

**Gas Act 1986  
Section 23**

**MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID GAS PLC'S  
NATIONAL TRANSMISSION SYSTEM GAS TRANSPORTER LICENCE GRANTED  
UNDER SECTION 7 OF THE GAS ACT 1986 TO IMPLEMENT THE GAS  
TRANSMISSION PRICE CONTROL REVIEW (TPCR4) ROLLOVER**

Whereas –

1. National Grid Gas plc ("NGG") has been granted a Gas Transporter Licence (the "Licence") under section 7 of the Gas Act 1986 (the "Act") to transport gas through the national transmission system subject to the conditions contained in the Licence.
2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority (the "Authority") gave notice on 20 December 2011 (the "Notice")<sup>1</sup> that it proposed to make modifications to the following special conditions of the Licence:
  - 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") to implement the Authority's decision on the Transmission Price Control Review (TPCR4) Rollover: Final Proposals (Ref: No 168/11) date 28 November 2011.
3. In accordance with section 23(2) of the Act, the Notice stated that it proposed to make modifications; set out the proposed modifications and their effect; stated the reasons why the Authority proposes to make modifications; and specified 23 January 2012 as the date upon which representations with respect to the proposed modifications may be made.
4. Prior to the close of the consultation period the Authority received a response from NGG containing representations on the proposed modifications in the Notice. NGG's response has been placed in the Ofgem library and on the Ofgem website<sup>2</sup>.
5. The Authority has carefully considered NGG's representations in relation to the proposed modifications and, as a consequence of those representations, has decided to amend the proposed modifications set out in the Notice in the manner set out in Schedule 1 and Schedule 2 to this Modification.
6. Schedule 1 to this Modification contains the Conditions (as amended) that will have effect on and from 1 April 2012.

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<sup>1</sup> [http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Roll-over/Documents1/111220\\_FINAL\\_NGG\\_Rollover\\_Proposalanddirectionnotice.pdf](http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Roll-over/Documents1/111220_FINAL_NGG_Rollover_Proposalanddirectionnotice.pdf)

<sup>2</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=76&refer=Networks/Trans/PriceControls/TPCR4Roll-over>

7. In accordance with section 23(7)(d) of the Act, Schedule 2 states the reasons and the effect of any differences between the proposed modifications set out in the Notice and the Conditions set out in Schedule 1.

**Now therefore**

In accordance with the powers contained in section 23 of the Act and for the reasons set out in the Notice and Schedule 2 of this Modification the Authority hereby modifies the Conditions in the manner set out in Schedule 1 of this Modification with effect on and from **1 April 2012**.

This Modification constitutes notice pursuant to section 38A of the Act of the reasons for amending the Conditions.

**The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of:**



.....  
**Hannah Nixon**  
**Acting Senior Partner – SG&G Transmission**



**Duly Authorised on behalf of the Authority**

**3 February 2012**

## **Schedule 1 to Section 11A Modification**

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 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 2007-12<sup>23</sup> 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;

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(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**

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**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<sub>t</sub>) shall be calculated using the following formula:

$$TOMR_t = TOZ_t - TOZA_t + TOF_t + TOG_t - TOK_t + TOIAT_t$$

where:

TOZ<sub>t</sub> 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:~~

$$TOZ_t = \text{£}460,400,000 \times \left[ 1 + \left( \frac{RPI_0}{100} \right) \right] \times RPI_t$$

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

$$TOZ_t = TOZ_{t-1} \times \left[ 1 + \left( \frac{RPI_t - X}{100} \right) \right]$$

where:

RPI<sub>t</sub> 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:

$$RPIF_t = RPIA_{t-2} \times (1+GRPIF_{t-1}) \times (1+GRPIF_t)$$

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<sub>t</sub> 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.

RPI<sub>2009-10</sub> 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<sub>c</sub> 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" publication, 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.



~~RPI<sub>0</sub> 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<sub>t</sub> 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<sub>t</sub> 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:

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

$$TOZA_t = \pounds 9,500,000 \times PIT_t$$

where:

$PIT_t$  is the price indexation adjustment term, which shall be calculated using the following formula:

$$PIT_t = \left( 1 + \frac{RPI_t}{100} \right) \times PIT_{t-1}$$

where  $PIT_t$  shall take the value 1 in respect of the formula year commencing 1 April 2004 and  $RPI_t$  shall be as above.

