

Supporting Document 2: Draft RIIO-T1 Gas Transmission licence changes

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SPECIAL CONDITIONS

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[GTC 19] Special Condition [x]. Definitions

[Special Condition C8A]

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Special Condition C1B: ~~Amendment to A40 (Price Control Review Information [GTC 135])~~

[Delete entire current text]

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[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:

$$TOR_t = TOREntC_t + TORExC_t + TORCOM_t$$

20.4 In the formula for the TOR_t term above:

$TOREntC_t$ means that amount of NTS TO Revenue in respect of Formula Year t that results from the sale of the following types of entry capacity:

- (a) non-incremental obligated entry capacity (ahead of the gas day); and
- (b) funded incremental obligated entry capacity (ahead of the gas day);

$TORExC_t$ means that amount of NTS TO Revenue in respect of Formula Year t that results from the sale of the following types of exit capacity:

- (a) non-incremental obligated exit capacity (ahead of the gas day); and
- (b) funded incremental obligated exit capacity (ahead of the gas day);

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

- (a) charges levied by the licensee on gas shippers and DN Operators pursuant to

Standard Special Condition A4
(Charging– General); or

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

other than revenue earned by the licensee through $TOREntC_t$ and $TORExC_t$.

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):

$$MR_t = BR_t + PT_t + OIR_t + NIA_t + [NICF_t] - K_t$$

20.6 In the Principal Formula:

- MR_t means the amount of Maximum NTS Transportation Owner Revenue in Formula Year t.
- BR_t means the amount of Base NTS Transportation Owner Revenue in Formula Year t as derived in accordance with the formula set out in Part D of this condition.
- OIR_t means the amount of the NTS Transportation Owner Revenue output incentive 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.
- PT_t means the amount of the NTS Transportation Owner Revenue allowed pass-through items adjustment made in Formula Year t as derived in accordance with [GTC 21] Special Condition [x] (calculation of allowed pass-through items).
- 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).
- $NICF_t$ 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).
[Note, the inclusion of this term is subject to consultation]
- K_t has the value zero in Formula Year 2013/14, and in each subsequent Formula Year means the amount of the correction factor, whether of a positive or negative value, in Formula Year t as derived in accordance with the formula set out in Part F below.

Part D: Calculation of Base NTS Transportation Owner Revenue (BR_t)

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

$$BR_t = (PU_t + MOD_t + TRU_t) \times RPIF_t$$

20.8 In the formula for the BR_t term above:

PU_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.

MOD_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 and is derived 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 in Formula Year t and is derived in accordance with paragraph 20.9 of this condition.

TRU_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 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 RPIF_t is derived in accordance with the following formula:

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

where:

$$RPIA_t = \frac{RPI_t}{RPI_{2009/10}}$$

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

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

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 in the circumstances; 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 in the circumstances.]

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

GRPIF_c means the Retail Prices Index Forecast Growth Rate for 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 in the circumstances; 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 in the circumstances.]

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

$$TRU_t = \left(\frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right) \times REV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

20.11 In the formula for the TRU_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.

REV_{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:

$$REV_{t-2} = (BR_{t-2} + RB_{t-2} + LF_{t-2} + OPTC_{t-2}) / RPIF_{t-2}$$

where:

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

RB_{t-2} means the amount of the business rates adjustment in Formula Year t-2 as derived in accordance with Part B of [GTC 21].

LF_{t-2} means the amount of the licence fee adjustment in Formula Year t-2 as derived in accordance with Part C of [GTC 21].

OPTC_{t-2} means the amount of the policing cost adjustment in Formula Year t-2 as derived in accordance with Part D of [GTC 21].

Part E: Calculation of the NTS Transportation Owner Revenue outputs incentive adjustment (OIR_t)

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

$$\text{OIR}_t = \text{SSO}_t + \text{PA}_t$$

20.13 In the formula for the OIR_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] (Stakeholder Satisfaction Output).

PA_t means the amount of the permit revenue adjustment made in Formula Year t in respect of the licensee's Permit Arrangements as derived in accordance with [GTC 131] Special Condition [x] (Permit arrangements in relation to the release of incremental entry and exit capacity).

Part F: Calculation of the NTS Transportation Owner Revenue correction factor (K_t)

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

$$K_t = (\text{TOR}_{t-2} - \text{MR}_{t-2}) \times \left(1 + \frac{I_{t-2} + \text{PR}_t}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

20.15 In the formula for correction factor (K_t) above:

TOR_{t-2} means the NTS Transportation Owner Revenue as derived in accordance with Part B of this condition in respect of the Formula Year t-2. The only exception to this is for the Formula Year commencing 1 April 2014 where it 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.

