t</sub>	100%

ExDSF<sub>t</sub> means the Distribution Network exit downside sharing factor in respect of Formula Year <sub>t</sub> as set out in the

following table:

	<b>Formula Year</b>
<b>Variable</b>	<b>t</b>
ExDSF <sub>t</sub>	100%

ExCAP<sub>t</sub> means the maximum Distribution Network exit capacity revenue in respect of each Distribution Network in Formula Year <sub>t</sub> derived from the following formula:

$$\text{ExCAP}_t = \text{MIN} (\text{ExCAPP}_t \times \text{ExIT}_t, \text{£5,000,000})$$

where ExCAPP<sub>t</sub> is set out in the following table:

	<b>Formula Year</b>
<b>Variable</b>	<b>t</b>
ExCAPP <sub>t</sub>	7.5%

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

ExCOL<sub>t</sub> means the minimum Distribution Network exit capacity revenue in respect of each Distribution Network in Formula Year <sub>t</sub> derived from the following formula:

$$\text{ExCOL}_t = \text{MAX} (\text{ExCOLP}_t \times \text{ExIT}_t, -\text{£5,000,000})$$

where ExCOLP<sub>t</sub> is set out in the following table:

	<b>Formula Year</b>
<b>Variable</b>	<b>t</b>
ExCOLP <sub>t</sub>	-7.5%

**Formula for Distribution Network exit incentive target (ExIT<sub>t</sub>)**

- For the purpose of paragraph 3 of this condition the Distribution Network exit incentive target in respect of each Distribution Network in Formula Year <sub>t</sub> (ExIT<sub>t</sub>) 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 Offtake (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 Offtake (Flexibility) Capacity 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 relevant 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 Offtake (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 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 Offtake (Flat) Capacity in

GWh/d for Exit Zone  $v$  within the relevant Distribution Network in respect of Formula Year  $t$  as given in Annex I;

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

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

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

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

6. The target cost in £ million of the target volume of NTS Offtake (Flexibility) Capacity  $ExFFTC_t$  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 Offtake (Flexibility) Capacity in GWh/d for Exit Zone  $v$  within the relevant Distribution Network in respect of Formula Year  $t$  as given in Annex J;

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

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

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

means the sum across all 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 relevant Distribution Network on Plus 15 Curtailment Days subject to sub-paragraph 8 of this condition is as set out in Annex K (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 relevant 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 relevant 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 relevant 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,  $z$  within the relevant Distribution Network.

**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 Offtake (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 Offtake (Flexibility) Capacity 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 relevant 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 Offtake (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 Offtake (Flat) Capacity in GWh/d in respect of 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 Exit Zones  $v$  within the relevant Distribution Network;

However, for all Days after 31 March 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 Offtake (Flexibility) Capacity  $ExFFDC_t$  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 Offtake (Flexibility) Capacity in GWh/d in respect of 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 Exit Zones  $v$  within the relevant Distribution Network;

However, for all Days after 31 March 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 relevant Distribution Network on Plus 15 Curtailment Days in respect of Formula Year  $t$   $ExIIC_t$  shall be derived from the following formula:

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

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  $z$  within the relevant Distribution Zone ; 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 relevant 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<sub>t</sub>)**

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

$$CO_t = EI_t + II_t$$

Where:

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

II<sub>t</sub> means the interruption incentive in respect of the relevant Distribution Network for Formula Year <sub>t</sub> and shall be derived in accordance with paragraph 18 of this condition.

**Formula for the Distribution Network exit capacity incentive (EI<sub>t</sub>)**

15. For the purposes of paragraph 14 of this condition the Distribution Network exit capacity incentive revenue in Formula Year <sub>t</sub> (EI<sub>t</sub>) 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<sub>t</sub> means the Distribution Network exit incentive target and is

determined by the target cost in £ million of the target volume of NTS Offtake (Flat) Capacity in respect of the relevant 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 £ million incurred by the licensee for NTS Offtake (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 relevant Distribution Network for Formula Year  $t$  derived from the following formula:

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

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

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

**Formula for Distribution Network exit incentive target ( $EIT_t$ )**

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

$$EIT_t = \frac{\sum_{allv} \left[ \left( \sum_{10Oct-31Mar} NTSIChE_{v,t,d} \times NTSTVE_{v,t} \right) * (Y_t / P_t) \right]}{100}$$

where:

$NTSIChE_{v,t,d}$  means the relevant indicative NTS (TO) Exit Capacity Charge in p/peak day kWh/d for Exit Zone  $v$  within the

relevant Distribution Network for each Day  $d$  between 1 October and 31 March of the Formula Year  $t$  as specified in the latest NTS Gas Transportation Statement as at 1 May in Formula Year  $t-3$  or, if no such indicative charge is available in such statement, then the NTS (TO) Exit Capacity Charge in the same statement for the closest preceding Formula Year to Formula Year  $t$  for which indicative NTS (TO) Exit Capacity Charges are provided in such statement;

$NTSTVE_{v,t}$  means the target volume of NTS Offtake (Flat) Capacity in GWh/d for Exit Zone  $v$  within the relevant Distribution Network for Formula Year  $t$  as set out in Annex L;

$Y_t$  means the number of Days in Formula Year  $t$ ;

$P_t$  means the number of Days between 1 October and 31 March inclusive in Formula 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 Exit Zones  $v$  within the relevant Distribution Network.

### **Formula for the Distribution Network exit performance measure (EDC<sub>t</sub>)**

17. For the purpose of paragraph 15 of this condition, the Distribution Network exit performance measure in Formula Year  $t$  (EDC<sub>t</sub>) shall be derived from the following formula:

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

NTSICH<sub>v,t,d</sub> has the meaning given in paragraph 16 of this condition;

NTSMAE<sub>v,t</sub> means the maximum actual allocation of NTS Offtake (Flat) Capacity in GWh/d for 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 Exit Zones v within the relevant Distribution Network;

Y<sub>t</sub> has the meaning given in paragraph 16 of this condition; and

P<sub>t</sub> has the meaning given in paragraph 16 of this condition.

### **Formula for the Distribution Network interruption incentive (II<sub>t</sub>)**

18. For the purpose of paragraph 14 of this condition the Distribution Network interruption incentive in Formula Year t (II<sub>t</sub>) 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<sub>t</sub> means the sum of Interruptible Option Cost in £ million that has been incurred across all Supply Points designated as interruptible and for all Days in respect of the relevant Distribution Network for Formula Year t;

IEC<sub>t</sub> means the sum of Interruptible Exercise Cost in £ million which has been incurred across all Supply Points designated as interruptible and for all Days in respect of

the relevant Distribution Network for Formula Year  $t$ ;

$IA_t$  means the interruption allowance in respect of the relevant 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).

**Part D: Condition for Distribution Network booking of NTS Offtake (Flexibility) Capacity for Formula Years  $t=4$  and  $t=5$**

19. The licensee shall book NTS Offtake (Flexibility) Capacity for Formula Year  $t$  in accordance with the process set out in the NTS Offtake Capacity Statement.

20. Where the licensee books NTS Offtake (Flexibility) Capacity in respect of Formula Years  $t=4$  and  $t=5$ , the licensee shall also comply with the following requirements:

- (a) the licensee shall provide the Authority with a copy of its initial NTS Offtake (Flexibility) Capacity requests no later than three working days after it submits such requests to the NTS Operator;
- (b) the licensee shall inform the Authority in writing of the level of NTS Offtake (Flexibility) Capacity bookings that have been confirmed by the NTS Operator no later than three working days after it has received such confirmation; and
- (c) if the licensee forecasts NTS Offtake (Flexibility) Capacity requests for either Formula Year  $t=4$  or  $t=5$  greater than ten per cent more than NTS Offtake (Flexibility) Capacity bookings for Formula Year  $t=3$  or  $t=4$  respectively, the licensee must inform the Authority in writing at the earliest opportunity.

**Annex I: Distribution Network target volume of NTS Offtake (Flat) Capacity  
(NTSBAExC<sub>v,t</sub>) (GWh/d)**

GDN	Exit Zone v	NTSBAExC <sub>v,t</sub> (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 Offtake (Flexibility) Capacity  
(NTSBAExFF<sub>v,t</sub>) (GWh/d):**

GDN	Exit Zone v	NTSBAExFF <sub>v,t</sub> (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	6.06	2.76	2.79		
	WM3	-4.13	-2.65	-2.62		

**Annex K - Distribution Network incentive target (ExIIT<sub>t</sub>) (£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 Offtake (Flat) Capacity (NTSTVE<sub>v,t</sub>) (GWh/d):**

GDN	Exit Zone v	NTSTVE <sub>v,t</sub> (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 ( $IA_t$ ) (£m, 2005-6 prices)**

Distribution Network	$IA_t$				
	t=1	t=2	t=3	t=4	t=5
East of England				5.40	5.40
London				0.15	0.15
North West				3.60	3.60
West Midlands				0.05	0.05

**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 maximum Distribution Network Transportation Activity Revenue in respect of a relevant Distribution Network 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  $EDC_t$  (having the meanings given in paragraph 10 and paragraph 17 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 or any provision of the New Roads and Streetworks Act 1991 amended by Part 4 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 paragraph 12.

