

**NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986 OF PROPOSED
MODIFICATIONS TO THE SPECIAL CONDITIONS OF NATIONAL GRID GAS PLC'S
NATIONAL TRANSMISSION SYSTEM GAS TRANSPORTER LICENCE**

The Gas and Electricity Markets Authority (the "Authority") hereby gives notice pursuant to section 23(2) of the Gas Act 1986 (the "Act") as follows:

1. The Authority proposes to modify the gas transporter licence (the "Licence") held by National Grid Gas plc¹ ("NGG") granted or treated as granted under section 7 of the Act by amending:
 - a. Special condition C8A (Revenue restriction definitions in respect of the NTS transporter owner activity and NTS system operation activity);
 - b. Special condition C8B (NTS transportation owner activity revenue restriction);
 - c. Special condition C8C (NTS System Operation Activity Revenue Restriction);
 - d. Special condition C8D (NTS gas entry incentives, costs and revenues);
 - e. Special condition C8E (NTS gas exit incentives, costs and revenues); and
 - f. Special condition C8G (NTS System Operator internal incentives, costs and revenues),(together the "Conditions").
2. The reason why the Authority proposes to modify the Licence is to implement a one-year rollover of the existing price controls as detailed in the Authority's decision 'TPCR4 Rollover: Final Proposals' dated 28 November 2011² (the "Decision").
3. The effect of the proposed modification:
 - a. revises the Conditions to implement the one-year rollover arrangements for the Formula Year³ commencing on 1 April 2012 which include;
 - i. Continuation of the log up of quarry and loss costs;
 - ii. Amendments to allow NGG to receive its full capex incentive revenue in 2012/13 which is subject to a true-up on 1st April 2014;
 - iii. Allow security costs associated with physical infrastructure to be passed through;
 - iv. Ensure TPCR4 permit scheme can be utilised in March 2012 Quarterly System Entry Capacity auction and detailing new rollover permit scheme to apply from 1 April 2012.

¹ NGG holds two Gas Transporter Licences; a National Transmission System (NTS) licence and a gas distribution network (GDN) licence. This Notice proposes modifications to Part C of Part IV (Special Conditions) of the NTS licence.

² http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Roll-over/Documents1/TPCR4_Rollover_Final_Proposals.pdf

³ Formula year means a period of twelve months commencing on 1 April at 06:00 hours.

- b. revises the Conditions to implement the new approach to the RPI indexation method that is to apply to allowed revenues from the Formula Year commencing on 1 April 2012.
- 4. The proposed modification to the Conditions is set out in the Schedule to this Notice.
- 5. A copy of the proposed modification and the Decision referred to in this Notice are available (free of charge) from the Ofgem library (telephone 020 7901 1600) or on the Ofgem website (www.ofgem.gov.uk).
- 6. Any representations on the proposed licence modifications may be made on or before **23 January 2012** to: Natasha Ranatunga, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to natasha.ranatunga@ofgem.gov.uk.
- 7. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
- 8. If the Authority decides to make the proposed modification it will take effect 56 days after the decision is published.

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Hannah Nixon
Acting Senior Partner, Transmission
Duly authorised on behalf of the Authority

20 December 2011

NOTICE OF STATUTORY REPRESENTATIONS

Proposed modification of special conditions C8A, C8B, C8C, C8D, C8E and C8G of National Grid Gas plc's NTS Gas Transporter Licence.

In response to the statutory notice of 20 December 2011 in respect of the above proposed modification, the attached constitutes a statutory representation in respect of that proposal on behalf of:

.....
I confirm that I am duly authorised to provide this representation on behalf of the above named company or each of the above named companies.

Signed:

Date:

SCHEDULE

PROPOSED MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID GAS PLC'S GAS TRANSPORTERS LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23 OF THE GAS ACT 1986

1. Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity) is amended as set out on below.

Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity)

(a) defined terms:

Quarry and loss
development claims

Any settled claims over 2007-12³¹ which have been demonstrably challenged by NGG NTS as far as is reasonable regarding both the basis of the claim and the quantum of compensation sought. For avoidance of doubt the following claims under the terms of the Deed of Easement may be logged up:

- (a) loss of crop and drainage;
- (b) loss of land development e.g. housing, quarrying etc
- (c) sterilised minerals;
- (d) landfill and tipping; and
- (e) power generation;

(b) mathematical expressions:

PIT_t

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

2. Special Condition C8B (NTS transportation owner activity revenue restriction) is amended as set out below:

Special Condition C8B (NTS transportation owner activity revenue restriction)

3. Maximum NTS transportation owner revenue (TOMR)

(a) Principal formula

For the purposes of paragraph 1 of this condition, the maximum NTS transportation owner revenue in respect of formula year t (TOMR_t) shall be calculated using the following formula:

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

where:

TOZ_t means base NTS TO revenue and shall be calculated in the following manner:

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

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

~~RPI_t~~

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

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

where:

~~RPI_t~~ is the price index adjustment for the formula year t, and in the formula year commencing 1 April 2009 shall take the value of 1 and in each subsequent formula year shall be derived from the following formula:

$$\text{RPI}_t = \text{RPI}_{t-2} \times (1 + \text{GRPI}_{t-1}) \times (1 + \text{GRPI}_t)$$

~~where:~~

$$RPIA_t = RPI_t / RPI_{2009-10}$$

$$GRPIF_t = (0.75 * GRPIF_c + 0.25 * GRPIF_{c+1}) / 100$$

$$GRPIF_{t-1} = (0.75 * GRPIF_{c-1} + 0.25 * GRPIF_c) / 100$$

where:

RPI_t means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April to March in formula year t.

RPI₂₀₀₉₋₁₀ means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April 2009 to March 2010.

GRPIF_c means the Retail Prices Index Forecast Growth Rate for the calendar year c, where c is the calendar year 2012 and the expressions c-1 and c+1 should be interpreted accordingly. In each such case this information is taken from the November 2011 edition of the HM Treasury publication "Forecasts for the UK Economy", where Retail Prices Index Forecast Growth Rate means:

(a) the growth rate for the calendar year c as defined as the "New forecasts (marked *)" shown in the Medium-term Forecasts set out in the HM Treasury publication "Forecasts for the UK Economy", published in the November of each year; or

(b) if in any year the HM Treasury does not publish that growth rate, or changes the basis for calculating that growth rate, the Authority will, after consultation with the licensees, determine an appropriate index to be used.