MR_{t-2} means the Maximum NTS Transportation Owner Revenue as derived in accordance with Part C of this condition in respect of the Formula Year t-2. The only exception to this is for the Formula Year commencing 1 April 2014 where it 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.

[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

20.16 For the purposes of Part G of this condition, the value of the interest rate adjustment PR_t is to be treated as follows:

- (a) if, in respect of Formula Year $t-2$, NTS Transportation Owner Revenue exceeds 103 per cent of Maximum NTS Transportation Owner Revenue, PR_t must have the value of 3;
- (b) if, in respect of Formula Year $t-2$, NTS Transportation Owner Revenue is less than 97 per cent of Maximum NTS Transportation Owner Revenue, PR_t must have the value of zero;
- (c) and in all other cases
- (d) PR_t must have the value 1.5.

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

20.17 If, in respect of each of two successive Formula Years, the licensee’s NTS Transportation Owner Revenue exceeds 106 per cent of Maximum NTS Transportation Owner Revenue, the licensee:

- (a) must provide an explanation for that event in writing to the Authority by 31 July following the end of the Formula Years in question; and
- (b) must not increase its NTS Transportation Owner Charges during the following Formula Year except and to the extent that the Authority has consented to such an increase.

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

20.18 If, in respect of each of two successive Formula Years, the licensee’s NTS Transportation Owner Revenue is less than 90 per cent of Maximum NTS Transportation Owner Revenue, the Authority, after consultation with the licensee, may by notice to the licensee specify the value of the term TOR_{t-2} to be used for the purposes of calculating the licensee’s correction factor term (K_t) under Part F of this condition.

20.19 The value specified by the Authority for TOR_{t-2} under paragraph 20.18 may not be lower than the original value for TOR_{t-2} or higher than 90 per cent of the value of the MR_{t-2} term to be used in the calculation to which that paragraph refers.

Appendix 1

Values for the PU term (2009-10 prices)

(see paragraph 20.8 of this condition)

Licensee	PU Value (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
[name]	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx

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[GTC 21] Special Condition [x]. 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) for the purposes of Part C of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).
- 21.2 The effect of the application of the PT_t term in Part C of [GTC20] Special Condition [x] is to ensure that the level of the licensee's Maximum NTS Transportation Owner Revenue derived in accordance with that condition reflects certain costs that can be passed through to users.

Part A: Formula for calculation of allowed pass-through items (PT_t)

- 21.3 For the purposes of Part C of [GTC20] Special Condition [x], 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):

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

- 21.4 In the Principal Formula:

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

$OPTC_t$ means the amount, in Formula Year t , in respect of 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, as derived in accordance with the formula set out in Part D below, representing the policing cost adjustment term.

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 and as derived in accordance with [GTC 56] Special Condition [x] (Gas Conveyed to Independent Systems).

[This term may be removed following decision on GT-GT transfer issue (see Initial Proposals for further details)]

$NTSPDC_t$ 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:

$$RB_t = \left(\frac{RBA_{t-2}}{RPIA_{t-2}} - RBE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

21.6 In the formula for the RB_t term above:

RBA_{t-2} means the NTS prescribed rates, in Formula Year t-2, and has the value of 39.4 per cent, 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-2} means the NTS prescribed rates allowance at in Formula Year t-2, and has the value of £X million.

RPIA_{t-2} has the value given to it by Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).

PVF_t is the present value adjustment term as defined in Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).

RPIF_t has the value given to it by Part D of [GTC20] Special Condition [x] (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 used by the licensee in respect of its NTS Transportation Owner Activity 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, unless The Authority has satisfied itself that the licensee has used its best endeavours to minimise the amount of the prescribed rates. In which case the Authority may direct that the formula set out in this Part B is to apply for the purposes of calculating the RB_t 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)

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

$$LF_t = \left(\frac{LFA_{t-2}}{RPIA_{t-2}} - LFE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

21.9 In the formula for the LF_t term above:

LFA_{t-2} means the amount of the payments, in Formula Year t-2, made by the licensee in respect of the NTS Transportation Owner Activity under

Standard Condition 3 (Payments by the Licensee to the Authority).

- LFE_{t-2} means the amount of the licence fee allowance in Formula Year t-2, and has the value of £X million.
- $RPIA_{t-2}$ has the value given to it by Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).
- PVF_t is the present value adjustment term as defined in Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).
- $RPIF_t$ has the value given to it by Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).

