



RIIO-T1: Draft licence conditions for Gas Transmission

Please note

These draft licence conditions should be read in parallel with the document "RIIO-T1 and GD1: Draft licence conditions – First informal licence drafting consultation".¹ This consultation sets out:

- some of the material issues that still need to be considered across these draft licence conditions as a whole (including consistency of formatting, and numbering²), and
- for each specific licence condition, areas that need to be developed further.

Please note that these conditions are at an early stage of development and require further internal consideration and development. We are sharing the draft conditions at this early stage for the benefit of the licensees in responding to our Initial Proposals.

¹ <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/RIIOT1%20and%20GD1%20Draft%20licence%20conditions%20First%20informal%20licence%20drafting%20consultation.pdf>

² See for example, Chapter 1, sub-section "Approach to licence drafting for RIIO"

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STANDARD CONDITIONS

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Condition 2: Application of Section C (Transportation Services Obligations) [GTC/GDC 112]

1. Where the Secretary of State has provideds, by a scheme made under Schedule 7 to the Utilities Act 2000, for Section C (in whole or in part) to have effect within this licence:
 - (a) paragraphs 4 to 8 shall ~~cease to be suspended and shall~~ have effect in the licensee's licence; and
 - (b) the licensee shall be obliged to comply with the requirements of Section C (in whole or, as the case may be, in part) of this licence, ~~from the date the said scheme takes effect~~. Such provision made by the Secretary of State in the said scheme shall be treated, for the purposes of paragraphs 5, 6, and 7 of this condition, as if it were a Transportation Services Direction made by the Authority.
2. Unless or until -
 - (a) the Secretary of State has provideds, by a scheme made under Schedule 7 to the Utilities Act 2000, for Section C (in whole or in part) to have effect within this licence; or
 - (b) the Authority has issued to the licensee a direction pursuant to paragraph 4, the standard conditions in Section C (in whole or, as the case may be, in part) shall not have effect within this licence; and the licensee shall not be obliged to comply with any of the requirements of Section C (in whole or, as the case may be, in part) of this licence.
3. Except where paragraph 1 applies to the licensee, paragraphs 4 to 8 of this standard condition shall be suspended and shall have no effect in this licence until such time as the Authority, with the consent of the licensee, issues to the licensee a notice in writing ending the suspension and providing for those paragraphs to have effect in this licence with effect from the date specified in the notice.
4. The Authority may, with the consent of the licensee, issue a direction (a "Transportation Services Direction"). Where the Authority has issued to the licensee a Transportation Services Direction the standard conditions in Section C (in whole or, as the case may be, in part) shall have effect within this licence from the date specified in the direction; and the licensee shall be obliged to comply with the requirements of Section C (in whole or, as

the case may be, in part) to the extent and subject to the terms specified in such direction.

5. A Transportation Services Direction:
 - (a) may specify that the standard conditions in Section C (in whole or in part) are to have effect in this licence;
 - (b) shall specify or describe an area (the "transportation services area") within which the licensee shall be obliged to comply with any of the requirements of Section C (in whole or, as the case may be, in part);
6. The Authority may, with the consent of the licensee:
 - (a) vary the terms (as set out in the Transportation Services Direction or elsewhere) under which Section C (or parts thereof) has effect in this licence; or
 - (b) provide for Section C (or parts thereof) to cease to have effect in this licence.
7. The variation or cessation provided for in paragraph 6 shall take effect from the date specified in the variation or cessation notice given to the licensee by the Authority.
8. With effect from the date of cessation referred to in paragraph 7, paragraphs 4 to 7 of this condition shall be suspended and shall cease to have effect in this licence, but the Authority may at any time thereafter, with the consent of the licensee, give to the licensee a notice ending the suspension and providing for those paragraphs to have effect again in this licence with effect from the date specified in the notice.

Condition 28: Termination of Shipping Arrangements [GTC/GDC 95]

1. The licensee shall keep each relevant supplier informed of the terms which, from time to time, are specified terms for the purposes of standard condition 18 (Undertakings to Relevant Gas Transporters) of the standard conditions of gas suppliers' licences as incorporated in that supplier's licence.
2. Paragraph 3 shall apply where –
 - (a) the arrangements between the licensee and a gas shipper for the conveyance of gas to any premises ("the old arrangements") have been terminated or expired by effluxion of time and have not been replaced by arrangements made with that or another gas shipper for the like purpose;
 - (b) by reason of sub-section (8) of section 10 of the Act (premises likely to be supplied with gas, subject to section 8A(1), in excess of 2,196,000 kilowatt hours in a twelve-month period) the licensee cannot be required (under sub-section (3) of that section) to maintain the connection of the premises mentioned in sub-paragraph (a) to its pipe-line system; and
 - (c) the old arrangements did not permit of the licensee interrupting the conveyance of gas to the premises mentioned in sub-paragraph (a) ~~(otherwise than in a pipe-line system emergency within the meaning of paragraph 1 of standard condition 16 (Security and emergency arrangements)~~ (otherwise than in the circumstances referred to in paragraph 16.1 of standard condition 16 (Security and emergency arrangements) of the standard conditions of gas supply licence of the standard conditions of gas suppliers' licences or in pursuance of directions given under section 2(1)(b) of the Energy Act 1976).
3. Where this paragraph applies, the licensee shall not, by reason only of the circumstances mentioned in paragraph 2(a), disconnect the premises mentioned in sub-paragraph (a) of paragraph 2 –
 - (a) if and so long as it has reasonable cause to be satisfied that it can expect that such payments as are mentioned in paragraph 4 will be made to it in respect of gas taken out of its pipe-line system for supply to the premises mentioned in sub-paragraph (a) of paragraph 2, and
 - (b) unless the licensee has given 48 hours notice to the owner or the occupier of the premises mentioned in sub-paragraph (a) of paragraph 2 and to any person who, to the knowledge of the licensee, has contracted to supply gas to those premises.

4. The payments referred to in paragraph 3(a) are ones which, as nearly as may be, are the same as those which would have been attributable to the taking out of the gas for supply to the premises mentioned in sub-paragraph (a) of paragraph 2 and due under the old arrangements if they had remained in force and had the gas shipper not, thereafter, introduced any gas into the licensee's pipeline system nor made arrangements to do so.
5. Where the premises mentioned in sub-paragraph (a) of paragraph 2 are secondary sub-deduct premises, the references to arrangements in paragraph 2(a) shall be construed as references to sub-deduct arrangements; and references in this condition to "the old arrangements" shall be construed accordingly.

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STANDARD SPECIAL CONDITIONS – PART A

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Standard Special Condition A30. Regulatory Accounts [GTC/GDC71]

Introduction

1. This condition applies to regulatory accounts prepared for financial years commencing on or after 1 April 2013 for the purpose of ensuring that the licensee:
 - (a) prepares and publishes Regulatory Accounts within the meaning of Part B below; and
 - (b) maintains (and ensures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements as are necessary to enable the licensee to comply with that obligation in respect of the businesses specified in Part A below and in accordance with the requirements of Part B.

Part A: Businesses to which licensee's obligation applies

2. The businesses to which the licensee's obligation under paragraph 1 applies, in each case to the extent applicable, are:
 - (a) the transportation business in respect of each Distribution Network (as defined in [GDC 19] Special Condition [x] (Revenue restriction definitions in respect of the Distribution Network), or the NTS (as defined in [GTC19] Special Condition [x] (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity), separately identifying the NTS transportation owner activity, the NTS system operation activity, the storage business and LNG import and export facilities activities, where applicable;
 - (b) the metering business, separately identifying services provided pursuant to paragraph 1 of Standard Special Condition A10 (Provision and return of meters) [Note we propose to remove this condition for GT and move to become a GD specific standard special see GTC 32]] with respect to each Distribution Network (as defined in [GDC19] Special Condition [x]), as appropriate;
 - (c) the meter reading business;
 - (d) any de minimis business to which this licence relates, separately identifying the allocation or apportionment of each de minimis activity to each of the businesses referred to in sub-paragraphs (a) to (c), and clearly describing each such activity;
 - (e) other activities to which this licence relates and to which the Authority has given its consent in accordance with paragraph 3(d) of Standard Special Condition A36 (Restriction on activity and financial ring-fencing) separately identifying the apportionment of each such activity to each of the businesses referred to in sub-

paragraphs (a) to (c), and clearly describing each service provided; and

- (f) the whole business to which this licence relates, as represented by the consolidation of the businesses and activities referred to within sub-paragraphs (a) to (e), where applicable, and, in addition, details of any de minimis business carried out by a relevant associate of the holder of the licence.

Part B: Other matters relating to licensee's obligation

- 3. Subject to the requirements of paragraph 4, where the holder of this licence is a parent undertaking as defined in Section 1162 to the Companies Act 2006 and itself prepares either IAS or Companies Act group accounts, its Regulatory Accounts must be prepared as group accounts in the format required by that Act, otherwise they must prepare Consolidated Accounts.
- 4. Where the holder of this licence also holds, within the same legal entity, one or more other gas transporter licences for relevant gas transporters, it must:
 - (a) ensure that such of the businesses referred to in Part A above as are applicable are reflected in the Regulatory Accounts submitted in respect of those licences, such that those Regulatory Accounts, when consolidated, reflect the total business of the licence holder; and
 - (b) include within each set of Regulatory Accounts prepared in accordance with those licences a reconciliation to the statutory accounts of the licensee prepared under the Companies Act 2006 which (i) contains sufficient explanation of all reconciling items for all sets of Regulatory Accounts and (ii) covers each of the primary financial statements set out in paragraphs 9(a) to (d).

Part C: Preparation of the Regulatory Accounts

- 5. For the purposes of this condition, but without prejudice to the requirements of Part E below, the licensee must prepare Regulatory Accounts for each financial year.
- 6. Except and so far as the Authority otherwise consents, the licensee must comply with the obligations imposed by the following paragraphs of this Part C in relation to the preparation of Regulatory Accounts.
- 7. The licensee must keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 388(4)(b) of the Companies Act 2006 and in the manner referred to in that section, such accounting records and other records as are necessary to ensure that all of the revenues, costs, assets, liabilities, reserves, and provisions of, or reasonably attributable to, each of the businesses referred to in Part A above are separately identifiable in the accounting records of the licensee

(and of any affiliate or related undertaking of the licensee) from those of any other business of the licensee.

8. The Regulatory Accounts must be prepared on a consistent basis derived from the accounting records and other records referred to in paragraph 7 in respect of each financial year, and must comprise:
 - (a) the matters set out in paragraph 9; supported by
 - (b) the matters mentioned in paragraph 10; and
 - (c) the statement required by paragraph 11.
9. The matters to which paragraph 8(a) refers are:
 - (a) an income statement and a statement of comprehensive income (or, as appropriate, a profit and loss account and, as appropriate, a statement of total recognised gains and losses);
 - (b) a statement of changes in equity, if appropriate;
 - (c) a statement of financial position (or, as appropriate, a balance sheet);
 - (d) a statement of cash flows (or, as appropriate, a cash flow statement);
 - (e) a Corporate Governance Statement in respect of the whole business to which this licence relates;
 - (f) a Directors' Report in respect of the whole business to which this licence relates; and
 - (g) a Business Review in respect of the whole business to which this licence relates.
10. The matters to which paragraph 8(b) refers are explanatory notes to the Regulatory Accounts that:
 - (a) provide a summary of the accounting policies adopted by the licensee for the purpose of producing Regulatory Accounts in respect of the whole business to which this licence relates;
 - (b) comply with the requirements applicable for preparing annual accounts in Chapter 4 of Part 15 of the Companies Act 2006 and of the reporting requirements of the applicable regulatory framework in respect of each business to which this licence relates.

Part D: Bases of charge or apportionment

11. Subject to paragraph 12, the licensee must include within its Regulatory Accounts a statement that in respect of each of the businesses referred to

in Part A above shows separately and in appropriate detail the amount of any revenue, cost, asset, liability, reserve, or provision which has been:

- (a) charged from any ultimate controller of the licensee, or from any subsidiary of such ultimate controller (other than the licensee or any of its subsidiaries), in relation to the provision of goods or services to the licensee; or
 - (b) charged from the licensee, or from any subsidiary of the licensee, in relation to the provision of goods or services to any ultimate controller of the licensee, or to any subsidiaries of such ultimate controller (other than the licensee or any of its subsidiaries); or
 - (c) determined by apportionment or allocation between any of the businesses referred to in Part A above or any other business of the licensee or affiliate or related undertaking (and, where this subparagraph applies, the statement must include a description of the basis of the apportionment or allocation).
12. The requirements of paragraph 11 apply only in respect of goods and services received or supplied for the purposes of the businesses referred to in Part A above.
13. Unless the Authority so specifies in directions issued for the purposes of this condition, or with the Authority's prior written consent, the licensee must not in relation to the Regulatory Accounts prepared in respect of any financial year change the bases of charge, apportionment, or allocation referred to in paragraph 11 from those applied in respect of the previous financial year.
14. Where the licensee has changed its bases of charge, apportionment, or allocation or changed any of its accounting policies or the manner of their application from those adopted for the immediately preceding financial year, the licensee must, if so directed by the Authority, in addition to preparing Regulatory Accounts on the changed bases that it has adopted, also prepare such Regulatory Accounts by reference to the bases, accounting policies, and manner of application that applied in respect of that immediately preceding financial year.

Part E: Consistency with statutory accounts

15. Regulatory accounts and information prepared under Parts C and D above must, so far as is reasonably practicable and except with the Authority's approval, having regard to the purposes of this condition:
- (a) have the same content and format as the most recent or concurrent statutory accounts of the licensee prepared under Part 15 of the Companies Act 2006; and
 - (b) comply with all relevant accounting and reporting standards currently in force under the applicable accounting frameworks as set out in Part 15 of the Companies Act 2006.

16. This paragraph applies if the Regulatory Accounts are group accounts of the licensee's gas transportation business, including those aspects of the business carried on in relevant affiliates, and for which there are no comparable statutory accounts of the licensee prepared under Part 15 of the Companies Act 2006.
17. Where paragraph 16 applies, the licensee must prepare a statement that:
 - (a) reconciles the Regulatory Accounts to its most recent or concurrent statutory accounts and containing appropriate explanation of all reconciling items; and
 - (b) has been audited and reported upon by the appropriate auditor engaged under Part F below.
18. The statement referred to in paragraph 17 must be submitted to the Authority by 31 July after the end of the financial year to which the Regulatory Accounts relate, but is otherwise exempt from the requirements of Part I below.

Part F: Audit and delivery of Regulatory Accounts

19. Unless the Authority otherwise consents, the licensee must:
 - (a) procure an audit by an appropriate auditor of such parts of its Regulatory Accounts and the Directors' Report and Business Review as would be specified in the Companies Act 2006 as being required to be so audited if the licensee were a Quoted Company and those accounts were the statutory accounts of the licensee drawn up to 31 March and prepared under Part 15 of the Companies Act 2006;
 - (b) procure a report by that auditor, addressed to the Authority, that states whether in the auditor's opinion those accounts (and, if applicable, the reconciliation information mentioned in paragraph 4) fairly present the financial position, financial performance, and cash flows of, or reasonably attributable to, each of the businesses referred to in Part A in accordance with the requirements of this condition; and
 - (c) deliver those accounts and the auditor's report required under paragraph 20(b) to the Authority as soon as is reasonably practicable, and in any event before their publication of such accounts under Part I below and not later than 31 July following the end of the financial year to which the Regulatory Accounts relate.

Part G: Terms of appointment of the appropriate auditor

20. For the purposes of Part F above, the licensee must, at its own expense, enter into a contract of appointment with an appropriate auditor which includes a term requiring that the audit of the licensee's Regulatory Accounts must be conducted by that auditor in accordance with all such

relevant auditing standards in force on the last day of the financial year to which the audit relates as would be appropriate for accounts prepared in accordance with the provisions of Part 15 of the Companies Act 2006.

Part H: Agreed upon procedures for the appropriate auditor

21. The licensee must, at its own expense, enter into a contract of appointment with an appropriate auditor for the completion of Agreed Upon Procedures that are to apply for the purposes of enabling that auditor to review:
 - (a) the licensee's compliance with its obligations in respect of the prohibition of cross-subsidy and discrimination generally and, in particular, under such standard or standard special conditions (A6, A35 and A46 [propose that A46 becomes a GD specific standard special condition, see GTC 32]) of this licence as specifically impose such prohibitions; and
 - (b) the statement that by virtue of Part D above is required to be included in the Regulatory Accounts concerning the bases of charge, apportionment, and allocation applied by the licensee in relation to those accounts.
22. The contract of appointment must require that the Agreed Upon Procedures are to be conducted in relation to each financial year and that the licensee will arrange for the appropriate auditor to address a report to the Authority by 31 July following the end of each such year which:
 - (a) states that he has, in a manner consistent with the relevant auditing standards, completed the Agreed Upon Procedures issued by the Authority in respect of the financial year under report; and
 - (b) sets out his findings.
23. If the Authority is satisfied that the appropriate auditor's report submitted under this Part H demonstrates that the licensee has complied with the obligations to avoid discrimination and cross-subsidies imposed on the licensee, the report shall be deemed to represent the results of an audit of those obligations.

Part I: Publication and provision of Regulatory Accounts

24. Subject to paragraph 26, and unless the Authority after consulting with the licensee otherwise directs, the licensee must publish its Regulatory Accounts (excluding the statement required to be included in them by virtue of Part D above and any other information agreed by the Authority to be confidential):
 - (a) as a stand-alone document in accordance with this condition;
 - (b) by 31 July after the end of the financial year to which the accounts relate;

- (c) on, and in a way that is readily accessible from, its website or that of an affiliate or ultimate controller of the licensee provided that link is both clear and readily accessible; and
 - (d) in any other manner which, in the opinion of the licensee, is necessary to secure adequate publicity for the accounts.
25. The Licensee must provide a copy of the Regulatory Accounts free of charge:
- (a) to Consumer Focus (or any successor entity), no later than the date on which the Regulatory Accounts are published; and
 - (b) to any person requesting a copy.
26. The licensee is not required to publish Regulatory Accounts for the storage and LNG import and export facilities businesses, metering business or the meter reading business if such publication would or might seriously and prejudicially affect the interests of the licensee, or of any ultimate controller of the licensee, or of any subsidiary of any ultimate controller.
27. Any question arising under paragraph 26 as to whether a person's interests would or might be seriously and prejudicially affected is to be referred (except in so far as the Authority consents otherwise) to the Authority for determination.

Part J: Interpretation and definitions

28. Any consent by the Authority given in relation to a provision of this condition may be given in relation to some or all of the requirements of the provision and subject to such conditions as the Authority considers appropriate or necessary having regard to the purposes of this condition.
29. If the Authority, having particular regard to any representations received from the licensee and other persons about the extent to which there is competition in metering or meter reading, considers it appropriate that references to either:
- (a) the metering business and meter reading business; or
 - (b) the LNG Storage Business; or
 - (c) LNG import or export facility activity,
- should be deleted from this condition, then those references will cease to have effect in this condition from the date or dates specified in a notice published by the Authority for that purpose.
30. The requirement under paragraph 9 of this condition for the licensee to include a Business Review, a Corporate Governance Statement, and a Directors' Report in its Regulatory Accounts is to be read as if the

requirement applied to the licensee as a Quoted Company, whether or not it is such a company, such that:

- (a) the Business Review has the coverage and content of the business review that a Quoted Company is required to prepare under section 417 of the Companies Act 2006;
- (b) the Corporate Governance Statement has the coverage and content of a corporate governance statement that a Quoted Company is required to prepare under the Combined Code on Corporate Governance issued under the Financial Services Authority's listing rules and interpretations on corporate governance; and
- (c) the Directors' Report has the coverage and content of the directors' report that a Quoted Company is required to prepare under sections 415, 416, 417, 418(2), and 419(3) and (4) of the Companies Act 2006.

31. Regulatory Accounts prepared in respect of the financial year beginning on 1 April 2012 are subject to the provisions of this condition in the form in which it was in force at 31 March 2013.

33. For the purposes of this condition:

Agreed Upon Procedures

means procedures from time to time agreed between the Authority, the appropriate auditor, and the licensee for the purpose of enabling the appropriate auditor to review and report to the Authority on matters relating to the requirements referred to at paragraph 21 of this condition.

[Appropriate Auditor – have removed definition as included in SSC A3]

Consolidated Accounts

means the regulatory accounts of the licensee incorporating the results of all subsidiaries and the financing disclosure requirements of any subsidiary of the licensee as if they were part of the Consolidated Accounts

Quoted Company

has the meaning given in section 385 of the Companies Act 2006

LNG Storage Business

means the activities of the licensee connected with the development, administration,

maintenance and operation of the LNG Storage Facilities by the licensee for the storage of gas in Great Britain and with the Supply of LNG Storage Services relating to those facilities.

LNG Storage Facilities

means containers for the storage of LNG operated by the licensee and any other facilities used by the licensee in connection with the storage of LNG in Great Britain which both are operated by the person who holds this licence and were so operated at a time during the period of 12 months ending with 1 March 1996

Supply of LNG Storage Services

means the undertaking and performance for gain or reward of engagements in connection with the storage of gas in the LNG Storage Facilities

LNG import or export facility

has the meaning given in section 48(1) of the Act

Standard Special Condition A40. Regulatory Instructions and Guidance [GTC/GDC74]

[Paragraph numbers and general format of condition to follow approach used in existing Standard Special A conditions]

Introduction

- 76.1 The purpose of this condition is to set out the scope, contents, and common governance arrangements for the Regulatory Instructions and Guidance (“RIGs”) published by the Authority pursuant to this condition.
- 76.2 The RIGs are the primary means by which the Authority directs the licensee to collect and provide the information that the Authority needs to enable it to administer the Special Conditions of this licence and the Final Proposals.

Part A: Licensee’s obligations under this condition

- 76.3 Unless and so far as the Authority otherwise consents, the licensee must have in place and maintain appropriate systems, processes, and procedures to enable it:
- (a) to estimate, measure, and record the information detailed in the RIGs (“Specified Information”); and
 - (b) to provide such information to the Authority in respect of such periods and within such timeframes as are specified in the RIGs.
- 76.4 To facilitate compliance with paragraph 76.3 the accounting records and other records kept by the licensee with respect to the Specified Information must:
- (a) be so arranged as to ensure that such information can be separately identified and reasonably attributed as between the licensee’s business and the business of any affiliate or related undertaking of the licensee; and
 - (b) be maintained for a period of eight years, or such shorter period as set out in the RIGs, from the date that they are made.

Part B: Scope and content of the RIGs

- 76.5 Subject to paragraphs 76.6 and 76.7, the matters that may be included, or for which provision may be made, in the RIGs are:
- (a) instructions and guidance on the establishment of systems, processes, procedures, and ways for recording and providing Specified Information;

- (b) instructions and guidance on the standards of accuracy and reliability that are applicable to the recording of Specified Information (including different classes of such information);
- (c) a timetable for the development of such systems, processes, and procedures as are required to achieve such standards;
- (d) the methodology for calculating or deriving numbers comprising Specified Information;
- (e) provision with respect to the meaning of words and phrases used in defining Specified Information;
- (f) requirements as to the form and manner in which, or the frequency with which, Specified Information must be recorded;
- (g) requirements as to the form and manner in which, or the with which, Specified Information must be provided to the Authority;
- (h) requirements as to which (if any) of the Specified Information is to be subject to audit, the terms on which an auditor is to be appointed by the licensee for that purpose, and the nature of the audit to be carried out by that person;
- (i) requirements for the recording of Specified Information that is reasonably necessary to enable an Examiner nominated by the Authority in accordance with the relevant terms of the RIGs to determine the accuracy and reliability of the Specified Information;
- (j) a statement on whether and to what extent each category of the Specified Information is required for the purposes of the RIGs; and
- (k) provision about how the Authority intends to monitor, assess, and enforce compliance with the RIGs (as to which, see also Part E below).