RPI₀ means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail prices index published or determined with respect to each of

~~the six months from July to December (both inclusive) in the year 2003 and the arithmetic average of the retail prices index numbers published or determined with respect to the six months from July to December in the year 2006;~~

~~RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail prices index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1 and the arithmetic average of the retail prices index numbers published or determined with respect to the same months in formula year t-2; and~~

~~×~~ ~~has the value of zero;~~

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

$$\text{TOZA}_t = \text{£}11,275,000 \times \text{RPIF}_t$$

$$\text{TOZA}_t = \text{£}9,500,000 \times \text{PIT}_t$$

~~where:~~

~~PIT_t is the price indexation adjustment term, which~~

$$\text{NDRA}_t = \text{TORB}_t \times \text{PIF}_t \times \text{RPIF}_t$$

where:

TORB_t shall in each formula year t take the value ~~£80,082,000~~ ~~71,100,000~~ (in ~~2004~~~~2009~~/~~10~~~~5~~ prices); and

~~RPIF_t~~ ~~PIF_t~~ is the price indexation adjustment term, which shall be calculated in accordance with paragraph 3(a) of this condition.

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

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

where:

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

LA_t means the licence fee payments that have been allowed for in setting TOZ_t and shall be calculated as follows:

$$\text{LA}_t = \text{TOLA}_t \times \text{RPIF}_t \times \text{PIF}_t$$

where:

~~TOLA_t shall take the value, which is in 2004/05 prices, set against the formula year t in the following table:~~

Formula year commencing 1 April	2007	2008	2009	2010	2011
TOLA_t	£7,800,000	£7,600,000	£7,500,000	£7,300,000	£7,300,000

<u>Formula year commencing 1 April</u>	<u>2012</u>
<u>TOLA_t</u>	<u>£9,041,000</u>

~~NTSPDC_t means the revenue adjustment term in respect of pension deficit costs associated with non-active scheme members at 1 May 2005 attributable to the NTS in respect of formula year t and shall take the value £2,500,000~~

~~DNPDC_t means the revenue adjustment term in respect of pension deficit costs associated with non-active scheme members at 1 May 2005 attributable to all DN operators in respect of formula year t and shall take the value £26,530,000~~

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(c) NTS transportation owner incentive revenue adjustment (TOG)

- (i) For the purposes of paragraph 3(a) of this condition, the NTS TO revenue adjustment term in respect of formula year t (TOG_t) shall be derived in the following manner:

$$TOG_t = IFI_t + CxIncRA_t + LC_t$$

Where:

IFI_t means the innovation funding incentive revenue adjustment term in the formula year t in respect of the Innovation Funding Incentive (IFI) as derived in paragraph 3(c)(ii) of this condition; and

CxIncRA_t means the baseline capital expenditure incentive revenue adjustment term in the formula year t, and shall take the value zero in all formula years except in the formula years commencing 1 April 2012 and 1 April 2014 where, CxIncRA_t shall take the value as derived in paragraph 3(c)(iv) of this condition; and

LC_t means the revenue adjustment term, whether of a positive or of a zero value, in respect of the full recovery of efficiently incurred logged up costs (adjusted for financing costs) which in all formula years shall take the value zero except for the formula year commencing on 1 April ~~2012~~ 2013 for which it shall take a value being the total of the operating expenditure and the depreciation and return of the capital expenditure incurred by the licensee in the period 1 April 2007 to 31 March ~~2012~~2013, and reported to the Authority in accordance with Standard Special Condition A40 (Price Control Review Information) in respect of Quarry and loss of development claims and economic costs incurred by the licensee for the purpose of implementing any recommendation or requirement of the CPNI to enhance the physical security of any of the sites within the licensee's Transmission Network subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

(iv) For the purposes of paragraph 3(c)(i), in the year commencing 1 April 2012 CxIncRA_t will be equal to £11,200,000 and in the year commencing 1 April 2014 this shall be calculated as:~~shall be calculated for the formula year t using the following formula:~~

$$(CxIncRO_t + (CxIncRA_t - (£11,200,000 * RPIF_t) \times PVF_{nro}) \times PVF_{R110})$$

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

where

N_n means the formula year n such that the first formula year n shall be the year commencing on 1 April 2007 and accordingly the fifth formula year n is the year commencing on 1 April

2011;

$$CxIncRO_t = \left(\left[\sum_{nro} [(CIR_{nro} - 0.25) \times PVF_{nro} \times (IncDif_{nro})] \right] \times RPIF_t \right)$$

nro

means the formula year n such that the formula year n shall be the year commencing on 1 April 2012;

CIR_n means the capital expenditure incentive sharing factor, representing the proportion of the licensee's exposure to under or overspend against the capital expenditure allowance for the formula year n that would be borne by the licensee during the revenue restriction period if no adjustment were to be made to the licensee's revenue in accordance with this condition and shall take the value set out in the table below:

Formula year commencing 1 April:	2007	2008	2009	2010	2011
CIR _n	0.3139	0.2513	0.1835	0.1103	0.0313

CIR_{nro} means the capital expenditure incentive sharing factor, representing the proportion of the licensee's exposure to under or overspend against the capital expenditure allowance for the formula year nro that would be borne by the licensee during the revenue restriction period if no adjustment were to be made to the licensee's revenue in accordance with this condition and shall take the value 0.02842;

PVF_n means the present value adjustment factor in respect of the formula year t and shall take the value set out in the table below:

Formula year commencing 1 April:	2007	2008	2009	2010	2011

PVF _n	1.35408	1.27443	1.19946	1.12891	1.06250
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PVF_{nro} means the present value adjustment factor in respect of the formula year nro and shall take the value 1.05683;

PVF_{RIIO} means the present value adjustment factor in respect of the first formula year of the RIIO period;

IncDif_n represents the difference, expressed in ~~2004~~2009/1005 prices, between the adjusted efficient capital expenditure and the base capital expenditure allowance in respect of the formula year n and shall be calculated in accordance with the following formula:

$$IncDif_n = \frac{ACx_n}{RPIF_n} - BCx_n$$

where:

AC_{x_n} is the adjusted efficient capital expenditure incurred by the licensee in respect of the formula year n and shall be calculated in accordance with paragraph 3(c)(v) of this condition;

PfTRPIF_n shall take the value of PfTRPIF_t for formula year t=n, where PfTRPIF_t shall take the same meaning as given in paragraph 3(a) of this condition; and

BC_{x_n} means, subject to paragraph 5 of this condition, the base capital expenditure allowance, expressed in ~~2004~~9/105 prices, in respect of the formula year n and shall take the value set out in the table below:

Formula year commencing 1 April:	2007	2008	2009	2010	2011
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BCx_n	£470,300,000	£212,800,000	£56,000,000	£44,200,000	£41,000,000
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Formula year commencing 1 April:	2007	2008	2009	2010	2011	2012
BCx_n	£534,404,506	£244,389,546	£66,466,094	£49,787,910	£46,135,748	£81,500,000

(v) For the purposes of paragraph 3(c)(iv), ACx_n shall be calculated in accordance with the following formula:

$$ACx_n = Cx_n - SOCx_n - ESCx_n - LCx_n - MH_n - DCx_n$$

MH_n means that amount of capital expenditure incurred by the licensee in the formula year n that falls to be treated as the excess cost of the Milford Haven Pipeline project to be excluded from the capital expenditure incentive (up to a maximum value of £75,000,000 in 2004/05 prices) as directed by the Authority on or before 31 March 2012, for formula year commencing 1 April 2012 it shall take the value 0; and

5. Capital Expenditure Safety Net

(a) For the purposes of this condition, relevant capital expenditure in respect of the formula year t shall be calculated as follows:

$$\text{Re } ICx_t = \frac{Cx_t - SOCx_t - ESCx_t - LCx_t - MH_t}{PIT_t}$$

$$\text{Re } ICx_t = \frac{Cx_t - SOCx_t - ESCx_t - LCx_t - MH_t}{RPIF_t}$$

where:

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

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

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

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

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

$RPIF_t$ shall take the same meaning as given in paragraph 3(a) of this condition.