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

3. For the purposes of paragraph 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 paragraph 1.2.3(a) of section Q of 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  $EDC_t$  in respect of the relevant Distribution Network (having the meaning given in paragraphs 10 and 17 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 exit 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 exit 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 exit income adjustment proposed as a consequence of that event and how this allowed exit income adjustment has been calculated; and
  - (d) any other analysis or information which the person submitting the notice considers to be sufficient to enable the Authority and any relevant shipper to fully assess the event to which the notice relates.
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 exit income adjusting event;
- (b) whether the event or circumstance has increased or decreased the value of  $ExCP_t$  or  $EDC_t$  ((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 exit income adjustment secures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that exit income adjusting event had not taken place, and if not, what allowed exit 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 the following items associated with any order or regulation made pursuant to Part 3, or any provision of the New Roads and Streetworks Act 1991 amended by Part 4 of the Traffic Management Act 2004 or equivalent provisions under the Transport (Scotland) Act 2005 (“TMA”):
- (a) permit costs;
  - (b) fixed penalties;
  - (c) ongoing administration; or
  - (d) other costs that the Authority directs should be treated as TMA costs,

which has not been deemed by the Authority to be already included in the licensee's maximum Distribution Network Transportation Activity Revenue for the relevant Distribution Network and where the cumulative costs have exceeded, in the period from 1 April 2008 up to and including 31 March of the relevant Formula Year  $t$ , the sum of 1 per cent of base revenue ( $Z_t$ ) and any amounts that the licensee considers have been included in its base revenue allowance ( $Z_t$ ), the licensee may, by notice to the Authority, propose a relevant adjustment to the  $ITMA_t$  term.

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 adjustment date (defined in paragraph 10 below) 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 under the TMA 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;
  - (c) be accompanied by at least six months of actual cost data; and
  - (d) 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) and, if so, whether the amount of the proposed relevant adjustment secures the effect referred to in paragraph 9.

**Part D: Obligations in respect of a tax liability income adjusting event (ITL<sub>t</sub>)**

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<sub>t</sub>) has arisen which has not already been included in the licensee's maximum Distribution Network Transportation Activity Revenue for the relevant Distribution Network and where the cumulative costs have exceeded or are reasonably expected to exceed, in the period from 1 April 2008 up to and including 31 March of the Formula Year <sub>t</sub>, the sum of 1 per cent of base revenue (Z<sub>t</sub>), the licensee, may by notice to the Authority, propose a relevant adjustment to the ITL<sub>t</sub> term.
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 or will incur as a result of the tax liability income adjusting event;

(b) set out 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 or are likely to be 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) and, if so, whether the amount of the proposed relevant adjustment secures the effect referred to in paragraph 14.

**Part E: Further Obligations in respect of an exit, TMA or tax liability income adjusting event (IEt), (ITMA<sub>t</sub>) or (ITL<sub>t</sub>)**

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) a 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, shippers) to assess whether an income adjusting event has occurred and/ or the amount of any allowed income adjusting event that should be

approved, the Authority can request that the supporting evidence be supplemented with additional material that it considers appropriate.

19. A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and, in any event, not later than three months after the end of the relevant 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) the extent to which the disclosure of the information mentioned in subparagraph 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 ( $IAE_t$ ) 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 six 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 six month period, informed the relevant persons that the Authority considers that the analysis or information provided in accordance with paragraph 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, 8 or 13 or a shipper under paragraph 5;
- (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 Formula 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 respect of 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<sub>t</sub>)**

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 in respect of each relevant Distribution Network in Formula Year <sub>t</sub>.