76.6 The provisions of the RIGs must not exceed what is reasonably required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions.

76.7 No Specified Information may exceed what could be requested from the licensee by the Authority under paragraph 1 of [standard condition B4 (ET)/ standard special condition A26 (GT and GD)] (Provision of Information to the Authority) [excluding any reference to paragraph 8 of that condition].

Part C: Development and modification of the RIGs

76.8 The Authority may issue new RIGs or modify any existing RIGs by issuing a direction for that purpose to every licensee in whose licence this condition has effect.

76.9 A direction issued by the Authority under paragraph 76.8 shall be of no effect unless the Authority has first:

- (a) given notice to all licensees in whose licence this condition has effect that it proposes to issue new RIGs or (as the case may be) to modify the RIGs:
 - (i) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
 - (ii) setting out the text of the RIGs to be issued or (as the case may be) modified and the Authority's reasons for proposing to issue or modify it; and
 - (iii) specifying the time (which must not be less than a period of 28 days from the date of the notice) within which representations to such proposals may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

76.10 The requirements for the issuing of new RIGs or modification of existing RIGS set out in paragraph 76.9 may be satisfied before as well as after the coming into effect of this condition.

Part D: Requirements for new or more detailed information

76.11 This Part D applies if any modified or new RIGs have the effect of introducing a requirement to provide:

- (a) a new category of Specified Information; or
- (b) an existing category of Specified Information to a greater level of detail,

and such information has not previously been collected by the licensee, whether under the provisions of the RIGs or otherwise.

76.12 Where this Part D applies, the licensee may provide estimates to the Authority in respect of the relevant category of Specified Information for any Formula Year specified by the Authority.

76.13 The estimates that are mentioned in paragraph 76.12 may be derived from such other information available to the licensee as may be appropriate for that purpose.

Part E: Compliance with the provisions of the RIGs

76.14 The licensee must at all times act in accordance with the provisions of the RIGs for the time being in force pursuant to this condition.

76.15 Any licensee that is a DN Operator and operates one or more Distribution Networks (as defined in [GDC 19] Special Condition [x]) in a single legal entity must comply with the requirements of this condition separately in respect of each such network.

76.16 Nothing in this condition requires the licensee to provide any documents that it could not be compelled to produce or give in evidence in civil proceedings before a court.

Part F: Interpretation

76.17 For the purposes of this condition:

Examiner	means, in relation to the RIGs, a person whose degree of knowledge and experience of the matters that are the subject of the RIGs will enable him to properly carry out and complete the tasks required of him under the terms of his nomination by the Authority pursuant to the provisions of the RIGs.
Final Proposals	means the document entitled [add title of Final Proposals document] which was published on []
Specified Information	means information (or a category of information) that is so described or defined in the RIGs.

DRAFT

[GTC/GDC 76] Standard Special Condition [x]. Data Assurance requirements

Introduction

76.1 This condition requires the licensee to undertake processes and activities for the purpose of reducing the risk, and subsequent impact, of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority.

76.2 This condition comes into effect in this licence on the earlier of:

- (a) the date on which a Data Assurance Direction issued by the Authority in accordance with the provisions of Part B below has effect; and
- (b) 1 April 2015.

Part A: Licensee's obligations under this condition

76.3 The licensee must:

- (a) comply with the provisions of the Data Assurance Guidance ("the DAG) as if it were a condition of this licence;
- (b) where required to provide Data to the Authority under the provisions of this licence, provide accurate and complete Data;
- (c) carry out a Risk Assessment in accordance with such provisions and timescales as are specified for that purpose in the DAG, and ensure that it has used its best endeavours to mitigate such risks as it has identified in that assessment;
- (d) if directed by the authority, procure an independent review of its Internal Audit Function in accordance with such provisions and timescales as are specified for that purpose in the DAG; and
- (e) provide to the Authority, in accordance with such provisions and timescales as are specified for that purpose in the DAG, a report that contains:
 - (i) the results of the licensee's Risk Assessment;
 - (ii) a description of the Data Assurance activities that the licensee intends to undertake during the coming year to mitigate the risks identified in that assessment;
 - (iii) a description of the Data Assurance activities undertaken by the licensee during the preceding year; and

(iv) if required, the details and results of the independent review procured by the licensee of its Internal Audit Function.

76.4 Data provided to the level of accuracy and completeness required under the relevant licence condition will be considered to be accurate and complete for the purposes of this condition.

76.5 The licensee must have in place and maintain appropriate systems, processes, and procedures to enable it to perform its obligations under paragraph 76.3.

76.6 The licensee must comply with any direction given by the Authority that requires it to carry out (or, where appropriate, to procure and facilitate the carrying out of) a specific Data Assurance Activity in accordance with the provisions of Part E.

Part B: Requirement for consultation before giving a direction

76.7 A Data Assurance Direction is of no effect unless, before issuing it, the Authority has first:

(a) given notice to all licensees in whose licence this condition has effect that it proposes to issue the direction:

- (i) specifying the date on which it proposes that it should have effect;
- (ii) setting out the text of the direction and the Authority's reasons for proposing to issue it; and
- (iii) specifying the time (which must not be a period of less than 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made; and

(b) considered any representations in response to the Notice that are duly made and not withdrawn.

Part C: Scope and contents of the Data Assurance Guidance

76.8 The Data Assurance Guidance ("the DAG") is the document of that name issued and from time to time revised by the Authority under Part D of this condition.

76.9 The purposes of the DAG are to establish a process under which the licensee must:

(a) carry out a Risk Assessment and mitigate against risks identified in that Risk Assessment;

(b) report to the Authority under this condition; and

(c) if required, procure an independent review of its Internal Audit Function.

76.10 Subject to paragraphs 76.12 and 76.13, the DAG may include, or make provision for, any of the following matters:

(a) the Data to which the Risk Assessment applies;

(b) the format of the Risk Assessment;

(c) the frequency with which and the timescales within which the Risk Assessment is required to be carried out;

(d) the format of the independent review that may be required of the licensee's Internal Audit Function and the associated reporting requirements;

(e) the format of the reporting requirements detailed in paragraph 76.3(e); and

(f) the frequency with which and the timescales within which the licensee should report on its Data Assurance programme to the Authority.

76.11 References in paragraph 76.10 to the format of an assessment, review or reporting requirement includes references to its form, layout, scope and content.

76.12 The provisions of the DAG must not exceed what is required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions and the impact on consumers of the potential errors.

76.13 No information to be provided to the Authority under or pursuant to the requirements of the DAG may exceed what could be requested from the licensee by the Authority pursuant to [condition SLC 24 of the gas [transmission/distribution] licence/standard conditions B4 of the electricity transmission licence].

Part D: Development and modification of Data Assurance Guidance

76.14 The DAG may be issued or modified by the Authority by direction.

76.15 A direction issued by the Authority under paragraph 76.14 is of no effect unless the Authority has first:

(a) given notice to all licensees in whose licence this condition has effect that it proposes to issue the DAG or (as the case may be) to modify the DAG:

(i) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;

- (ii) setting out the text of the DAG to be issued or (as the case may be) modified and the Authority's reasons for proposing to issue or modify it; and
- (iii) specifying the time (which must not be less than a period of 28 days from the date of the Notice) within which representations to such proposals may be made; and

(b) considered any representations in response to the Notice that are duly made and not withdrawn.

Part E: Authority's power to specify Data Assurance Activity

76.16 The Authority may, after consulting with the licensee, issue a direction, in accordance with the provisions of paragraph 76.17, requiring the licensee to carry out (or, where appropriate, to procure and facilitate the carrying out of) such Data Assurance Activity as may be specified in the direction.

76.17 The requirements for the direction under paragraph 76.15 are that it must:

- (a) contain a description of the Data Assurance Activity to be carried out by the licensee (or, where appropriate, by a person nominated by the Authority) for the purpose of ensuring the accuracy and completeness of Data provided to the Authority;
- (b) if it refers to a person nominated by the Authority, specify the steps that must be taken by the licensee to procure and facilitate the carrying out of that activity by that person;
- (c) contain a description of the Data to which the activity that is described in the direction must apply;
- (d) contain an explanation of why the Authority requires the licensee to carry out that activity;
- (e) specify any relevant dates by which that activity must be completed; and
- (f) specify the form and content of any information relating to that activity that the licensee must provide to the Authority.

Part F: Derogations

76.18 The Authority may, after consulting with the licensee, give a direction ("derogation") to the licensee that relieves it of its obligations under this condition to such extent, for such a period of time, and subject to such conditions as may be specified in the direction.

Part G: Interpretation

76.19 For the purposes of this condition:

Data	means the information submitted to the Authority under this licence in respect of which the licensee must carry out a Risk Assessment as specified in the DAG.
Data Assurance Activity	means, in respect of Data, the activity undertaken by the licensee (or a person nominated by the Authority, as the case may be) to address the risks identified in the Risk Assessment.
Data Assurance Direction	means a direction by the Authority to bring into effect this condition.
Internal Audit Function	means the licensee's function of assuring that its risk management, governance and internal control processes are operating effectively.
Risk Assessment	means an assessment of the likelihood and potential impact of any inaccurate or incomplete reporting, or any misreporting, of Data by the licensee to the Authority under this licence.

DRAFT

**SPECIAL CONDITIONS: RELATED TO
RESTRICTION OF ALLOWED REVENUE**

[GTC 19] Special Condition [x]. Definitions

[Special Condition C8A]

To be reviewed and amended for inclusion with Second Informal Licence Consultation.

[GTC 20] Special Condition [x]. Restriction of NTS Transportation Owner Revenue

Introduction

20.1 The purpose of this condition is as follows:

- (a) to establish the charging restrictions that determine the level of Maximum NTS Transportation Owner Revenue that may be recovered by the licensee from NTS Transportation Owner Charges; and
- (b) to set out the obligations of the licensee in respect of those restrictions.

[NTS Transportation Owner Charges and Maximum NTS Transportation Owner Revenue will be defined]

Part A: Licensee's obligation

20.2 The licensee, in setting NTS Transportation Owner Charges, shall use its best endeavours to ensure that, in Formula Year t, NTS Transportation Owner Revenue does not exceed Maximum NTS Transportation Owner Revenue.

Part B: Calculation of NTS Transportation Owner Revenue (TOR_t)

20.3 For the purposes of Part A of this condition, the NTS Transportation Owner Revenue in respect of Formula Year t (TOR_t) is derived in accordance with the following formula:

$$\text{TOR}_t = \text{TOREVBEC}_t + \text{TOExR}_t + \text{TORCOM}_t$$

20.4 In the formula for the TOR_t term above:

TOREVBEC_t means that amount of NTS TO revenue in respect of Formula Year t that results from the sale of entry capacity and is derived in accordance with [GTC3] Special Condition [x] (NTS gas entry incentives, costs and revenues).

TOExR_t means that amount of NTS TO revenue in respect of Formula Year t that results from:

(i) charges levied by the licensee on gas shippers and DN Operators for the provision of NTS exit capacity that is allocated to the NTS TO activity; and

(ii) the sale of NTS baseline exit shipper capacity and NTS baseline exit flat capacity;

and is derived in accordance with [GTC 4] Special Condition [x] (NTS gas exit incentives, costs and revenues).

TORCOM_t means that amount of NTS TO revenue in respect of Formula Year t that results from:

(i) charges levied by the licensee on gas shippers and DN Operators pursuant to Standard Special Condition A4 (Charging– General); or

(ii) payments made by the licensee to gas shippers and DN Operators;

other than revenue earned by the licensee through TOREVBECT and TOExRt.

Part C: Calculation of Maximum NTS Transportation Owner Revenue

20.5 Maximum NTS Transportation Owner Revenue is derived in accordance with the following formula (in this condition, the Principal Formula):

$$\text{TOMR}_t = \text{TOBR}_t + \text{TOPT}_t + \text{TOOIR}_t + \text{II}_t - \text{TOK}_t$$

20.6 In the Principal Formula:

TOMR_t means the amount of Maximum NTS Transportation Owner Revenue in Formula Year t.

TOBR_t means the amount of Base NTS Transportation Owner Revenue in Formula Year t and is derived in accordance with the formula set out in Part D of this condition.

TOPT_t means the amount of the NTS Transportation Owner Allowed Pass-through Items revenue adjustment made in Formula Year t as derived in accordance with [GTC 21] Special Condition [x] (calculation of allowed pass-through items).

TOOIR_t means the amount of the NTS Transportation Owner output incentive revenue adjustment, whether of a positive or negative value, made in Formula Year t as derived in accordance with the formula set out in Part E of this condition.

II_t means the amount of the innovation revenue adjustment made in Formula Year t derived in accordance with the formula set out in Part F of this condition.

TOK_t means the amount of the correction factor, whether of a positive or negative value, in Formula Year t derived in accordance with the formula set out in Part G below.

Part D: Calculation of Base Allowed NTS Transportation Owner Activity Revenue (TOBR_t)

20.7 For the purposes of the Principal Formula, the amount of TOBR_t is derived in accordance with the following formula:

$$\text{TOBR}_t = (\text{TOPU}_t + \text{TOMOD}_t + \text{TOTRU}_t) \times \text{RPIF}_t$$

20.8 In the formula for the BR_t term above:

TOPU_t means the amount set against the licensee's name in Appendix 1, and represents the opening base revenue allowance determined by the Authority in relation to the NTS Transportation Owner Activity.

TOMOD_t has the value zero in Formula Year 2013-14, and in each subsequent Formula Year shall have the value of the incremental change to the licensee's opening base revenue allowance for the relevant Formula Year t (set against the licensee's name at Appendix 1) derived from the Annual Iteration of the GT1 Price Control Financial Model determined in accordance with the process set out in Parts A and B of [GTC26] (Annual Iteration Process for the GT1 Price Control Financial Model).

RPIF_t is the price index adjustment factor in Formula Year t, whether of a positive or negative value, and is derived in accordance with paragraph 20.9 of this condition.

TOTRU_t has the value zero in Formula Year 2013-14, and in each subsequent Formula Year means the amount of the NTS Transportation Owner revenue adjustment, whether of a positive or negative value, made in Formula Year t in respect of the difference between the assumed value of the Retail Prices Index in Formula Year t-2 and the actual value of the Retail Prices Index in Formula Year t-2, and is derived in accordance with paragraph 20.10 of this condition.

20.9 For the purposes of paragraph 20.8 of this condition, RPIF_t is calculated in accordance with the following formula:

$$\text{RPIF}_t = \text{RPIA}_{t-2} \times (1 + \text{GRPIF}_{t-1}) \times (1 + \text{GRPIF}_t)$$

where:

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

$$GRPIF_t = (0.75 \times GRPIF_c) + (0.25 \times GRPIF_{c+1})$$

$$GRPIF_{t-1} = (0.75 \times GRPIF_{c-1}) + (0.25 \times GRPIF_c)$$

and:

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

[The following definition will appear in the defined terms condition: Retail Prices Index means:

a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with all licensees, determine to be appropriate; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with all licensees, determine to be appropriate.]

$GRPIF_c$ means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Formula Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication "Forecasts for the UK Economy", in Formula Year t-1.

[The following definition will appear in the defined terms condition: Retail Prices Index Forecast Growth Rate means: a) the growth rate (for the avoidance of doubt the growth rate is presented as a percentage) as defined as the "New forecasts (marked *)" in the HM Treasury "Forecasts for the UK Economy" publication, published in the November of each year; or b) if that index in respect of any year has not been published, such index as the Authority may, after consultation with the licensees, determine to be appropriate; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensees, determine to be appropriate.]

20.10 For the purposes of paragraph 20.8 of this condition, $TOTRU_t$ is calculated in accordance with the following formula:

$$TOTRU_t = ((RPIA_{t-2} - RPIF_{t-2}) / RPIA_{t-2}) \times TOREV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

20.11 In the formula for the $TOTRU_t$ term above:

PVF_t means the present value adjustment term for Formula Year t, and shall be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority for Formula Year t.

TOREV_{t-2} means the amount (in 2009-10 prices), for Formula Year t-2, of the combined value of all Special Condition revenue adjustments that are indexed by the Retail Prices Index, and is calculated in accordance with the following formula:

$$\text{TOREV}_{t-2} = (\text{TOBR}_{t-2}/\text{RPIF}_{t-2}) - \text{RBE}_{t-2} - \text{LFE}_{t-2} - \text{OPTE}_{t-2}$$

where:

TOBR_{t-2} means the amount of Base NTS Transportation Owner Revenue in Formula Year t-2 derived in accordance with the formula set out in Part D of this condition.

RBE_{t-2} means the amount of the allowance in respect of the prescribed rates (or any equivalent tax or duty replacing them) in Formula Year t-2 and is represented by the amount set out in Part B of [GTC 21].

LFE_{t-2} means the amount of the licence fee allowance in Formula Year t-2 and is represented by the amount set out in Part C of [GTC 21].

OPTE_{t-2} means the amount of the policing cost allowance in Formula Year t-2 and is represented by the amount set out in Part D of [GTC 21].

Part E: Calculation of NTS Transportation Owner outputs incentive revenue adjustment (TOOIR_t)

20.12 For the purposes of the Principal Formula, the amount of TOOIR_t is derived in accordance with the following formula:

$$\text{TOOIR}_t = \text{SSO}_t + \text{DI}_t$$

20.13 In the formula for the TOOIR_t term above:

SSO_t means the amount of the revenue adjustment made in Formula Year t reflecting the licensee's performance in relation to its stakeholder satisfaction as derived in accordance with [GTC24] Special Condition [x] (Incentive adjustments relating to the licensee's Stakeholder Satisfaction Output).

DI_t means the amount of the delivery incentive revenue made in Formula Year t in respect of the licensee's performance in relation to the delivery of incremental capacity and is derived in

accordance with [GTC 131] Special Condition [x] (Delivery Incentive).

Part F: Calculation of innovation revenue adjustment (II_t)

20.14 For the purposes of the Principal Formula, the amount of II_t is derived in accordance with the following formula:

$$II_t = NIC_t + NIA_t$$

20.15 In the formula for the II_t term above:

NIC_t means the amount of the revenue adjustment made in Formula Year t in respect of the allowance given under the Network Innovation Competition as derived in accordance with [GTC 10] Special Condition [x] (The Network Innovation Competition).

NIA_t means the amount of the revenue adjustment made in Formula Year t in respect of the Network Innovation Allowance as derived in accordance with [GTC 11] Special Condition [x]. (The Network Innovation Allowance).

Part G: Calculation of the NTS Transportation Owner correction factor (TOK_t)

[This section replaces current condition C8B para 1b and 3d. Final drafting of this section dependent on the outcome of the 'mitigating network charging volatility arising from the price control settlement (52/12)' consultation.]

20.16 For the purposes of the Principal Formula, the amount of the correction factor (TOK_t) is derived from the following formula:

$$TOK_t = (TOR_{t-1} - TOMR_{t-1}) * (1 + (I_t + PR_t)/100)$$

20.17 In the formula for correction factor (TOK_t) above:

TOR_{t-1} means the NTS Transportation Owner Revenue for Formula Year t-1, which is derived in accordance with Part B of this condition in respect of the Formula Year t-1. The only exception is the Formula Year commencing 1 April 2013 where TOR_{t-1} shall be the NTS Transportation Owner Revenue in respect of the Formula Year commencing 1 April 2012 as derived in accordance with Special Condition C8B of this licence in the form in which it was in force at 31 March 2012.

TOMR_{t-1} means the Maximum NTS Transportation Owner Revenue for Formula Year t-1, which is derived in accordance with Part C of this

condition in respect of the Formula Year t-1. The only exception is the Formula Year commencing 1 April 2013 where $TOMR_{t-1}$ shall be the Maximum NTS Transportation Owner Revenue in respect of the Formula Year commencing 1 April 2012 as derived in accordance with Special Condition C8B of this licence in the form in which it was in force at 31 March 2012.

I_t means Average Specified Rate in respect of Formula Year t.

[Following definition will appear in the defined terms condition: means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made.

Currently licence definition is: "means the average of the daily base rates of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made."]

PR_t means the penalty interest rate adjustment in Formula Year t as derived in accordance with the formula set out in Part H of this condition.

Part H: Interest adjustment for over and under recoveries of revenue

20.18 [to be completed following outcome of our consultation]

Part I: Treatment of charges in the event of over recovery

20.19 [to be completed following outcome of our consultation]

Part J: Treatment of charges in the event of under recovery

20.20 [to be completed following outcome of our consultation]

20.21 Appendix 1 follows immediately below.

Appendix 1

Values for the TOPU term (2009-10 prices)

(see paragraph 20.8 of this condition)

Licensee	TOPU Value (£m)							
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
[Insert name of specific TO]	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x

**[GTC 21] Special Condition [x]. Restriction of Transmission Charges:
calculation of allowed pass-through items**

Introduction

- 21.1 The purpose of this condition is to provide for the calculation of the amount of the term PT_t (the allowed pass-through term) that applies in [GTC20] (Restriction of NTS Transportation Owner Revenue).
- 21.2 The effect of the application of the PT_t term in [GTC20] is to ensure that the level of the licensee's maximum NTS transportation owner revenue as calculated in accordance with that condition reflects certain costs that can be passed through to users.

Part A: Formula for Transmission Network allowed pass-through items (PT_t)

- 21.3 For the purposes of Part C of [GTC20], which establishes the calculation of maximum NTS transportation owner revenue, the total amount of the PT_t term, in Formula Year t , is derived in accordance with the following formula (in this condition, the Principal Formula):

$$PT_t = RB_t + LF_t + IS_t + OPTC_t$$

- 21.4 In the Principal Formula:

RB_t means the amount (whether positive or negative) in Formula Year t , derived in accordance with the formula set out in Part B below, representing the business rates adjustment.

LF_t means the amount (whether positive or negative) in Formula Year t , derived in accordance with the formula set out in Part C below, representing the licence fee adjustment.

IS_t means the amount, in Formula Year t , in respect of the recovery of costs incurred pursuant to arrangements associated with the conveyance of gas to independent systems, calculated in accordance with [GTC 56] Special Condition [x] (Gas Conveyed to Independent Systems) [Status condition being consider].

$OPTC_t$ means the amount in Formula Year t , for the additional costs of complying with any requirement arising under sections 85 to 90 of the Counter-Terrorism Act 2008 in respect of the provision of policing services in or around a gas facility, derived in accordance with the formula set out in Part D below, representing the policing cost adjustment term.

$NTSPDC_t$ 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 [£x].

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 [£x].

Part B: Calculation of the business rates adjustment term (RB_t)

21.5 For the purposes of the Principal Formula, but subject to paragraph 21.7, RB_t is derived in accordance with the following formula:

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

21.6 In the formula for the RB term above:

RBA_t means the NTS prescribed rates, in Formula Year t prices, and has the value of 39.4%, or such other value as agreed in writing by the Authority, of the prescribed rates (or any equivalent tax or duty replacing them) levied on the licensee in Formula Year t in relation to its NTS transportation owner activity and Distribution Network transportation activity.

RBE_t means the NTS prescribed rates allowance at Formula Year 2009/10 price levels, and has the value of £X million.

RPIF_t has the value given to it by Part D of [GTC20] (Restriction of NTS Transportation Owner Revenue).

21.7 In any Formula Year ("the Relevant Formula Year") in which the revaluation, by The Valuation Office Agency in England and Wales or the Scottish Assessors Association in Scotland, of the assets of the Transmission Network for the purposes of setting prescribed rates comes into effect, RB_t will have the value of zero in that year and in each subsequent Formula Year.

21.8 The Authority, having satisfied itself that the licensee has used its best endeavours to minimise the amount of the prescribed rates (RBA_t), may direct that the formula set out in this Part B is to apply for the purposes of calculating the RB term in the Relevant Formula Year and in each of the subsequent Formula Years.