- (b) The licensee shall use reasonable endeavours to estimate relevant capital expenditure in respect of the formula year t and each subsequent formula year up to and including the formula year commencing 1 April ~~2011~~2012.
- (c) For the purposes of paragraph 5(d) of this condition, the relevant capital expenditure allowance ($RelACx_t$) in the formula year t shall be calculated in accordance with the following formula:

$$RelACx_t = BCx_t$$

where:

BCx_t shall take the value of BCx_n for formula year $n=t$, where BCx_n shall take the same meaning as given in paragraph 3 of this condition.

- (d) If, in respect of the formula year t or any subsequent formula year up to and including the formula year commencing 1 April ~~2011~~2012, the licensee reasonably expects that relevant capital expenditure will be less than $0.8x(RelACx_t)$ then the licensee shall furnish to the Authority a statement setting out:
- (i) the amount by which the licensee expects relevant capital expenditure to fall below $RelACx_t$ in respect of that same formula year; and
- (ii) the factors which, in the licensee's reasonable opinion, has or is likely to result in the shortfall referred to in sub-paragraph (i).

3. Special Condition C8C (NTS System Operation Activity Revenue Restriction) is amended as set out below:

Special Condition C8C (NTS System Operation Activity Revenue Restriction)

3. Maximum NTS system operation revenue (SOMR_t)

(a) Principal formula

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

$$\text{SOMR}_t = \text{SOEIRC}_t + \text{SOExIRC}_t + \text{SOOIRC}_t + \text{SOIntIRC}_t + \text{SORA}_t +$$

$$\text{BBIOCA}_t + \text{DELINC}_t - \text{SOK}_t$$

where:

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

(i) If $(\text{EnCOBBIR}_t + \text{EnCIBBIR}_t + \text{ExXSIBBC}_t) < (\text{BBIODC} \times \text{RPIF}_t \text{PIF}_t)$, then:

$$\text{BBIOCA}_t = - (\text{EnCOBBIR}_t + \text{EnCIBBIR}_t + \text{ExXSIBBC}_t) - (\text{BBIODC} \times \text{RPIF}_t \text{PIF}_t)$$

(ii) If $(\text{EnCOBBIR}_t + \text{EnCIBBIR}_t + \text{ExXSIBBC}_t) \geq (\text{BBIODC} \times \text{RPIF}_t \text{PIF}_t)$, then:

$$\text{BBIOCA}_t = 0$$

where:

EnCOBBIR_t shall take the value for that term calculated in accordance with paragraph 3(a) of Special Condition C8D (NTS gas entry incentives, costs and revenues) of this licence;
EnCIBBIR_t shall take the value for that term calculated in accordance with paragraph 5(a) of Special Condition C8D (NTS gas entry incentives, costs and revenues) of this licence;
ExXSIBBC_t shall take the value for that term calculated in

accordance with paragraph 1(g) of Special Condition C8E (NTS gas exit incentives, costs and revenues) of this licence; BBIODC is the buyback incentives overall downside collar and shall take the value -£~~55,045,44248,000,000~~ (in 2009/10 prices); and

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

DELINC_t shall take the value 0 other than in formula year commencing 1 April 2012 when it shall be calculated in accordance with the following formula:

$$DELINC_t = RLTDVEn + RLTDVEx$$

where:

$$RLTDVEn = \text{MIN}[(LTDVEn_{end} \times \text{£}5000), (\text{£} \text{41,284,082} \text{36,000,000} \times RPIF_t)];$$

where:

LTDVEn_{end} means the value of LTDVEn_n (in GWh per day for each one month period) where day n is 31 ~~March~~ May 2012.

where:

LTDVEn_n is defined as in paragraph 3(h) of Special Condition C8D (NTS gas entry incentives, costs and revenues) of this licence;

$$RLTDVEx = \text{MIN}[(LTDVEx_{end} \times \text{£}274), (\text{£} \text{3,440,340} \text{3,000,000} \times RPIF_t)];$$

where:

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

where:

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

of this licence;

In formula year commencing 1 April 2013 it shall be calculated in accordance with the following formula:

$$\text{DELINC}_t = \text{RLTDVEn} + \text{RLTDVEx}$$

where:

$$\text{RLTDVEn} = \text{MIN}[(\text{ROLTDVEn}_{\text{end}} \times \text{£}5000), (\text{£}8,256,960 \times \text{RPIF}_t)];$$

where:

ROLTDVEn_{end} means the value of ROLTDVEn_n (in GWh per day for each one month period) where day n is 31 May 2013.

where:

ROLTDVEn_n is defined as in paragraph 3(j) of Special Condition C8D (NTS gas entry incentives, costs and revenues) of this licence;

$$\text{RLTDVEx} = \text{MIN}[(\text{ROLTDVEx}_{\text{end}} \times \text{£}274), (\text{£}688,149 \times \text{RPIF}_t)];$$

where:

ROLTDVEx_{end} means the value of ROLTDVEx_n (in GWh per day) where day n is 31 May 2013.

where:

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

4. Special Condition C8D (NTS gas entry incentives, costs and revenues) is amended as set out below:

Special Condition C8D (NTS gas entry incentives, costs and revenues)

PART A – The Gas Entry Revenue Restriction Calculations

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

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

$$\text{ARIEnC}_t = \text{RPIF}_t - \text{PIF}_t \times \sum_{\forall i} \sum_{m|y \in t} \text{ARIEnCS}_{i,m}$$

where:

RPIF_t - PIF_t shall have the same meaning as given in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction);

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

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

$$\text{FIOEnC}_{i,m} = \sum_{p=0}^{59} \sum_{W=0}^{\text{FP}2_{m-p}^1} \text{FIOEnC}_{i,(m-p),W}$$