**Formula for the Distribution Network shrinkage allowance (Sh<sub>t</sub>) for the period commencing 1st April 2008 and ending 30<sup>th</sup> 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 1<sup>st</sup> April 2008 and ending 30<sup>th</sup> 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<sub>t</sub> means the maximum shrinkage incentive revenue in respect of the relevant Distribution Network for Formula Year <sub>t</sub>;

i means each LDZ i of the relevant 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 <sub>t</sub>;

SF<sub>t,i</sub> means the LDZ allowed shrinkage factor SF in respect of

the Formula Year  $t$  for each constituent LDZ  $i$  of the relevant 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” within 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 of  $FP_{m-3,d}$  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 working 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 1<sup>st</sup> 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 1<sup>st</sup> October 2008, and in subsequent formula years 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 relevant 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

$SV_{i,i}$  means the LDZ allowed shrinkage volume in respect of the Formula Year  $t$  for each of the constituent LDZ  $i$  of the relevant 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  $t$  ( $GPRC_t$ ) shall be derived from the following formula:

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

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 for Formula Year 2008/9 and in subsequent Formula Years  $d=1$  shall commence on 1 April ;

$\sum_{all d}$  means the sum across all Days  $d$  within Formula Year  $t$ , except where  $t=1$  when it means the sum across all days commencing from 1 October 2008 within the Formula Year;

Wdy means the Forward Offer Price of gas at the 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 for those Days that are neither a weekend (Saturday and Sunday) nor a prescribed Bank

## Holiday in England and Wales

Wed	means the Forward Offer Price of gas at close of business on the Day before the relevant weekend or Bank Holiday published in an Approved Market Price Report for delivery at the national balancing point for those days that are a Saturday or Sunday or a prescribed Bank Holiday in England and Wales.
WD	Means for the period commencing 1st October 2008 the number of Days within the Formula Year $t$ , except when $t=1$ when $WD=182$ ;

**Annex N: LDZ allowed shrinkage factor SF for the period commencing 1<sup>st</sup> April 2008 and ending on 30<sup>th</sup> 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 1<sup>st</sup> October 2008 and ending on 31<sup>st</sup> 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

**Special Condition E9: Distribution Network environmental emissions incentive revenue (EE<sub>t</sub>) and compliance with the Leakage Model**

1. The purpose of this condition is to set out the incentive payments that adjust the maximum Distribution Network Transportation Activity Revenue in respect of each relevant Distribution Network in Formula Year <sub>t</sub> to reflect the licensee’s performance in respect of the environmental emissions incentive and to provide for the establishment of a Leakage Model by the licensee (where practicable on a common basis between relevant DN Operators) which operates with an appropriate degree of accuracy.

**Formula for the environmental emissions incentive (EE<sub>t</sub>)**

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<sub>t</sub>) in respect of the Formula Year t for shall be derived from the following formula:

If  $LB_{t,i} \geq LV_{t,i}$

$$EE_t = \sum_i \left[ \text{MIN}((LB_{t,i} - LV_{t,i}), (LB_{t,i} \times 0.1)) \right] \times CC_t \times RPI_t$$

Otherwise:

$$EE_t = \sum_i \left[ \text{MAX}((LB_{t,i} - LV_{t,i}), (LB_{t,i} \times -0.1)) \right] \times CC_t \times RPI_t$$

Where;

$\sum_i$  means sum for each LDZ i of the relevant Distribution Network;

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

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

LB <sub>t,i</sub>	means the LDZ allowed leakage volume in respect of the Formula Year t for each LDZ <sub>i</sub> of the relevant Distribution Network as set out in Annex P;
LV <sub>t,i</sub>	means the LDZ actual leakage volume, as calculated in accordance with the Leakage Model as set out in paragraph 3;
RPI <sub>t</sub>	has the value given in paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity);
CC <sub>t</sub>	means the environmental emissions factor in respect of Formula Year t and has the values set out in Annex Q;

### **Obligation to establish a Leakage Model**

3. By 1 October 2008 the licensee shall, where practicable together with the other DN Operators, establish and thereafter maintain a Leakage Model which shall be approved by the Authority and modified from time to time in accordance with the provisions in this condition.
4. The Leakage Model shall facilitate the achievement of the following objectives –
  - (a) the accurate calculation and reporting of gas leakage from each of the LDZs operated by the licensee; and
  - (b) being consistent with, and where reasonably practicable, identical to Leakage Models used by other DN Operators.
5. The licensee shall by 31 July each year make publicly available and provide to the Authority a report setting out the actual leakage volume (LV<sub>t,i</sub>) reported by the Leakage Model for each LDZ which it operates for the preceding year, together with any new information obtained by the licensee regarding leakage rates, including data derived from leakage tests.