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**(b) NTS transportation owner cost pass-through adjustment  $TOF_t$**

- (i) For the purposes of paragraph 3(a) of this condition, the NTS TO cost pass-through adjustment term in respect of formula year t ( $TOF_t$ ) shall be calculated in the following manner:

$$TOF_t = Rate_t + L_t + \cancel{NTSPDC_t} + \cancel{DNPDC_t} + IS_t + HISC_t + OPTC_t$$

where:

$Rate_t$  means the revenue adjustment term in the formula year t in respect of non domestic rates and shall, subject to sub-paragraphs (ii) and (iii), be calculated in accordance with the following formula:

$$Rate_t = NDRP_t - NDRA_t$$

where:

$NDRP_t$  means the NTS prescribed rates and shall take a value of 39.40 % in respect of the prescribed rates or equivalent tax or duty replacing them levied on

the licensee in respect of its NTS transportation owner activity and the Distribution Network transportation activity in respect of formula year t; and

NDRA<sub>t</sub> means the NTS prescribed rates allowance that has been allowed for in setting TOZ<sub>t</sub> and shall be calculated as follows:

$$\text{NDRA}_t = \text{TORB}_t \times \frac{\text{PIT}_t}{\text{RPIF}_t}$$

where:

TORB<sub>t</sub> shall in each formula year t take the value ~~£80,082,000~~ ~~71,100,000~~ (in ~~2004~~2009/105 prices); and

$\frac{\text{RPIF}_t}{\text{PIT}_t}$  is the price indexation adjustment term, which shall be calculated in accordance with paragraph 3(a) of this condition.

L<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> means the licence fee payments that have been allowed for in setting TOZ<sub>t</sub> and shall be calculated as follows:

$$\text{LA}_t = \text{TOLA}_t \times \frac{\text{RPIF}_t}{\text{PIT}_t}$$

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 |

|                                 |            |
|---------------------------------|------------|
| Formula year commencing 1 April | 2012       |
| $TOLA_t$                        | £9,041,000 |

$NTSPDC_t$  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:

$$TOG_t = IFI_t + (CxIncRA_t \times RPIF_t) + LC_t$$

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.

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(iv) For the purposes of paragraph 3(c)(i), in the year commencing 1 April 2012 CxIncRA<sub>t</sub> 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:~~

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

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

where

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;

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

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

CIR<sub>n</sub> 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:

| <b>Formula<br/>year<br/>commencing<br/>1 April:</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| CIR <sub>n</sub>                                    | 0.3139      | 0.2513      | 0.1835      | 0.1103      | 0.0313      |

CIR<sub>nro</sub> 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<sub>n</sub> means the present value adjustment factor in respect of the formula year t and shall take the value set out in the table below:

| <b>Formula<br/>year<br/>commencing<br/>1 April:</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| PVF <sub>n</sub>                                    | 1.35408     | 1.27443     | 1.19946     | 1.12891     | 1.06250     |

PVF<sub>nro</sub> means the present value adjustment factor in respect of the formula year nro and shall take the value 1.05683

PVF<sub>RIIO</sub> means the present value adjustment factor in respect of the first formula year of the RIIO period

IncDif<sub>n</sub> 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:

$ACx_n$  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;

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

$BCx_n$  means, subject to paragraph 5 of this condition, the base capital expenditure allowance, expressed in 2009/10 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        |
|----------------------------------|--------------|--------------|-------------|-------------|-------------|
| $BCx_n$                          | £470,300,000 | £212,800,000 | £56,000,000 | £44,200,000 | £41,000,000 |

| 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 | £81,000,000 |

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



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

where:

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MH<sub>n</sub> 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 0.7 and

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## 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:

$$\text{ReICx}_t = \frac{Cx_t - SOCx_t - ESCx_t - LCx_t - MH_t}{PIT_t}$$

$$\text{ReICx}_t = \frac{Cx_t - SOCx_t - ESCx_t - LCx_t - MH_t}{RPIF_t}$$

where:

Cx<sub>t</sub> shall take the value of Cx<sub>n</sub> for formula year n=t, where Cx<sub>n</sub> shall take the same meaning as given in paragraph 3 of this condition;

SOCx<sub>t</sub> shall take the value of SOCx<sub>n</sub> for formula year n=t, where SOCx<sub>n</sub> shall take the same meaning as given in paragraph 3 of this condition;

LCx<sub>t</sub> shall take the value of LCx<sub>n</sub> for formula year n=t, where LCx<sub>n</sub> shall take the same meaning as given in paragraph 3 of this condition; and

ESCx<sub>t</sub> shall take the value of ESCx<sub>n</sub> for formula year n=t, where ESCx<sub>n</sub> 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

~~$RPIF_t$~~  ~~$PIT_t$~~  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**

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**3. Maximum NTS system operation revenue (SOMR<sub>t</sub>)**

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

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BBIOCA<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub>/PIF<sub>t</sub> 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<sub>t</sub> 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:

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

where:

$$\text{RLTDVEn} = \text{MIN}[(\text{LTDVEn}_{\text{end}} \times \text{£}5000), (\text{£} \underline{41,284,082} \underline{36,000,000} \times \frac{\text{RPIF}_t}{\text{PIF}_t})];$$

where:

LTDVEn<sub>end</sub> means the value of LTDVEn<sub>n</sub> (in GWh per day for each one month period) where day n is 31 ~~March~~ May 2012.

where:

LTDVEn<sub>n</sub> is defined as in paragraph 3(~~hi~~) of Special Condition C8D (NTS gas entry incentives, costs and revenues) of this licence;

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

where:

$LTDVEx_{\text{end}}$  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:

$$\underline{DELINC_t = RLTDVEn + RLTDVEx}$$

where:

$$\underline{RLTDVEn = \text{MIN}[(ROLTDVEn_{\text{end}} \times \text{£}5000), (\text{£}8,256,960 \times RPIF_t)];}$$

where:

$ROLTDVEn_{\text{end}}$  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;

$$\underline{RLTDVEx = \text{MIN}[(ROLTDVEx_{\text{end}} \times \text{£}274), (\text{£}688,149 \times RPIF_t)];}$$

where:

ROLTDVEx<sub>end</sub> means the value of ROLTDVEx<sub>n</sub> (in GWh per day)  
where day n is 31 May 2013.

where:

ROLTDVEx<sub>n</sub> is defined as in paragraph 5 of  
Special Condition C8E (NTS gas  
exit incentives, costs and revenues)  
of this licence;

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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<sub>t</sub>) shall be determined in accordance with the following formula:

$$ARIEnC_t = RPIF_t - PIF_t \times \sum_{\forall i} \sum_{\forall m | y \in t} ARIEnCS_{i,m}$$

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<sub>i,m</sub> means the revenue allowance at NTS Entry Point i for month m, which shall take a value of zero for all  $m \leq 60$  and shall otherwise be calculated in accordance with the relevant formula specified in Table 1 below:

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- b) For the purposes of Table 1, FIOEnC<sub>i,m</sub> means the funded incremental obligated entry capacity at NTS Entry Point i in month m and shall take the value 0 for all  $m \leq 60$  and shall otherwise take the value defined in accordance with the following formula:

$$FIOEnC_{i,m} = \sum_{p=0}^{59} \sum_{W=0}^{FP2_{m-p}^1} FIOEnC_{i,(m-p),W}$$

where:

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EnFIR<sub>z<sub>i</sub></sub> 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             | z=1    | z=2    | z=3    | z=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 |
| - | Palmers 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 |
|          | Wytch 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 |
|          | Palmer's 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<sub>t</sub>) shall be derived in accordance with the following formula:

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

where:

-----

EnCOBBIR<sub>t</sub> 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  $\text{EnCOBBIP}_t \leq (\text{EnCOBBTC} \times \text{PITRPIF}_t)$ , then:

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

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

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

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;

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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.

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### **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 1<sup>st</sup> 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.

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- i) For the purposes of the calculation of  $DELINC_t$  in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2012, for all formula

years until the one ending 31 March 2012 the licensee's entry lead time deferment volume entitlement on day n (LTDVEn<sub>n</sub>) (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<sub>v</sub> 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 DLTDVEn<sub>0</sub> 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 purposes of the calculation of DELINC<sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2013, for the formula year commencing on 1 April 2012 the licensee's entry lead time deferment volume entitlement on day n (ROLTDVEn<sub>n</sub>) (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<sub>v</sub> 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 DLTDVEn<sub>0</sub> 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<sub>t</sub> 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 1<sup>st</sup> April 2009; and
- iv. be submitted on a date after 31<sup>st</sup> 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.

### **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<sub>t</sub>) shall be defined in accordance with:

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

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- b) 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**

| <b>p</b>   | <b>EnCBBMHBCOL<sub>p</sub> (£)</b> | <b>Formula year</b>           |
|--|------------------------------------|-------------------------------|
| <del>before 8<sup>th</sup> December 2007</del>                         | <del>0</del>                       | <del>2007/08 or earlier</del> |
| <del>8<sup>th</sup> December 2007 — 7<sup>th</sup> January 2008</del>  | <del>2,000,000</del>               | <del>2007/08</del>            |
| <del>8<sup>th</sup> January 2008 — 7<sup>th</sup> February 2008</del>  | <del>2,000,000</del>               | <del>2007/08</del>            |
| <del>8<sup>th</sup> February 2008 — 7<sup>th</sup> March 2008</del>    | <del>2,000,000</del>               | <del>2007/08</del>            |
| <del>8<sup>th</sup> March 2008 — 7<sup>th</sup> April 2008</del>       | <del>6,000,000</del>               | <del>2007/08</del>            |
| <del>8<sup>th</sup> April 2008 — 7<sup>th</sup> May 2008</del>         | <del>6,000,000</del>               | <del>2008/09</del>            |
| <del>8<sup>th</sup> May 2008 — 7<sup>th</sup> June 2008</del>          | <del>6,000,000</del>               | <del>2008/09</del>            |
| <del>8<sup>th</sup> June 2008 — 7<sup>th</sup> July 2008</del>         | <del>2,000,000</del>               | <del>2008/09</del>            |
| <del>8<sup>th</sup> July 2008 — 7<sup>th</sup> August 2008</del>       | <del>2,000,000</del>               | <del>2008/09</del>            |
| <del>8<sup>th</sup> August 2008 — 7<sup>th</sup> September 2008</del>  | <del>2,000,000</del>               | <del>2008/09</del>            |
| <del>8<sup>th</sup> September 2008 — 7<sup>th</sup> October 2008</del> | <del>2,000,000</del>               | <del>2008/09</del>            |
| <del>8<sup>th</sup> October 2008 — 7<sup>th</sup> November 2008</del>  | <del>2,000,000</del>               | <del>2008/09</del>            |
| <del>8<sup>th</sup> November 2008 — 7<sup>th</sup> December 2008</del> | <del>2,000,000</del>               | <del>2008/09</del>            |
| after 7 <sup>th</sup> December 2008                                    | 0                                  | 2008/09 or later              |