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

Table 3

	£m/GWh/month	1	2	3	4
	Easington	0.0013	0.0019	0.0059	0.0044
	Bacton	0.0026	0.0057	0.0063	0.0072
	Isle of Grain	0.0029	0.0026	0.0047	0.0105
	Milford Haven	0.0088	0.0137	0.0116	0.0184
	St Fergus	0.0002	0.0054	0.0163	0.0126
	Teesside	0.0013	0.0013	0.0020	0.0072
	Barrow	0.0037	0.0014	0.0021	0.0081
	Theddlethorpe	0.0016	0.0000	0.0021	0.0068
	Burton Point	0.0013	0.0021	0.0013	0.0027
	Hole House Farm	0.0065	0.0001	0.0021	0.0041
	Barton Stacey	0.0052	0.0016	0.0016	0.0131
	Hatfield Moor	0.0019	0.0004	0.0035	0.0015
i	Garton	0.0021	0.0021	0.0049	0.0015
	Cheshire	0.0008	0.0000	0.0006	0.0010
	Hornsea	0.0008	0.0012	0.0030	0.0030
	Fleetwood	0.0072	0.0000	0.0011	0.0053
	Burton Agnes (Caythorpe)	0.0031	0.0028	0.0058	0.0053
	Wytch Farm	0.0020	0.0007	0.0078	0.0032
	Blyborough (Welton)	0.0030	0.0013	0.0055	0.0037
	Winkfield	0.0021	0.0015	0.0054	0.0035
	Tatsfield	0.0039	0.0048	0.0075	0.0146
	Glenmavis	0.0011	0.0000	0.0005	0.0110
	Partington	0.0009	0.0002	0.0008	0.0012
	Avonmouth	0.0067	0.0024	0.0060	0.0088
	Dynevor Arms	0.0037	0.0081	0.0071	0.0205
	Albury	0.0180	0.0013	0.0056	0.0043
	Palmer's Wood	0.0073	0.0037	0.0075	0.0146
	Portland	0.0102	0.0030	0.0108	0.0118
	Canonbie	0.0020	0.0038	0.0072	

	£m/GWh/month	z=			
		1	2	3	4
i	Easington	0.0015	0.0022	0.0068	0.0050
	Bacton	0.0030	0.0065	0.0072	0.0083
	Isle of Grain	0.0033	0.0030	0.0054	0.0120
	Milford Haven	0.0101	0.0157	0.0133	0.0211
	St Fergus	0.0002	0.0062	0.0187	0.0144
	Teesside	0.0015	0.0015	0.0023	0.0083
	Barrow	0.0042	0.0016	0.0024	0.0093
	Theddlethorpe	0.0018	0.0000	0.0024	0.0078
	Burton Point	0.0015	0.0024	0.0015	0.0031
	Hole House Farm	0.0075	0.0001	0.0024	0.0047
	Barton Stacey	0.0060	0.0018	0.0018	0.0150
	Hatfield Moor	0.0022	0.0005	0.0040	0.0017
	Garton	0.0024	0.0024	0.0056	0.0017
	Cheshire	0.0009	0.0000	0.0007	0.0011
	Hornsea	0.0009	0.0014	0.0034	0.0034
	Fleetwood	0.0083	0.0000	0.0013	0.0061
	Burton Agnes (Caythorpe)	0.0036	0.0032	0.0067	0.0061
	Wytech Farm	0.0023	0.0008	0.0089	0.0037
	Blyborough (Welton)	0.0034	0.0015	0.0063	0.0042
	Winkfield	0.0024	0.0017	0.0062	0.0040
	Tatsfield	0.0045	0.0055	0.0086	0.0167
	Glenmavis	0.0013	0.0000	0.0006	0.0126
	Partington	0.0010	0.0002	0.0009	0.0014
	Avonmouth	0.0077	0.0028	0.0069	0.0101
	Dynevor Arms	0.0042	0.0093	0.0081	0.0235
	Albury	0.0206	0.0015	0.0064	0.0049
Palmers Wood	0.0084	0.0042	0.0086	0.0167	
Portland	0.0117	0.0034	0.0124	0.0135	
Canonbie	0.0023	0.0044	0.0083	0.0000	

3. Entry capacity operational buy-back incentive revenue

- c) For the purposes of paragraph 1 of this condition, the maximum entry capacity operational buy-back incentive revenue in formula year t (EnCBBOIR_t) shall be derived in accordance with the following formula:

$$\text{EnCBBOIR}_t = \text{EnCOBBC}_t + \text{EnCOBBIR}_t + \text{EnCNOIR}_t$$

where:

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

- i) If $\text{EnCOBBIP}_t \leq (\text{EnCOBBTC} \times \text{PIFRPIF}_t)$, then:

$$\text{EnCOBBIR}_t = \text{MIN}\{\text{EnCOBBSF} \times ((\text{EnCOBBTC} \times \text{PIFRPIF}_t) - \text{EnCOBBIP}_t), (\text{EnCOBBUC} \times \text{PIFRPIF}_t)\}$$

- ii) If $\text{EnCOBBIP}_t > (\text{EnCOBBTC} \times \text{PIFRPIF}_t)$, then

$$\text{EnCOBBIR}_t = \text{MAX}\{\text{EnCOBBSF} \times ((\text{EnCOBBTC} \times \text{PIFRPIF}_t) - \text{EnCOBBIP}_t), -(\text{EnCOBBDC} \times \text{PIFRPIF}_t)\}$$

where:

EnCOBBTC means the entry capacity operational buy-back target cost and shall take the value of ~~£18,000,000 for the period between 1 April 2007 and 31 March 2008, £ 20,250,000 for the period between 1 April 2008 and 31 March 2009, £19,125,000 for the period between 1 April 2009 and 31 March 2010 and~~ £15,481,531 ~~13,500,000~~ for each formula year commencing on or after 1 April 2010;

EnCOBBUC means the entry capacity operational buy-back upside cap and shall take a value of ~~£18,000,000 for the period between 1 April 2007 and 31 March 2009, £16,875,000 for the period between 1 April 2009 and 31 March 2010 and £15,481,531~~ 13,500,000 for each formula year commencing on or after 1 April 2010; and

EnCOBBDC means the entry capacity operational buy-back downside collar and shall take the value of ~~£18,000,000 for the period between 1 April 2007 and 31 March 2009, £16,000,000 for the period between 1 April 2009 and 31 March 2010 and~~ £11,467,801 ~~10,000,000~~ for each formula year commencing on or after 1 April 2010.

Incremental capacity delivery incentive payment

g) The licensee may, with the consent of the Authority, vary the lead time for the contractual delivery of incremental obligated entry capacity at an individual NTS entry point from the default of 42 months from the 1st day of the month following the end of the Annual Invitation Period (as defined in the network code).

Consent shall be deemed to have been granted if:

- i. the licensee is proposing to reduce the lead time for the contractual delivery to a period of less than 42 months; or
- ii. the volume of firm entry capacity being deferred (in units of GWh per day for each one month period) is, at day n , less than the licensee's "entry lead time deferment volume entitlement" $LTDVEn_n$ defined in paragraph 3(i) or ROLTDVEn_n defined in paragraph 3(j) of this condition.