Part C: Calculation of the licence fee adjustment term (LF_t)

21.9 For the purposes of the Principal Formula, LF_t is derived in accordance with the following formula:

$$LF_t = LFA_t - (LFE_t \times RPIF_t)$$

21.10 In the formula for the LF term above:

LFA_t means the amount of the payments, in Formula Year t prices, made by the licensee in respect of the NTS Transmission Owner activity under Standard Condition 3 of this licence (Payments by the Licensee to the Authority) in Formula Year t.

LFE_t means the amount of the licence fee allowance at Formula Year 2009/10 price levels, and has the value of £X million.

RPIF_t has the value given to it by Part D of [GTC20].

Part D: Calculation of the policing cost adjustment term (OPTC_t)

21.11 For the purposes of the Principal Formula, OPTC_t is derived in accordance with the following formula:

$$\text{OPTC}_t = \text{OPTA}_t - (\text{OPTE}_t \times \text{RPIF}_t)$$

21.12 In the formula for the OPTC term above:

OPTA_t means the amount of the payments, in Formula Year t prices, made by the licensee to the Secretary of State in respect of provision of policing services.

OPTE_t means the amount of the policing cost allowance at Formula Year 2009/10 price levels, and has the value of £X million.

RPIF_t has the value given to it by Part D of [GTC20].

[GTC 24] Special condition [x]. Incentive adjustments relating to the licensee's Stakeholder Satisfaction Output

Introduction

- 24.1 The purpose of this condition is to set out the mechanism for calculating the value of the licensee's Stakeholder Satisfaction Output (SSO) term.
- 24.2 The effect of the application of the SSO term in [GTC 20] Special condition [x] is to adjust the amount of the Outputs Incentive Payment (OIP) term in that condition in order to reflect the licensee's performance in relation to its Stakeholder Satisfaction Output.

Part B: Formula for the Stakeholder Satisfaction Output term

- 24.3 For the purposes of Part D of [GTC 20] Special condition [x], the value of the SSO term is derived in accordance with the following formula:

$$SSO_t = SER_t + SSS_t$$

- 24.4 In the formula for the SSO term above:

SSO_t means the value of an adjustment to the amount of the licensee's Outputs Incentive Payment (OIP_t) under Part D of [GTC 20] Special condition [x] in respect of the licensee's performance in relation to its Stakeholder Satisfaction Output in Regulatory Year t.

SER_t (the Stakeholder Engagement Reward term) means a positive adjustment (if any) that may be determined by the Authority pursuant to the provisions of Part B below in recognition of the licensee's demonstration that its effective stakeholder engagement has led to exceptionally positive outcomes for its stakeholders in respect of performance in Regulatory Year t-2.

SSS_t (the Stakeholder Satisfaction Survey term) means the adjustment that is required in respect of the licensee's survey performance in Regulatory Year t in relation to the Target Stakeholder Satisfaction Survey Score in that year, and is calculated in accordance with the provisions of Part D below.

Part B: Determination of the stakeholder engagement reward

- 24.5 The maximum value of the SER term for each [regulatory year] that can be determined by the Authority for the licensee is to be derived in accordance with the following formula:

$$SER_t \text{ max} = 0.5 \times BR_t$$

- 24.6 The maximum value is to be derived in accordance with the provisions of Part [C] of [ETC 20] Special condition [x].
- 24.7 For Regulatory Years 2013/14 and 2014/15, SER_t will equal zero.

- 24.8 The licensee may apply to be awarded a Stakeholder Engagement Reward in respect of Regulatory Year t-2 in accordance with such procedures, timescales, and minimum eligibility criteria as may be set out in the Stakeholder Engagement Reward Guidance that is published on the Ofgem’s website (and that may be modified from time to time in accordance with the provisions of Part C below).
- 24.9 In addition to making provision for the matters mentioned in paragraph 24.8, the Stakeholder Engagement Reward Guidance may also make provision for:
- (a) the appointment, by the Authority, of persons who will allocate the Stakeholder Engagement Reward; and
 - (b) the manner and process by which such assessments will be made and any rewards will be awarded.

Part C: Modification of the Stakeholder Engagement Reward Guidance

[To make modification process consistent across all licence conditions]

- 24.10 The Stakeholder Engagement Reward Guidance may be modified by the Authority by direction following the procedure set out in this Part C.
- 24.11 A direction issued by the Authority under paragraph 24.10 is of no effect unless the Authority has first:
- (a) given Notice to all licensees in whose licence this condition has effect, that it proposes to modify the Guidance:
 - (i) specifying the date on which it proposes that the provisions of the modified Guidance should take effect;
 - (ii) setting out the text of the modified Guidance and the Authority’s reasons for the proposed modifications;
 specifying the time (which must not be less than a period of 28 days from the date of the Notice) within which representations may be made; and
 - (b) considered any representations in response to the Notice that are duly made and not withdrawn.

Part D: Adjustments arising from the stakeholder satisfaction survey

24.13 The amount of the SSS term (relating to the stakeholder satisfaction survey) is derived in accordance with the following formula:

$$SSS_t =$$

[Ofgem is working with TOs to develop stakeholder satisfaction surveys, supporting information and to consider how the financial incentive will apply. Formula will need to set out max/min of incentive]

Part E: Interpretation

[We intend to bring the format and presentation of the Interpretation section consistent across the licence]

24.14 The term “stakeholder”, wherever it appears in this condition and in whatever context, refers to the general body of persons (including but not limited to customers or other actual users of the licensee’s network) who are materially affected by the licensee’s operations. [New element of this definition to be added to define customers. This is because responses from customers might need to be differentiated from stakeholders in the survey results]

24.15 [This is an early draft which we would expect to be consistent with ED and GD] For the purposes of determinations made by the Authority pursuant to the provisions of Part B above, “exceptionally positive outcomes” means outcomes that:

- (a) result directly or indirectly from the licensee’s ongoing engagement with its stakeholders;
- (b) serve the interests of the licensee’s stakeholders as a whole, or the interests of specific groups of them, by developing and implementing best practice that is not otherwise recognised, required, or recompensed under any other provision of the Price Control Conditions; and
- (c) do so to an extent or in a manner that appears to the Authority to justify the award to the licensee of a stakeholder engagement reward.

24.16 In this condition, Target Stakeholder Satisfaction Survey Score means.

[GTC 131] Special Condition [x]. Delivery Incentive

For inclusion with Second Informal Licence Consultation.

[GTC11] Special Condition [x]. The Network Innovation Allowance

Introduction

- 11.1 This condition establishes arrangements to be known as the Network Innovation Allowance (NIA) for the purpose of calculating the amount of the NIA term that applies in [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) with respect to the funding of innovative projects carried out by the licensee.
- 11.2 The effect of the application of the NIA term in [GTC20] is to adjust the calculation of the licensee's innovation incentive revenue (II) (whether upwards or downwards) in order to reflect the performance of the licensee in relation to investment in innovation under the NIA Scheme established pursuant to this condition in accordance with the Final Proposals for the RIIO: T1 Price Control.
- 11.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration, and governance of the NIA Scheme.

Part A: Calculation of the NIA term

- 11.4 For the purposes of [GTC20], the NIA adjustment for the Regulatory Year t is derived in accordance with the following formula (in this condition, the Principal Formula):

$$NIA_t = ANIA_t - NIAR_t$$

- 11.5 For the purposes of the Principal Formula:

NIA_t means the total allowed adjustment in Regulatory Year t .

$ANIA_t$ means the total Allowable NIA Expenditure in Regulatory Year t derived in accordance with the appropriate formula set out in Part B below depending on whether Appendix 1 or Appendix 3 applies.

$NIAR_t$ means an amount recovered by the licensee in relation to the Regulatory Year t or a previous Regulatory Year under the NIA Scheme which the Authority has determined, in accordance with provisions set out in the NIA Governance Document, to be unrecoverable (see Part D below).

- 11.6 Expenditure incurred by the licensee may only be recovered under the NIA Scheme if it is Allowable NIA Expenditure.

Part B: Calculation of Allowable NIA Expenditure (ANIA)

- 11.7 For the purposes of the Principal Formula, the amount of ANIA is derived in accordance with the following formula:

$$ANIA_t = PTR A \times \min((ENIA_t + BPC_t), (NIAV \times BR_t))$$

11.8 In the formula for the ANIA term above:

PTRA is the pass-through factor and has the value of [0.9].

ENIA_t means the Eligible NIA Expenditure for Regulatory Year t as reported in the licensee's Network Innovation Annual Report for that year.

BPC_t means the Eligible NIC Bid Preparation Costs for the Regulatory Year t as reported in the licensee's Network Innovation Allowance Annual Report for that year (provided that, where the licensee is part of an Gas Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot be more than [£175,000 in total or 5%] of the amount applied for under the Network Innovation Competition whichever is less in the Regulatory Year t]).

NIAV means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 2 (which has effect as part of this condition).

BR_t means Base Transmission Network Activity Revenue in Regulatory Year t, as derived in accordance with Part [C] of [GTC20].

11.9 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE_t) that qualifies as Eligible NIA Expenditure in the Regulatory Year t must not exceed the amount determined by the following formula:

$$NIAIE_t \leq Z * ENIA_t$$

Where

NIAIE_t is the Eligible NIA Expenditure that qualifies as Eligible NIA Expenditure for the Regulatory Year t.

Z Z has the value of [0.15], except insofar as the Authority consents otherwise.]

Part C: Treatment of unrecoverable expenditure

11.10 In any Regulatory Year t, the Authority may set, by direction given to the licensee, an amount for NIAR_t that will reduce the licensee's innovation incentive revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

Part D: The NIA Governance Document

11.11 The Authority will issue, and may from time to time revise, a document, to be known as the NIA Governance Document, for purposes connected with the regulation, governance, and administration of the NIA Scheme under this condition.

11.12 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria that are to be applied by, and the information that is to be provided by the licensee to, the Authority in relation to the assessment and approval of Eligible NIA Projects;
- (b) the criteria against which the funding of such projects will be assessed and approved (where necessary);
- (c) the process and procedures that will be in place for the assessment, approval (where necessary), and financing of the funding of such projects;
- (d) arrangements for ensuring that relevant matters learnt from the implementation of Eligible NIA Projects can be captured and disseminated;
- (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);
- (f) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects;
- (g) arrangements relating to how the licensee reports and treats any revenue generated from royalties as a result of Eligible NIA Projects;
- (h) arrangements relating to the preparation and publication by the licensee of a Network Innovation Annual Report; and
- (i) any other matters relating to the regulation, governance, or administration of the NIA Scheme.

11.13 The licensee must comply with such provisions of the NIA Governance Document as if the document were part of this condition.

Part E: Procedure for issuing the NIA Governance Document

11.14 Before issuing the NIA Governance Document under this condition, the Authority, by Notice given to all Gas Transporter Licensees, must:

- (a) state that it proposes to issue the document, and specify the date on which it proposes that this should take effect;
- (b) set out the text of the document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.

- 11.15 The Authority must consider any representations or objections that are duly made and not withdrawn.
- 11.16 The requirements of paragraphs 11.15 and 11.16 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
- 11.17 In paragraph 11.15, “issuing the NIA Governance Document” includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

Part G: Interpretation

- 11.18 For the purposes of this condition:

Allowable NIA Expenditure has the meaning given to that term in either Part B or Part C (as appropriate) of this condition.

Gas Transmission Group means a group of [Transmission Licensees] in which the licensee and every other Transmission Licensee within the group are affiliates of each other.

Eligible NIA Expenditure means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.

Eligible NIA Projects means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.

Eligible NIC Bid Preparation Costs means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.

Network Innovation Allowance	has the meaning given to that term in Part A of this condition.
Network Innovation Annual Report	means the report that is to be produced each year by the licensee, in a format and within a timeframe agreed with the Authority, in respect of the licensee's expenditure on network innovation.
NIA Governance Document	means the document issued by the Authority under Part D of this condition, subject to the requirements of Part E, relating generally to the establishment and operation of the NIA Scheme and including matters relating to the calculation of the Network Innovation Allowance.
NIA Percentage	means the percentage of allowed revenue licensees may use for NIA projects set out in the Authority's T1 Decision Document published on Y December 2012 under reference 00/12 for National Grid Gas Transmission Limited.
NIA Scheme	means the scheme of that name established pursuant to this condition and in accordance with the provisions of the NIA Governance Document for purposes relating to the licensee's performance with respect to investment in network innovation.

11.19 Expressions defined in paragraph 11.19 above are to be read and given effect subject to any further explanation or elaboration that may be set out in the NIA Governance Document or the Regulatory Instructions and Guidance issued by the Authority under Special Condition XX of this licence in relation to the reporting of Price Control Cost Information.

11.20 Appendices 1, 2, and 3 follow immediately below.

APPENDIX 1: Maximum BPC_t Value

(see the BPC_t term under Part B or C of this condition)

Licensee	£k
[Licensee 1]	£XX
[Licensee [x]]	£XX

APPENDIX 2: NIA Percentage

(see the NIAV term under Part B or C of this condition)

Licensee	Percentage
[Licensee 1]	XX per cent
[Licensee [x]]	XX per cent

APPENDIX 3: Annual Average Forecast Revenue

(see the AFR term under Part C of this condition)

Licensee	£m
[Licensee 1]	XX
[Licensee [x]]	XX

[GTC7] Special Condition[x]. Restriction of NTS System Operation Activity Charges

[As currently drafted this condition replaces C8G (SO internal costs) and C8C (SO internal and external costs).]

Introduction

7.1 The purpose of this condition is as follows:

- (a) to establish the charging restrictions that determine the level of Maximum NTS System Operation Revenue that may be recovered by the licensee from NTS System Operation Charges; and
- (b) to set out the obligations of the licensee in respect of those restrictions.

[NTS System Operation Charges and Maximum NTS System Operation Revenue will be defined]

Part A: Licensee's obligation

7.2 The licensee, in setting NTS System Operation Charges, shall use its best endeavours to ensure that, in Formula Year t, NTS System Operation Revenue does not exceed Maximum NTS System Operation Revenue.

Part B: Calculation of NTS System Operation Revenue (SOR_t)

7.3 For the purposes of Part A of this condition, the NTS System Operation Revenue in respect of Formula Year t (SOR_t) is derived in accordance with the following formula:

$$SOR_t = RCOM_t + SOExRF_t + SORCAP_t + SOROC_t \text{ [all terms as defined in current Special Condition C8C paragraph 2]}$$

Part C: Calculation of Maximum NTS System Operation Revenue (SOMR_t)

7.4 Maximum NTS System Operation Revenue is derived in accordance with the following formula (in this condition, the Principal Formula):

$$SOMR_t = SOBR_t + SOOIR_t + SOOIRC_t - SOK_t$$

7.5 In the Principal Formula:

SOMR_t means the amount of Maximum NTS System Operation Revenue in Formula Year t.

- SOBR_t means the amount of Base NTS System Operation Revenue in Formula Year t and is derived in accordance with the formula set out in Part D of this condition.
- SOOIR_t means the amount of the NTS System Operation Output Incentive Revenue adjustment, whether of a positive or negative value, made in Formula Year t as derived in accordance with the formula set out in Part E of this condition.
- SOOIRC_t means the amount of the NTS System Operation External Incentive Revenue adjustment in respect of Formula Year t and is derived in accordance with [GTC 5] Special Condition [x] (NTS System Operator external incentives, costs and revenues).
- SOK_t means the amount of the correction factor, whether of a positive or negative value, in Formula Year t derived in accordance with the formula set out in Part F of this condition.

Part D: Calculation of Base NTS System Operation Internal Revenue (SOBR_t)

7.6 For the purposes of the Principal Formula, the amount of SOBR_t is derived in accordance with the following formula:

$$\text{SOBR}_t = (\text{SOPU}_t + \text{SOMOD}_t + \text{SOTRU}_t) \times \text{RPIF}_t$$

7.7 In the formula for the SOBR_t term above:

SOPU_t means the amount set against the licensee's name in Appendix 1, and represents the opening base revenue allowance determined by the Authority in relation to the NTS System Operation Activity.

SOMOD_t has the value zero in Formula Year 2013-14, and in each subsequent Formula Year shall have the value of the incremental change to the licensee's opening base revenue allowance for the relevant Formula Year t (set against the licensee's name at Appendix 1) derived from the Annual Iteration of the GT1 Price Control Financial Model determined in accordance with the process set out in Parts A and B of [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).

RPIF_t is the price index adjustment factor, whether of a positive or negative value, in Formula Year t, and is derived in accordance with paragraph 7.8 of this condition.

SOTRU_t has the value zero in Formula Year 2013-14, and in each subsequent Formula Year means the amount of the NTS System Operation revenue adjustment, whether of a positive or negative value, made in Formula Year t in respect of the difference between the assumed value of the Retail Prices Index in Formula Year t-2 and the actual value of the Retail Prices Index in Formula Year t-2, and is derived in accordance with paragraph 7.9 of this condition.

7.8 For the purposes of paragraph 7.7 of this condition, RPIF_t is derived in accordance with the following formula:

$$\text{RPIF}_t = \text{RPIA}_{t-2} \times (1 + \text{GRPIF}_{t-1}) \times (1 + \text{GRPIF}_t)$$

where:

$$\text{RPIA}_t = \text{RPI}_t / \text{RPI}_{2009-10}$$

$$\text{GRPIF}_t = (0.75 \times \text{GRPIF}_c) + (0.25 \times \text{GRPIF}_{c+1})$$

$$\text{GRPIF}_{t-1} = (0.75 \times \text{GRPIF}_{c-1}) + (0.25 \times \text{GRPIF}_c)$$

and:

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

[Following definition will appear in the defined terms condition: Retail Prices Index means:

a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with all licensees, determine to be appropriate; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with all licensees, determine to be appropriate.]

GRPIF_c means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Formula Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication "Forecasts for the UK Economy", in Formula Year t-1.

[following definition will appear in the defined terms condition: Retail Prices Index Forecast Growth Rate means: a) the growth rate (for the avoidance of

doubt the growth rate is presented as a percentage) as defined as the “New forecasts (marked *)” in the HM Treasury “Forecasts for the UK Economy” publication, published in the November of each year; or b) if that index in respect of any year has not been published, such index as the Authority may, after consultation with the licensees, determine to be appropriate; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensees, determine to be appropriate.]

7.9 For the purposes of paragraph 7.7 of this condition, $SOTRU_t$ is derived in accordance with the following formula:

$$SOTRU_t = ((RPIA_{t-2} - RPIF_{t-2})/RPIA_{t-2}) \times SOREV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

7.10 In the formula for the $SOTRU_t$ term above:

PVF_t means the present value adjustment term for Formula Year t, and shall be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority for Formula Year t.

$SOREV_{t-2}$ means the amount (in 2009-10 prices), for Formula Year t-2, of the combined value of all Special Condition revenue adjustments that are indexed by the Retail Prices Index, and is derived in accordance with the following formula:

$$SOREV_{t-2} = SOBR_{t-2}/RPIF_{t-2}$$

where:

$SOBR_{t-2}$ means the amount of Base NTS System Operation [Internal] Revenue in Formula Year t-2 derived in accordance with the formula set out in Part D of this condition.

Part E: Calculation of NTS System Operation Internal Outputs Incentive Revenue (SOOIR_t)

7.11 For the purposes of the Principal Formula, the amount of $SOOIR_t$ is derived from the following formula:

$$SOOIR_t = RD_t + CM_t + TSS_t$$

7.12 In the formula for the $SOOIR_t$ term above:

RD_t means the amount of revenue due from [the revenue drivers in TPCR3 and TPCR4] in Formula Year t and as set out in the annex to this condition annex to contain a table of values per ASEP/exit point].

- CM_t means the amount of the revenue from constraint management for Formula Year t and is derived in accordance with [GTC120] Special Condition [x] (Entry and exit capacity constraint management).
- TSS_t means the amount of the revenue from transmission support services for Formula Year t and is derived in accordance with [GTC132] Special Condition [x] (Transmission Support Services).

Part F: Calculation of the NTS System Operation correction factor (SOK_t)

[This section replaces current condition C8C para 1 and 3c. Final drafting of this section dependent on the outcome of the 'mitigating network charging volatility arising from the price control settlement (52/12)' consultation.]

- 7.13 For the purposes of the Principal Formula, the amount of the correction factor (SOK_t) is derived in accordance with the following formula:

$$SOK_t = (SOR_{t-1} - SOMR_{t-1}) * (1 + (I_t + PR_t)/100)$$

- 7.14 In the formula for correction factor (SOK_t) above:

SOR_{t-1} means the NTS System Operation Revenue for Formula Year t-1, which is derived in accordance with Part B of this condition in respect of the Formula Year t-1. The only exception is the Formula Year commencing 1 April 2013 where SOR_{t-1} shall be the NTS System Operation Revenue in respect of the Formula Year commencing 1 April 2012 as derived in accordance with special condition C8C of this licence in the form in which it was in force at 31 March 2012.

SOMR_{t-1} means the Maximum NTS System Operation Revenue for Formula Year t-1, which is calculated in accordance with Part C of this condition in respect of the Formula Year t-1. The only exception is the Formula Year commencing 1 April 2013 where SOMR_{t-1} shall be the Maximum NTS System Operation Revenue in respect of the Formula Year commencing 1 April 2012 as derived in accordance with special condition C8C of this licence in the form in which it was in force at 31 March 2012.

- I_t means Average Specified Rate in respect of Formula Year t.

[The following definition will appear in the defined terms condition: means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made.

Currently licence definition is: “means the average of the daily base rates of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made.”]

PR_t means the penalty interest rate adjustment in Formula Year t as derived in accordance with the formula set out in Part G of this condition.

Part G: Interest adjustment for over and under recoveries of revenue

7.15 [to be completed following outcome of our consultation]

Part H: Treatment of charges in the event of over recovery

7.16 [to be completed following outcome of our consultation]

Part I: Treatment of charges in the event of under recovery

7.17 [to be completed following outcome of our consultation]

7.18 Appendix 1 follows immediately below.

Appendix 1

Values for the SPU term (2009-10 prices)

(see paragraph [X.X] of this condition)

Licensee	SPU Value (£m)							
Formula year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
[Insert name of specific TO]	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x

[GTC120] Special Condition [x]. Entry and exit capacity constraint management

Introduction

120.1 The purpose of this condition is to calculate the value of the entry and exit capacity Constraint Management allowed revenue (CM_t). This is the sum of the costs relating to constraint management and the incentive revenue from the application of the incentive scheme.

120.2 The effect of the application of the CM_t term derived in accordance with this condition is to adjust the SO Output Incentive Revenue ($SOOIR_t$) in order to reflect the performance of the licensee in relation to its management of constraints on the NTS.

Part A: Formula for the Constraint Management allowed revenue (CM_t)

120.3 For the purposes of Part [x] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges) the CM_t term shall be derived in accordance with the following formula:

$$CM_t = CMC_t + CMIR_t$$

where:

CMC_t means the costs, as defined in Part B of this condition, incurred by the licensee in respect of Formula Year t in respect of entry and exit capacity constraint management; and

$CMIR_t$ means the incentive revenue, as defined in Part C of this condition, incurred by the licensee in respect of Formula Year t in respect of entry and exit capacity constraint management; and

Part B: Formula for the Constraint Management costs (CMC_t)

120.4 CMC_t means the costs incurred by the licensee in respect of Formula Year t in respect of entry and exit capacity constraint management derived in accordance with the following formula:

$$CMC_t = \sum_{d|y(d)=t} BBC_{d,t} + \sum_{d|y(d)=t} ECCC_{d,t} + \sum_{d|y(d)=t} ExRO_{d,t} + \sum_{d|y(d)=t} ExCC_{d,t}$$

where:

BBC _{d,t}	means the costs incurred by the licensee in respect of any constraint management taken in relation to entry capacity in respect of day d of Formula Year t (including those related to capacity management relating to the surrender of firm entry capacity)
ECCC _{d,t}	means the costs incurred by the licensee in respect of any payments made by the licensee to gas shippers in exchange for agreeing to offtake gas from the NTS at the licensee's request on day d in respect of Formula Year t and in respect of any costs incurred by the licensee undertaking any other commercial or physical action to manage entry capacity excluding those covered by BBC _{d,t} including any locational buy actions;
ExRO _{d,t}	means the costs incurred by the licensee in respect of accepted NTS offtake reduction offers in respect of day d of Formula Year t; and
ExCC _{d,t}	means the costs incurred by the licensee in respect of any NTS exit capacity constraint management taken in respect of day d of Formula Year t (including those related to Exit Constraint Management Actions and NTS Exit Capacity (Flat) surrender charges) and in respect of any costs incurred by the licensee undertaking any other commercial or physical action to manage exit capacity excluding those covered by ExRO _{d,t} .