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

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

$$OPTC_t = \left(\frac{OPTA_{t-2}}{RPIA_{t-2}} - OPTE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

21.11 In the formula for the $OPTC_t$ term above:

- $OPTA_{t-2}$ means the amount of the payments, in Formula Year t-2, made by the licensee to the Secretary of State in respect of provision of policing services.
- $OPTE_{t-2}$ means the amount of the policing cost allowance in Formula Year t-2, and has the value of £X million.
- $RPIA_{t-2}$ has the value given to it by Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).
- PVF_t is the present value adjustment term as defined in Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).
- $RPIF_t$ has the value given to it by Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).

[GTC 24] Special condition [x]. Stakeholder Satisfaction Output

Introduction

- XX.1 The purpose of this condition is to set out the mechanism for calculating the value of the licensee's Stakeholder Satisfaction Output (SSO_t) term.
- XX.2 The effect of the application of the SSO_t term in [GTC 20] Special condition [x] [insert title] is to adjust the amount of the Outputs Incentive Payment (OIR_t) 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

- XX.3 For the purposes of Part [E] of [GTC 20] Special condition [x], the value of the SSO_t term is derived in accordance with the following formula:

$$SSO_t = SER_t + SSS_t$$

- XX.4 In the formula for the SSO_t term above:

SSO_t means the value of an adjustment to the amount of the licensee's Outputs Incentive Payment (OIR_t) under Part [E] of [GTC 20] Special condition [x] in respect of the licensee's performance in relation to its Stakeholder Satisfaction Output in Formula 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 effective stakeholder engagement by it has led to High Quality Outcomes for its Stakeholders in respect of performance in Formula Year t-2; and

SSS_t (the Stakeholder Satisfaction Survey term) means the adjustment that is required in respect of the licensee's survey performance in Formula 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

- XX.5 The maximum value of the SER term for each Formula Year that can be determined by the Authority for the licensee is to be derived in accordance with the following formula:
- $$SER_t \text{ max} = 0.005 \times BR_t$$
- XX.6 The maximum value is derived in accordance with the provisions of Part [D] of [GTC 20] Special condition [x].
- XX.7 For Formula Years 2013/14 and 2014/15, SER_t will equal zero.
- XX.8 The licensee may apply to be awarded a Stakeholder Engagement Reward in respect of Formula 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).

XX.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]

XX.10 The Stakeholder Engagement Reward Guidance may be modified by the Authority by direction following the procedure set out in this Part C.

XX.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;
 - (iii) 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

[See Appendix 1A (NGET/NGGT) of this condition. The drafting reflects the TO’s latest proposals for Part D. We have been discussing these approaches in general terms with them over the year. However, at this stage we are still reviewing the drafting proposed and would welcome views]

Part E: Interpretation

XX.12 For the purposes of this condition:

Customer	means any stakeholder who pays the licensee through network charges;
High Quality Outcomes	For the purposes of determinations made by the Authority pursuant to the provisions of Part B above, “high quality outcomes” will be defined in the Stakeholder Engagement Reward Guidance in relation to the key areas of assessment set out in

the Guidance for the year in question;

Stakeholder	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];
Stakeholder Satisfaction Output	[to be inserted after consultation in 2013]; and
Target Stakeholder Satisfaction Survey Score	[to be inserted after consultation in 2013].

DRAFT

Appendix 1A [NGGT]: Part D: Adjustments arising from the customer and stakeholder satisfaction surveys

24.13 The amount of the SSS term (relating to the customer and stakeholder satisfaction surveys) is derived from the following formula:

$$SSS_t = BR_t \times [(CSSAF_t \times CSSPRO_t) + (SSSAF_t \times [1 - CSSPRO_t])]$$

Where:

BR_t means the amount of Base Transmission Network Activity Revenue in relevant year t and shall be calculated in accordance with Part [C] of [ETC20];

CSSAF_t is the revenue adjustment factor based on the licensee's performance against the customer satisfaction survey in the relevant year t, and is derived from the following formula:

If $CSSP_t > CSST$:

$$CSSAF_t = \min \left(CSSUPA, CSSUPA \left[\frac{CSSP_t - CSST}{CSSCAP - CSST} \right] \right)$$

If $CSSP_t < CSST$:

$$CSSAF_t = \max \left(CSSDPA, CSSDPA \left[\frac{CSST - CSSP_t}{CSST - CSSCOL} \right] \right)$$

Otherwise:

$$CSSAF_t = 0$$

Where:

CSST is the customer satisfaction survey target, and shall have the value 6.9.