- i) For all formula years until the one ending 31 March 2012 the licensee's entry lead time deferment volume entitlement on day n (LTDVEn_n) (in units of GWh per day for each one month period) shall be calculated in accordance with the following formula:

$$\text{LTDVEn}_n = 7200 + \sum_{v, n-1} \text{DLTDVEn}_v$$

where:

DLTDVEn_v means the change in the lead time for contractual delivery (in units of GWh per day for each one month period) that arises from the variation event v as notified to the Authority pursuant to paragraph 3(h) of this condition. For the avoidance of doubt, where v=0 DLTDVEn₀ shall take the value zero; and

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

- j) For the formula year commencing on 1 April 2012 the licensee's entry lead time deferment volume entitlement on day n (ROLTDVEn_n) (in units of GWh per day for each one month period) shall be calculated in accordance with the following formula:

$$\text{ROLTDVEn}_n = 1440 + \sum_{v, n-1} \text{DLTDVEn}_v$$

where:

DLTDVEn_v means the change in the lead time for contractual delivery (in units of GWh per day for each one month period) that arises from the variation event v as notified to the Authority pursuant to paragraph 3(h) of this condition for the avoidance of doubt, where v=0 DLTDVEn₀ shall take the value zero; and

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

Review of entry capacity operational buy-back scheme

~~j)k)~~ The licensee may issue a notice to the Authority providing that the value of the $EnCOBBIR_t$ shall take a value of 0 (zero) in respect of any period or periods of time specified in said notice, provided the provisions of paragraphs 3(k) to 3(l) of this condition have been met.

~~k)l)~~ A notice provided by the licensee to the Authority under paragraph 3(j) shall:

- i. be in writing addressed to the Authority;
- ii. state the period or periods referred to in paragraph 3(j) of this condition to which it will apply;
- iii. not be in respect of any period or periods commencing prior to 1st April 2009; and
- iv. be submitted on a date after 31st December 2008.

~~l)m)~~ The licensee may withdraw the notice referred to in paragraph 3(j) of this condition at any time.

~~m)n)~~ The notice shall have no effect if the Authority has made a reference to the Competition Commission under section 24 of the Act relating to the modification of paragraph 3 of this condition before the date of the first period on which such a notice would take effect.

Buy-back cost allocation rules

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

4. Milford Haven entry capacity specific incentive

- a) For the purposes of paragraph 1 of this condition means the maximum revenue entitlement allowed to the licensee in respect of the delivery of the Milford Haven

pipe-line project in formula year t (EnCBBMHSI_t) shall be defined in accordance with:

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

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

Table 4

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

5. Entry capacity incremental buy-back costs and incentive revenues (EnCBBIIIR_t)

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

$$\text{EnCBBIIIR}_t = \text{EnCIBBBC}_t + \text{EnCIBBIR}_t$$

where:

EnCIBBIR_t shall be derived in accordance with the following formula:

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

where:

EnCACAP means the annual exposure cap, which is the maximum value that EnCBBICE_t can take in a formula year without resulting in an increase to the licensee's entitlement to recover revenue in that formula year and shall take the value of £41,284,082 (in 2009-10 prices) ~~36,000,000~~.

Cap on Monthly Buyback Exposure

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

$$\text{EnCBBICE}_t = \sum_{m|y(m)=t} \text{MIN} (\text{EnCBBICM}_m, \text{EnCMCAP}_m)$$

where:

EnCMCAP_m means the monthly exposure cap, which is the maximum value that EnCBBIC_t can take in a month within a formula year without resulting in an increase to the licensee's entitlement to recover revenue in that formula year and shall take the value of £4,587,120 (in 2009-10 prices) x RPIF_t ~~4,000,000 - PIT_t~~.

PART C – Capacity release obligations

9. Obligations to release entry capacity

c) iv)

Table 7

NTS Entry Point i	For paragraph 9 (c) (ii)	For paragraph 9 (c) (iii)
	IBEnC _{i,m,h} (in GWh/day)	RIBEnC _{i,m,h} (in GWh/day)
Bacton	1,783.4	1,783.4
Barrow	309.1	309.1
Easington	1,062.0	1,062.0
St. Fergus	1,670.7	1,670.7
Teesside	361.3	476.0
Theddlethorpe	610.7	610.7
Glenmavis	28.5	99.0
Partington	174.6	215.0
Avonmouth	179.3	179.3
Isle of Grain	175.0	218.0
Dynevor Arms	8.0	49.0
Hornsea	164.1	175.0
Hatfield Moor (storage)	14.9	25.0
Hatfield Moor (onshore)	0.3	0.3
Cheshire	285.9	285.9
Hole House Farm	131.6	131.6
Wytch Farm	3.3	3.3
Burton Point	73.5	73.5
Milford Haven	0	0
Barton Stacey	82.6	82.6 172.6
Garton	0	0 420
Burton Agnes (Caythorpe)	0	0
Winkfield	0	0
Blyborough (Welton)	0	0
Tatsfield	0	0
Albury	0	0
Palmers Wood	0	0
Fleetwood	0	0
Portland	0	0
Canonbie	0	0
Moffat	0	0

9. Obligations to release entry capacity (d)

Table 8:

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

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

Part C: Calculations of ECIIR_t

Part 2 The NTS system operation activity revenue restrictions

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

(5) Entry capacity investment incentive revenue €CIIR_t

(a) Principal formula

For the purposes of paragraph 1 of Special Condition C8D (NTS gas entry incentive, revenues and costs) the entitlement to system operator revenue as a legacy of

incremental obligated entry capacity release prior to 1 April 2007 (ECIIR_t) shall be derived in the following manner:

If $t \leq 5$ then:

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

Otherwise:

$$ECIIR_t = \sum_{\text{all } j} \text{SOREVOIEC}_t^j + RPIF_t \sum_{\text{all } j} \sum_{m=12t-11}^{12t} \text{SOREVIBEC}_m^j$$

$$\text{ECIIR}_t = \sum_{\text{all } j} \text{SOREVOIEC}_t^j + \frac{RI_t}{RI_0} \sum_{\text{all } j} \sum_{m=12t-11}^{12t} \text{SOREVIBEC}_m^j$$

where:

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

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

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

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

$RPIF_t$ is the price index adjustment term and shall have the

[same meaning as in paragraph 3\(a\) of Special Condition C8B \(NTS transportation owner activity revenue restriction\) of this licence;](#)

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

Terminal j	UCAG^j (£/kWh)
Bacton	0.2310.182
Barrow	0.0180.014
Easington	0.0430.034
St. Fergus	0.8100.639
Teesside	0.0750.059
Theddlethorpe	0.0390.031
Glenmavis	0.6740.532
Partington	0.0110.009
Avonmouth	0.0810.064
Isle of Grain	0.2360.186
Dynevor Arms	0.0000.000
Hornsea	0.1940.153
Hatfield Moor (storage)	0.0530.042
Hatfield Moor (onshore)	0.0530.042
Cheshire	0.0040.003
Hole House Farm	0.0030.002
Wytch Farm	0.0000.000
Burton Point	0.0030.002
Barton Stacey	0.0000.000
Garton	0.0490.039
Burton Agnes (Caythorpe)	0.0950.075

Winkfield	<u>0.1050.083</u>
Blyborough (Welton)	<u>0.0440.035</u>
Tatsfield	<u>0.1050.083</u>
Albury	<u>0.4560.360</u>
Palmers Wood	<u>0.1660.131</u>