**5. Entry capacity incremental buy-back costs and incentive revenues (EnCBBIIR<sub>t</sub>)**

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

$$\text{EnCBBIIR}_t = \text{EnCIBBC}_t + \text{EnCIBBIR}_t$$

where:

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EnCIBBIR<sub>t</sub> shall be derived in accordance with the following formula:

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

where:

-----

EnCACAP means the annual exposure cap, which is the maximum value that EnCBBICE<sub>t</sub> 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<sub>t</sub> 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<sub>m</sub>

means the monthly exposure cap, which is the maximum value that EnCBBIC<sub>t</sub> 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  $\text{£}4,587,120 \text{ (in 2009-10 prices)} \times \text{RPIF}_t - 4,000,000 - \text{PIT}_t$

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## **PART C – Capacity release obligations**

### **9. Obligations to release entry capacity**

c) iv)

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#### **Table 7**

| NTS Entry Point i        | For paragraph 9 (c) (ii)            | For paragraph 9 (c) (iii)            |
|--------------------------|-------------------------------------|--------------------------------------|
|                          | IBEnC <sub>i,m,h</sub> (in GWh/day) | RIBEnC <sub>i,m,h</sub> (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                                | <del>82.6</del> 172.6                |
| Garton                   | 0                                   | <del>0</del> 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 |

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**9. Obligations to release entry capacity (continued)**

d)

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**Table 8:**

| <b>NTS entry point i</b> | <b>Obligation to offer for sale commenced following the annual invitation period in</b> | <b>First month of use at NTS entry point i (m-p)</b> | <b>First month of use at NTS entry point i (m-p)</b> | <b>PREVFI<sub>EnC<sub>i,(m-p),w</sub></sub> (GWh/d)</b> |
|--------------------------|---|--|--|---|
| 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   |

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

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**Part C: Calculations of ECIIR<sub>t</sub>**

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**Part 2 The NTS system operation activity revenue restrictions**

**14. Definition of maximum NTS system operation revenue (SOMR<sub>t</sub>)**

**(5) Entry capacity investment incentive revenue (ECIIR<sub>t</sub>)**

**(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<sub>t</sub>) shall be derived in the following manner:

If  $t \leq 5$  then:

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

Otherwise:

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

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


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where:

$\text{SOREVOIEC}_t^j$  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  $\text{SOREVOIEC}_t^j$ ;

$RI_t$  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<sub>t</sub> 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;

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UCAG<sup>j</sup> 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:

| <b>Terminal j</b> | <b>UCAG<sup>j</sup> (£/kWh)</b> |
|-------------------|---------------------------------|
| Bacton            | <u>0.2310.182</u>               |
| Barrow            | <u>0.0180.014</u>               |
| Easington         | <u>0.0430.034</u>               |
| St. Fergus        | <u>0.8100.639</u>               |
| Teesside          | <u>0.0750.059</u>               |
| Theddlethorpe     | <u>0.0390.031</u>               |
| Glenmavis         | <u>0.6740.532</u>               |
| Partington        | <u>0.0110.009</u>               |
| Avonmouth         | <u>0.0810.064</u>               |

|                             |                            |
|-----------------------------|----------------------------|
| Isle of Grain               | <a href="#">0.2360.186</a> |
| Dynevor Arms                | <a href="#">0.0000.000</a> |
| Hornsea                     | <a href="#">0.1940.153</a> |
| Hatfield Moor<br>(storage)  | <a href="#">0.0530.042</a> |
| Hatfield Moor<br>(onshore)  | <a href="#">0.0530.042</a> |
| Cheshire                    | <a href="#">0.0040.003</a> |
| Hole House Farm             | <a href="#">0.0030.002</a> |
| Wytch Farm                  | <a href="#">0.0000.000</a> |
| Burton Point                | <a href="#">0.0030.002</a> |
| Barton Stacey               | <a href="#">0.0000.000</a> |
| Garton                      | <a href="#">0.0490.039</a> |
| Burton Agnes<br>(Caythorpe) | <a href="#">0.0950.075</a> |
| Winkfield                   | <a href="#">0.1050.083</a> |
| Blyborough<br>(Welton)      | <a href="#">0.0440.035</a> |
| Tatsfield                   | <a href="#">0.1050.083</a> |
| Albury                      | <a href="#">0.4560.360</a> |
| Palmers Wood                | <a href="#">0.1660.131</a> |

| <b>Terminal j</b> | <b>UCAG<sup>j</sup><br/>(£/kWh)</b>  | <b>UCAG<sup>j</sup><br/>(£/kWh)</b>                                     |
|-------------------|--|---|
| Milford Haven     | <a href="#">0.4350.343</a><br>where $\text{PRIORCIOEC}_m^j \leq 500$ GWh/d | <a href="#">0.3260.257</a><br>where $\text{PRIORCIOEC}_m^j > 500$ GWh/d |