CSSCAP is the customer satisfaction survey cap, and shall have the value 8.5.

CSSUPA is the customer satisfaction maximum upside percentage adjustment, and shall have the value 1%.

CSSCOL is the customer satisfaction survey collar, and shall have the value of 5.3.

CSSDPA_t is the customer satisfaction maximum downside percentage adjustment, and shall have the value -1%.

CSSP_t is the overall customer satisfaction survey result in the relevant year t;

Min(A,B) means the value equal to the lesser of A and B; and

Max(A,B) means the value equal to the greater of A and B

SSSAF_t is the revenue adjustment factor based on the licensee's performance against the stakeholder satisfaction survey in the relevant year t, and is derived from the following formula:

If $SSSP_t > SSST_t$:

$$SSSAF_t = \min \left(SSSUPA_t, SSSUPA_t \left[\frac{SSSP_t - SSST_t}{SSSCAP_t - SSST_t} \right] \right)$$

If $SSSP_t < SSST_t$:

$$SSSAF_t = \max \left(SSSDPA_t, SSSDPA_t \left[\frac{SSST_t - SSSP_t}{SSST_t - SSSCOL_t} \right] \right)$$

Otherwise:

$$SSSAF_t = 0$$

Where:

SSST_t is the stakeholder satisfaction survey target, and shall have the value [X].

SSSCAP_t is the stakeholder satisfaction survey cap and shall have the value [Y].

SSSUPA_t is the stakeholder satisfaction maximum upside percentage adjustment and shall have the value 1%.

SSSCOL_t is the stakeholder satisfaction survey collar and shall have the value [Z].

SSSDPA_t is the stakeholder satisfaction maximum downside percentage adjustment, and shall have the value -1%.

SSSP_t is the overall stakeholder satisfaction survey result in the relevant year t;

Min(A,B) means the value equal to the lesser of A and B; and

Max(A,B) means the value equal to the greater of A and B

CSSPRO_t is the proportion of the customer and stakeholder satisfaction incentive which will be based on the customer satisfaction survey in respect of relevant year t, which has the value as specified in the following table:

Formula Year t	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
CSSPRO _t	1	[TBC]	[TBC]	[TBC]	[TBC]	[TBC]	[TBC]	[TBC]

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[GTC 131]. Special Condition [x]. Permit arrangements to manage the time of delivery of incremental capacity (previously Delivery incentive)

A draft of this condition can be found in Annex A of “RIIO-T1 (Gas): Further views sought on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives”.

DRAFT

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

Introduction

- XX.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 Part C of [GTC20 (Restriction of Transmission Network Revenue)] with respect to the funding of innovative projects carried out by the licensee.
- XX.2 The effect of the application of the NIA term in Part B of [GTC20] is to adjust the calculation of the licensee's Maximum Transmission Network Transportation Activity Revenue (AR) (whether upwards or downwards) in order to fund investment in innovation under the NIA established pursuant to this condition.
- XX.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the NIA.

Part A: Calculation of the NIA term

- XX.4 For the purposes of Part C of GTC20, the NIA adjustment for the Formula Year t is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$NIA_t = ANIA_t - NIAR_t$$

For the purposes of the Principal Formula:

- NIA_t means the total allowed adjustment in Formula Year t ;
- $ANIA_t$ means the total Allowable NIA Expenditure in Formula Year t and is derived in accordance with the appropriate formula set out in either Part B below; and
- $NIAR_t$ means an amount recovered by the licensee in relation to the Formula Year t or a previous Formula Year under the NIA which the Authority has determined, in accordance with provisions set out in paragraph 11.10 of this condition and the NIA Governance Document, to be unrecoverable (see Part C below).

- XX.5 Expenditure incurred by the licensee may only be recovered under the NIA if it is Allowable NIA Expenditure.

Part B: Calculation of Allowable NIA Expenditure (ANIA)

- XX.6 For the purposes of the Principal Formula the amount of ANIA is derived from the following formula:

$$ANIA_t = PTR_A \times \min[(ENIA_t + BPC_t), (NIAV \times BR_t)]$$

- XX.7 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 Formula Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with GTC 74 (Regulatory Instructions and Guidance);

BPC_t means the Eligible NIC Bid Preparation Costs for the Formula Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with GTC 74 (provided that, where the licensee is part of a Gas 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 by the group under the Network Innovation Competition, as defined in GTC 10 (the Network Innovation Competition) whichever is less in the Formula Year t insofar as the Authority consents otherwise);

NIAV means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition); and

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

XX.8 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE_t) that qualifies as Eligible NIA Expenditure in the Formula Year t must not exceed the amount derived by the following formula:

$$\text{NIAIE}_t \leq Z \times \text{ENIA}_t$$

where:

NIAIE_t is the Eligible NIA Internal Expenditure that qualifies as Eligible NIA Expenditure for the Formula Year t; and

Z has the value of 0.25, except insofar as the Authority consents otherwise.