Terminal j	UCAG^j (£/kWh)	UCAG^j (£/kWh)
Milford Haven	<u>0.4350.343</u> where $\text{PRIORCIOC}_m^j \leq 500$ GWh/d	<u>0.3260.257</u> where $\text{PRIORCIOC}_m^j > 500$ GWh/d

Terminal j	UCAG _j (£/kWh)	UCAG _j (£/kWh)
Fleetwood	0.2050-162 where 0 GWh/d < PRIORCIOEC _{j,m} < 580 GWh/d	0.3380-267 where 580 GWh/d ≤ PRIORCIOEC _{j,m} < 740 GWh/d
	0.2840-224 where 740 GWh/d ≤ PRIORCIOEC _{j,m} < 1000 GWh/d	0.2710-214 where 1000 GWh/d ≤ PRIORCIOEC _{j,m} < 1200 GWh/d
	0.3330-263 where 1200 GWh/d ≤ PRIORCIOEC _{j,m} ≤ 1400 GWh/d	

(e) The maximum entry capacity investment incentive revenue $\left(\text{CAPOIEC}_t^j \right)$

For the purposes of paragraph 14(5)(d) of Part 2 of this condition, the maximum entry capacity investment incentive revenue allowed to the licensee in respect of obligated incremental entry capacity in respect of formula year t at terminal j $\left(\text{CAPOIEC}_t^j \right)$ shall be derived from the following formula:

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

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

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

$$\frac{\text{RI}_t}{\text{RI}_0} \times \left(\sum_{m=12t-11}^{12t} \left(\sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0)) \right) \right) \times \text{UCACAP}_t^j$$

where:

- RI_t shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;
- RI_0 shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;
- RPIF_t is the price index adjustment term and shall have the same meaning as in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence;

(h) The minimum entry capacity investment incentive revenue (COLOIEC_t^j)

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

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

$$\text{COLOIEC}_t^j = \frac{\text{RI}_t}{\text{RI}_0} \times \left(\sum_{m=12t-11}^{12t} \left(\sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0)) \right) \right) \times \text{UCACOL}_t^j$$

where:

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

~~RI₀~~ shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

RPIF_t is the price index adjustment term and shall have the same meaning as in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence;

5. Special Condition C8E (NTS gas exit incentives, costs and revenues) is amended as set out below:

Special Condition C8E (NTS gas exit incentives, costs and revenues)

1. NTS system operation exit incentives and costs (SOExIRC_t)

(b) Buy-back and interruptions incentive revenue (ExCBBIIR_t)

(B) For the purposes of paragraph 1(b)(ii) of this condition the NTS exit capacity buy-back and interruption incentive target in respect of formula year t (ExCBBIIT_t) shall be derived in accordance with the following formula:

$$\text{ExCBBIIT}_t = (\text{ExCBBIT}_t + \text{ExNTSIIT}_t) \times \text{RPIF}_t \times \text{PIF}_t$$

Where:

ExCBBIT_t means the NTS exit capacity buy-back incentive target in respect of formula year t and shall have the value zero (0) in each relevant formula year; and

ExNTSIIT_t means the incentive target in respect of formula year t for payments made by the licensee in accordance with paragraph 1(b)(ii)(E) of this condition in respect of the curtailment of rights to offtake gas from the NTS on plus 15 curtailment days subject to paragraph 1(b)(ii)(D) of this condition where:

~~(aa) for all days until 30 September 2008 (inclusive) (or such later date as the Authority may direct from time to time in writing) ExNTSIIT_t shall take the values set out in the following table:~~

	Formula year	
Variable	t=6	t≥7
ExNTSIIT _t	£1,730,000	£1,680,000
£		

~~provided that, for the avoidance of doubt, where the relevant period commences on 1 April 2008 and ends on 30 September (inclusive), ExNTSIIT_t shall take a value being equal to the~~

~~same proportion of £1,680,000 as the relevant period is to a complete formula year (that is £840,000).~~

~~(bb) for all days from 1 October 2008 (or such later date as the Authority may direct from time to time in writing) ExNTSIIT_t shall have the value zero (0) in each relevant formula year;~~

(C) For the purposes of paragraph 1(b)(ii) of this condition the minimum NTS exit capacity buy-back and interruption incentive revenue in respect of formula year t (ExCBBICOL_t) shall:

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

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

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

~~(bb) for all days during the transitional exit period (or such later date as the Authority may direct from time to time in writing) shall be calculated:~~

~~$$\text{ExCBBICOL}_t = \text{£}2,293,560 \text{ } 2,000,000 \times \text{PIT}_t \text{ } \text{RPIF}_t$$~~

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

(E) The licensee shall use all reasonable endeavours to ensure that the weighted average charge payable by the licensee in respect of the curtailment of rights to offtake gas from NTS on plus 15 curtailment days in respect of formula year t (AExNTSIIC_t) shall be equal to the value derived from the following formula:

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

(c)(i) Constrained storage target (ExCIT_t)

This target shall apply for all exit periods. For the purposes of paragraph 1(a) of this condition, the incentive target for costs incurred by the licensee in respect of formula year t in respect of its use of constrained storage facilities to avoid transportation constraints (all having the meanings given to those terms in the network code) (ExCIT_t) shall be calculated as:

$$\text{ExCIT}_t = \text{RExCIT}_t \times \frac{\text{RPIF}_t \text{PIT}_t}{\text{PIT}_t}$$

Variable	Formula year				
	t=6	t=7	t=8	t=9	t≥10
RExCIT _t £	2,600,000	2,100,000	4,300,000	3,600,000	2,900,000

Variable	Formula year				
	t=6	t=7	t=8	t=9	t≥10
RExCIT _t £	2,981,628	2,408,238	4,931,154	4,128,408	3,325,662

(d) Exit capacity investment incentive revenue (ExCIIR_t)

This incentive shall apply in respect of all exit periods. For the purposes of paragraph 1(a) of this condition, the exit capacity investment incentive revenue allowed to the licensee in respect of formula year t (ExCIIR_t) shall be derived as follows:

$$\text{ExCIIR}_t = (\text{ExCIIR}_{t, \text{projspec}} + \text{ExCIIR}_{t, \text{swquad}} + \text{ExCIIR}_{t, \text{newproj}}) \times \frac{\text{RPIF}_t \text{RIEx}_t}{\text{RIEx}_0}$$

where:

ExCIIR_{t, projspec} means the revenue allowed in respect of formula year t, in respect of the anticipated projects set out in paragraph 1(d)(i) of this condition;

ExCIIR_{t, swquad} means the revenue allowed in respect of formula year t, where NTS incremental exit capacity below a specified volume threshold is delivered to NTS exit points in the south west quadrant as set out in paragraph 1(d)(ii) of this condition;

$ExCIIR_t^{newproj}$ means the revenue allowed in respect of formula year t, in respect of the anticipated projects set out in paragraph 1(d)(iii) of this condition

$RPIF_t$ is the price index adjustment term and shall have the same meaning as in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence.