Part C: Formula for the Constraint Management incentive revenue (CMIR_t)

120.5 CMIR_t means the incentive revenue earned by the licensee in respect of Formula Year t in respect of entry and exit capacity constraint management derived in accordance with the following formula:

$$CMIR_t = CMSF \times ((CMT C_t \times RPIF_t) - CMIP_t)]$$

where:

CMIP_t means the constraint management performance measure in respect of Formula Year t and shall be defined in accordance with Part D of this condition;

CMT C_t means the constraint management target cost in respect of Formula Year t and shall be defined in accordance with Part E of this condition;

RPIF_t shall have the same meaning as given in paragraph [7.7] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges); [To consider if need to have a TRU type adjustment?]

CMSF means the constraint management sharing factor and shall take the value of [40% or 50% - to be aligned with TIM efficiency rate];

Part D: Formula for the Constraint Management performance measure (CMIP_t)

120.6 For the purposes of Part C of this condition, the constraint management performance measure in respect of Formula Year t (CMIP_t) shall be derived in accordance with the following formula:

$$\text{CMIP}_t = \frac{\text{CMC}_t - \text{RODEC}_t - \text{RIEC}_t - \text{RNOEC}_t - \text{RCOR}_t - \text{RLOC}_t - \text{ROPEXC}_t - \text{RNOEXC}_t - \text{REXUNC}_t - \text{RADD}_t}{\text{ROPEXC}_t - \text{RNOEXC}_t - \text{REXUNC}_t - \text{RADD}_t}$$

where:

CMC_t shall have the meaning given to that term in Part B of this condition;

RODEC_t means revenue derived by the licensee in respect of Formula Year t from on the day sales of obligated entry capacity as defined in paragraph [xx] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges);

RIEC_t means revenue derived by the licensee in respect of Formula Year t from the sale of interruptible entry capacity as defined in paragraph [xx] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges);

RNOEC_t means the revenue derived by the licensee in respect of Formula Year t from sales of non obligated entry capacity as defined in paragraph [xx] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges);

RCOR_t means the revenue derived by the licensee in respect of Formula Year t from system entry overrun charges and NTS Exit (Flat) Overrun charges (both having the meaning given in the network code) as defined in paragraph [xx] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges);

RLOC_t means the revenue derived by the licensee in respect of Formula Year t from locational sell actions and physical renomination incentive charges (having the meaning given to that term in the network code) as defined in paragraph [xx] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges);

ROPEXC_t means the revenue derived by the licensee in respect of Formula Year t from the sale of NTS off peak exit capacity as defined in paragraph [xx] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges);

- RNOExC_t means the revenue derived by the licensee in respect of Formula Year t from the sale of NTS non-obligated exit capacity as defined in paragraph [xx] of [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges);
- RExUNC_t means the revenue that users are liable to reimburse to the licensee in relation to an NTS Exit Point in accordance with the network code; and
- RADD_t means any further revenues derived by the licensee in respect of Formula Year t that the Authority has directed to include in the formula for the constraint management performance measure (CMIP_t).

Part E: Formula for the Constraint Management target (CMTC_t)

120.7 For the purposes of Part C of this condition, CMTC_t means the constraint management target cost in respect of Formula Year t and shall be derived in accordance with the following formula:

$$CMTC_t = CMBT_t + CMDT_t$$

where:

CMBT_t means the constraint management base target in respect of Formula Year t as specified in the table in Appendix 1; and

CMDT_t means the variation to the constraint management target (which could be positive or negative) and shall be such value (or values) as shall be determined in accordance with Part F of this condition. Such value (or values) shall be deemed to be incorporated in the table set out in Appendix 2.

Part F: Determination of the variation to the Constraint Management target (CMDT_t)

120.8 For the purposes of Part E of this condition, CMDT_t means the variation to the constraint management target in respect of Formula Year t from time to time determined by the Authority following an application by the licensee under this Part F.

120.9 The licensee shall make an application in writing to the Authority setting out its proposal for CMDT_t, which relates to a variation in the constraint management target arising from the application of the uncertainty mechanisms set out in any one of [the following conditions:

Incremental Entry capacity (GTC 3)

Incremental Exit capacity (GTC 4)

Network Flexibility (GTC 118)

One-off Asset Health Costs (GTC 28)

Industrial Emissions Costs (GTC 28)]

- 120.10 Where the licensee makes an application pursuant to paragraph 120.10 of this condition it shall include, in sufficient detail to enable the Authority to decide whether the licensee should implement the proposal in accordance with paragraph 120.13 of this condition, the following:
- i) the Uncertainty Mechanism that has triggered the value for $CMDT_t$;
 - ii) the evidence to support the licensee's proposal;
 - iii) the date from which the variation to the constraint management target would apply and, where relevant, the date to which it would apply; and
 - iv) the value that the $CMDT_t$ term should take in each relevant formula year.
- 120.11 The licensee shall keep a record of each application made pursuant to paragraph 120.9 of this condition.
- 120.12 The licensee shall provide the Authority with such additional information as the Authority reasonably requests for the purposes of considering the application made by the licensee.
- 120.13 The licensee shall implement the proposal as set out within the written application made pursuant to paragraph 120.9 of this condition or as modified in accordance with paragraph 120.14 of this condition, unless:
- i) the Authority has, within 7 days from the receipt by the Authority of the written application, notified the licensee in writing, on or before that date, to suspend implementation of the proposal because in its opinion the application made pursuant to paragraph 120.9 of this condition requires further consideration to evaluate whether the proposal, and the supporting information, is consistent with the licensee's duties under the Act and the standard, Standard Special and Special Conditions; and
 - ii) the Authority has, within 28 days from the receipt by the Authority of the written application, directed the licensee, on or before that date, not to implement that proposal.
- 120.14 Where the Authority has notified the licensee in writing to suspend implementation of the proposal in accordance with paragraph 120.13 of this condition:
- i) the Authority may direct the licensee, within 28 days from the receipt by the Authority of the written application, to implement the proposal in accordance with the application made pursuant to paragraph 120.9 of this condition; or

ii) the Authority may direct the licensee, within 28 days from the receipt by the Authority of the written application, to implement the proposal in a modified form, subject to the agreement of the licensee, where such modifications relate to:

(aa) the value of $CMDT_t$; and

(bb) the date from which the value of $CMDT_t$ applies.

120.15 The licensee may withdraw a proposal made pursuant to paragraph 120.9 of this condition within 7 days from receipt by the Authority of the application.

120.16 Where the Authority has notified the licensee under paragraph 120.13(i) of this condition to suspend implementation of the proposal made pursuant to paragraph 120.9 of this condition, the licensee may withdraw such a proposal within 28 days from receipt by the Authority of the application unless the Authority has otherwise directed the licensee to implement the proposal in accordance with paragraph 120.14 of this condition.

[GTC132] Special Condition [x]. Transmission Support Services

For inclusion with Second Informal Licence Consultation.

[GTC 29] Special Condition [x]. Disapplication

Reviewing Disapplication provisions. Condition(s) for inclusion with Second Informal Licence Consultation. We are considering merging current provisions below into one single condition covering both TO and SO.

- Special Condition C8B(4); and
- Special Condition C8C(4)

[GTC 31] Special Condition [x]. Services treated as Excluded Services

Introduction

- 31.1 The purpose of this condition is to set out the basis on which services provided by the licensee may be treated as Excluded Services under the Special Conditions.
- 31.2 Excluded Services are services that comply with the General Principle set out at Part B below and that include, without limitation, those services listed at paragraph [31.12].
- 31.3 Excluded Services are services provided by the licensee for which revenue is derived but are excluded from TOMR_t as defined in [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).

Part A: Structure of this condition

- 31.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the licensee are to be treated as Excluded Services.
- 31.5 Part C sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services.
- 31.6 Part D provides for the Authority to give directions in respect of services provided by the licensee that are to be treated as Excluded Services. It also provides for the Authority to direct that any service should not be treated as Excluded Services.

Part B: Statement of General Principle

- 31.7 The General Principle is that a service provided by the licensee as part of its Transmission Business [define term] is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 31.8.
- 31.8 The charges referred to in paragraph 31.7 are:

[Referencing to be updated once have final structure and name]

- (a) NTS Transportation Owner Charges as defined in [GTC20] Special Condition [x] (Restriction of NTS transportation Owner Revenue);
- (b) NTS System Operator Charges as defined in [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges); and

Part C: Categories of Excluded Services

- 31.9 The descriptions of categories of Excluded Service set out at paragraph [31.10] are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGS issued by the Authority under (respectively) [GTC 74] Standard Special Condition A40 (Regulatory Instructions and Guidance).
- 31.10 Subject to Part D of this condition, Excluded Services shall include, but not limited to, the following Services:
- ES1. **Connection services:** This category consists of the carrying out of works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain gas pipes or plant, meters or other equipment necessary to provide any new connection or modify any existing connection to the licensee's transportation system, (but only to the extent that the service is not already remunerated under one of the charges mentioned at paragraph 31.8).
 - ES2 **Diversionary works under an obligation:** This category consists of the relocating of any gas pipes or plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9 (Powers and duties of gas transporters) of the Act.
 - ES3. **Works required by any alteration of premises:** This category consists of the moving of any gas pipes or plant that forms part of the licensee's transportation system to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.
 - ES4 **Telecommunications and information technology infrastructure services:** This category consists of allowing the use of any gas transmission assets that form part of the licensee's transportation system to carry, either directly or indirectly (including by the incorporation of third party equipment), electronic information and data.
 - ES6 **Emergency services:** This category consists of the provision of emergency services under contracts entered into pursuant to the provisions of Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter) of the Gas Transporter Licence.
 - ES7 **User pays agency services:** This category consists of the provision of 'user pays' services or systems as set out in the uniform network code, by the agency referred to in Special Condition A15 (Agency) of the Gas Transporter Licence.

ES8 **Miscellaneous:** This category consists of the provision of any other service (including the provision of gas pipes or plant) that:

- (a) is for the specific benefit of any third party who requests it;
- (b) is not made available by the licensee as a normal part of its NTS Transportation Owner Activity and NTS System Operation Activity.

Part D: Authority's power to give directions

31.11 Where the Authority (having regard to the General Principle) is satisfied:

- (a) that any service treated by the licensee as an Excluded Service should not be so treated; or
- (b) that any service not treated by the licensee as an Excluded Service should be so treated, it may give the licensee a direction to that effect.

31.12 Where a direction is given under paragraph 31.9, the licensee must, in accordance with the Direction, either:

- (a) stop treating the service or services specified in the direction as Excluded Services; or
- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

Part E: Interpretation

31.13 For the purposes of this condition:

Excluded Services has the meaning provided in paragraph 31.2

[GTC121] Special Condition [x]. Entry and Exit Capacity Methodologies and Statements

For inclusion with Second Informal Licence Consultation.

[GTC126] Special Condition [x]. Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes

Introduction

- xx.1. The purpose of this condition is to set out the obligations on the licensee to:
- (a) develop and, where relevant, modify a methodology statement which relates to the principles and methodology for the determination of:
 - i. the quantity of incremental entry capacity and incremental exit capacity; and
 - ii. obligated entry capacity and obligated exit capacity release; (“capacity release methodology statement”);
 - (b) release entry and exit capacity; and
 - (c) produce a summary report relating to those obligations.

Part A: Capacity release obligation

- xx.2. The licensee shall, unless and insofar as the Authority may otherwise direct from time to time in writing, use reasonable endeavours to release entry and exit capacity, which for the avoidance of doubt includes the determination of incremental entry and exit capacity for sale to relevant shippers and, where relevant, DN operators, in accordance with the capacity release methodology statement for the time being in place.

Part B: Capacity release methodology statement

- xx.3. The licensee shall, by 1st January 2014, have in place a capacity release methodology statement which sets out how the licensee shall:
- (a) determine whether to make incremental entry capacity available for sale to relevant shippers and, if so, what quantity of incremental entry capacity to make available;
 - (b) determine whether to make incremental exit capacity available for sale to relevant shippers and DN operators, and if so, what quantity of incremental exit capacity to make available and shall state the long term signal upon which such capacity is made available;
 - (c) offer for sale obligated entry capacity to relevant shippers; and
 - (d) offer for sale obligated exit capacity to relevant shippers and DN operators.

xx.4. The licensee shall publish a non confidential version of the capacity release methodology statement on its website and in such other manner as the Authority may approve.

Part C: Modification to the capacity release methodology statement

xx.5. The licensee shall, if so directed by the Authority and, in any event, at least once a year, review the current capacity release methodology statement.

xx.6. Unless the Authority otherwise consents in writing, the capacity release methodology statement shall be accompanied by a statement from an Independent Auditor, confirming that they have carried out an audit, the scope and objectives of which shall have been established by the licensee and approved by the Authority and giving an opinion the extent to which the licensee has developed a methodology that is consistent with the licensee's duties under the Act, and the standard, Standard Special and Special Conditions.

xx.7. Subject to paragraph xx.6 and paragraph xx.8, except where the Authority otherwise directs in writing, before modifying the capacity release methodology statement, the licensee shall:

- (a) send a copy of the proposed modifications to the Authority and to any person who asks for one;
- (b) consult with:
 - i. relevant shippers;
 - ii. interested parties; and
 - iii. in the case of exit capacity release, with DN operators,and allow them a period of not less than 28 days in which to make representations;
- (c) within 14 days of the close of the consultation required by paragraph xx.7(b) of this condition, submit to the Authority a report setting out:
 - i. the modifications originally proposed;
 - ii. the representations made by relevant shippers, interested parties (if any) and DN operators (as relevant) to the licensee and not withdrawn; and
 - iii. any change to the modifications proposed as a result of such representations; or
- (d) where the Authority directs that sub-paragraphs (a), (b) and (c) of this paragraph, or any of them shall not apply, comply with such other requirements as are specified in that direction.

xx.8. The licensee shall be entitled to modify the capacity release methodology statement at any time pursuant to paragraph xx.7, save that it shall not revise such statement:

- (a) if, within 2 months (or 3 months if the Authority has notified the licensee in writing to that effect within a reasonable time after receiving the report referred to in paragraph xx.7(c) of this condition) from the date on which the Authority receives the report referred to in paragraph xx.7(c) of this condition, the Authority directs the licensee not to make the modification;
- (b) where there is no such direction, or no date is specified in such direction, until the expiry of 2 months from the date on which the Authority receives the report referred to in sub-paragraph xx.7(c) of this condition; or
- (c) where paragraph xx.7(d) of this condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph.

Part D: Obligation to produce release obligation summary reports

xx.9. The licensee shall, at least once in each formula year, produce release obligation summary reports which set out the obligated levels of:

- (a) the entry capacity that the licensee is required to release to relevant shippers at each NTS Entry Point; and
- (b) the exit capacity that the licensee is required to release to relevant shippers and where relevant, DN operators at each NTS exit point.

Part E: Interpretation

xx.10. For the purposes of this condition, the following definitions shall apply:

Independent Auditor	means [a person or persons nominated by and independent of the licensee or any associate or affiliate of the licensee and agreed by the Authority with the skills and knowledge to undertake the audit required by paragraph xx.6 of this condition];
Incremental entry capacity	means firm entry capacity other than non-incremental obligated entry capacity; and
Incremental exit capacity	means firm exit capacity other than non-incremental obligated exit capacity.

SPECIAL CONDITIONS: PRICE CONTROL FINANCIAL MODEL (PCFM) VARIABLES

[GTC 9] Special Condition [x]. The Innovation Roll-out Mechanism

Introduction

9.1 The purpose of this condition is to determine any appropriate revisions to PCFM Variable Values relating to Innovation Roll-out allowed expenditure ('IRM' values) and the regulatory years to which those revisions relate, for use in the Annual Iteration Process for the GT1 Price Control Financial Model, as described in [GTC 26] (Annual Iteration Process for the GT1 Price Control Financial Model).

9.2 For the purposes of this condition:

'Regulatory year t' means the Regulatory Year in which the value for the term TOMOD, calculated through the Annual Iteration Process, is used in the formula set out in Part [x] of [GTC 20] Special Condition [x] and references to Regulatory Year t-1 are to be construed accordingly.

PCFM Variable Value' means a value contained in the PCFM Variable Values Table for the licensee contained in the GT1 Price Control Financial Model:

- a. which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- b. whose revision does not constitute a modification of the GT1 Price Control Financial Model for the purposes of [GTC 57] (Governance of GT1 Price Control Financial Instruments).

9.3 The IRM value relating to a particular regulator year represents the total amount of the licensee's allowed expenditure (in 2009/10 prices) for Innovation Roll-out for that Regulatory Year.

9.4 The application of the mechanisms in this condition provides for:

- a) the licensee to propose adjustments to its Innovation Roll-out allowed expenditure during any of the three windows specified in Part D;
- b) determinations by the Authority in relation to proposals by the licensee under sub-paragraph a) and the direction, where applicable of revised Innovation Roll-out allowed expenditure amounts; and
- c) the determination and direction of revised IRM values to reflect any revisions to Innovation Roll-out allowed expenditure.

9.5 The determination and direction of revised IRM values where applicable will, as a consequence of the Annual Iteration Process for the GT1 Price Control Financial Model, mean that the value of the term TOMOD as calculated for Regulatory Year t for the purposes of Part C of [GTC 20] (Restriction of NTS Transportation Owner Revenue) will result in an

adjustment of the licensee's Base Transmission Network Activity Revenue in a manner that:

- a) the approval of changes to allowed expenditure in respect of relevant Innovation Rollout for particular regulatory years
- b) takes account of approved changes for the purposes of the Totex Incentive Mechanism adjustment as set out in [ETC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner.

Part A: Features that qualify a roll-out for additional funding

9.6 The roll-out by the licensee of a Proven Innovation may allow the licensee to receive additional funding within the Price Control Period only if the Authority is satisfied that this:

- (a) will contribute to the development in Great Britain of a low-carbon energy sector or any wider environmental benefits;
- (b) will provide long-term value for money for electricity consumers;
- (c) will not enable the licensee to receive commercial benefits from the roll-out (for instance; where a project pays for itself for example, through costs savings then this would not be eligible) within the remainder of the Price Control Period; and
- (d) will not be used to fund any of the Ordinary Business Arrangements of the licensee.

Part B: Licensee's ability to propose a relevant adjustment

9.7 The licensee may by notice to the Authority, and in accordance with Parts C and D below, propose a relevant adjustment within the meaning of paragraph 9.9 to recover Innovation Roll-out Costs where these would constitute a material amount within the meaning of paragraph 9.8.

9.8 A material amount is the amount of the Innovation Roll-out Costs, when multiplied by the licensee's Efficiency Incentive Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period, as set out in Appendix 2.

9.9 A relevant adjustment is an adjustment:

- (a) which the licensee believes will enable it to recover Innovation Roll-out Costs associated with a single Proven Innovation that would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Innovation Roll-out Costs that have not yet been incurred.

Part C: Application windows for relevant adjustment proposals

9.10 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part B above:

- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.

9.11 A relevant adjustment may be proposed during any of those application windows provided that in each case the proposal complies with the provisions of paragraphs 9.8 and 9.9.

Part D: Other provisions relating to the licensee's proposal

9.12 A Notice served by the licensee under Part B above must in all cases:

- (a) state any statutory obligations or any requirements of this licence to which the Notice relates;
- (b) describe the Proven Innovation that the licensee proposes to roll out;
- (c) propose the amount of the relevant adjustment and set out by reference to the Innovation Roll-out Costs the basis on which the licensee has calculated the relevant adjustment;
- (d) demonstrate that the costs to be recovered by the relevant adjustment will be a material amount for the purposes of paragraph 9.8;
- (e) demonstrate how each of the criteria set out in Part B above will be fulfilled by the additional funding sought;
- (f) propose relevant outputs or other end products against which the roll-out will be assessed; and
- (g) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").

9.13 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; and
- (b) 1 April 2019 in the case of a relevant adjustment proposed during the second and final application window.

Part E: Authority’s determination of revised Innovation Roll-out allowed expenditure amounts

- 9.14 Where the licensee serves a Notice under Part B, the Authority may, within four months of the close of the application window during which the Notice was submitted to the Authority, determine the relevant adjustment in such manner as it considers appropriate, subject to paragraphs 9.15 and 9.16.
- 9.15 In determining any relevant adjustment under this Part E, the Authority must:
- (a) consult the licensee;
 - (b) have particular regard to the purposes of this condition; and
 - (c) take no account of the financial performance of the licensee relative to any of the assumptions, whether expressed or implied, by reference to which the Special Conditions may have been framed.
- 9.16 The IRM value for each Regulatory Year t will be £0m unless directed otherwise by the Authority.

Part F: Determination by the Authority of a Relevant Adjustment

- 9.17 This part sets out the basis for determining revisions to IRM values for use in the Annual Iteration Process for the GT1 Price Control Financial Model.
- 9.18 Table 1 below sets out the amounts of allowed expenditure for each approved notice after any modifications directed under Part E of this condition and the total of those amounts for each Regulatory Year of the price control period.

Table 1: Allowed expenditure after modifications under Part F for Innovation Rollout Mechanism Expenditure

Allowed expenditure (£m 2009/10 prices)	Regulatory Year							
	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21
IRM Notice								
Notice submitted in year x for rollout of innovation y.								
Etc								
Total								

- 9.19 The Authority shall, by 30 November in each Regulatory Year t-1 check whether the IRM value for any Regulatory Year is different from the allowed expenditure total for the corresponding Regulatory Year set out in Table 1 and, in any case where it is different, the Authority shall:
- a) determine that the IRM value for the Regulatory Year concerned is to be revised so as to match the allowed expenditure total in Table 1; and
 - b) issue a direction, in accordance with the provisions of Part F of this condition specifying any revised IRM values determined under subparagraph (a) and the regulatory years to which they relate.

Part G: Procedure for direction of revised IRM values by the Authority

- 9.20 Any revised IRM values determined by the Authority in accordance with Part F of this condition will be directed by the Authority by 30 November in each Regulatory Year t-1.
- 9.21 Before issuing any directions under paragraph 9.20, the Authority will give Notice to the licensee of all of the values that it proposes to direct.
- 9.22 The Notice referred to in paragraph 9.21 must:
- a) state that any revised IRM values have been determined in accordance with Part H of this condition; and
 - b) specify the period (which must not be less than 14 days from the date of the Notice) within which the licensee may make any representations or objections concerning the determination of any revised IRM values.
- 9.23 The Authority shall have due regard to any representations or objections duly received under paragraph 9.23, and give reasons for its decisions in relation to them.
- 9.24 Where the Authority directs any revised IRM values relating to regulatory years which are earlier than Regulatory Year t, the effect of using those revised IRM values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term MOD for Regulatory Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.
- 9.25 If, for any reason in any Regulatory Year t-1, the Authority does not make a direction in relation to revised IRM values by 30 November, then no revised IRM values will be used in the Annual Iteration Process that is required by [ETC 26] to be undertaken by the Authority by 30 November in that same Regulatory Year t-1. In those circumstances, the Authority

shall take full account of the position when determining and directing any revised IRM values in respect of the next Annual Iteration Process.