Part C: Treatment of Unrecoverable Expenditure

XX.9 In any Formula Year t, the Authority may set, by direction given to the licensee, an amount for NIART that will reduce the licensee's NIA 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

XX.10 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 under this condition.

XX.11 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria, which projects must meet, which are applied by the licensee before Eligible NIA Projects can be started;
- (b) the information that is to be published by the licensee before Eligible NIA Projects can be started;
- (c) the circumstances in which the licensee will require permission from the Authority before beginning an Eligible NIA Project;
- (d) the processes and procedures that will be in place for the assessment and approval (where necessary) of such projects described in 11.12(c);
- (e) arrangements for ensuring that relevant learning from Eligible NIA Projects can be captured and disseminated by the licensee to other licensees;
- (f) 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);
- (g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and
- (h) any other matters relating to the regulation, governance or administration of the NIA.

XX.12 The licensee must comply with such provisions of the NIA Governance Document as require its compliance as if the NIA Governance Document were part of this condition.

Part E: Procedure for issuing the NIA Governance Document

XX.13 Before issuing the NIA Governance Document under this condition, the Authority, by Notice given to the licensee and all other licensees with a condition of similar effect to this condition in their license, must:

- (a) state that it proposes to issue the NIA Governance Document, and specify the date on which it proposes that this should take effect;
- (b) set out the text of the NIA Governance 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 proposed NIA Governance Document may be made.

XX.14 The Authority must consider any representations or objections that are duly made and not withdrawn.

- XX.15 The requirements of paragraphs 11.14 and 11.15 may be satisfied by action taken by the Authority before, as well as by action taken after, the commencement of this condition.
- XX.16 In paragraph 11.14, “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 F: Interpretation

XX.17 For the purposes of this condition:

Allowable NIA Expenditure	has the meaning given to that term in either Part B of this condition;
Eligible NIA Expenditure	means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects and Eligible NIC Bid Preparation Costs and forms part of Allowable NIA Expenditure as set out in Part B of this condition;
Eligible NIA Internal Expenditure	means the amount of Eligible NIA Expenditure spent or accrued on the internal resources of the licensee;
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 as defined in GTC10 (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;
Gas Group	means any group of NTS Operators and DN operators in which the licensee and every other NTS Operator and DN operator within the group are Affiliates;
Network Innovation Allowance	has the meaning given to that term in the Introduction this condition;
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 and including matters relating to the calculation of the Eligible NIA expenditure;

NIA Percentage	means the percentage of allowed revenue licensees may use for NIA projects set out in Appendix 1 of this condition (which has effect as part of this condition); and
Unrecoverable Expenditure	means expenditure on a NIA project the Authority has determined does not satisfy the requirements of the NIA Governance Document.

APPENDIX 1: NIA Percentage

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

Licensee	NIA Percentage
National Grid Gas plc	xxx

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[GTC 10] Special Condition [x]. The Network Innovation Competition [NGGT only] [Socialised version]

Introduction

- 10.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (“NIC”) that will enable the Authority to determine the amount of the Network Innovation Competition Funding (“NICF”) term that is to apply in Part C of [GTC 20] (Restriction of NTS Transportation Owners Revenue) with respect to the funding of innovative low carbon or environmental projects.
- 10.2 The effect of the application of the NICF term in Part C of [GTC20] is to adjust the calculation of the licensee’s [Maximum NTS Transportation Owner Revenue] (whether upwards or downwards) in order to fund investment in innovation under the NIC established pursuant to this condition.
- 10.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

Part A: Function of the Network Innovation Competition (NIC)

- 10.4 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the licensee through its NTS Transportation Owner Charges pursuant to the NIC Funding Mechanism described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.
- 10.5 The amount of the NICF term that is to be incorporated into the Maximum NTS Transportation Owner Revenue in accordance with the provisions of [GTC20] in respect of any Formula Year comprises the total of the allowed revenues of the licensee recovered under the NIC Funding Mechanism in that year.
- 10.6 Accordingly, for the purposes of Part E of [GTC20], the amount of the NIC adjustment in any Formula Year is determined in accordance with Parts B to D below and subject to the relevant provisions of the NIC Governance Document.