6. For the purposes of this condition:

“Leakage Model” means the processes, procedures and the application used by the licensee to calculate the level of leakage of gas from each LDZ which it operates over a specified period and shall be based on the physical state of each such LDZ and the manner in which it has been operated by the licensee in that specified period, including:

- (a) leakage rates derived from leakage tests;
- (b) methods of modelling leakage from each of the LDZs operated by the licensee;
- (c) the application used to model leakage from each of LDZs operated by the licensee;
- (d) procedures to ensure the accuracy and completeness of data used by the licensee to calculate the Leakage Volume ( $LV_{t,i}$ ) in accordance with the Leakage Model; and
- (e) procedures for reviewing the Leakage Model together with other DN Operators as required by paragraph 7 of this condition and for developing proposed revisions to the licensee’s allowed leakage volume ( $LB_{t,i}$ ).

**Modifications to the Leakage Model**

- 7. The licensee shall, together with other relevant DN Operators, annually review the Leakage Model to ensure that it continues to achieve the objectives set out in paragraph 4 and as part of this review the licensee, together with other relevant DN Operators, shall consult with shippers and other interested parties to seek their views and, having given proper consideration to any representations raised by the shippers or other interested parties, the licensee, together with other relevant DN Operators, shall propose such modifications (if any) as are necessary for the purpose of better achieving those objectives.
- 8. If the licensee proposes a modification to the Leakage Model pursuant to paragraph 7, the licensee shall together with all other DN Operators propose revised allowed

leakage volumes ( $LB_{t,i}$ ) for each LDZ operated by the licensee that would retain the incentive properties of the environmental emissions incentive at the same level as those applicable prior to the proposed change to the Leakage Model.

9. Where, following the review conducted pursuant to paragraph 7 of this condition, the licensee proposes modifications to the Leakage Model, the licensee shall, together with all other DN Operators which also propose to make modifications to their respective Leakage Models:

(a) consult relevant shippers and other interested parties about the proposed modification to the Leakage Model and whether the allowed leakage volumes ( $LB_{t,i}$ ) should be revised and allow them a period of not less than 28 days in which to make representations;

(b) within 28 days of the close of the consultation referred to in sub-paragraph (a) make publicly available and submit to the Authority a report setting out:

- (i) the modifications originally proposed;
- (ii) the revised allowed leakage volumes ( $LB_{t,i}$ ) proposed pursuant to paragraph 8;
- (iii) the representations made by relevant shippers or other interested parties (if any) to the licensee and not withdrawn;
- (iv) any changes to the modifications and allowed leakage volumes ( $LB_{t,i}$ ) proposed as a result of such representations;
- (v) the independent expert's report referred to in paragraph 11;
- (vi) how the proposed modifications would better facilitate the objectives set out in paragraph 4 above; and
- (vii) a timetable, developed in accordance with paragraph 10, for the implementation of the modification originally proposed or any alternative modification developed in the light of any representations made by relevant shippers or other interested parties, including the

date with effect from which such modification (if made) is to take effect.

(c) where the Authority directs that sub-paragraphs (a) and (b) of this paragraph (or either of them) shall not apply, comply with such other reasonable requirements as are specified in that direction.

(d) the licensee shall not make any modification to the Leakage Model unless the Authority, having received the report furnished to it under sub-paragraph (b) above, directs it to do so pursuant to paragraph 13.

10. The licensee, together with other DN Operators, shall determine an appropriate timetable for any modification to the Leakage Model which ensures that such modification shall take effect as soon as practicable after the Authority has directed such modification to be made and which allows for that timetable to be extended with the consent of, or as required by, the Authority.

11. When proposing a modification to the Leakage Model the licensee shall, together with other DN Operators, appoint an independent expert who shall review the Leakage Model and the proposed allowed leakage volumes and provide a report of that review.

12. The report referred to in paragraph 11 shall include but not be limited to the independent expert's opinion on the extent to which the proposed Leakage Model or modifications to it would better facilitate the achievement of the objectives set out in paragraph 4 and, where applicable, the independent expert's opinion on the extent to which any changes to the allowed leakage volumes proposed pursuant to paragraph 9(b)(vi) would maintain the incentive properties of the environmental emissions incentive at the same level as those applicable prior to the change to the Leakage Model.