Part H: Interpretation

9.26 For the purposes of this condition, the following definitions apply:

Innovation	<p>in relation to its use in a defined term of this condition, means any or all of the following:</p> <ul style="list-style-type: none">(a) a specific piece of new Network Equipment;(b) a novel arrangement or application of new or existing Network Equipment; and(c) a novel operational practice or a novel commercial arrangement, <p>that is not, or is not within the scope of, an Ordinary Business Arrangement.</p>
Innovation Roll-out Costs	<p>means the cost of rolling out a Proven Innovation.</p>
Network Equipment	<p>means any asset that for the time being forms part of the licensee's pipeline system and any control centre for use in conjunction therewith.</p>
Ordinary Business Arrangement	<p>means any or all of the following:</p> <ul style="list-style-type: none">(d) a specific piece of existing Network Equipment;(e) an arrangement or application of existing Network Equipment; and(f) an operational practice or a commercial arrangement, <p>that is being used or is capable of being used, without modification, by the licensee or another electricity Transmission Licensee or Distribution Licensee at the start of the Price Control Period.</p>
Price Control Period	<p>means the period of eight regulatory years beginning on 1 April 2013 and ending on 31 March 2021 during which, subject to [GTC29](Disapplication), the Special Conditions</p>

will have effect in this licence.

Proven Innovation means an Innovation which the Transmission Operator can demonstrate has been successfully trialled or demonstrated either on their network or elsewhere.

Relevant adjustment means an adjustment to the licensee's allowed revenue to allow them to roll out a Proven Innovation.

9.27 Expressions defined in paragraph 9.18 above are to be read and given effect subject to any further explanation or elaboration set out in the Regulatory Instructions and Guidance issued by the Authority under [GTC74] Special Condition XX.

APPENDIX 1: Efficiency Incentive Rate

Licensee	%
[Licensee 1]	XX
[Licensee [x]]	XX

APPENDIX 2: Annual Average Forecast Revenue

(see the AFR term under Part C of this condition)

Licensee	£m
[Licensee 1]	XX
[Licensee [x]]	XX

[GTC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to TOMOD]

Introduction

- 28.1 The purpose of this condition is to allow the licensee or the Authority to propose, and the Authority to determine, such adjustments (“relevant adjustments”) as are necessary to enable the licensee to recover the categories of costs set out in paragraph 28.4 (each “a relevant cost category”) insofar as they are efficiently incurred.
- 28.2 The IAE term derived in accordance with this condition will be a revised PCFM Variable Values for the Annual Iteration Process for the T1 Price Control Financial Model as described in [GTC26] Special Condition [x] (Annual Iteration Process for the T1 Price Control Financial Model). As a consequence of the Annual Iteration Process, the value of the term TOMOD as calculated for Regulatory Year t for the purposes of Part [x] of [GTC20] Special Condition [x] (Restriction of Gas Transmission Transportation Activity Charges) will result in an adjustment of the licensee’s Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that is consistent with the policy outlined in the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 28.3 The IAE term derived in accordance with this condition will also constitute an element of [Total Allowed Totex] for the purposes of deriving the [efficiency incentive performance] as set out in Part E of [GTC47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments - Transmission Owner) Total Allowed Totex is calculated in accordance with the methodology set out in Chapter [•] of the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 28.4 The relevant cost categories referred to in paragraph 28.1 are:
- (a) Enhanced Physical Site Security Costs;
 - (b) Quarry and Loss Development Claim Costs;
 - (c) Industrial Emissions Costs;
 - (d) Pipe Line Diversion Costs; and
 - (e) One-off Asset Health Costs.
- 28.5 The licensee or the Authority may propose relevant adjustments in respect of a relevant cost category only during certain periods (“application windows”) that are specified in Part B below.

Part A: Licensee's or Authority's ability to propose a relevant adjustment

28.7 The licensee may by Notice to the Authority, and the Authority may by Notice to the licensee, propose, in accordance with Parts B and C below, a relevant adjustment to the PCFM Variable Value in relation to any relevant cost category where the costs within that category:

- (a) are Relevant Costs within the meaning of paragraph 28.8; and
- (b) constitute a material amount within the meaning of paragraph 28.9.

28.8 The Relevant Costs in respect of a relevant cost category are any new or additional costs (net of any cost savings that are fortuitous or otherwise not attributable to prudent management action) that were not allowed for in the costs included for that category when the Authority determined the Special Conditions.

28.9 A material amount in respect of any relevant cost category is the amount of Relevant Costs within a single relevant cost category, when multiplied by the licensee's Efficiency Incentive Rate that exceeds or is likely to exceed:

- (a) in the case of relevant cost categories defined in paragraph 28.4 sub-paragraphs (a) to (d), 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period beginning on 1 April 2013 as set out in Appendix 2.
- (b) in the case of relevant cost categories defined in paragraph 28.4 sub-paragraph (e), 2 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period beginning on 1 April 2013 as set out in Appendix 2.

28.10 A relevant adjustment is one:

- (a) which the licensee or the Authority believes would have the effect of enabling the licensee to recover Relevant Costs which would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Relevant Costs that the licensee has incurred, or is likely to incur, on and after 1 April 2013.

Part B: Application windows for relevant adjustment proposals

28.11 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part A above:

- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.

28.12 A Notice under Part A above may not be served outside the application windows set out in 28.11 above.

28.13 A relevant adjustment relating to any relevant cost category may be proposed during both the first application window and the second application window provided that in relation to each such application the proposal complies with the provisions of paragraphs 28.8 and 28.9.

28.14 Any relevant adjustment proposed outside the appropriate application window as set out in paragraph 28.11 will not be determined by the Authority under the process that is provided for in this condition.

Part C: Other provisions relating to relevant adjustment proposals

28.15 A Notice served under Part A must in all cases:

- (a) state the obligations or requirements to which the Notice relates;
- (b) set out the basis on which the relevant adjustment in respect of each relevant cost category to which the Notice relates has been calculated; and
- (c) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").

28.16 The adjustment date must not be a date that is earlier than:

- (c) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; or
- (d) 1 April 2019 in the case of a relevant adjustment proposed during the second application window.

28.17 Every relevant adjustment proposed in a Notice served under Part A above must be demonstrated to comply with the provisions of paragraphs 28.8 and 28.9 for the purposes of the relevant cost category to which the relevant adjustment relates.

Part D: Authority's power to determine the relevant adjustment

28.18 Where a Notice has been served under Part A above, the Authority may, within four months after the close of the appropriate application window, after consulting the licensee, determine the relevant adjustment that is to be made to the PCFM Variable Value in such manner as it considers appropriate having regard to the purposes of this condition.

Part E: Other provisions relating to the power of determination

- 28.19 In determining a relevant adjustment under Part D the Authority may confirm, reject, or vary the proposed relevant adjustment.
- 28.20 Without limiting the general effect of paragraph 28.19, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely to be incurred by the licensee in any subsequent Regulatory Year within the relevant cost category to which the relevant adjustment relates.

Part F: Licensee’s right to make the relevant adjustment

- 28.21 If the Authority has not determined a relevant adjustment proposed in a Notice given to the Authority by a licensee under Part A within four months of the close of the appropriate application window, and that Notice has not been withdrawn, the licensee may give Notice to the Authority that the relevant adjustment proposed in its notice shall take effect from the adjustment date for all relevant purposes under the Special Conditions.

Part H: Treatment of an adjustment or a relevant adjustment

- 28.22 The amount of the term IAET for the purposes of deriving the input variable for the Annual Iteration Process is the total amount of any relevant adjustment (or adjustments) in respect of any Regulatory Year t, whether determined by the Authority under Part D or made by the licensee under Part F of this condition.

Part I: Interpretation

- 28.23 For the purposes of this condition, the following definitions apply:

Efficiency Incentive Rate	means the incentive rate for the licensee, and set out in Appendix 1 to this condition.
Enhanced Physical Site Security Costs	means Relevant Costs incurred by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee’s Transportation System.
Industrial Emissions Costs	means Relevant Costs incurred by the licensee in relation to the Integrated Pollution Prevention and Control Directive as a result of a requirement to install electric drives or compatible gas drives at specific sites.
One-off Asset Health Costs	means Relevant Costs incurred by the licensee in relation to any single low probability high impact event (or series of low probability high impact events with a common trigger) not explicitly included within the allowances provided for under the Special Conditions.

Pipe Line Diversion Costs

means Relevant Costs incurred by the licensee in relation to a requirement to divert existing pipelines. [definition to be expanded]

Quarry and Loss Development Claim Costs

means Relevant Costs incurred by the licensee for settling any claims which have been demonstrably challenged by NGG NTS as far as is reasonable regarding both the basis of the claim and the quantum of the compensation sought. For avoidance of doubt the following claims under the terms of the Deed of Easement are included:

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

Relevant Costs

has the meaning given to that term at paragraph 28.8 of this condition.

28.24 Expressions defined in paragraph 28.24 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [GTC74] (Regulatory Instructions and Guidance).

APPENDIX 1: EFFICIENCY INCENTIVE RATES

(see paragraph 28.9 of this condition)

Gas Licensee	Incentive rate
T Licensee 1	XX per cent

APPENDIX 2: AVERAGE ANNUAL FORECAST REVENUE OVER THE PRICE CONTROL PERIOD

(see paragraph 28.9 of this condition)

Gas Licensee	£m (2009/10 prices)
Licensee 1	AA.A

[GTC 117] Special Condition [x]. Arrangements for the recovery of SO uncertain costs

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to SOMOD]

Introduction

- 117.1 The purpose of this condition is to allow the licensee or the Authority to propose, and the Authority to determine, such adjustments (“relevant adjustments”) as are necessary to enable the licensee to recover the categories of costs set out in paragraph 117.4 (each “a relevant cost category”) insofar as they are efficiently incurred.
- 117.2 The SOIAE term derived in accordance with this condition will be a revised PCFM Variable Value for the Annual Iteration Process for the T1 Price Control Financial Model as described in [GTC26] Special Condition [x] (Annual Iteration Process for the T1 Price Control Financial Model). As a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Regulatory Year t for the purposes of Part [x] of [GTC20] Special Condition [x] (Restriction of Gas Transmission Transportation Activity Charges) will result in an adjustment of the licensee’s Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that is consistent with the policy outlined in the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 117.3 The SOIAE term derived in accordance with this condition will also constitute an element of [Total Allowed Totex] for the purposes of deriving the [efficiency incentive performance] as set out in Part E of [GTC47] Special Condition [x] (Determination of annual PCFM Variable Values in respect of Total Expenditure Efficiency Incentive). Total Allowed Totex is calculated in accordance with the methodology set out in Chapter [•] of the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 117.4 The relevant cost categories referred to in paragraph 117.1 are:
- (a) Enhanced Security Costs.
- 117.5 The licensee or the Authority may propose relevant adjustments in respect of a relevant cost category only during certain periods (“application windows”) that are specified in Part B below.
- 117.6 This condition also enables the Authority to review the Central Agent Costs incurred by the licensee and, if appropriate, to direct that an adjustment be made to reflect the effect of any change in these costs.

Part A: Licensee's or Authority's ability to propose a relevant adjustment

117.7 The licensee may by Notice to the Authority, and the Authority may by Notice to the licensee, propose, in accordance with Parts B and C below, a relevant adjustment to the PCFM Variable Value in relation to any relevant cost category where the costs within that category:

- (a) are Relevant Costs within the meaning of paragraph 117.8; and
- (b) constitute a material amount within the meaning of paragraph 117.9.

117.8 The Relevant Costs in respect of a relevant cost category are any new or additional costs (net of any cost savings that are fortuitous or otherwise not attributable to prudent management action) that were not allowed for in the costs included for that category when the Authority determined the Special Conditions.

117.9 A material amount in respect of any relevant cost category is the amount of Relevant Costs within a single relevant cost category, when multiplied by the licensee's Efficiency Incentive Rate that exceeds or is likely to exceed 1 per cent of the licensee's SO Average Annual Forecast Revenue over the Price Control Period beginning on 1 April 2013 as set out in Appendix 2/[EX million].

117.10 A relevant adjustment is one:

- (a) which the licensee or the Authority believes would have the effect of enabling the licensee to recover Relevant Costs which would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Relevant Costs that the licensee has incurred, or is likely to incur, on and after 1 April 2013.

Part B: Application windows for relevant adjustment proposals

117.11 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part A above:

- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.

117.12 A Notice may under Part A above may not be served outside the application windows set out in 117.11 above.

117.13 A relevant adjustment relating to any relevant cost category may be proposed during both the first application window and the second application window provided that in each case the proposal complies with the provisions of paragraphs 117.8 and 117.9.

117.14 Any relevant adjustment proposed outside the appropriate application window as set out in paragraph 117.11 will not be determined by the Authority under the process that is provided for in this condition.

Part C: Other provisions relating to relevant adjustment proposals

117.15 A Notice served under Part A must in all cases:

- (a) state the obligations or requirements to which the Notice relates;
- (b) set out the basis on which the relevant adjustment in respect of each relevant cost category to which the Notice relates has been calculated; and
- (c) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").

117.16 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; or
- (b) 1 April 2019 in the case of a relevant adjustment proposed during the second application window.

117.17 Every relevant adjustment proposed in a Notice served under Part A above must be demonstrated to comply with the provisions of paragraphs 117.8 and 117.9 for the purposes of the relevant cost category to which the relevant adjustment relates.

Part D: Authority's power to determine the relevant adjustment

117.18 Where a Notice has been served under Part A above, the Authority may, within four months after the close of the appropriate application window, after consulting the licensee, determine the relevant adjustment that is to be made to the PCFM Variable Value in such manner as it considers appropriate having regard to the purposes of this condition.

Part E: Other provisions relating to the power of determination

117.19 In determining a relevant adjustment under Part D the Authority may confirm, reject, or vary the proposed relevant adjustment.

117.20 Without limiting the general effect of paragraph 117.19, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely to be incurred by the licensee in any subsequent Regulatory Year within the relevant cost category to which the relevant adjustment relates.

Part F: Licensee's right to make the relevant adjustment

117.21 If the Authority has not determined a relevant adjustment proposed in a Notice given to the Authority by a licensee under Part A within four months of the close of the appropriate application window, and that Notice

has not been withdrawn, the licensee may give Notice to the Authority that the relevant adjustment proposed in its notice shall take effect from the adjustment date for all relevant purposes under the Special Conditions.

Part G: Review of Central Agent Costs

117.22 The Authority may at any time after 1 April 2013 review the costs (“the Central Agent Costs”) incurred by the licensee in fulfilling its obligations under Standard Special Condition A15 (Central Agent). The purpose of the review will be to establish the efficient level of Central Agent Costs in the event that Standard Special Condition A15 is amended or deleted.

117.24 In conducting that review, the Authority must consult:

- (a) the licensee and other Gas transporters; and
- (b) such other persons as it considers appropriate.

117.24 The licensee must supply the Authority with any information that it reasonably requests for the purposes of its review.

117.25 Following its review, the Authority may decide that the efficient level of Central Agent Costs;

- (a) should continue without modification; or
- (b) should be modified.

117.26 Where the Authority decides that the efficient level of Central Agent Costs should be modified, it may direct that an adjustment be made to the PCFM Variable Value with effect from the beginning of the next Formula Year following the Formula Year in which the direction is given so as to reflect the effect of its decision in relation to the revenues that would otherwise continue to be recoverable by the licensee under the Special Conditions for the purpose of fulfilling its obligations under Standard Special Condition A15.

117.27 A direction under paragraph 117.26 may not be given later than 30 November prior to the beginning of the next Formula Year to which that paragraph refers.

Part H: Treatment of an adjustment or a relevant adjustment

117.28 The amount of the term SOIAEt for the purposes of deriving the PCFM Variable Value for the Annual Iteration Process is the total amount of any relevant adjustment (or adjustments) in respect of any Regulatory Year t, whether determined by the Authority under Part D or Part G, or made by the licensee under Part F of this condition.

Part I: Interpretation

117.29 For the purposes of this condition, the following definitions apply:

Efficiency Incentive Rate	means the incentive rate for the licensee, and set out in Appendix 1 to this condition;
Enhanced Security Costs	means Relevant Costs incurred by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the IT systems required to operate the licensee’s Transportation System;
Central Agent Costs	[definition to be added];
Relevant Costs	has the meaning given to that term at paragraph 117.8 of this condition.

117.30 Expressions defined in paragraph 117.29 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [GTC74] (Regulatory Instructions and Guidance).

APPENDIX 1: EFFICIENCY INCENTIVE RATES

(see paragraph 117.9 of this condition)

Gas Licensee	Incentive rate
T Licensee 1	XX per cent

APPENDIX 2: AVERAGE ANNUAL FORECAST REVENUE OVER THE PRICE CONTROL PERIOD

(see paragraph 117.9 of this condition)

Gas Licensee	£m (2009/10 prices)
Licensee 1	AA.A

[GTC3] Special Condition [x]. NTS gas entry incentives, costs and revenues

For inclusion with Second Informal Licence Consultation.

[GTC4] Special Condition [x]. NTS gas exit incentives, costs and revenues

For inclusion with Second Informal Licence Consultation.

[GTC118] Special Condition [x]. Specification of the Network Flexibility Output and Assessment of Allowed Expenditure for Network Flexibility

For inclusion with Second Informal Licence Consultation.

SPECIAL CONDITIONS: FINANCIAL CONDITIONS

**[GTC 64] Special Condition [x]. Legacy price control adjustments –
Transmission Owner**

Introduction

64.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to aggregate PCFM Variable Values relating to the items specified in Parts B to F of this condition: and
- (b) the Formula Years to which the revised values referred to in sub-paragraph (a) relate,

for use in the Annual Iteration Process for the [GT1 Price Control Financial Model] as described in [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).

64.2 For the purposes of this condition:

Formula Year t means the Formula Year in which the value for the term MOD calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue and references to Regulatory Year t-1 are to be construed accordingly.

PCFM Variable Value means a value contained in the PCFM Variable Values Table for the licensee, contained in the GT1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the GT1 Price Control Financial Model for the purposes of Price Control Condition GTC 57 (Governance of GT1 Price Control Financial Instruments).

64.3 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Formula Year t for the purposes of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) will result in an appropriate adjustment of the licensee's base revenue (whether upwards or downwards) in a manner that appropriately reflects:

- (a) activities carried out by the licensee;

- (b) incentivised performance by the licensee; and/or
- (c) costs or expenditure incurred by the licensee,

in the period prior to Formula Year 2013/14, in relation to one or more of the schemes and mechanisms referred to in Parts B to F of this condition.

64.5 Requisite adjustments to the licensee's allowed revenue and Regulatory Asset Value (RAV) balance will be determined under the methodologies set out in chapter 8 of the GT1 Price Control Financial Handbook and aggregated in accordance with Part A of this condition.

64.6 This condition should be read and construed in conjunction with, [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Model), and [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

Part A: Determination and direction of revised PCFM Variable Values for legacy price control adjustments

64.7 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) legacy price control adjustments to the licensees allowed revenue (LAR values); and
- (b) legacy price control adjustments to the licensee's RAV balance (LRAV values).

64.8 The LAR and LRAV values for all Formula Years are zero as at 1 April 2013.

64.9 The LAR value for any Formula Year from 2013/14 onwards is derived in accordance with the following formula:

$$\text{LAR} = \text{PAR} + \text{TAR} + \text{CAR} + \text{DAR} + \text{SAR}$$

where

PAR means the total adjustment to the licensee's allowed revenue in respect of the pension true-up from the previous price control determined in accordance with Part B of this condition;

TAR means the total adjustment to the licensee's allowed revenue in respect of the tax clawback from the previous price control determined in accordance with Part C of this condition;

CAR means the total adjustment to the licensee's allowed revenue in respect of the TO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007

to 31 March 2013) determined in accordance with Part D of this condition;

DAR means the total adjustment to the licensee's allowed revenue in respect of gas revenue Drivers determined in accordance with Part E of this condition;

SAR means the total adjustment to the licensee's allowed revenue in respect of Logged-up and Security costs determined in accordance with Part F of this condition;

in each case, for the same Formula Year.

64.10 The LRAV value for any Formula Year from 2013/14 onwards is derived in accordance with the following formula:

$$\text{LRAV} = \text{PRAV} + \text{TRAV} + \text{CRAV} + \text{DRAV} + \text{SRAV}$$

where

PRAV means the total adjustment to the licensee's RAV respect of the pension true-up from the previous price control determined in accordance with Part B of this condition;

TRAV means the total adjustment to the licensee's RAV in respect of the tax clawback from the previous price control determined in accordance with Part C of this condition;

CRAV means the total adjustment to the licensee's RAV in respect of TO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013) determined in accordance with Part D of this condition;

DRAV means the total adjustment to the licensee's RAV in respect of gas revenue Drivers determined in accordance with Part E of this condition,

SRAV means the total adjustment to the licensee's RAV in respect of Logged-up and Security costs determined in accordance with Part F of this condition,

in each case, for the same Formula Year.

64.11 Subject to paragraph 64.12, the Authority shall, by 30 November in each Formula Year t-1, determine whether any LAR values or LRAV values should be revised to reflect calculations under paragraphs 64.9 and 64.10 respectively.

64.12 The first Formula Year in which the Authority will make a determination pursuant to paragraph 64.11 is Formula Year 2013/14.

64.13 If the Authority determines under paragraph 64.11 that any LAR or LRAV values are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part G of this condition specifying the revised LAR and LRAV values that have been determined and the Formula Years to which they relate.

64.14 Where the Authority directs any revised LAR values or LRAV values for Formula Years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

Part B: Determination of adjustments for pension true-ups

64.15 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the pension true-up from the previous price control.

64.16 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term PAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the pension true-up. The Authority's determination shall be made in accordance with the methodology contained in section 1 of chapter 8 of the GT1 Price Control Financial Handbook.

64.17 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term PRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the the pension true-up. The Authority's determination shall be made in accordance with the methodology contained in section 1 of chapter 8 of the GT1 Price Control Financial Handbook.

64.18 The Authority shall include a statement of the values of the terms PAR and PRAV in any direction given under Part G of this condition.

Part C: Determination of adjustments for tax clawbacks

64.19 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV [may be required],

in respect of the tax clawback from the previous price control.

64.20 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term TAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the tax clawback. The Authority's determination shall be made in accordance with the methodology contained in section 2 of chapter 8 of the GT1 Price Control Financial Handbook.

64.21 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term TRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the tax clawback. The Authority's determination shall be made in accordance with the methodology contained in section 2 of chapter 8 of the GT1 Price Control Financial Handbook..

64.22 The Authority shall include a statement of the values of the terms TAR and TRAV in any direction given under Part G of this condition.

Part D: Determination of adjustments for the close-out of the TO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013)

64.23 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the close-out of the TO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013).

64.24 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term CAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the close-out of the TO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013). The Authority's determination shall be made in accordance with the methodology contained in section 3 of chapter 8 of the GT1 Price Control Financial Handbook.

64.25 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term CRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the close-out of the TO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013). The Authority's determination shall be made in accordance with the methodology contained in section 3 of chapter 8 of the GT1 Price Control Financial Handbook.

64.26 The Authority shall include a statement of the values of the terms CAR and CRAV in any direction given under Part G of this condition.

Part E: Determination of adjustments for the Close-out of gas revenue Drivers

64.27 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue [may not be required]; and
- (b) RAV,

in respect of the close-out of gas revenue Drivers.

64.28 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term DAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the close-out of gas revenue Drivers. The Authority's determination shall be made in accordance with the methodology contained in section 4 of chapter 8 of the GT1 Price Control Financial Handbook.

64.29 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term DRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the close-out of gas revenue Drivers. The Authority's determination shall be made in accordance with the methodology contained in section 4 of chapter 8 of the GT1 Price Control Financial Handbook.

64.30 The Authority shall include a statement of the values of the terms DAR and DRAV in any direction given under Part G of this condition.

Part F: Determination of adjustments for the Close-out of Logged-up and Security costs

64.31 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the close-out of Logged-up and Security costs.

64.32 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term SAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the close-out of Logged-up and Security costs. The Authority's determination shall be made in accordance with the methodology contained in section 5 of chapter 8 of the GT1 Price Control Financial Handbook.