Part B: The NIC Funding Mechanism

- 10.7 The NIC Funding Mechanism is the mechanism by which the licensee recovers the amount of authorised NIC Funding in any Formula Year and apportions that amount between the licensee and other licensees as appropriate.
- 10.8 NICF is the total amount of funding authorised by the Authority for the licensee and other gas transporter licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.

Part C: The Funding Return Mechanism

- 10.9 The Funding Return Mechanism provides for the recovery from the licensee and from other licensees, in each case to such extent (if any) as may be relevant, of:
 - (a) Halted Project Revenues;
 - (b) Disallowed Expenditure; and

- (c) Returned Royalty Income.
- 10.10 The Funding Return is the total amount (in respect of the licensee and other licensees) of any amounts arising under paragraph 10.9.
- 10.11 Halted Project Revenues are revenues received (whether by the licensee or any other gas transporter licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.12 Disallowed Expenditure is revenue received (whether by the licensee or any other gas transporter licensee) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.13 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other gas transporter licensee), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 10.14 For the purposes of paragraph 10.13, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or other gas transporter licensee) that have not been otherwise remunerated by Base NTS Transportation Owner Revenue as defined in [GTC 20], Excluded Services, or the NIC Funding Mechanism.

Part D: Determination of the amount of the NICF term

- 10.15 The NICF term is the amount for Formula Year t that is to be recovered by the licensee on behalf of licensees, as determined by the Authority under paragraph 10.16 in relation to:
- (a) the NIC Funding specified for that year; and
 - (b) any Funding Return specified for that year.
- 10.16 In each Formula Year t , as provided for by the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and other licensees, will specify in accordance with the appropriate provisions set out in the NIC Governance Document:
- (a) the value for NICF for the licensee (being the amount, if any, to be recovered by the licensee in order to contribute to its own and other licensees' NIC Funding for that Formula Year);
 - (b) the net amounts that are to be transferred between the licensee and other licensees in order to ensure that each licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Formula Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and
 - (c) the manner in which and the timescale over which the net amounts referred to in paragraph (b) are to be transferred.

10.17 The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 10.16.

Part E: The NIC Governance Document

10.18 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.

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

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
- (b) the evaluation 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, and financing of such projects' funding (where necessary);
- (d) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other licensees;
- (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 NIC Governance Document);
- (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
- (g) any other matters relating to the regulation, governance, or administration of the NIC.

10.20 The licensee must comply with the NIC Governance Document as requires its compliance as if it formed part of this condition.

Part F: Procedure for issuing the NIC Governance Document

10.21 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and all other licensees with a condition of similar effect to this condition in their license, must:

- (a) state that it proposes to issue the document, and specify the date on which it proposes that the document 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 with respect to the proposal may be made.

10.22 The Authority must consider any representations that are duly made and not withdrawn.

10.23 The requirements of paragraphs 10.21 and 10.22 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

10.24 In paragraph 10.22, “issuing the NIC Governance Document” includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

Part G: Interpretation

10.25 For the purposes of this condition:

Disallowed Expenditure	has the meaning given to that term in paragraph 10.12 of this condition.
Directly Attributable Costs	has the meaning given to that term in paragraph 10.14 of this condition.
Eligible NIC Project	means a project undertaken by the licensee or any other gas transporter licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
Funding Return	has the meaning given to that term in paragraph 10.10 of this condition.
Funding Return Mechanism	has the meaning given to that term in paragraph 10.9 of this condition.
Halted Project Revenues	has the meaning given to that term in paragraph 10.11 of this condition.
NIC Funding	has the meaning given to that term in paragraph 10.8 of this condition.
NIC Funding Mechanism	has the meaning given to that term in paragraph 10.7 of this condition.
Returned Royalty Income	has the meaning given to that term in paragraph 10.13 of this condition.
NIC Governance Document	means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F, relating generally to the NIC and including matters relating to the NIC Funding Mechanism.
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.