~~$RIEx_t$ means, in respect of the formula year t, the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) that falls with the previous formula year;~~

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

(i) Determination of $ExCIIR_t^{projspec}$

$$ExCIIR_t^{projspec} = \sum_{all\ p} (RDPROJSPEC_{p,t} \times INDEX_p \times CDEL_{p,t})$$

where:

$\sum_{all\ p}$ means the sum across all anticipated investment projects p;

$RDPROJSPEC_{p,t}$ means the project specific revenue driver in respect of anticipated project p and formula year t as set out in the table below;

Anticipated project p	Project description	$RDPROJSPEC_{p,t}$ £ /year
Langage power station Phase 1	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 40GWh/day at the Langage power station in respect of which a revenue	£9,500,000 <u>£10,614,681</u>

Anticipated
project p

Project description

RDPROJSPEC_{p,t}
£ /year

	driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	
Langage power station Phase 2	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 18GWh/day at the Langage power station subsequent to the delivery of 40GWh/day as outlined for Langage Phase 1 above and in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	£6,145,342 £5,500,000
Marchwood power station	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 39.84GWh/day at the Marchwood power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	£5,028,007 £4,500,000
Pembroke (Phase 1)	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 103.2GWh/day at the Pembroke power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition; and	£7,150,943 £6,400,000
Grain power	To deliver NTS incremental exit	£11,843,749 £10,600,000

Anticipated project p	Project description	RDPROJSPEC _{p,t} £ /year
station	shipper capacity or NTS obligated incremental exit flat capacity of 55GWh/day at the Grain power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition.	

INDEX_p means the relevant input price indexation factor for the formula year in which the NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity associated with the anticipated project p is delivered as set out in the table below:

Formula year in which the NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity associated with the anticipated project p is delivered	INDEX_p
2007/8	1.05
2008/9	1.076
2009/10	1.097
2010/11	1.116
2011/12 and later	1.14

(ii) Determination of ExCIIR_t^{swquad}

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

where:

then: $ExCIIR_t^{swquad} = \underline{\pounds 916,215,820,000} \times INCCAP_t^{swquad}$

(iii) Determination of $ExCIIR_t^{newproj}$

$RDNEWPROJ_{z,t}$ means the revenue driver in (£/GWh/year) in formula year t for each new NTS exit point z set out in the table below.

NTS Exit Point z	Project description	$RDNEWPROJ_{z,t}$ £ /GWh/year
Gilwern	To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 20.215 GWh/day at Gilwern in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii) or 1(d)(iii)	£1,457 <u>£1,304</u>
Barking (Horndon)	To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 23.8 GWh/day at Barking (Horndon) in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii) or 1(d)(iii)	£192,064 <u>£171,895</u>
Coryton 2 (Thames Haven) Power Station	To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 46.2 GWh/day at Coryton 2 (Thames Haven) Power Station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii) or 1(d)(iii)	£144,753 <u>£129,552</u>
Tonna (Baglan Bay)	To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 20.983 GWh/day at	£1,389 <u>£1,243</u>

NTS Exit Point z	Project description	RDNEWPROJ _{z,t} £ /GWh/year
	Tonna (Baglan Bay) in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii) or 1(d)(iii)	
Pembroke (Phase 2)	To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 20 GWh/day at Pembroke power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii) or 1(d)(iii)	£1,458£1,305

(e) Long run contracting incentive revenue (ExLRCIR_t)

(ii) otherwise, ExLRCIR_t shall be derived from the following formula:

$$\text{ExLRCIR}_t = \text{ExLRCCP}_t + [\text{ExLRCSF}_t \times (\text{ExLRCIT}_t - \text{ExLRCCP}_t)]$$

where:

ExLRCIT_t means the long run contracting incentive target in respect of formula year t and shall be calculated as:

(A) $\text{ExLRCIT}_t = \text{£}3,899,052 \text{ } 3,400,000 \text{ } \times \text{RPIF}_t \text{ } \text{PIT}_t$

in each relevant and complete formula year; and

(B) in respect of each relevant and partial formula year, the same proportion of ($\text{£}3,899,052 \text{ } 3,400,000 \text{ } \times \text{RPIF}_t \text{ } \text{PIT}_t$) as the relevant period is to a complete formula year.

(f) Incentive revenue from sale of NTS non-obligated exit capacity (ExNOCIR_t)

If $ExREVNO C_t \geq ExNOCIT_t$, then:

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

where:

$ExNOCCAP_t$ means the maximum revenue from the sale of NTS non-obligated exit capacity in respect of formula year t and shall be calculated as:

(i) $ExNOCCAP_t = \text{£}22,935,60120,000,000 \times RPIF_t PIF_t$

in respect of each relevant and complete formula year; and

- (ii) in respect of each relevant and partial formula year, the same proportion of ($\text{£}22,935,60120,000,000 \times RPIF_t PIF_t$) as the relevant period is to a complete formula year.

(g) Cap on incremental investment buy-back exposure ($ExXSIBBC_t$)

$$ExXSIBBC_t = \text{MAX} (0, (ExIBBC_t - \text{MIN}(ExIBBCAP_t, ExIBBE_t)))$$

where:

$ExIBBCAP_t$ means the amount above which the costs represented by the term $ExIBBC_t$ shall be revenue allowed to the licensee in respect of formula year t and shall be calculated as:

(i) $ExIBBCAP_t = \text{£}41,284,08236,000,000 \times RPIF_t PIF_t$

in respect of each relevant and complete formula year; and

- (ii) in respect of each relevant and partial formula year, the same proportion of (~~£41,284,08236,000,000~~ × $RPIF_{t,PIT_t}$) as the relevant period is to a complete formula year.

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

where:

$ExIBBCAP_{m,t}$ means the cap on the costs incurred by the licensee represented by the term $ExIBBC_{m,t}$ in respect of month m of formula year t and shall take a value of ~~£4,587,1204,000,000~~ × $RPIF_{t,PIT_t}$ in each month of each relevant formula year.