64.33 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term SRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the close-out of Logged-up and Security costs. The Authority's determination shall be made in accordance with the methodology contained in section 5 of chapter 8 of the GT1 Price Control Financial Handbook.

64.34 The Authority shall include a statement of the values of the terms SAR and SRAV in any direction given under Part G of this condition.

Part G: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority

64.35 Subject to paragraph 64.12, revised LAR and LRAV values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

64.36 Before issuing any directions under paragraph 64.35, the Authority will give Notice to the licensee of all of the values that it proposes to direct.

64.37 The Notice referred to in paragraph 64.36 must:

- (a) state that any revised LAR and LRAV values have been determined in accordance with Part A of this condition; and
- (b) specify the period (which must not be less than 14 days from the date of the Notice) within which the licensee may make any representations or objections concerning the determination of any revised LAR or LRAV values.

64.38 The Authority shall have due regard to any representations or objections duly received under paragraph 64.35, and give reasons for its decisions in relation to them.

64.39 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised LAR and LRAV values by 30 November, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 26.11 of [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model) and, in any case, before directing a value for MODt under that paragraph.

Part I: Interpretation

64.40 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	has the meaning given in [GTC 26] Special Condition [x].
GT1 Price Control Financial Handbook	has the meaning given in [GTC 57] Special Condition [x].

**GT1 Price Control
Financial
Methodologies**

has the meaning given in [GTC 57] Special
Condition [x].

**GT1 Price Control
Financial Model**

has the meaning given in [GTC 57] Special
Condition [x].

64.41 Expressions used in paragraphs 64.3 and 64.40 are to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Methodologies that may be applicable to them.

[GTC 67] Special Condition [x]. Legacy price control adjustments – System Operator

Introduction

1.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for residual revenue adjustments relating to the SO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013) that is to be used for the purposes of the Annual Iteration Process for the GT1 Price Control Financial Model in accordance with [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).

1.2 For the purposes of this condition:

Formula Year t means the Formula Year in which the value for the term MOD(SO), calculated through a particular Annual Iteration Process, is used in the formula set out in [GTC 7] Special Condition [x] (Restriction of NTS System Operation Activity Charges)

PCFM Year means any of the series of relevant years, designated in the GT1 Price Control Financial Model in accordance with chapter 2 of the GT1 Price Control Financial Handbook, up to and including Formula Year t, in respect of which:

- (a) PCFM Variable Values may be directed under the provisions of this condition; and
- (b) base revenue factors are modelled under the Annual Iteration Process for the purposes of determining the value of the term MOD(SO) for Formula Year t.

Part A: Application of the mechanisms in this condition

1.3 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term MOD(SO) as calculated for Formula Year t for the purposes of [GTC 7] Special Condition [x] (Restriction of NTS System Operation Activity Charges) will result in an adjustment of the licensee's internal operating cost revenue (whether upwards or downwards) in a manner that is consistent with the methodology set out in Chapter [•] of the GT1 Price Control Financial Handbook.

1.4 This condition should be read in conjunction with [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Model), and [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

Part B: Residual SO Capex Incentive adjustment

1.5 The calculation of the residual SO Capex Incentive adjustments applicable to the licensee under the Annual Iteration Process will conform to the following formulae:

where

RCI means the amount of the residual SO Capex Incentive adjustment to be included in aggregate in values of the term MOD(SO) after 31 March 2013;

TCI means the amount (expressed in 2009-10 prices) of total SO Capex Incentive adjustment applicable to the licensee in respect of Formula Year 2012-13 being [SO scheme information] which the licensee will either bear as a cost to itself or retain; and

BRCI means the amount of SO Capex Incentive adjustment in respect of Formula Year 2012-13 already included in the licensee's opening System Operator internal incentives, costs and revenues opening allowances, as set down against the licensee's name in the table at Appendix 1 to [Special Condition [x] [(System Operator internal incentives, costs and revenues).]

1.6 For the purposes of the definition of the term TCI in paragraph 1.6, the amount of the licensee's allowed SO Capex [SO scheme info] for Formula Year 2012-13 is the amount which was set down in chapter [•] of the Authority's publication [•].

Part C: Process for determining the PCFM Variable Value for Residual SO Capex Incentive adjustments

1.7 The first Annual Iteration Process for the GT1 Price Control Financial Model in which any PCFM Variable Value for residual SO Capex Incentive adjustments will be used is the Annual Iteration Process that is required by [GTC26] Special Condition [x] to be undertaken by the Authority by 30 November 2014 in order to establish the value of the term MOD(SO) for the Formula Year beginning on 1 April 2015.

1.8 PCFM Variable Values for residual SO Capex Incentive adjustments will only be entered for the PCFM Year 2013/14 and shall consist of the total amount of the licensee's SO Capex (expressed in 2009/10 prices) for each of the two formula years 2011/12 and 2012/13.

1.9 The Authority may, for the purposes of any subsequent Annual Iteration Processes, direct a revision of one or more of the PCFM Variable Values for residual SO Capex Incentive adjustments referred to in paragraph 1.9, where such a revision is necessary to reflect a review of the underlying data concerned.

- 1.10 PCFM Variable Values for Residual SO Capex Incentive adjustments are to be determined in accordance with the methodology in Chapter [x] of the GT1 Price Control Financial Handbook.

Part D: Procedure to be followed for the Authority's direction

- 1.11 Subject to paragraphs 1.8 and 1.9, the PCFM Variable Value for Residual SO Capex Incentive adjustment referred to in this Condition (including any replacement value) will be directed by the Authority no later than 30 November in each Formula Year t-1.
- 1.12 If, for any reason, the Authority does not make a direction in relation to PCFM Variable Values for residual SO Capex Incentive adjustments then no PCFM Variable Value for Residual SO Capex Incentive adjustments will be entered into the GT1 Price Control Financial Model for the Annual Iteration Process concerned and that Annual Iteration Process will use the value or values subsisting in the GT1 Price Control Financial Model. In those circumstances, the Authority shall take full account of the position when directing PCFM Variable Values for SO Residual Capex Incentive adjustments in respect of the next Annual Iteration Process.
- 1.13 Before issuing any directions under paragraph 1.10, the Authority must by Notice given to the licensee set out the values that it proposes to direct.
- 1.14 The Notice referred to in paragraph 1.13 must:
- (a) state that the process and calculations by which the PCFM Variable Value included in the direction has been determined, have been carried out in accordance with the Price Control Financial Methodology set out in Chapter [●] of the GT1 Price Control Financial Handbook;
 - (b) specify the period (which must not be less than 14 days from the date of the Notice) within which the licensee may make any representations or objections concerning the process and calculations referred to in sub-paragraph (a) and the accuracy and reliability of the value resulting from them; and
 - (c) explain, where applicable, the reason for directing the replacement of the PCFM Variable Value for Residual Capex Incentive adjustments under paragraph 1.9.
- 1.15 The Authority must have regard to any representations duly received under paragraph 1.14 and not withdrawn.

Effect of using revised PCFM Variable Values

- 1.16 Where the Authority directs the use of any revised PCFM Variable Value in the Annual Iteration Process under paragraph 1.10, the effect will, subject to a carrying value adjustment, be reflected in the calculation of the term SOMOD for Formula Year t and, for the avoidance of doubt, there shall be

no retrospective effect on any previously directed value of the term SOMOD.

Part E: Interpretation

1.17 In this condition the following defined terms have the respective meanings given to them below:

Annual Iteration Process	has the meaning given in [GTC26] Special Condition [X] (Annual Iteration Process for the GT1 Price Control Financial Model)
SO Capex	has the meaning given to that term in the methodology in Chapter [•] of the GT1 Price Control Financial Handbook
SO Capex Incentive	has the meaning given to that term in the methodology in Chapter [•] of the GT1 Price Control Financial Handbook
GT1 Price Control Financial Handbook	Has the meaning given in [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model)

1.18 Expressions used in paragraph 1.17 are to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Methodologies that may be applicable to them.

[GTC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments - Transmission Owner

Introduction

47.2 The purposes of this condition are:

- (a) to establish the basis for determining PCFM Variable Values for the licensee's TO Totex Incentive Mechanism that are to be used for the purposes of the Annual Iteration Process for the GT1 Price Control Financial Model in accordance with [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model); and
- (b) to establish the basis for determining the value of the licensee's TO Total Allowed Totex (in 2009-10 prices) in relation to relevant years.

47.3 For the purposes of this condition:

Regulatory Year t means the Formula Year in which the value for the term TOMOD calculated through a particular Annual Iteration Process, is used in the formula set out in [GTC 20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue Network Revenue) and references to Regulatory Year t-1 are to be construed accordingly.

TO PCFM Variable means a value contained in the TO PCFM Variable Values

Value Table for the licensee, contained in the GT1 Price Control Financial Model:

(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and

(b) whose revision does not constitute a modification of the GT1 Price Control Financial Model for the purposes of [GTC57] Special Condition [x] (Governance of Price Control Financial Instruments).

47.4 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

- (a) the value of the term TOMOD as calculated for Formula Year t for the purposes of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue Network Revenue) will result in an adjustment of the licensee's base transmission revenue (whether upwards or downwards); and
- (b) an appropriate adjustment will be made to the licensee's Regulatory Asset Value (RAV) balance,

in a manner that is consistent with the methodology set out in Chapter 6 of the GT1 Price Control Financial Handbook.

47.5 This condition should be read and construed in conjunction with, [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Model), and [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

Part A: TO Totex Incentive Mechanism applicable to the licensee

- 47.6 The licensee's TO Totex Incentive Mechanism adjusts base transmission revenue for any overspend or under-spend of TO Totex in relation to transmission network services during any relevant year, which the licensee will either bear as a cost to itself or retain in accordance with the methodology set out in Chapter 6 of the GT1 Price Control Financial Handbook reflecting the incentive strength (set down against the licensee's name in the table at Appendix 1 to this condition).
- 47.7 The amount of overspend or under-spend referred to in paragraph 47.6 is the difference between the licensee's TO Totex for the Formula Year concerned determined in accordance with Part B of this condition and the licensee's Total Allowed TO Totex for that same relevant year, determined in accordance with Part D of this condition.
- 47.8 The value of the term TOMOD for Formula Year t and the adjustment to the licensee's RAV balance referred to in paragraph 47.4 will be in accordance with the Totex capitalisation rate applicable to the licensee which is (set down against the licensee's name in the table at Appendix 1 to this condition).

Part B: Process for determining Annual Iteration Process PCFM Variable Values for the TO Totex Incentive Mechanism

- 47.9 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) actual load related capex expenditure (TO ALC values);
 - (b) actual asset replacement capex expenditure (TP ARC values);
 - (c) actual other capex expenditure (TO AOC values);
 - (d) actual controllable opex (TO ACO values);
 - (e) actual replacement expenditure (TO ARE values);

(f) actual non-operational capex (TO ANC values); and

(g) actual contributions (TO ACC values).

Which together are summed together to comprise the TO Totex with actual contributions being a negative value.

47.10 Subject to paragraph 47.11, the Authority shall, by 30 November in each Formula Year t-1:

(a) determine a revised TO ALC, TO ARC, TO AOC, TO ACO, TO ANC, TO ACCCDE values for Formula Year t; and

(b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised values that have been determined and the relevant years to which they relate.

in each case in accordance with the methodology contained in chapter 6 of the GT1 Price Control Financial Handbook.

47.11 The first Formula Year in which the Authority will make a determination pursuant to paragraph 47.10 is Formula Year 2015/16.

47.12 If the Authority determines under paragraph 47.10 that, in accordance with the methodology contained in chapter 6 of the GT1 Price Control Financial Handbook, that the value of any of the elements of TO Totex (as set out in paragraph 47.9) are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised values that have been determined and the relevant years to which they relate.

47.13 Where the Authority directs any revised values for elements of TO Totex (as set out in paragraph 47.9) for relevant years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term TOMOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term TOMOD.

Part D: Procedure to be followed for direction of revised TO PCFM Variable Values relating to TO Totex Incentive Mechanism by the Authority

47.14 Subject to paragraphs 47.11 revised TO Totex values (as set out in paragraph 47.9) determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

47.15 Before issuing any directions under paragraph 47.14 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

47.16 The notice referred to in paragraph 47.15 must:

**GT1 Price Control
Financial
Methodologies**

has the meaning given in [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

**GT1 Price Control
Financial Model**

has the meaning given in [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

47.21 Expressions used in paragraphs 47.3 and 47.20 are to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Methodologies that may be applicable to them.

APPENDIX 1: sharing percentages

(see Part B of this condition)

Licensee	Sharing percentage
National Grid Gas plc	

APPENDIX 2: INITIALTOTAL ALLOWED TO TOTEX

(£ million, at 2009/10 price levels, for each of
Formula years 2013/14 to 2020/21

(see Part E of this condition)

Licensee	2013/14	2014/15	2015/16	2016/17
National Grid Gas plc				

Licensee	2017/18	2018/19	2019/20	2020/21
National Grid Gas plc				

[GTC66] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator

Introduction

66.1 The purposes of this condition are:

- (a) to establish the basis for determining PCFM Variable Values for the licensee's SO Totex Incentive Mechanism that are to be used for the purposes of the Annual Iteration Process for the GT1 Price Control Financial Model in accordance with [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model); and
- (b) to establish the basis for determining the value of the licensee's SO Total Allowed Totex (in 2009/10 prices) in relation to relevant years.

66.2 For the purposes of this condition:

Formula Year t means the Formula Year in which the value for the term SOMOD calculated through a particular Annual Iteration Process, is used in the formula set out in [GTC7] Special Condition [x] (xxxxxx) and references to Formula Year t-1 are to be construed accordingly.

SO PCFM Variable Value means a value contained in the SO PCFM Variable Values Table for the licensee, contained in the GT1 Price Control Financial Model:

(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and

(b) whose revision does not constitute a modification of the GT1 Price Control Financial Model for the purposes of [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

66.3 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

- (a) the value of the term SOMOD as calculated for Formula Year t for the purposes of [GTC7] Special Condition [x] (xxxxxx) will result in an adjustment of the licensee's base transmission revenue (whether upwards or downwards); and

- (b) an appropriate adjustment will be made to the licensee's Regulatory Asset Value (RAV) balance,

in a manner that is consistent with the methodology set out in Chapter 6 of the GT1 Price Control Financial Handbook.

- 66.4 This condition should be read and construed in conjunction with, [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Model), and [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

Part A: SO Totex Incentive Mechanism applicable to the licensee

- 66.5 The licensee's SO Totex Incentive Mechanism adjusts base transmission revenue for any overspend or under-spend of SO Totex in relation to transmission network services during any relevant year, which the licensee will either bear as a cost to itself or retain in accordance with the methodology set out in Chapter 6 of the GT1 Price Control Financial Handbook reflecting the incentive strength (set down against the licensee's name in the table at Appendix 1 to this condition).
- 66.6 The amount of overspend or under-spend referred to in paragraph 66.5 is the difference between the licensee's SO Totex for the Formula Year concerned determined in accordance with Part B of this condition and the licensee's Total Allowed SO Totex for that same relevant year, determined in accordance with Part D of this condition.
- 66.7 The value of the term SOMOD for Formula Year t and the adjustment to the licensee's RAV balance referred to in paragraph 66.3 will be in accordance with the Totex capitalisation rate applicable to the licensee which is (set down against the licensee's name in the table at Appendix 1 to this condition).

Part B: Process for determining Annual Iteration Process PCFM Variable Values for the SO Totex Incentive Mechanism

- 66.8 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) actual load related capex expenditure (SO ALC values);
 - (b) actual asset replacement capex expenditure (TP ARC values);
 - (c) actual other capex expenditure (SO AOC values);
 - (d) actual controllable opex (SO ACO values);
 - (e) actual replacement expenditure (SO ARE values);
 - (f) actual non-operational capex (SO ANC values); and
 - (g) actual contributions (SO ACC values)

Which together are summed together to comprise the SO Totex with actual contributions being a negative value.

- 66.9 Subject to paragraph 66.10, the Authority shall, by 30 November in each Formula Year t-1:
- (a) determine a revised SO ALC, SO ARC, SO AOC, SO ACO, SO ANC, SO ACCCDE values for Formula Year t; and
 - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised values that have been determined and the relevant years to which they relate.

in each case in accordance with the methodology contained in chapter 6 of the GT1 Price Control Financial Handbook.

66.10 The first Formula Year in which the Authority will make a determination pursuant to paragraph 66.9 is Formula Year 2015/16.

66.11 If the Authority determines under paragraph 66.9 that, in accordance with the methodology contained in chapter 6 of the GT1 Price Control Financial Handbook, that the value of any of the elements of SO Totex (as set out in paragraph 66.8) are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised values that have been determined and the relevant years to which they relate.

66.12 Where the Authority directs any revised values for elements of SO Totex (as set out in paragraph 66.8) for relevant years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term SOMOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

Part C: Procedure to be followed for direction of revised SO PCFM Variable Values relating to SO Totex Incentive Mechanism by the Authority

66.13 Subject to paragraphs 66.10 revised SO Totex values (as set out in paragraph 66.8) determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

66.14 Before issuing any directions under paragraph 66.13 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

66.15 The notice referred to in paragraph 66.14 must:

- (a) state that any revised SO totex values (as set out in paragraph 66.8) have been determined in accordance with Part B of this condition; and
- (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised SO Totex values.

66.16 The Authority shall have due regard to any representations or objections duly received under paragraph 66.14, and give reasons for its decisions in relation to them.

66.17 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised SO Totex values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.11 of [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model) and, in any case, before directing values for TOMOD_t or SOMOD_t under that paragraph.

Part D: Determination of Total Allowed SO Totex

66.18 The determination of the licensee's Total Allowed SO Totex (in 2009/10 prices), referred to in paragraph 66.1 will conform to the formula below:

Total Allowed Totex = XXXX+YYY+

for Formula Year t

[This list and formula above should pick up all PCFM Variable Values defined in the licence.]

where:

xxx [xxxx]

Part E: Interpretation

66.19 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	has the meaning given in [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).
Established Deficit	has the meaning given in chapter 4 of the GT1 Price Control Financial Handbook.
GT1 Price Control Financial Handbook	has the meaning given in [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).
GT1 Price Control Financial Methodologies	has the meaning given in [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).
GT1 Price Control Financial Model	has the meaning given in [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

66.20 Expressions used in paragraphs 66.2 and 66.19 are to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Methodologies that may be applicable to them.

APPENDIX 1: SO sharing percentages

(see Part B of this condition)

Licensee	Incentive Strength	Capitalisation rate
National Grid Gas Transmission plc	%	%

APPENDIX 2: INITIAL TOTAL ALLOWED SO TOTEX

(£ million, at 2009/10 price levels, for each of Relevant years 2013/14 to 2020/21)

(see Part D of this condition)

Licensee	2013/14	2014/15	2015/16	2016/17
National Grid Gas Transmission plc				

Licensee	2017/18	2018/19	2019/20	2020/21
National Grid Gas Transmission plc				

**[GTC 27] Special Condition [x]. Specified financial adjustments –
Transmission Owner**

Introduction

27.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the TO PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
- (b) the formula years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the GT1 Price Control Financial Model as described in [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).

27.2 For the purposes of this condition:

Formula Year t means the Formula Year in which the value for the term TOMOD calculated through a particular Annual Iteration Process, is used in the formula set out in [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) and references to Formula Year t-1 are to be construed accordingly.

TO PCFM Variable Value means a value contained in the TO PCFM Variable Values Table for the licensee, contained in the GT1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the GT1 Price Control Financial Model for the purposes of [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

27.3 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term TOMOD as calculated for Formula Year t for the purpose of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) will result in an appropriate adjustment to the licensee's Base NTS TO

Revenue (whether upwards or downwards) in a manner that appropriately reflects the licensee's:

- (a) allowed TO expenditure on pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy;
- (b) TO tax liability allowances; and
- (c) allowed TO percentage cost of corporate debt,

determined under the methodologies set out in chapters 4, 5 and 6 of the ET1 Price Control Financial Handbook respectively.

- 27.4 This condition should be read and construed in conjunction with, [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Model), and [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

Part A: Allowed TO expenditure on pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy

- 27.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) pension scheme Established Deficit allowed TO expenditure (TO EDE values); and
- (b) pension scheme administration and Pension Protection Fund levy allowed TO expenditure (TO APFE values).

- 27.6 Subject to paragraph 27.7, the Authority shall, by 30 November in each Formula Year t-1 determine whether any TO EDE values should be revised as a result of:

- (a) a valuation of the Established Deficit associated with a pension scheme sponsored by the licensee;
- (b) a review of the efficiency with which any Established Deficit position has been managed; or
- (c) a review of the level of payments actually made by the licensee to its pension scheme trustees,

in each case in accordance with the methodology contained in chapter 4 of the GT1 Price Control Financial Handbook.

- 27.7 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.6 is Formula Year 2014/15.

- 27.8 Subject to paragraph 27.9, the Authority shall, by 30 November in each Formula Year t-1 determine whether any TO APFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) pension scheme administration costs; and/or

(b) Pension Protection Fund levy costs

in each case, in accordance with the methodology contained in chapter 4 of the GT1 Price Control Financial Handbook.

27.9 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.8 is Formula Year 2014/15.

27.10 If the Authority determines under paragraph 27.6 or 27.8 that, in accordance with the methodologies contained in chapter 4 of the GT1 Price Control Financial Handbook, any TO EDE values or TO APFE values are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TO EDE values and TO APFE values that have been determined and the formula years to which they relate.

27.11 Where the Authority directs any revised TO EDE values or TO APFE values for formula years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term TOMOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term TOMOD.

Part B: TO tax liability allowances

27.12 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) TO tax liability allowance adjustments driven by tax trigger events (TO TTE values); and
- (b) TO tax liability allowance adjustments driven by the licensee's gearing levels and corporate debt interest costs (TO TGIE values).

27.13 The TO TTE values and TO TGIE values for all formula years are zero as at 1 April 2013.

27.14 Subject to paragraph 27.15, the Authority shall, by 30 November in each Formula Year t-1 determine whether any TO TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 5 of the GT1 Price Control Financial Handbook.

27.15 The first Formula Year in which the Authority will make a determination of the type referred to in paragraph 27.14 is Formula Year 2013/14.

27.16 Subject to paragraph 27.17, the Authority shall, by 30 November in each Formula Year t-1 determine whether any TO TGIE values should be revised as a result of a review of:

- (a) the licensee's actual level of gearing; and
- (b) the level of debt interest charges actually incurred by the licensee,

in each case in accordance with the methodology contained in chapter 5 of the GT1 Price Control Financial Handbook.

27.17 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.16 is Formula Year 2014/15.

27.18 If the Authority determines under paragraph 27.14 or 27.16 that, in accordance with the methodologies contained in chapter 5 of the GT1 Price Control Financial Handbook, any TO TTE values or TO TGIE values are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TO TTE values and TO TGIE values that have been determined and the formula years to which they relate.

27.19 Where the Authority directs any revised TO TTE values or TO TGIE values for formula years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term TOMOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term TOMOD.

Part C: Allowed TO percentage cost of corporate debt

27.20 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed TO percentage cost of corporate debt (TO CDE values).

27.21 Subject to paragraph 27.22, the Authority shall by 30 November in each Formula Year t-1:

(a) determine a revised TO CDE value for Formula Year t and each subsequent Formula Year in accordance with the methodology contained in chapter 6 of the GT1 Price Control Financial Handbook; and

(b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised TO CDE values that have been determined and the PCFM Years to which they relate.

27.22 The first Formula Year in which the Authority will make a determination pursuant to in paragraph 27.21 is Formula Year 2013/14.

27.23 The Authority may also revise the TO CDE value for a Formula Year earlier than Formula Year t where necessary to take into account data updates referred to in the methodology contained in chapter 6 of the GT1 Price Control Financial Handbook.

27.24 Where the Authority directs any revised TO CDE values for formula years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term TOMOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term TOMOD.