13. When a report has been submitted to the Authority pursuant to procedures described in paragraph 9(b) and the Authority is of the opinion that a modification set out in such report would, as compared with the then applicable provisions of the Leakage Model and any alternative modifications set out in such report, better facilitate the achievement of the objectives set out in paragraph 4 the Authority may issue

directions requiring the licensee to revise the licensee's Leakage Model in such manner as may be specified in the directions, and the licensee shall forthwith comply with any such directions.

### **Audit requirements**

14. Unless the Authority otherwise consents, following the implementation of a modification to the Leakage Model pursuant to paragraph 13, the licensee, together with other DN Operators shall, within a period of six months of implementing a change to the Leakage Model, appoint an independent expert to review and report on the implementation of such change. The licensee shall, together with other DN Operators, make the independent expert's report publicly available and send a copy to the Authority.
15. The terms of reference of the review and report set out in paragraph 14 shall be submitted to the Authority 28 days prior to the audit. The Authority may direct that the terms of reference are modified and re-submitted to the Authority for its consideration.
16. The licensee shall allow the Authority or a duly authorised nominated representative of the Authority, on the provision of reasonable prior written notice such access to its staff, records and facilities as the Authority may reasonably require for the purpose of enabling the Authority to establish to its reasonable satisfaction that the Leakage Model complies with the requirements of this condition and that the licensee is complying with the relevant procedures contained in the Leakage Model.

**Annex P: Allowed baseline leakage volume  $LB_{t,i}$  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  $CC_t$  for the period commencing 1<sup>st</sup> April 2008**

Environmental emissions factor $CC_t$ (£ 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

**Special Condition E10: Distribution Network discretionary reward scheme revenue**

**(DRS<sub>t</sub>)**

1. The purpose of this condition is to provide for calculation of adjustments to the maximum Distribution Network Transportation Activity Revenue to reward best practice by DN Operators.
2. For the purpose of paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity)) the discretionary reward scheme revenue is derived for the Formula Year <sub>t</sub> from the following formula:

$$DRS_t = DRA_{t-2} \times \left(1 + \frac{I_t}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

where:

**DRA<sub>t-2</sub>** 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.

**I<sub>t</sub>** means the percentage interest rate in respect of Formula Year <sub>t</sub> which is equal to the average Specified Rate; and

**I<sub>t-1</sub>** means the percentage interest rate in respect of Formula Year <sub>t-1</sub> which is equal to the average Specified Rate.

**Special Condition E11: Distribution Network innovation funding incentive for sustainable development scheme (IFISD<sub>t</sub>)**

1. The purpose of this condition is to provide for the calculation of adjustments to the maximum Distribution Network Transportation Activity Revenue in respect of each relevant Distribution Network to reflect the performance of the licensee in relation to its investment in innovation for sustainable development under the innovation funding incentive (IFI) for sustainable development scheme (IFISD<sub>t</sub>).
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<sub>t</sub>) is derived for the Formula Year <sub>t</sub> from the formula:

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

where:

IFIE<sub>t</sub> means the eligible IFI expenditure in the Formula Year <sub>t</sub> as reported in the IFISD annual report for that Formula Year;

Z<sub>t</sub> means the maximum Distribution Network Transportation Activity Revenue in the Formula Year <sub>t</sub> as defined in paragraph 5 of Special Condition E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity (MR<sub>t</sub>) in respect of each relevant Distribution Network;

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

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

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

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

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:

$$IFIIE_t \leq y \times IFIE_t$$

where:

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

4. For the purposes of this condition:

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

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

“IFI annual report” means the report produced each year by the licensee, in a format agreed with the Authority, in respect of expenditure in innovation,

in each case above, all as more fully set out in the revenue reporting regulatory instructions and guidance for the time being in force under Special Condition E20 (Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network Transportation Activity Revenue restriction in respect of the Distribution Network) in relation to the innovation funding incentive for sustainable development scheme.

**Special Condition E12: Distribution Network loss of meter work revenue driver (LM<sub>t</sub>)**

1. The purpose of this condition is to provide for the calculation of adjustments to the maximum Distribution Network Transportation Activity Revenue in respect of each relevant Distribution Network to reflect the loss of meter work revenue and the subsequent stranding of emergency provision costs.
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 <sub>t</sub> (LM<sub>t</sub>) shall be derived from the following formula:

If  $MV_t \leq TPV$ , then:

$$LM_t = (TPV - MV_t) \times (LMRD_t \times RPI_t)$$

Otherwise:

$$LM_t = 0$$

where:

MV<sub>t</sub> means the number of Metering Jobs in respect of the Distribution Network in Formula Year <sub>t</sub>;

TPV means the number of Metering Jobs as set out in Annex R;

LMRD<sub>t</sub> means the unit rate in respect of each relevant Distribution Network in Formula Year <sub>t</sub> and is set out in Annex S; and

RPI<sub>t</sub> 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 only, a “Metering Job” is one or more of the activities set out in paragraph 4, carried out by a person (whether employed by the licensee or under contract to the licensee) normally engaged by the licensee in

emergency work 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 network code, 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 or from a meter; and
  - (k) engaging 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 Interpretation) (other than work already included in paragraphs (a) to (j) of this paragraph),

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 R – Distribution Network metering work tipping point volume (TPV<sub>t</sub>)**

<b>Distribution Network</b>	<b>metering work tipping point volume (TPV<sub>t</sub>)</b>
East of England	225,512
London	124,540
North West	91,040
West Midlands	161,388

**Annex S – Distribution Network unit rate (LMRD<sub>t</sub>) (2005-6 prices)**

<b>Distribution Network</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
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 the Relevant Special 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 Special 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.

**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 and Metering Business to the following activities:

- (a) the Distribution Network Transportation Activity;
  - (b) (where relevant) metering business and meter reading business; or
  - (c) Excluded Services in accordance with the principles set out in Special Condition E18 (Excluded Services).
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 paragraphs 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. Unless the Authority otherwise consents in writing, the licensee must:
- (a) 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) procure a report by an appropriate auditor that sets out 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 use reasonable endeavours 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 5 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; or

- (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 published pursuant to that condition.
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  $t$  ( $M_t^A$ ) shall be derived in the following manner:
  - (a) In respect of the Formula Year commencing on 1 April 2008 ( $t=1$ ), the maximum tariff caps shall have the values set out in the following table:

<b>Activity</b>	<b>Description</b>	<b>Maximum tariff caps(<math>M_t^A</math>)</b>
1	Annual charge for providing and maintaining the assets that form a Domestic Credit Meter Installation, per meter per annum	£14.10
2	Annual charge for providing and maintaining the assets that form a Prepayment Meter Installation, per meter per annum	£32.92

- |   |   |         |
|---|---|---------|
| 3 | Annual charge for providing a daily meter reading for Daily Metered Supply Meter Points, per supply meter point per annum | £426.58 |
| 4 | Carrying out work to replace a Domestic Credit Meter with a Prepayment Meter , per job undertaken                         | £57.72  |

(b) For subsequent Formula Years:

$$M_t^A = M_{t-1}^A \times RPI_t \text{ (rounded up or down to the nearest penny)}$$

where:

$RPI_t$  means, for the purposes of this condition only, 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 June to November in year t-1 divided by the arithmetic average of the retail price index numbers published or determined with respect to the period from June to November t-2, where t-1 is one year immediately prior to the Formula Year  $t$  and shall be calculated in accordance with paragraph 3 of Standard Condition 27 (Adjustment of Amounts by Reference to the Retail Price Index) of this licence except for t=1 where the  $RPI_t$  adjustment will not apply.

**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 wholly or partly disposed of its meters; 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 7 to 13 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 8 of this condition and notice is given to the Authority by the licensee in accordance with either paragraph 11 or paragraph 12 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 10 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 7 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 monitor effectively 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) a detailed revenue reporting return in the form and containing the items specified 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;
  - (b) a forecast revenue reporting return in the form and containing the items specified in the revenue reporting regulatory instructions and guidance by no later than 150 days preceding a change to charging in accordance with Standard Special Condition A4 (Charging – General), Standard Special Condition A5 (Obligations as Regard Charging Methodology) and Standard Special Condition D11 (Charging Obligations) in the Formula Year to which the information relates save in relation to the Formula Year commencing 1 April 2008; and
  - (c) a further forecast revenue reporting return in the form and containing the items specified in the revenue reporting regulatory instructions and guidance by no later than two months preceding a change to charging in accordance with Standard Condition A4 (Charging – General), Standard Special Condition A5 (Obligations as Regard Charging Methodology) and Standard Special Condition D11 (Charging Obligations) in the Formula Year to which the information relates, 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 sets out 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 (a) has been properly prepared in accordance with the revenue reporting regulatory instructions and guidance; and
  - (b) the amounts presented are in accordance with the licensee's records which have been maintained in accordance with paragraph 3 of this condition.
9. The 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.