| <u>Terminal j</u> | <u>UCAG<sup>j</sup></u><br><u>(£/kWh)</u>   | <u>UCAG<sup>j</sup></u><br><u>(£/kWh)</u>   |
|-------------------|---|---|
| <u>Fleetwood</u>  | <u><del>0.2050.162</del></u><br><br>where $0 \text{ GWh/d} <$<br><u><math>\text{PRIORCIOEC}_{m}^{j} &lt; 580 \text{ GWh/d}</math></u>     | <u><del>0.3380.267</del></u><br><br>where $580 \text{ GWh/d} <$<br><u><math>\text{PRIORCIOEC}_{m}^{j} &lt; 740</math></u><br><u>GWh/d</u>   |
|                   | <u><del>0.2840.224</del></u><br><br>where $740 \text{ GWh/d} <$<br><u><math>\text{PRIORCIOEC}_{m}^{j} &lt; 1000 \text{ GWh/d}</math></u>  | <u><del>0.2710.214</del></u><br><br>where $1000 \text{ GWh/d} <$<br><u><math>\text{PRIORCIOEC}_{m}^{j} &lt; 1200</math></u><br><u>GWh/d</u> |
|                   | <u><del>0.3330.263</del></u><br><br>where $1200 \text{ GWh/d} <$<br><u><math>\text{PRIORCIOEC}_{m}^{j} &lt; 1400 \text{ GWh/d}</math></u> |   |

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(e) The maximum entry capacity investment incentive revenue  $\text{CAPOIEC}_{t}^{j}$

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  $\text{CAPOIEC}_{t}^{j}$  shall be derived from the following formula:

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

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

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

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

where:

~~RI<sub>t</sub>~~ shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

~~RI<sub>0</sub>~~ shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

RPIF<sub>t</sub> 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<sub>t</sub><sup>j</sup>)**

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

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

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

where:

~~RI<sub>t</sub>~~ shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

~~RI<sub>0</sub>~~ shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this condition;

RPIF<sub>t</sub> 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;

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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<sub>t</sub>)**

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**(b) Buy-back and interruptions incentive revenue (ExCBBIIR<sub>t</sub>)**

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- (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<sub>t</sub>) 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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> shall take the values set out in the following table:~~

| Variable              | Formula year |            |
|-----------------------|--------------|------------|
|                       | t=6          | t ≥ 7      |
| ExNTSIIT <sub>t</sub> | £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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub>) 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:~~

~~ExCBBICOL<sub>t</sub> = £7,000,000 × PIT<sub>t</sub>~~

~~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:~~

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

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 ( $\text{AExNTSIIC}_t$ ) shall be equal to the value derived from the following formula:

$$\text{AExNTSIIC}_t = \frac{\text{ExNTSSIC}_t}{\left( \sum_{\text{all } y} \text{ExNTSC}_y^{\text{Jan15th}} \times 15 \right)}$$

-----

**(c)(i) Constrained storage target ( $\text{ExCIT}_t$ )**

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) ( $\text{ExCIT}_t$ ) shall be calculated as:

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

|                   | <b>Formula-year</b> |            |            |            |             |
|-------------------|---------------------|------------|------------|------------|-------------|
| <b>Variable</b>   | <b>t=6</b>          | <b>t=7</b> | <b>t=8</b> | <b>t=9</b> | <b>t≥10</b> |
| $\text{RExCIT}_t$ | 2,600,000           | 2,100,000  | 4,300,000  | 3,600,000  | 2,900,000   |
| £                 |                     |            |            | 0          |             |

|                           | <u>Formula year</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>RExCIT<sub>t</sub></u> | <u>2,981,628</u>    | <u>2,408,238</u> | <u>4,931,154</u> | <u>4,128,408</u> | <u>3,325,662</u> |
| <u>£</u>                  |                     |                  |                  |                  |                  |

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**(d) Exit capacity investment incentive revenue (ExCIIR<sub>t</sub>)**

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<sub>t</sub>) shall be derived as follows:

$$ExCIIR_t = (ExCIIR_t^{projspec} + ExCIIR_t^{swquad} + ExCIIR_t^{newproj}) \times \frac{RPIF_t RIE_x_t}{RIE_x_0}$$

where:

ExCIIR<sub>t</sub><sup>projspec</sup> 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<sub>t</sub><sup>swquad</sup> 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<sub>t</sub><sup>newproj</sup> 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<sub>t</sub> 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<sub>t</sub> 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<sub>0</sub> 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<sub>t</sub><sup>projspec</sup>**

$$\text{ExCIIR}_t^{\text{projspec}} = \sum_{\text{all } p} (\text{RDPROJSPEC}_{p,t} \times \text{INDEX}_p \times \text{CDEL}_{p,t})$$

where:

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

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

| <b>Anticipated project p</b>  | <b>Project description</b>  | <b>RDPROJSPEC<sub>p,t</sub><br/>£ /year</b> |
|-------------------------------|---|---|
| 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 driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition; | <del>£9,500,000</del><br><u>£10,614,681</u> |
| Langage power station Phase 2 | To deliver NTS incremental exit shipper capacity or NTS obligated   | <del>£5,500,000</del><br><u>£6,145,342</u>  |

| Anticipated project p   | Project description   | RDPROJSPEC <sub>p,t</sub><br>£ /year               |
|-------------------------|---|--|
|                         | 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; |  |
| 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;            | <a href="#">£5,028,007</a> <del>£4,500,000</del>   |
| 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         | <a href="#">£7,150,943</a> <del>£6,400,000</del>   |
| Grain power station     | To deliver NTS incremental exit 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   | <a href="#">£11,843,749</a> <del>£10,600,000</del> |

| Anticipated project p | Project description         | RDPROJSPEC <sub>p,t</sub><br>£ /year |
|-----------------------|-----------------------------|--------------------------------------|
|                       | 1(d)(ii) of this condition. |                                      |

INDEX<sub>p</sub> 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 <sub>p</sub> |
|--|--------------------|
| 2007/8   | 1.05               |
| 2008/9   | 1.076              |
| 2009/10  | 1.097              |
| 2010/11  | 1.116              |
| 2011/12 and later  | 1.14               |

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**(ii) Determination of ExCIIR<sub>t</sub><sup>swquad</sup>**

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

where:

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then:  $\text{ExCIIR}_t^{\text{swquad}} = \text{£}916,215,820,000 \times \text{INCCAP}_t^{\text{swquad}}$

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**(iii) Determination of ExCIIR<sub>t</sub><sup>newproj</sup>**

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RDNEWPROJ<sub>z,t</sub> 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 <sub>z,t</sub><br>£ /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)                              | <a href="#"><u>£1,457</u></a> <del>£1,304</del>     |
| 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)                      | <a href="#"><u>£192,064</u></a> <del>£171,895</del> |
| 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) | <a href="#"><u>£144,753</u></a> <del>£129,552</del> |
| Tonna (Baglan Bay)                     | To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 20.983 GWh/day at 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)                   | <a href="#"><u>£1,389</u></a> <del>£1,243</del>     |
| Pembroke (Phase 2)                     | To deliver NTS incremental exit shipper capacity or NTS obligated incremental  | <a href="#"><u>£1,458</u></a> <del>£1,305</del>     |

| NTS Exit Point z | Project description | RDNEWPROJ <sub>z,t</sub><br>£ /GWh/year |
|------------------|---------------------|---|
|------------------|---------------------|---|

|  |  |  |
|--|--|--|
|  | 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) |  |
|--|--|--|

**(e) Long run contracting incentive revenue (ExLRCIR<sub>t</sub>)**

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(ii) otherwise, ExLRCIR<sub>t</sub> 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<sub>t</sub> means the long run contracting incentive target in respect of formula year t and shall be calculated as:

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

in each relevant and complete formula year; and

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

**(f) Incentive revenue from sale of NTS non-obligated exit capacity (ExNOCIR<sub>t</sub>)**

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If  $ExREVNOC_t \geq ExNOCIT_t$ , then:

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

-----

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<sub>t</sub>)**

-----

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

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 x  $RPIF_{t,PIT_t}$ ) 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 x  $RPIF_{t,PIT_t}$  in each month of each relevant formula year.

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## 5. Project permits

- a) [For the purposes of the calculation of  \$DELINC\_t\$  in Special Condition C8C paragraph 3\(a\) in respect of the formula year commencing 1 April 2012 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).

b) For the purposes of the calculation of  $DELINC_t$  in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2013 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:

$$ROLTDVEx_n = 2190 + \sum_{v, n-1} DLTDVEx_v$$

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).



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

**Special Condition C8G. NTS System Operator internal incentives, costs and revenues**

**(1) Internal cost incentive revenue (SOIntICR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 3 of Special Condition C8C (NTS System Operation Activity Revenue Restriction), the maximum internal costs incentive revenue allowed to the licensee in respect of formula year t (SOIntICR<sub>t</sub>) shall be derived in the following manner:

$$\del{SOIntICR_t = IOIRC_t + ICEIRC_t + NC_t}$$

$$SOIntICR_t = \underline{(BaseSOC_t \times RPIF_t) + IOIRC_t + NC_t}$$

where:

BaseSOC<sub>t</sub> means the aggregate internal costs allowed in respect of the provision of NTS SO activity (excluding those covered by the term NC<sub>t</sub>) in respect in formula year t=11 and shall have the value £51.6m (in 2009/10 prices);

RPIF<sub>t</sub> 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;

IOIRC<sub>t</sub> means the maximum internal operating cost incentive revenue allowed in respect of formula year t and shall be calculated in accordance with paragraph 1(b) of this condition; and

~~ICEIRC<sub>t</sub> means the maximum internal capital expenditure incentive revenue allowed in respect of formula year t and shall be calculated in accordance with paragraph 1(c)~~

of this condition;

$NC_t$  means the non incentivised costs allowed in respect of formula year t and shall be determined in accordance with paragraph 1(d) of this condition.