Part D: Procedure to be followed for direction of revised TO PCFM Variable Values relating to specified financial adjustments by the Authority

27.25 Subject to paragraphs 27.6, 27.9, 27.15, 27.17 and 27.22, revised TO EDE, TO APFE, TO TTE, TO TGIE and TO CDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

27.26 Before issuing any directions under paragraph 27.24, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

27.27 The notice referred to in paragraph 27.25 must:

- (a) state that any revised TO EDE and TO APFE values have been determined in accordance with Part A of this condition;
- (b) state that any revised TO TTE and TO TGIE values have been determined in accordance with Part B of this condition;
- (c) state that any revised TO CDE values have been determined in accordance with Part C of this condition; and
- (d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised TO EDE, TO APFE, TO TTE, TO TGIE or TO CDE values.

27.28 The Authority shall have due regard to any representations or objections duly received under paragraph 27.26, and give reasons for its decisions in relation to them.

27.29 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised TO EDE, TO APFE, TO TTE, TO TGIE and TO CDE values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.11 of [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model) and, in any case, before directing values for TOMODt or SOMODt under that paragraph.

Part E: Interpretation

27.30 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	has the meaning given in [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).
Established Deficit	Has the meaning given in chapter 4 of the GT1 Price Control Financial Handbook.
GT1 Price Control	has the meaning given in [GTC 57] Special Condition [x] (Governance of GT1 Price Control

Financial Handbook	Financial Instruments).
GT1 Price Control Financial Methodologies	has the meaning given in [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).
GT1 Price Control Financial Model	has the meaning given in [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).
Pension Protection Fund	Has the meaning given in chapter 4 of the GT1 Price Control Financial Handbook

27.31 Expressions used in paragraphs 27.2 and 27.30 are to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Methodologies that may be applicable to them.

[GTC 65] Special Condition [x]. Specified financial adjustments – System Operator

Introduction

65.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the SO PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
- (b) the formula years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the GT1 Price Control Financial Model as described in [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).

65.2 For the purposes of this condition:

Formula Year t means the Formula Year in which the value for the term SOMOD calculated through a particular Annual Iteration Process, is used in the formula set out in [GTC 7] Special Condition [x] (xxxxx) and references to Formula Year t-1 are to be construed accordingly.

SO PCFM Variable Value means a value contained in the SO PCFM Variable Value Values Table for the licensee, contained in the GT1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the GT1 Price Control Financial Model for the purposes of [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

65.3 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Formula Year t for the purposes of [GTC 7] Special Condition [x] (xxxxx) will result in an appropriate adjustment to the licensee's internal operating cost revenue (whether upwards or downwards) in a manner that appropriately reflects the licensee's:

- (a) allowed SO expenditure on pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy;
- (b) SO tax liability allowances; and
- (c) allowed SO percentage cost of corporate debt,

determined under the methodologies set out in chapters 4, 5 and 6 of the ET1 Price Control Financial Handbook respectively.

65.4 This condition should be read and construed in conjunction with, [GTC26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Model), and [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

Part A: Allowed SO expenditure on pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy

65.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) pension scheme Established Deficit allowed SO expenditure (SO EDE values); and
- (b) pension scheme administration and Pension Protection Fund levy allowed SO expenditure (SO APFE values).

65.6 Subject to paragraph 65.7, the Authority shall, by 30 November in each Formula Year t-1 determine whether any SO EDE values should be revised as a result of:

- (a) a valuation of the Established Deficit associated with a pension scheme sponsored by the licensee;
- (b) a review of the efficiency with which any Established Deficit position has been managed; or
- (c) a review of the level of payments actually made by the licensee to its pension scheme trustees,

in each case in accordance with the methodology contained in chapter 4 of the GT1 Price Control Financial Handbook.

65.7 The first Formula Year in which the Authority will make a determination pursuant to paragraph 65.6 is Formula Year 2014/15.

65.8 Subject to paragraph 65.9, the Authority shall, by 30 November in each Formula Year t-1 determine whether any SO APFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) pension scheme administration costs; and/or
- (b) Pension Protection Fund levy costs

in each case, in accordance with the methodology contained in chapter 4 of the GT1 Price Control Financial Handbook.

- 65.9 The first Formula Year in which the Authority will make a determination pursuant to paragraph 65.8 is Formula Year 2014/15.
- 65.10 If the Authority determines under paragraph 65.6 or 65.8 that, in accordance with the methodologies contained in chapter 4 of the GT1 Price Control Financial Handbook, any SO EDE values or SO APFE values are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SO EDE values and SO APFE values that have been determined and the formula years to which they relate.
- 65.11 Where the Authority directs any revised SO EDE values or SO APFE values for formula years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term SOMOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

Part B: SO tax liability allowances

- 65.12 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) SO tax liability allowance adjustments driven by tax trigger events (SO TTE values); and
 - (b) SO tax liability allowance adjustments driven by the licensee's gearing levels and corporate debt interest costs (SO TGIE values).
- 65.13 The SO TTE values and SO TGIE values for all formula years are zero as at 1 April 2013.
- 65.14 Subject to paragraph 65.15, the Authority shall, by 30 November in each Formula Year t-1 determine whether any SO TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 5 of the GT1 Price Control Financial Handbook.
- 65.15 The first Formula Year in which the Authority will make a determination of the type referred to in paragraph 65.14 is Formula Year 2013/14.
- 65.16 Subject to paragraph 65.17, the Authority shall, by 30 November in each Formula Year t-1 determine whether any SO TGIE values should be revised as a result of a review of:
- (a) the licensee's actual level of gearing; and
 - (b) the level of debt interest charges actually incurred by the licensee,
- in each case in accordance with the methodology contained in chapter 5 of the GT1 Price Control Financial Handbook.

- 65.17 The first Formula Year in which the Authority will make a determination pursuant to paragraph 65.16 is Formula Year 2014/15.
- 65.18 If the Authority determines under paragraph 65.14 or 65.16 that, in accordance with the methodologies contained in chapter 5 of the GT1 Price Control Financial Handbook, any SO TTE values or SO TGIE values are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SO TTE values and SO TGIE values that have been determined and the formula years to which they relate.
- 65.21 Where the Authority directs any revised SO TTE values or SO TGIE values for formula years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term SOMOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

Part C: Allowed SO percentage cost of corporate debt

- 65.20 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed SO percentage cost of corporate debt (SO CDE values).
- 65.21 Subject to paragraph 65.22, the Authority shall by 30 November in each Formula Year t-1:
- (a) determine a revised SO CDE value for Formula Year t and each subsequent formula year in accordance with the methodology contained in chapter 6 of the GT1 Price Control Financial Handbook; and
 - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised SO CDE values that have been determined and the PCFM Years to which they relate.
- 65.22 The first Formula Year in which the Authority will make a determination pursuant to in paragraph 65.21 is Formula Year 2013/14.
- 65.23 The Authority may also revise the SO CDE value for a Formula Year earlier than Formula Year t where necessary to take into account data updates referred to in the methodology contained in chapter 6 of the GT1 Price Control Financial Handbook.
- 65.24 Where the Authority directs any revised SO CDE values for formula years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term SOMOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

Part D: Procedure to be followed for direction of revised SO PCFM Variable Values relating to specified financial adjustments by the Authority

65.25 Subject to paragraphs 65.7, 65.9, 65.15, 65.17 and 65.22, revised SO EDE, SO APFE, SO TTE, SO TGIE and SO CDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

65.26 Before issuing any directions under paragraph 65.25, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

65.27 The notice referred to in paragraph 65.26 must:

- (a) state that any revised SO EDE and SO APFE values have been determined in accordance with Part A of this condition;
- (b) state that any revised SO TTE and SO TGIE values have been determined in accordance with Part B of this condition;
- (c) state that any revised SO CDE values have been determined in accordance with Part C of this condition; and
- (d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised SO EDE, SO APFE, SO TTE, SO TGIE or SO CDE values.

65.28 The Authority shall have due regard to any representations or objections duly received under paragraph 65.27, and give reasons for its decisions in relation to them.

65.29 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised SO EDE, SO APFE, SO TTE, SO TGIE and SO CDE values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.11 of [GTC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing values for TOMODt or SOMODt under that paragraph.

Part E: Interpretation

65.30 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	has the meaning given in [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).
Established Deficit	Has the meaning given in chapter 4 of the GT1 Price Control Financial Handbook.
GT1 Price Control	has the meaning given in [GTC 57] Special Condition [x] (Governance of GT1 Price Control

Financial Handbook	Financial Instruments) .
GT1 Price Control Financial Methodologies	has the meaning given in [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).
GT1 Price Control Financial Model	has the meaning given in [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).
Pension Protection Fund	Has the meaning given in chapter 4 of the GT1 Price Control Financial Handbook

65.31 Expressions used in paragraphs 65.2 and 65.30 are to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Methodologies that may be applicable to them.

[GTC 26] Special Condition [x]. Annual Iteration Process for the GT1 Price Control Financial Model

Introduction

26.1 For the purposes of this condition:

“Formula Year t” means the Formula Year in which the values for the terms TOMOD and SOMOD, determined under a particular Annual Iteration Process, are used in the formulae set out in [GTC 20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) and [GTC7] Special Condition [x] (xxxx) respectively, and references to “formula year t-1” are to be construed accordingly.

TO/SO PCFM Variable Value means, as applicable, a value contained in the TO or SO Variable Values Table for the licensee, contained in the GT1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the GT1 Price Control Financial Model for the purposes of [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

26.2 The purpose of this condition is to set out the steps of the Annual Iteration Process that the Authority will carry out in each Formula Year t-1 in relation to the GT1 Price Control Financial Model in order to determine the values of the terms TOMOD and SOMOD for Formula Year t, for the purposes of the formulae that are specified in [GTC 20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) and [GTC7] Special Condition [x] (xxxx).

26.3 The Annual Iteration Process will consist of, and will be carried out by the Authority in accordance with, the steps set out in Part A below, in a manner that is consistent with the procedures set out in chapter 2 of the GT1 Price Control Financial Handbook.

26.4 The outcome of the Annual Iteration Process with respect to the value of the terms TOMOD and SOMOD will be notified to the licensee in accordance with Part B below.

Part A: Steps comprising the Annual Iteration Process

26.5 The Authority will save a record copy of the GT1 Price Control Financial Model in the form, and with the content it has before any of the steps of the iteration process set out below are commenced.

- 26.6 Step 1: the Authority will make revisions to TO and SO PCFM Variable Values where and to the extent required in relation to price control adjustments for the licensee under:
- (a) [GTC 3] Special Condition [x] (NTS gas entry incentives, costs and revenues);
 - (b) [GTC 4] Special Condition [x] (NTS gas exit incentives, costs and revenues);
 - (c) [GTC 9] Special Condition [x] (The Innovation Roll-out Mechanism).
 - (d) Special Condition GTC 27 (Specified financial adjustments – Transmission Owner) and/or [GTC 65] Special Condition [x] (Specified financial adjustments – System Operator);
 - (e) [GTC 28] Special Condition [x] (Arrangements for the recovery of uncertain costs) and/or [GTC117] Special Condition [x] (Arrangements for the recovery of SO uncertain costs);
 - (f) [GTC47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and/or Special Condition [GTC 66] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator);
 - (g) [GTC 64] Special Condition [x] (Determination of PCFM Variable Values for previous price control adjustments – Transmission Owner) and/or [GTC 67] Special Condition [x] (Determination of PCFM Variable Values for previous price control adjustments – System Operator);
 - (h) [GTC 118] Special Condition [x] (Specification of the Network Flexibility Output and Assessment of Allowed Expenditure for Network Flexibility); and
- 26.7 Step 2: the Authority will cause the GT1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the TO or, as applicable, SO Variable Values Table for the licensee, where and to the extent required.
- 26.8 Step 3: the Authority will identify and record the values of the terms TOMOD and SOMOD calculated as a result of Step 2 and shown as outputs of the ET1 Price Control Financial Model. These values will include the effects of any revised PCFM Variable Values which, for the avoidance of doubt, shall not have any retrospective effect on a previously directed value of the terms TOMOD or SOMOD.

Part B: Notification of the values of the TOMOD and SOMOD terms

- 26.9 The values of the terms TOMOD and SOMOD for Formula Year t will be directed by the Authority no later than 30 November in each Formula Year t-1.
- 26.10 If, for any reason, the Authority does not direct a value for one or both of the terms TOMOD_t or SOMOD_t by 30 November in any Formula Year t-1, the Authority shall direct the value or values concerned as soon as is practicable thereafter. In the intervening period (between the 30 November in the Formula Year t-1 concerned and the making of a direction under this paragraph) the value of TOMOD_t and/or SOMOD_t shall be held to be equivalent to the value of TOMOD_{t-1} and/or SOMOD_{t-1}, as applicable.

Part C: Interpretation

- 26.11 In this condition the following defined terms have the respective meanings given to them below:

Annual Iteration Process	means, in relation to the GT1 Price Control Financial Model, the process set out in this condition , which is to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Handbook that may be applicable to it.
GT1 Price Control Financial Handbook	means the document of that name that was published by the Authority under reference number [•]/12 on [•] December 2012 that: <ul style="list-style-type: none">(a) includes specific information and advice about the operation of the Annual Iteration Process and the GT1 Price Control Financial Model; and(b) contains, in particular, the GT1 Price Control Financial Methodologies as modified from time to time.
GT1 Price Control Financial Methodologies	means the methodologies that: <ul style="list-style-type: none">(a) are named as such in the GT1 Price Control Financial Handbook; and(b) together comprise a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are

to be used in the Annual Iteration Process.

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means the model of that name (with a Formula Year suffix) that was first published by the Authority on [•] December 2012:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Formula Year suffix) on the Authority's website; and
- (b) that the Authority will use to determine values for the terms TOMOD and SOMOD through the application of the Annual Iteration Process.

26.12 For the avoidance of doubt, neither:

- (a) an Annual Iteration Process for the GT1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor
- (b) a change to the Formula Year included in the name of and text within the GT1 Price Control Financial Model (as referred to as paragraphs [5.22(b) and (c)] of [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments)

is a modification of the GT1 Price Control Financial Model within the meaning of Part B of [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

26.13 This condition should be read and construed in conjunction with [GTC57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

[GTC 57] Special Condition [x]. Governance of GT1 Price Control Financial Instruments

Introduction

5.2 The purpose of this condition is to establish a change control framework for each of the following GT1 Price Control Financial Instruments:

- (a) the GT1 Price Control Financial Handbook, which contains the GT1 Price Control Financial Methodologies; and
- (b) the GT1 Price Control Financial Model.

5.3 Each of the GT1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 5.4) may only be modified by the Authority in accordance with the provisions of Parts A and B below.

5.4 Parts A and B are without prejudice to the powers of the Authority to modify any part of this condition (including any GT1 Price Control Financial Instrument) under section 23 of the Act.

5.5 For the purposes of this condition, Formula Year t means the Formula Year in which values for the terms TOMOD and SOMOD, calculated through a particular Annual Iteration Process, are used in the formulae set out in [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) and [GTC7] Special Condition [x] (xxxx) respectively, and references to Formula Year t-1 are to be construed accordingly.

Part A: Assessment of the likely impact of an intended modification

5.6 Before initiating any modification of a GT1 Price Control Financial Instrument, the Authority must assess whether that modification would be likely to have a significant impact on any of the following persons:

- (a) the licensee;
- (b) any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
- (c) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.

5.7 In making the assessment required by paragraph 5.6, the Authority must:

- (a) have particular regard to any impact which an intended modification would be likely to have on any component of the licensee's allowed revenues or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and
- (b) in respect of modifications to the GT1 Price Control Financial Model, have regard to any views expressed by the GT1 Price Control Financial Model Working Group.

- 5.8 For the purposes of paragraph 5.6, it is to be presumed (subject to paragraph 5.9) that a modification which serves to correct a manifest error contained in a GT1 Price Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.
- 5.9 The presumption established by paragraph 5.8 is without prejudice to the licensee's right under paragraph 5.15 to represent to the Authority that a particular modification would in fact be likely to have a significant impact.

Part B: Circumstances in which a modification may be made

- 5.10 If, having carried out the required assessment under Part A above, the Authority considers that an intended modification of a GT1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 5.6, it may modify that instrument in accordance with paragraphs 5.11 to 5.14 below.
- 5.11 Before making any modification of a GT1 Price Control Financial Instrument under this Part B, the Authority must give the licensee a Notice that:
- (a) sets out the proposed modification and the date from which the Authority proposes that it should have effect;
 - (b) explains why in the Authority's opinion the modification is necessary;
 - (c) sets out the Authority's view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 5.6; and
 - (d) specifies a period of at least 28 days from the date of the Notice within which any representations with respect to the proposal may be made.
- 5.12 The Authority must publish any Notice issued under paragraph 5.11 on its Website and place a copy on the public register file for the licensee.
- 5.13 The Authority must consider any representations that are duly made and not withdrawn before deciding whether to proceed with the modification under this Part B.
- 5.14 Having complied with paragraphs 5.11 to 5.13, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism by which that date is to be determined).
- 5.15 If the licensee [states/demonstrates] in representations made under paragraph 5.11(d) that it reasonably considers that the modification would in fact be likely to have a significant impact of the type referred to in paragraph 5.6 or 5.7(a), the Authority may not make the modification under this Part B.

Part C: Availability and updating of GT1 Price Control Financial Instruments

- 5.16 This Part C has effect in relation to the publication and availability of the GT1 Price Control Financial Handbook including the constituent GT1 Price Control Financial Methodologies and the GT1 Price Control Financial Model.
- 5.17 The Authority must ensure that any modifications of the GT1 Price Control Financial Handbook including the constituent GT1 Price Control Financial Methodologies, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the GT1 Price Control Financial Handbook maintained on the Authority's Website.
- 5.18 The Authority must ensure that any modifications of the GT1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the GT1 Price Control Financial Model maintained on the Authority's Website.
- 5.19 Without limiting the general effect of paragraph 5.18, the Authority must by not later than 30 November in each Formula Year t-1:
- (a) publish on its Website, in Microsoft Excel ® format, the version of the GT1 Price Control Financial Model that will be used to determine the value of the terms TOMOD and SOMOD with respect to Formula Year t for the purposes of [GTC 20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) and [GTC 7] Special Condition [x] (SO);
 - (b) ensure that the electronic name of the file is "GT1 Price Control Financial Model" followed by the Formula Year t expressed in the format 20XX-XX;
 - (c) ensure that the words "GT1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November" followed by the Formula Year t expressed in the format 20XX-XX are included as text within the file itself; and
 - (d) at the same time publish an up-to-date schedule of any modifications that have been made to the GT1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.

Part D: Interpretation

- 5.20 This condition should be read and construed in conjunction with [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).
- 5.21 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	means, in relation to the GT1 Price Control Financial Model, the process set out in [GTC 26] Special Condition [x] (Annual Iteration
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Process for the GT1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Handbook that may be applicable to it.

GT1 Price Control Financial Handbook

means the document of that name that was published by the Authority under reference number [•]/12 on [•] December 2012 that:

(a) includes specific information and advice about the operation of the Annual Iteration Process and the GT1 Price Control Financial Model; and

(b) contains, in particular, the GT1 Price Control Financial Methodologies

as modified from time to time, whether under this condition or otherwise.

GT1 Price Control Financial Methodologies

means the methodologies that:

(a) are named as such in the GT1 Price Control Financial Handbook; and

(b) together comprise a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process.

as modified from time to time, whether under this condition or otherwise.

GT1 Price Control Financial Model

means the model of that name (with a Formula Year suffix) that was first published by the Authority on [•] December 2012:

(a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Formula Year suffix) on the Authority's Website; and

(b) that the Authority will use to determine the values of the terms MOD(TO) and MOD(SO) through the application of the Annual Iteration Process,

as modified from time to time, whether under

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this condition or otherwise.

means the working group identified in and whose terms of reference are set out in Chapter [•] of the GT1 Price Control Financial Handbook.

SPECIAL CONDITIONS: OTHER

[GDC/GTC 30] Special Condition [x]. Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network/ Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity

[GD – special condition E17, GT – special condition C9]

Introduction

- 30.1 This condition sets out how the licensee must allocate revenues and costs for the purposes of calculating its [[GDC20] Maximum Distribution Network Transportation Activity Revenue/ any of the values referred to in Special Conditions C8B (The NTS transportation owner activity revenue restriction) to C8G (NTS System Operator internal incentives, costs and revenues) [all GT referencing needs updated once have final licence numbers and structure]].
- 30.2 The condition also requires the licensee to have in place a statement in a form approved by the Authority that sets out the methods that the licensee will use in the allocation and attribution of revenues and costs.

Part A: General principles of allocation and attribution

- 30.3 Unless the Authority otherwise directs in writing, any allocation or attribution of revenues, costs, assets, and liabilities performed by the licensee in order to calculate any of the values referred to in the [[GDC20] Maximum Distribution Network Transportation Activity/ [GTC20] Special conditions C8B to C8G] must conform to the principles set out in paragraphs [30.4, 30.5 and 30.6].
- 30.4 Principle 1 is that the licensee must, so far as is reasonably practicable, allocate or attribute revenues, costs, assets, and liabilities in accordance with the activities which cause the revenues to be earned, the costs to be incurred, the assets to be acquired, or the liabilities to be incurred.
- 30.5 Principle 2 is that the licensee must perform its allocations and attributions on an objective basis and in a manner calculated not to unduly benefit either itself or:
- (a) any other business carried on by the licensee or by any Affiliate or Related Undertaking of the licensee under a separate licence (whether or not that licence is held within the same legal entity that holds this licence); or
 - (b) the business of any individual Distribution Network; and/or
 - (c) any other company or organisation.

30.6 Principle 3 is that, wherever practicable, the licensee must perform all allocations and attributions on a consistent basis from one Formula Year to the next.

Part B: Allocation and attribution as between principal activities

[Currently some different activities listed in GD special condition E17 and GT special condition C9. Draft below now lists all the possible activities that could be carried out by any licensee (without distinguishing between GD and GT) and requires the licensee to allocate/ attribute where applicable.]

30.7 Where, and to the extent relevant to its activities, the licensee must allocate or attribute all revenues earned and costs incurred by the Transportation and Metering Business to the following activities:

[Will consider adding cross-references for a) to f) when we have later drafts of the consolidated licence pack with final numbering.]

- (a) the NTS Transportation Owner Activity;
- (b) the Distribution Network Transportation Activity
- (c) the NTS System Operation Activity
- (d) Liquefied Natural Gas import or export facility activity
- (e) LNG Storage Business
- (f) the metering business and meter reading business
- (g) any Excluded Services provided in accordance with the principles set out in [GTC/GDC31] Special Condition [x] (Excluded Services); and

Part C: Statement of the methods to be used by the licensee

30.8 Unless the Authority otherwise directs, the licensee must, by not later than 31 July in each Formula Year, prepare and submit to the Authority a statement ("the methods statement") in a form approved by the Authority that sets out the methods that the licensee intends to use in the allocation and attribution of revenues and costs.

30.9 The methods statement must, as a minimum, clearly distinguish between the allocation or attribution of revenues, costs, assets, and liabilities to each of the activities specified in Part B above.

30.10 Where the basis of such allocations or attributions has changed from one year to the next, the methods statement must also indicate and explain how and why that basis has been changed.

30.11 The licensee must use reasonable endeavours to comply with the methods statement for the time being in force under this condition.

Part D: Power of the Authority to direct re-allocation and re-attribution

30.12 The licensee must re-allocate revenues earned by the licensee or re-attribute costs incurred by the licensee to the activities specified in Part B above in accordance with any direction made by the Authority in writing within three months after its receipt of the methods statement so that the licensee's allocations or attributions (as the case may be) comply with the principles set out in Part A above.