10.26 Expressions defined in paragraph 10.25 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions.

[GTC10] Special Condition [x]. The Network Innovation Competition [Non-Socialised version]

[This version of the condition is only applicable if we choose to run the NIC under a non-socialised funding mechanism. We will make that decision at FP]

Introduction

- 10.27 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (“NIC”) that will enable the Authority to determine the amount of the Network Innovation Competition Funding (“NICF”) term that is to apply in Part C of [GTC 20] (Restriction of NTS Transportation Owners Activity Revenue) with respect to the funding of innovative low carbon or environmental projects carried out by the licensee.
- 10.28 The effect of the application of the NICF term in Part C of [GTC20] is to adjust the calculation of the licensee’s [Maximum NTS Transportation Owner Revenue] (whether upwards or downwards) in order to fund investment in innovation under the NIC established pursuant to this condition.
- 10.29 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

Part A: Function of the Network Innovation Competition (NIC)

- 10.30 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the licensee through its NTS Transportation Owner Charges pursuant to the NIC Funding Mechanism described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.
- 10.31 The amount of the NICF term that is to be incorporated into the [Maximum NTS Transportation Owner Revenue] in accordance with the provisions of [GTC 20] in respect of any Formula Year comprises the total of the allowed revenues of the licensee recovered under the NIC Funding Mechanism in that year.
- 10.32 Accordingly, for the purposes of Part C of [GTC 20], the amount of the NICF adjustment in any Formula Year is determined in accordance with Parts B to D below and subject to the relevant provisions of the NIC Governance Document.

Part B: The NIC Funding Mechanism

- 10.33 The NIC Funding Mechanism is the mechanism by which the licensee recovers the amount of authorised NIC Funding in any Formula Year.
- 10.34 The NIC Funding is the total amount of funding authorised by the Authority for the licensee, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.

Part C: The Funding Return Mechanism

- 10.35 The Funding Return Mechanism provides for the recovery from the licensee, in each case to such extent (if any) as may be relevant, of:
- (a) Halted Project Revenues;
 - (b) Disallowed Expenditure; and
 - (c) Returned Royalty Income.
- 10.36 The Funding Return is the total amount arising under paragraph 10.9.
- 10.37 Halted Project Revenues are revenues received under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.38 Disallowed Expenditure is revenue received under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.39 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other transmission licensee), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 10.40 For the purposes of paragraph 10.13, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other transmission licensee) that have not been otherwise remunerated by Base NTS Transportation Owner Revenue, Excluded Services, or the NIC Funding Mechanism.

Part D: Determination of the amount of the NICF term

- 10.41 The NICF term is the amount for Formula Year t that is to be recovered by the licensee, as determined by the Authority under paragraph 10.16 in relation to:
- (a) the NIC Funding specified for that year; and
 - (b) any Funding Return specified for that year.
- 10.42 In each Formula Year t , as provided for by the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and all other gas licensees, will specify in accordance with the appropriate provisions set out in the NIC Governance Document:
- (a) the value for $NICF_t$ for the licensee (being the net amount, if any, to be recovered by the licensee in order to contribute to its own NIC Funding for that Formula Year);
 - (b) the manner in which and the timescale over which the net amounts referred to in paragraph (a) are to be recovered.
- 10.43 The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 10.16.

Part E: The NIC Governance Document

- 10.44 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.
- 10.45 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
 - (b) the evaluation 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, and financing of such projects' funding (where necessary);
 - (d) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Gas Transporter Licensees;
 - (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 NIC Governance Document);
 - (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
 - (g) any other matters relating to the regulation, governance, or administration of the NIC.
- 10.46 The licensee must comply with the NIC Governance Document as requires its compliance as if it formed part of this condition.

Part F: Procedure for issuing the NIC Governance Document

- 10.47 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and all other Gas Transporter Licensees, must:
- (a) state that it proposes to issue the document, and specify the date on which it proposes that the document 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 with respect to the proposal may be made.
- 10.48 The Authority must consider any representations that are duly made and not withdrawn.
- 10.49 The requirements of paragraphs 10.21 and 10.22 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

10.50 In paragraph 10.21, “issuing the NIC Governance Document” includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

Part G: Interpretation

10.51 For the purposes of this condition:

Disallowed Expenditure	has the meaning given to that term in paragraph 10.12 of this condition.
Directly Attributable Costs	has the meaning given to that term in paragraph 10.14 of this condition.
Eligible NIC Project	means a project undertaken by the licensee or any other transmission licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
Funding Return	has the meaning given to that term in paragraph 10.10 of this condition.
Funding Return Mechanism	has the meaning given to that term in paragraph 10.9 of this condition.
Halted Project Revenues	has the meaning given to that term in paragraph 10.11 of this condition.
NIC Funding	has the meaning given to that term in paragraph 10.8 of this condition.
NIC Funding Mechanism	has the meaning given to that term in paragraph 10.7 of this condition.
Returned Royalty Income	has the meaning given to that term in paragraph 10.13 of this condition.
NIC Governance Document	means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F, relating generally to the NIC and including matters relating to the NIC Funding Mechanism.
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.