**(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 ( $IOIRC_t$ ) shall be derived in the following manner

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

$$IOIRC_t = \left( IOC_t - \left( RPIF_t \times IOIT_t \right) \right) \times \left( 1 - ICUSF_t \right)$$

Otherwise:

$$IOIRC_t = \left( IOC_t - \left( RPIF_t \times IOIT_t \right) \right) \times \left( 1 - ICDSF_t \right)$$

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

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

Otherwise:

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

where:

$IOIT_t$  means the internal cost incentive target in respect of formula year t as set out in the following table:

|  | <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> |
| $IOIT_t$<br>(£ million,<br>04/05 prices) | 24.2                 | 23.2       | 25.4       | 24.6       | 24.2        |

|  | <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> | <b>t=11</b> |
| $IOIT_t$<br>(£ million, 2009/10<br>prices) | 27.75                | 26.61      | 29.13      | 28.21      | 27.75       | 31          |

-----

$ICUSF_t$  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> | <b>t=11</b> |
| $ICUSF_t$       | 0.4                  | 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> | <b>t=11</b> |
|                 |                      |            |            |            |             |             |

|                    |     |     |     |     |     |            |
|--------------------|-----|-----|-----|-----|-----|------------|
| ICDSF <sub>t</sub> | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | <u>0.4</u> |
|--------------------|-----|-----|-----|-----|-----|------------|

~~IRPI<sub>t</sub>RPIF<sub>t</sub>~~ 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) Determination of allowed internal capital expenditure (AICE<sub>t</sub>) ~~Internal capital expenditure incentive revenue (ICEIRC<sub>t</sub>)~~**

~~The maximum internal capital expenditure incentive revenue allowed to the licensee in respect of formula year t (*ICEIRC<sub>t</sub>*) shall be derived in the following manner:~~

$$\del{ICEIRC}_t = \del{ICED}_t + \del{ICER}_t$$

~~where:~~

~~ICED<sub>t</sub>~~ means the depreciation on the NTS SO regulatory asset base in respect of formula year t and is calculated on a straight line basis using a life of seven years for assets;

~~ICER<sub>t</sub>~~ means the return on the average NTS SO regulatory asset value in respect of formula year t at a rate of 5.05%;

~~NTS SO regulatory~~ means the allocation of assets to the NTS SO activity in accordance with Special Condition C9

asset value (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity); and has the value £40.3m (in 2004/05 prices) on 1 April 2007. Allowed internal capital expenditure ( $AICE_t$ ) shall be added to the NTS SO regulatory asset value in respect of any formula year t;

$AICE_t$  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:

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

where:

$ICET_t$  means the internal capital expenditure target in respect of formula year t as set out in the following table:

|  | <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> |
| $ICET_t$<br>(£ million<br>2004/05<br>prices) | 12.8                 | 8.3        | 6.5        | 10.8       | 10.3        |

|   | <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> | <b>t=11</b> |
| $ICET_t$<br>(£ million<br>2009/10 prices) | 14.6<br>8            | 9.52       | 7.45       | 12.39      | 11.81       | 30.6        |

ICE<sub>t</sub> means the internal capital expenditure allocated to the 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) in respect of formula year t.

~~IRPI<sub>t</sub> - RPIF<sub>t</sub>~~ 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<sub>t</sub>)**

The non-incentivised costs allowed to the licensee in respect of formula year t (NC<sub>t</sub>) shall be derived in the following manner:

$$NC_t = \underline{\cancel{X_t + IXLU_t}} \times RPIF_t$$

~~$$(1) NC_t = \cancel{(T_t + IP_t + IX_t + IXLU_t)} \left[ 1 + \left( \frac{IRPI_t}{100} \right) \right]$$~~

where:

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IX<sub>t</sub> 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:

|  | <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> |
| <b>IX<sub>t</sub></b><br>(£ million,<br>04/05<br>prices) | 6.6                  | 10.6       | 14.5       | 9.3        | 6.6         |

|  | <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> | <b>t=11</b> |
| <b>IX<sub>t</sub></b><br>(£ million,<br>2009/10<br>prices) | 7.57                 | 12.1<br>6  | 16.6<br>3  | 10.67      | 7.57        | 13.246      |

IXLU<sub>t</sub> 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)

$RPIF_t - IRPI_t$  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.~~

## Schedule 2 to Section 11A Modification

**Table of the reasons and the effect of the differences between the Conditions in Schedule 1 and the proposed modifications set out in the Notice**

| Ref | Page | Condition      | Licence Term | Reason  | Effect   |
|-----|------|----------------|--------------|---|--|
| 1   | 7    | C8B (3)(a)     | $TOZ_t$      | NGG have drawn our attention to an error in the modelled tax allowance.   | The amendment to this term has the effect of reducing the revenue that NGG can recover by £8.8m.   |
| 2   | 13   | C8B (3)(c)(i)  | $TOG_t$      | Revision to the Condition is required 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. | The $TOG_t$ equation has been amended to include the RPI indexation method provision ( $RPIF_t$ ). |
| 3   | 15   | C8B (3)(c)(iv) | $CIR_{nro}$  | Amendment to the licence term in order to provide further clarity of Rollover Final Proposals.  | The "nro" is subscripted in line with equation for $CxIncRO_t$ clarifies licence term.             |
| 4   | 20   | C8C (3)(a)     | $BBIOCA_t$   | Amendment to the licence term equation to ensure correct calculation can be undertaken.   | Removal of extra bracket ensures correct calculation.  |
| 5   | 21   | C8C (3)(a)     | $LTDVEN_n$   | Amendment to the licence term description<br>Amendment to text in order to provide further clarity of Rollover Final Proposals.   | Definition reference corrected from 3(h) to 3(i) clarifies licence term.                           |