Part E: Preparation and submission of the methods report

30.13 Unless the Authority otherwise consents, the licensee must, by not later than four months after the end of a Formula Year, prepare and submit to the Authority a report ("the methods report") that:

- (a) describes the manner in which and the extent to which the licensee complied with the provisions of the methods statement in respect of that year; and
- (b) states whether any modification should be made to the methods statement to reflect more closely the practice of the licensee.

30.14 The methods report must be accompanied by a report from an Appropriate Auditor that:

- (a) sets out the procedures (which must have been approved by the Authority) that they have carried out for the purposes of demonstrating the extent to which the licensee has properly prepared the methods report in accordance with the methods statement and direction made under Part D above; and
- (b) states the results of those procedures. To the extent that the licensee earns revenues or incurs costs in the provision of de minimis activities under Standard Special Condition A36 (Restriction of activity and financial ring-fencing), the licensee must report on those revenues and costs in accordance with this condition.

[The definitions below will be removed from this condition when it is implemented and included in the 'Definitions and Interpretation' condition currently SSC A3]

Appropriate Auditor	has the meaning given in Standard Special Condition A3.
Liquefied Natural Gas import or export facility	has the meaning given in section 48 of the Act.
LNG Storage Business	means the activities of the licensee connected with the development, administration, maintenance and operation of the

LNG storage facilities by the licensee for the storage of gas in Great Britain and with the supply of LNG storage services relating to those facilities.

supply of storage services

means the undertaking and performance for gain or reward of engagements in connection with the storage of gas in the LNG storage facilities

[GTC36] Special Condition [x]. System Management Services

[Replaces Special Condition C5]

Introduction

- 36.1 The purpose of this condition is to ensure that the licensee operates the pipeline system to which this licence relates in an efficient, economical and co-ordinated manner and at all times has in place and maintains:
- (a) a statement that has the contents set out at Part B below in respect of the licensee's procurement of System Management Services;
 - (b) a statement that has the contents set out at Part C below in respect of the licensee's use of System Management Services;
 - (c) a methodology for determining the licensee's charges for System Management Services in accordance with the requirements of Part D below; and
 - (d) a statement under Part D below in respect of that methodology.
- 36.2 The methodology and each of the statements:
- (a) must be consistent with the licensee's duties under Part A below, with its other duties under the Act and the conditions of this licence; and
 - (b) must be in a form approved by the Authority.

Part A: General duties under this Condition

- 36.3 The licensee must operate the pipe-line system to which this licence relates in an efficient, economical, and co-ordinated manner.
- 36.4 In procuring or using System Management Services, the licensee must not show undue preference to, or unduly discriminate between, any person or any class or classes of persons.
- 36.5 The licensee's obligations under paragraph 36.4 include an obligation to ensure that the following persons or entities also comply with the prohibitions imposed by that paragraph:
- (a) any affiliate or related undertaking of the licensee; and
 - (b) any other business operated by the holder of this licence, or by any affiliate or related undertaking of the licensee, under a separate gas transporter licence for a relevant gas transporter.

Part B: System Management Principles Statement

- 36.6 Under this Part B, the licensee must have in place before 1 April in each Formula Year a System Management Principles Statement which sets out:

- (a) the kinds of System Management Services that the licensee may be interested in purchasing during that Formula Year; and
 - (b) the mechanisms by which the licensee envisages purchasing, entering into agreements for the provision of, or otherwise acquiring those services.
- 36.7 The licensee must promptly revise its System Management Principles Statement within the Formula Year in question if its intentions in relation to the procurement of System Management Services change during that period.
- 36.8 Within one month of the start of a Formula Year, the licensee must prepare a report in a form approved by the Authority about the System Management Services that the licensee has bought or acquired in the preceding Formula Year.

Part C: Procurement Guidelines Statement

- 36.9 Under this Part C, the licensee must at all times have in place a Procurement Guidelines Statement which sets out the principles and criteria by which the licensee will at different times and in different circumstances determine:
- (a) which System Management Services the licensee will use to assist it in the operation of the NTS; and
 - (b) when and for what purpose the licensee would resort to measures not involving the use of System Management Services in the operation of the NTS.
- 36.10 The licensee must use all reasonable endeavours to comply with the provisions of the Procurement Guidelines Statement.
- 36.11 As soon as practicable after the end of each Formula Year, the licensee must prepare a report that:
- (a) describes the manner in which and the extent to which the licensee has, during that year, complied with the provisions of the Procurement Guidelines Statement; and
 - (b) states whether any modification should be made to that statement to reflect more closely the practice of the licensee.
- 36.12 The report must be accompanied by a statement from an Appropriate Auditor that:
- (a) confirms that they have carried out an investigation, the scope and objectives of which were established by the licensee and approved by the Authority; and
 - (b) gives their opinion on the extent to which the licensee has complied with the provisions of the Procurement Guidelines Statement.

36.13 The licensee may from time to time revise its Procurement Guidelines Statement in accordance with the requirements of Part E below.

Part D: System Management Services Charging Methodology

36.14 This Part D applies where the uniform network code provides that any charge is to be determined (in whole or in part) by reference to the costs and volumes of Relevant System Management Services.

36.15 Where Part D applies, the licensee must at all times have in place and comply with a System Management Services Charging Methodology approved by the Authority.

36.16 The System Management Services Charging Methodology is a methodology which the licensee must use to determine which costs and volumes of Relevant System Management Services are to be taken into account under the Uniform Network Code for the purposes of determining in whole or in part the charges in any period, and which covers each of the kinds of System Management Services which the licensee buys, sells, or acquires, and the mechanisms by means of which the licensee buys, sells, or acquires them, at the time at which the methodology is established.

36.17 The licensee must at all times have in place a System Management Services Charging Methodology Statement that contains a complete and fully documented explanation of its System Management Services Charging Methodology.

36.18 The licensee may from time to time revise its System Management Services Charging Methodology in accordance with the requirements of Part F below.

Part E: Procedure for revising the Procurement Guidelines Statement - Part C

36.19 The licensee must if so directed by the Authority, and in any event at least once in each Formula Year, review its Procurement Guidelines Statement in consultation with gas shippers, DN operators, and other persons likely to be materially affected by the licensee's procurement of System Management services.

36.20 The consultation must allow a period of not less than 28 days in which persons can make representations to the licensee.

36.21 Within seven days after completing the consultation, the licensee must send to the Authority:

- (a) a report on the outcome of the review;
- (b) a statement of any proposed revisions to the Procurement Guidelines Statement that the licensee (having regard to the outcome of the review) reasonably considers would better achieve the objectives set out at paragraph [36.2(a)]; and

- (c) any written representations or objections (including any proposals for revising the statement that have not been accepted by the licensee) that were received from any of the persons mentioned in paragraph 36.19 during the consultation process and have not been withdrawn.

36.22 The licensee may revise the Procurement Guidelines Statement only in accordance with any revision that falls within paragraph [36.21(b)], and only if the Authority consents to that revision.

Part F: Procedure for revising the Part D Methodology

36.23 Whenever the licensee first buys, sells, or acquires any Relevant System Management Service of a kind or under a mechanism that is not already covered by its System Management Services Charging Methodology, it must promptly seek to establish a revised methodology approved by the Authority which does cover that kind of service or that mechanism, as the case may be.

36.24 Subject to paragraph [36.25] below, before revising its System Management Services Charging Methodology the licensee must:

- (a) send a copy of its proposed revisions to the Authority and to any person who asks for a copy;
- (b) consult gas shippers and allow them a period of not less than 28 days in which to make representations;
- (c) where the proposed revisions might impact upon NTS Exit Flat Capacity [Potential new definition needed] or NTS Exit Flow Flexibility [Potential new definition needed], consult DN Operators and allow them a period of not less than 28 days in which to make representations; and
- (d) within seven days of the close of the consultations under this paragraph, submit to the Authority a report ("the revisions report") that sets out the revisions originally proposed, the representations (if any) received by the licensee, and any proposed change to the original proposals.

36.25 The Authority may direct that any of sub-paragraphs (a) to (d) of paragraph [36.24] is not to apply, in which event the licensee must comply with such other requirements as are specified in the direction.

36.26 The licensee must not revise its System Management Services Charging Methodology:

- (a) until the end of the period of 28 days from the date on which the Authority receives the revisions report; or
- (b) if within that period the Authority directs the licensee not to make the revision; or
- (c) if paragraph [36.25] applies, before the day (if any) specified in the Authority's direction under that paragraph.

Part G: Availability of licensee's statements and reports

36.27 This Part G applies, to the extent set out below, to the statements and reports prepared by the licensee in accordance with Parts B to D above (each a "relevant statement" or a "relevant report", as the case may be) and to any revisions of a statement under Part B, E, or F above (each a "relevant revision").

36.28 The licensee, subject to the provisions of Part D below, must:

- (a) give the Authority a copy of each relevant statement, each relevant report, and each relevant revision;
- (b) give a copy of each relevant statement (or the most recent relevant revision of it) and of each relevant report to any person who asks for a copy and makes such payment to the licensee as it may require (which must not exceed such amount as the Authority may from time to time approve for that purpose); and
- (c) publish, by such date and in such form and manner as the Authority may approve, each relevant statement and each relevant revision.

Part H: Exclusion of certain matters

36.29 In complying with the requirements of paragraphs [36.28(b) and (c)], the licensee must have regard to the need for excluding, so far as is practicable, any matter that relates to the affairs of a person where the publication of that matter would or might seriously and prejudicially affect his interests.

36.30 Any question arising under paragraph [36.29] as to whether the publication of some matter that relates to the affairs of a person would or might seriously and prejudicially affect his interests is to be resolved by the Authority unless the Authority otherwise consents in writing.

Part I: Retention of particulars and records

36.31 Unless the Authority otherwise consents, the licensee must maintain for a period of seven years:

- (a) particulars of all System Management Services offered to it;
- (b) particulars of all contracts for System Management Services that it has entered into;
- (c) records of all System Management Services called for and provided; and
- (d) records of the quantities of gas transported through the NTS.

36.32 The licensee must supply the Authority with any Information that it reasonably asks for about the procurement and use of System Management Services.

Part J: Derogations

36.33 The Authority may (after consulting the licensee) give a direction that relieves it of any or all of its obligations under this condition to such extent, for such period of time, and subject to such conditions as may be specified in the direction.

Part K: Interpretation

36.34 For the purposes of this condition only:

Balancing Trade means an eligible balancing action within the meaning given to that term in the Uniform Network Code.

Relevant System Management Services means System Management Services other than:

- (a) those that the licensee has acquired through a Balancing Trade (if that trade was not made pursuant to any prior agreement); and
- (b) those that the Authority directs the licensee not to treat as Relevant System Management Services.

System Management Services means services in relation to the balancing of gas inputs to and gas offtakes from the NTS, and includes Balancing Trades and Balancing Trade derivatives and constraint management services.

System Management Services Charging Methodology has the meaning given to that term in paragraph [36.16].

[GTC37] Special condition [x].Transmission Planning Code

[Replaces Special Condition C11]

Introduction

37.1 The licensee must at all times, maintain, and implement and comply with the provisions of a Transmission Planning Code (“the TPC”) in a form approved by the Authority that conforms to the requirements set out in Part A below.

Part A: Requirements in respect of TPC scope and contents

37.2 The first requirement is that the TPC must cover all material technical aspects relating to the planning and development of the pipe-line system to which this licence relates that may have a material impact on persons connected to or using (or intending to connect to or use) that pipe-line system.

37.3 The second requirement is that the TPC must include a methodology for determining the physical capability of the pipe-line system to which this licence relates that specifies in detail how the licensee takes into account:

- (a) its entry capacity release obligations pursuant to [GTC3] Special Condition [x] (NTS gas entry incentives, costs, and revenues) and its exit capacity release obligations pursuant to [GTC4] Special Condition [x] (NTS gas exit incentives, costs and revenues);
- (b) the amount of capacity that may technically be transferred or traded between NTS Entry Points;
- (c) the impact of incremental gas flows on the capability of the pipe-line system to which this licence relates at each NTS Entry Point and each NTS Exit Point; and
- (d) the Statutory Network Security Standard.

37.4 The third requirement is that the TPC must include the detailed planning assumptions that the licensee uses in respect of:

- (a) the likely developments expected in the patterns of the supply of gas to, and the demand for gas from, the pipe-line system to which this licence relates;
- (b) the likely developments expected in the levels of the supply of gas through and the demand for gas from that pipe-line system; and
- (c) the likely operation of the pipe-line system to which the licence relates for any given pattern and/or level of supply of gas or demand for gas.

37.5 The licensee must review, and may from time to time revise, the TPC in accordance with the requirements of Part B below.

Part B: Requirements for review and revision of the TPC

- 37.6 The licensee must if so requested by the Authority, and in any event not less than once in every period of two Formula Years, review the TPC in consultation with Interested Parties likely to be materially affected by the review.
- 37.8 Within 28 days after completing the review, the licensee must send to the Authority:
- (a) a report (“the review report”) on the outcome of the review;
 - (b) a statement of any proposed revisions to the TPC that the licensee (having regard to the outcome of the review) reasonably considers would lead to the TPC better fulfilling the requirements set out in Part A above; and
 - (c) any written representations or objections (including any proposals for revising the TPC that have not been accepted by the licensee) that were received from Interested Parties during the consultation process and have not been withdrawn.
- 37.9 The licensee may revise the TPC only in accordance with any revisions that are set out in the statements referred to in paragraph [37.8(b)] and only if the Authority has approved such revisions (but this is subject to paragraph [37.10]).
- 37.10 If the Authority has not informed the licensee in writing of its decision in respect of such revisions within 28 days after the date on which the review report was submitted to the Authority, the Authority shall be deemed to have approved the revisions and the licensee may incorporate them into the TPC.

Part C: Derogations

- 37.11 The Authority may (after consulting the licensee) give a direction (“a derogation”) to the licensee that relieves it of its obligations to implement or comply with the provisions of the TPC in respect of such parts of the pipe-line system to which this licence relates, and to such extent, for such period of time, and subject to such conditions, as may be specified in the derogation.

Part D: Interpretation

- 37.12 For the purposes of this condition only:

Interested Parties means gas shippers, DN Operators, owners of gas storage facilities, and the owners of LNG Import Facilities.

Statutory Network Security Standard has the meaning given to the term “Gas Security Standard” as defined in Standard Special Condition A9 (Pipe-line System Security Standards).

[GTC38] Special condition [X]. Licensee's Network Model

[Replaces Special Condition C24]

Introduction

- 38.1 The licensee must at all times have in place and maintain a computer simulation model (which is to be known as the Network Model) of the pipeline system to which this licence relates.
- 38.2 The Network Model must be in a form approved by the Authority and must be designed to meet the three Network Model Objectives set out in Part A below.
- 38.3 The licensee must provide the Authority, if required, reasonable access to the Network Model and must use reasonable endeavours to provide the Authority with remote access to enable it to operate the Network Model.

Part A: Network Model Objectives

- 38.4 The three Network Model Objectives are that the Network Model should:
- (a) facilitate the licensee's compliance with its duty under section 9(1)(a) of the Act;
 - (b) be consistent with the Transmission Planning Code maintained by the licensee under Condition [GTC 37] Special Condition [x] (Transmission Planning Code); and
 - (c) be so designed as to demonstrate its consistency with each of the preceding two objectives.
- 38.5 The licensee must review, and may from time to time revise, the Network Model in accordance with the requirements of Part B below.

Part B: Review and revision of the Network Model

- 38.6 The licensee must if so requested by the Authority, and in any event not less than once in every period of two Formula Years, review the Network Model to ensure that it continues to meet the Network Model Objectives.
- 38.7 Within 28 days after completing any such review, the licensee must give the Authority a report ("the review report") that sets out:
- (a) the outcome of the review;
 - (b) how any proposed changes to the Network Model would better achieve the Network Model Objectives; and
 - (c) the date on which the licensee plans to implement any proposed revisions to the Network Model.

- 38.8 Except where the Authority otherwise consents in writing, any material revisions to the Network Model that are proposed by the licensee within the review report may only be made with the Authority's approval (but this is subject to paragraph [38.9]).
- 38.9 If the Authority has not informed the licensee in writing of its decision in respect of such revisions within 28 days after the date on which the review report was submitted to the Authority, the Authority shall be deemed to have approved the revisions and the licensee may incorporate them into the Network Model.
- 38.10 In giving an approval under paragraph [38.8], the Authority may require that the licensee appoint an independent expert to review the implementation of the proposed revisions to the Network Model.
- 38.11 Where the Authority requires a review under paragraph [38.10], the licensee must within two months after the implementation of the revisions provide a copy of the independent expert's report to the Authority, confirming that the revisions have been implemented and that the Network Model is in use in its modified form.

Part C: Provision and modification of network data

- 38.12 The licensee must include in the Network Model all the data necessary for the Network Model to satisfy the Network Model Objectives ("the relevant data").
- 38.13 The licensee must:
- (a) at all times have in place a statement of procedures for modifying or updating the relevant data;
 - (b) keep under review the procedures set out in that statement; and
 - (c) propose such revisions to those procedures as it considers necessary in the light of such review.
- 38.14 The statement of procedures under paragraph [38.13] and (except where the Authority otherwise consents in writing) all revisions to it must be approved by the Authority (but this is subject to paragraph [38.15]).
- 38.15 If the Authority has not informed the licensee in writing of its decision in respect of the statement of procedures (or any revision to it) within 28 days after the date on which the statement (or the revision) was submitted to the Authority, the Authority shall be deemed to have approved the statement (or revision).
- 38.16 The Authority may, by written notice to the licensee, ask it to provide such of the relevant data as the Authority considers is reasonably required to enable it to operate the Network Model for any such period as may be specified in the notice.

38.17 The licensee must use [reasonable endeavours] to provide the relevant data specified in any Notice under paragraph [38.16].

Part D: Derogations

38.18 The Authority may (after consulting the licensee) give the licensee a direction that relieves it of its obligations under this condition to such extent, for such period of time, and subject to such conditions as may be specified in the direction.

[GTC50] Special Condition [x]: Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services

SC C3 - For inclusion with Second Informal Licence Consultation.

[GTC73] Special Condition [X]. Methodology for Network Output Measures

Introduction

1. The purpose of this condition is to ensure that the licensee has in place a Methodology for Network Output Measures that achieves the objectives set out in paragraph 3.

Part A: Licensee's general obligations under this condition

2. The licensee must at all times have in place and maintain a Methodology for Network Output Measures ("the NOMs Methodology") that:
 - (a) facilitates the achievement of the NOMs Methodology Objectives set out in Part B below;
 - (b) enables the objective evaluation of the Network Output Measures set out in Part C below;
 - (c) is implemented by the licensee in accordance with the provisions of Part D below; and
 - (d) may be modified from time to time in accordance with the provisions of Part E below.

Part B: The NOMs Methodology Objectives

3. The NOMs Methodology Objectives as referred to in paragraph 2(a) include the following objectives:
 - (a) the monitoring of the licensee's performance in relation to the development, maintenance, and operation of an efficient, co-ordinated and economical pipe-line system for the conveyance of gas;
 - (b) the assessment of historical and forecast network expenditure on the pipe-line system to which this licence relates;
 - (c) the comparative analysis of performance over time between:
 - (i) geographic areas of, and network assets within, the pipe-line system to which this licence relates;
 - (ii) pipe-line systems for the conveyance of gas within Great Britain; and
 - (iii) pipe-line systems for the conveyance of gas in Great Britain and in other countries.
 - (d) the communication of relevant information regarding the pipe-line system to which this licence relates between the licensee, the Authority and other interested parties in a transparent manner; and

- (e) the assessment of customer satisfaction derived from the services provided by the licensee as part of its transportation business.

Part C: The Network Output Measures methodology

- 4. The NOMs Methodology shall be designed to enable the evaluation of:
 - (a) the Network Assets Condition Measure, which relates to the current condition of the licensee’s Network Assets, the reliability of the licensee’s Network Assets, and the predicted rate of deterioration in the condition of the licensee’s Network Assets, which is relevant to assessing the present and future ability of the Network Assets to perform their function;
 - (b) the Network Risk Measure, which relates to the overall level of risk to the reliability of the pipe-line system to which this licence relates that results from the condition of the Network Assets and the interdependence between the Network Assets;
 - (c) the Network Performance Measure, which relates to those aspects of the technical performance of the pipe-line system to which this licence relates that have a direct impact on the reliability and cost of services provided by the licensee as part of its transportation business; and
 - (d) the Network Capability Measure, which relates to the level of the capability and utilisation of the pipe-line system to which this licence relates at entry and exit points and to other network capability and utilisation factors;

Collectively the “Network Output Measures” to which paragraph 2(b) refers.

- 5. For the purposes of this condition, “Network Assets” means the assets that collectively form the pipe-line system to which this licence relates, and includes the principal components of those assets.
- 6. The licensee must set out in its NOMs Methodology the categories of data that are to be used and the methodology that is to be applied to such data to derive each of the Network Output Measures.

Part D: Implementation of the NOMs Methodology

- 7. Except where the Authority otherwise consents, the licensee must provide it with:
 - (a) such information (whether historic, current, or forward-looking) about the Network Output Measures; supported by
 - (b) such relevant other data and such examples of network modelling, as may be specified for the purposes of this condition in any Regulatory Instructions and Guidance (“RIGs”) that have been issued by the Authority in accordance with the provisions of standard special condition A40 [GTC/GDC74] (Regulatory Instructions and Guidance).

8. The information and other matters mentioned in paragraph 7 must be provided in such manner, in respect of such periods, and within such timeframes as may be specified in the RIGs to which that paragraph refers.

Part E: Modification of the NOMs Methodology

9. The licensee must at all times keep the NOMs Methodology under review to ensure that it facilitates the achievement of the NOMs Methodology Objectives.
10. The NOMs Methodology may be modified from time to time for the purpose of enabling the methodology to better facilitate the achievement of the NOMs Methodology Objectives.
11. The licensee may make a modification to the NOMs Methodology, subject to paragraph 13, after:
 - (a) consulting with interested parties, allowing them a period of at least 28 days within which to make written representations with respect to the licensee's modification proposal; and
 - (b) submitting to the Authority a report that contains all of the matters that are listed in paragraph 12.
12. The matters to which paragraph 11(b) refers are these:
 - (a) a statement of the proposed modification to the NOMs Methodology;
 - (b) a full and fair summary of any representations that were made to the licensee pursuant to paragraph 11(a) and were not withdrawn;
 - (c) an explanation of any changes that the licensee has made to its modification proposal as a consequence of such representations;
 - (d) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NOMs Methodology Objectives;
 - (e) a presentation of the data and other relevant information (including historical data, which should be provided, where reasonably practicable, for a period of at least ten previous years) that the licensee has used for the purpose of developing the proposed modification; and
 - (f) a timetable for the implementation of the proposed modification, including an implementation date (which must not be earlier than the date on which the period referred to in paragraph 13 would expire).
13. Where the licensee has complied with the requirements of paragraphs 11 and 12, the licensee may implement the proposed modification to the NOMs Methodology unless the Authority, within 28 days after receiving the

report submitted to it under paragraph 11(b), issues a direction to the licensee requiring it not to implement the proposed modification.

14. The Authority, after consulting with the licensee and any other interested parties, may direct the licensee to modify the NOMs Methodology in such manner, to such extent, and with effect from such time as may be specified in the direction.
15. The licensee must comply with the requirements of any direction given to it under paragraph 14.

Part F: Interpretation

16. For the purposes of this condition only:

Methodology for Network Output Measures

means the methodology that was in place under this licence under the name of "Network Output Measures methodology" in the form in which this licence was in force at 31 March 2013 or as subsequently amended as provided for in this condition.

Network Assets

has the meaning given to that term in paragraph 5.

Network Output Measures

means the Network Assets Condition Measure, the Network Risk Measure, the Network Performance Measure, and the Network Capability Measure, each as defined in paragraph 4.

NOMs Methodology

means the Methodology for Network Output Measures.

NOMs Methodology Objectives

means the objectives listed under part B of this condition.

RIGs

has the meaning given to that term in paragraph 7.