

**SCHEDULE TO NOTICE OF MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23 OF THE GAS ACT 1986**

**PROPOSED MODIFICATION OF THE SPECIAL CONDITION C8G OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE**

Paragraph (1)(b) (Internal operating cost incentive revenue (IOIRC<sub>t</sub>)) of Special Condition C8G shall be amended as follows:

**(b) Internal operating cost incentive revenue (IOIRC<sub>t</sub>)**

The maximum internal operating costs incentive revenue allowed to the licensee in respect of formula year t (IOIRC<sub>t</sub>) shall be derived in the following manner

If  $\left[1 + \left(\frac{IRPI_t}{100}\right)\right] \times IOIT_t \geq IOC_t$ , then:

$$IOIRC_t = \left( \left[1 + \left(\frac{IRPI_t}{100}\right)\right] \times IOIT_t \right) - \left( \left( \left[1 + \left(\frac{IRPI_t}{100}\right)\right] \times IOIT_t \right) - IOC_t \right) \times \left( -ICUSF_t \right)$$

Otherwise:

$$IOIRC_t = \left( \left[1 + \left(\frac{IRPI_t}{100}\right)\right] \times IOIT_t \right) - \left( \left( \left[1 + \left(\frac{IRPI_t}{100}\right)\right] \times IOIT_t \right) - IOC_t \right) \times \left( -ICDSF_t \right)$$

where:

IOIT<sub>t</sub> means the internal cost incentive target in respect of formula year t as set out in the following table:

	Formula years				
Variable	t=6	t=7	t=8	t=9	t=10

IOIT <sub>t</sub> (£ million, 04/05 prices)	24.2	23.2	25.4	24.6	24.2
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IOC<sub>t</sub>

means the operating costs incurred in respect of formula year t attributable to the provision of NTS SO activity in accordance with Special Condition C9 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) other than ExCC<sub>t</sub>, EnCBBC<sub>t</sub>, ExCBBICP<sub>t</sub>, ~~SC<sub>t</sub>, OMC<sub>t</sub>, OMPC<sub>t</sub>, RBC<sub>t</sub>, SBIC<sub>t</sub>, RBIC<sub>t</sub>~~ Pension Costs and charges levied on the licensee by the agency (as defined in Standard Special Condition A15 (Agency)).

where:

EnCBBC<sub>t</sub> shall have the meaning set out in paragraph 3(c) of Special Condition C8D (NTS gas entry incentives, costs and revenues);

ExCBBICP<sub>t</sub> shall have the meaning set out in paragraph 1(b) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

ExCC<sub>t</sub> shall have the meaning set out in paragraph 1(c)(ii) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

~~SBIC<sub>t</sub> shall have the meaning set out in paragraph 2(g) of Special Condition C8F (NTS System Operator external~~

~~incentives, costs and revenues);~~

~~RBC<sub>t</sub> shall have the meaning set out in paragraph 3(a) of Special Condition C8F (NTS System Operator external incentives, costs and revenues);~~

SC<sub>t</sub> with effect from formula year t =8, shall have the meaning set out in paragraph 1 (a) of the Special Condition C8F (NTS System Operator external incentives, costs and revenues);

OMC<sub>t</sub> with effect from formula year t=8, shall have the meaning set out in paragraph 1 (a) of Special Condition C8F (NTS System Operator external incentives, costs and revenues);

OMPC<sub>t</sub> means the total cost incurred by the licensee in respect of the procurement and utilisation of services that have been paid for the purposes of establishing and testing potential future Operating Margins services and which are not included in the calculation of OMC<sub>t</sub> and shall have a zero value for all formula years except formula year t=8;

RBC<sub>t</sub> with effect from formula year t=8, shall have the meaning set out in paragraph 1 (a) of Special Condition C8F (NTS System Operator external incentives, costs and revenues);

Pension Costs means the actual cash contributions

made to the scheme in respect of both ongoing contributions and deficit payments attributable to the transportation system as well as scheme administration costs and payments made to the Pension Protection Fund (as defined under the Pensions Act 2004)

$ICUSF_t$  means the internal cost upside sharing factor in respect of formula year t as set out in the following table

	<b>Formula years</b>				
<b>Variable</b>	<b>t=6</b>	<b>t=7</b>	<b>t=8</b>	<b>t=9</b>	<b>t=10</b>
$ICUSF_t$	0.4	0.4	0.4	0.4	0.4

$ICDSF_t$  means the internal cost downside sharing factor in respect of formula year t as set out in the following table

	<b>Formula years</b>				
<b>Variable</b>	<b>t=6</b>	<b>t=7</b>	<b>t=8</b>	<b>t=9</b>	<b>t=10</b>
$ICDSF_t$	0.4	0.4	0.4	0.4	0.4

$IRPI_t$  in respect of formula year t, means the percentage change (whether of a positive or a negative value) between (a) the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1 and (b) 182.37 (being the value for t-1 in 2004/05).