5. Project permits

- d) ~~For all formula years until the one ending 31 March 2012~~ the licensee's exit lead time deferment volume entitlement on day n ($LTDVEx_n$) (in units of GWh per day) shall be calculated in accordance with the following formula:

$$LTDVEx_n = 10,950 + \sum_{v,n-1} DLTDVEx_v$$

where

$DLTDVEx_v$ means the variation v to the lead time for contractual delivery pursuant to notices provided to the Authority under paragraph 5(c) of this condition;

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

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

e) For the formula year commencing on 1 April 2012 the licensee's exit lead time deferment volume entitlement on day n (ROLTDVEx_n) (in units of GWh per day) shall be calculated in accordance with the following formula:

$$\text{ROLTDVEx}_n = 2190 + \sum_{v, n-1} \text{DLTDVEx}_v$$

where

DLTDVEx_v means the variation v to the lead time for contractual delivery pursuant to notices provided to the Authority under paragraph 5(c) of this condition;

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

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

6.7. Special Condition C8G (NTS System Operator internal incentives, costs and revenues) is amended as set out below:

Special Condition C8E (NTS System Operator internal incentives, costs and revenues)

(1) Internal cost incentive revenue (SOIntICR_t)

(b) Internal operating cost incentive revenue (IOIRC_t)

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

If $RPIF_t \times IOIT_t \geq IOC_t$, then:

$$\underline{IOIRC_t = (RPIF_t \times IOIT_t) - (((RPIF_t \times IOIT_t) - IOC_t) \times (1 - ICUSF_t))}$$

Otherwise:

$$\underline{IOIRC_t = (RPIF_t \times IOIT_t) - (((RPIF_t \times IOIT_t) - IOC_t) \times (1 - ICDSF_t))}$$

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

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

~~Otherwise:~~

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

where:

IOIT_t

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 _t (£ million, 04/05 prices)	24.2	23.2	25.4	24.6	24.2

	Formula years					
Variable	t=6	t=7	t=8	t=9	t=10	t=11
<u>IOIT_t</u> <u>(£ million, 2009/10 prices)</u>	<u>27.75</u>	<u>26.61</u>	<u>29.13</u>	<u>28.21</u>	<u>27.75</u>	<u>31</u>

ICUSF_t

means the internal cost upside sharing factor 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	<u>t=11</u>
ICUSF _t	0.4	0.4	0.4	0.4	0.4	<u>0.4</u>

ICDSF_t

means the internal cost downside sharing factor 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	<u>t=11</u>

ICDSF _t	0.4	0.4	0.4	0.4	0.4	<u>0.4</u>
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RPIF_t is the price index adjustment term and shall have the same meaning as in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence in respect of formula year t, means the percentage change (whether of a positive or a negative value) between (a) the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1 and (b) 182.37 (being the value for t-1 in 2004/05).

(c) Internal capital expenditure incentive revenue (ICEIRC_t)

The maximum internal capital expenditure incentive revenue allowed to the licensee in respect of formula year t (*ICEIRC_t*) shall be derived in the following manner:

AICE_t means the allowed internal capital expenditure that shall be added to the NTS SO regulatory asset base in respect of any formula year t and is derived in the following manner:

$$AICE_t = \frac{(RPIF_t \times ICET_t) - (((RPIF_t \times ICET_t) - ICE_t) \times 0.75)}{\left(\left[1 + \left(\frac{IRPI_t}{100} \right) \right] \times ICET_t \right) - \left(\left(\left[1 + \left(\frac{IRPI_t}{100} \right) \right] \times ICET_t \right) - ICE_t \right) \times 0.75 }$$

where:

$ICET_t$ means the internal capital expenditure 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
$ICET_t$ (£ million 2004/05 prices)	12.8	8.3	6.5	10.8	10.3

	Formula years					
Variable	t=6	t=7	t=8	t=9	t=10	t=11
$ICET_t$ (£ million 2009/10 prices)	14.6 8	9.52	7.45	12.39	11.81	30.6

$RPIF_t$ is the price index adjustment term and shall have the same meaning as in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence shall have the meaning given to that term in paragraph 1(b) of this condition.

(d) Non-incentivised costs (NC_t)

The non-incentivised costs allowed to the licensee in respect of formula year t (NC_t) shall be derived in the following manner:

$$NC_t = \frac{(IT_t + IP_t + IX_t + IXLU_t) \times RPIF_t}{1 + \left(\frac{IRPI_t}{100} \right)}$$

where:

IT_t means the licensee's tax allowance in respect its NTS system operation activity in respect of formula year t as set out in the following table:

	Formula years				
Variable	t=6	t=7	t=8	t=9	t=10
IT_t (£ million, 04/05 prices)	3.1	2.1	1.3	0.0	-0.4

Formula years

<u>Variable</u>	<u>t=6</u>	<u>t=7</u>	<u>t=8</u>	<u>t=9</u>	<u>t=10</u>	<u>t=11</u>
IT_t (£ million, 2009/10 prices)	3.56	2.41	1.49	0.00	-0.46	0.214

IP_t means the licensee's pension cost allowance in respect of its NTS system operation activity in respect of formula year t as set out in the following table:

	Formula years				
Variable	t=6	t=7	t=8	t=9	t=10
IP_t (£ million, 04/05 prices)	6.7	6.9	6.8	7.1	7.1

	<u>Formula years</u>					
<u>Variable</u>	<u>t=6</u>	<u>t=7</u>	<u>t=8</u>	<u>t=9</u>	<u>t=10</u>	<u>t=11</u>
IP_t (£ million, 2009/10 prices)	7.68	7.91	7.80	8.14	8.14	5.2

IX_t means the relevant proportion (in respect of its NTS system

operation activity) of the charge levied on the licensee by the agency (as defined in Standard Special Condition A15 (Agency)) in respect of formula year t as set out in the following table:

	Formula years				
Variable	t=6	t=7	t=8	t=9	t=10
IX_t (£ million, 04/05 prices)	6.6	10.6	14.5	9.3	6.6

	Formula years					
Variable	t=6	t=7	t=8	t=9	t=10	t=11
IX_t (£ million, 2009/10 prices)	7.57	12.1 6	16.6 3	10.67	7.57	5.346

IXLU_t means the revenue adjustment term, whether of a positive or of a zero value, required to effect the full recovery by the licensee of logged up costs (adjusted for financing costs) and in all formula years shall take the value zero except for the formula year commencing on 1 April 2012-2013 for which it shall take a value being the relevant proportion of the total of the expenditure incurred by the licensee in respect of its NTS system operation activity in the period 1 April 2008 to 31 March 2012-2013 in respect of charges levied on the licensee by the agency (as defined in Standard Special Condition A15 (Agency)) for:

- (a) information technology systems development costs; and
- (b) the provision of services

resulting from changes to the industry frameworks, subject to the licensee having demonstrated to the Authority that such costs

have been efficiently incurred. For the avoidance of doubt, the changes to the industry frameworks in respect of which the licensee shall be entitled to recover its expenditure in respect of charges levied by the agency shall include:

- (a) Entry capacity base line swapping associated with the entry capacity substitution obligation;
- (b) The introduction of the 0.52p/kWh limit on buying-back incremental capacity;
- (c) Energy balancing changes;
- (d) European driven changes – change of gas day times to facilitate cross border flows and information provision costs;
- (e) 20% of any costs attributable to major changes to the reconciliation by difference process; and
- (f) Shipper driven UNC modification proposals – 100% of GEMINI system expenditure, 11% of other system expenditure.

The total amount of these logged up costs is not to exceed £~~10.512.04~~m (~~04/052009/10~~ prices)

RPIF_t ~~is the price index adjustment term and shall have the same meaning as in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence. has the same meaning ascribed to it in paragraph 1(b) of this condition.~~