| <b>Ref</b> | <b>Page</b> | <b>Condition</b> | <b>Licence Term</b>   | <b>Reason</b>  | <b>Effect</b>   |
|------------|-------------|------------------|-----------------------|--|---|
| 6          | 29          | C8D (3)(i)       | LTDVEn <sub>n</sub>   | Amendment to text in order to provide further clarity of Rollover Final Proposals.                                 | Additional text added to description to provide clarity as to where this calculation applies:<br><br>"For the purposes of the calculation of DELINC <sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2012". |
| 7          | 30          | C8D (3)(j)       | ROLTDVEn <sub>n</sub> | Amendment to text in order to provide further clarity of Rollover Final Proposals.                                 | Additional text added to description to provide clarity as to where this calculation applies:<br><br>"For the purposes of the calculation of DELINC <sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2013". |
| 8          | 31          | C8D (3)(k-o)     | EnCOBBIR <sub>t</sub> | Revision to paragraph numbering to accommodate additional paragraph inserted as part of Rollover licence drafting. | Paragraph numbering changed from j-n to k-o to correct numbering.   |

| <b>Ref</b> | <b>Page</b> | <b>Condition</b> | <b>Licence Term</b>   | <b>Reason</b>  | <b>Effect</b>   |
|------------|-------------|------------------|-----------------------|--|---|
| 9          | 55          | C8E (5)(a)       | LTDVEx <sub>n</sub>   | Amendment to text in order to provide further clarity of Rollover Final Proposals. | Additional text added to description to provide clarity as to where this calculation applies:<br><br>"For the purposes of the calculation of DELINC <sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2012". |
| 10         | 56          | C8E (5)(b)       | ROLTDVEx <sub>n</sub> | Amendment to text in order to provide further clarity of Rollover Final Proposals. | Additional text added to description to provide clarity as to where this calculation applies:<br><br>"For the purposes of the calculation of DELINC <sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2013". |

| Ref | Page | Condition  | Licence Term          | Reason   | Effect   |
|-----|------|------------|-----------------------|--|--|
| 11  | 58   | C8G (1)(a) | SOIntICR <sub>t</sub> | <p>Revision to the Condition is required 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.</p> <p>Amendment to the licence term in order to provide further clarity of Rollover Final Proposals.</p> <p>This licence term has been amended to include the allowance in Table 48 of the Rollover Final Proposals (£64.8m). This term includes the new BaseSOC<sub>t</sub> term which represents the Base SO costs total £51.6m.</p> <p>The balance of the remainder includes the non controllable costs for NGG SO of £13.2m. This is included in the IX<sub>t</sub> term. (see ref 14 below)</p> | <p>SOIntICR<sub>t</sub> has been amended to include the RPI indexation method provision (RPIF<sub>t</sub>).</p> <p>New BaseSOC<sub>t</sub> term introduced with valued of £51.6m (in 2009/10 prices).</p> <p>The impact of the changes to these terms and the removal of the ICEIRC<sub>t</sub> term is to correctly reflect the allowances given in the Rollover Final Proposals.</p> |
| 12  | 59   | C8G (1)(c) | ICEIRC <sub>t</sub>   | <p>Removal of licence term in order to better reflect the Rollover Final Proposals.</p>  | <p>The removal of components that make up ICEIRC<sub>t</sub> licence term has no financial impact. The term is made redundant by the introduction of the BaseSOC<sub>t</sub> term.</p>   |

| <b>Ref</b> | <b>Page</b> | <b>Condition</b> | <b>Licence Term</b> | <b>Reason</b>   | <b>Effect</b>   |
|------------|-------------|------------------|---------------------|---|---|
| 13         | 63          | C8G (1)(d)       | NC <sub>t</sub>     | <p>Amendment to term in order to better reflect the Rollover Final Proposals.</p> <p>Inclusion of allowance as detailed in Table 48 of the Rollover Final Proposals (Total costs of in 2009/10 prices of £64.8m) – split into Base SO costs of £51.6m with remainder</p> <p>as per line for Non controllable costs for NGG SO of £13.2m (which will be included by the IX<sub>t</sub> term)</p> | The removal of the IT <sub>t</sub> licence term and the IP <sub>t</sub> licence term has no impact since the allowances under these terms is now included in the BaseSOC <sub>t</sub> term. |
| 14         | 63          | C8G (1)(d)       | IX <sub>t</sub>     | <p>Correct figure for non controllable costs for NGG SO of £13.2m utilised.</p> <p>(See reference 11 above)</p>   | IX <sub>t</sub> figure for t=11 is amended to £13.246m.   |