10.52 Expressions defined in paragraph 10.25 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions.

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

[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:

$$\text{SOR}_t = \text{SOREntC}_t + \text{SORExC}_t + \text{RCOM}_t + \text{SOROC}_t$$

- 7.4 In the formula for the SOR_t term above:

SOREntC_t means that amount of NTS SO Revenue in respect of Formula Year t that results from the sale of the following types of entry capacity:

- (a) interruptible entry capacity;
- (b) non-obligated entry capacity;
- (c) Legacy incremental entry capacity; and
- (d) all on the day entry capacity;

SORExC_t means that amount of NTS SO Revenue in respect of Formula Year t that results from the sale of the following types of exit capacity:

- (a) off-peak exit capacity;
- (b) non-obligated exit capacity;
- (c) Legacy incremental exit capacity; and
- (d) all on the day exit capacity.

$RCOM_t$ means that amount of NTS SO Revenue in respect of Formula Year t that results from charges levied by the licensee on gas shippers and DN operators pursuant to Standard Special Condition A4 (Charging—General) in respect of NTS SO activities and shall include revenue from charges to recover both costs incurred by the licensee and net payments made to or by the licensee in respect of reducing the costs arising from NTS system operation activities other than revenue earned by the licensee through:

- (a) $SOREnC_t$;
- (b) $SORExC_t$;
- (c) $SOROC_t$; and
- (d) revenues received by the licensee in respect of Formula Year t from the sale of gas that had been purchased by the licensee in respect of its use of constrained storage facilities in order to avoid transportation constraints;

$SOROC_t$ means NTS SO Revenue derived by the licensee through associated SO charges in respect of Formula Year t and shall be calculated from the following formula:

$$SOROC_t = RNC_t + RCOR_t + FTI_t + RLOC_t + RADD_t$$

where:

RNC_t means net revenue derived by the licensee in respect of Formula Year t from balancing neutrality charges (having the meaning given to that term in the Network Code);

$RCOR_t$ means the revenue derived by the licensee in respect of Formula Year t from system entry overrun charges (having the meaning given to that term in the Network Code);

FTI_t means the revenue derived by the licensee in respect of Formula Year t from charges levied on gas shippers and DN operators in respect of any failure to interrupt (having the meaning given to that term in the Network Code);

$RLOC_t$ 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); and

$RADD_t$ means any further revenues derived by the licensee in respect of Formula Year t that the Authority has directed be included in the formula for the constraint management performance measure (CMIP $_t$) as set out in paragraph [xx] of GTC 120 Special Condition [x].

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

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

$$\text{SOMR}_t = \text{SOBR}_t + \text{SOOIR}_t + \text{SOOIRC}_t - \text{SOK}_t$$

7.6 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 Internal Revenue in Formula Year t as derived in accordance with the formula set out in Part D of this condition.
- SOOIR_t** means the amount of the NTS System Operation Revenue output incentive adjustment 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 Revenue External Incentive adjustment in respect of Formula Year t as derived in accordance with [GTC 5] Special Condition [x] (NTS System Operator external incentives, costs and revenues).
- SOK_t** has the value zero in Formula Year 2013/14, and in each subsequent Formula Year means the amount of the correction factor, whether of a positive or negative value, in Formula Year t as 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)

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

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

7.8 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.
- LRD_t** means the amount of revenue due from the legacy revenue drivers in TPCR3 and TPCR4 in Formula Year t as set out in the Appendix 2 of this condition.
- 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 and is derived 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 in Formula Year t as derived in accordance with Part D of [GDC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).
- 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 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.

- 7.9 For the purposes of paragraph 7.8 of this condition, $SOTRU_t$ is derived in accordance with the following formula:

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

- 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:

$$SOREV_{t-2} = (SOBR_{t-2} + CM_{t-2} + TSS_{t-2}) / RPIF_{t-2}$$

where:

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

CM_{t-2} means the amount of the revenue from constraint management for Formula Year t-2 as derived in accordance with [GTC120] Special Condition [x] (Entry and exit capacity constraint management).

TSS_{t-2} means the amount of the revenue from transmission support services for Formula Year t-2 as derived in accordance with [GTC132] Special Condition [x] (NTS Transportation Support Services).

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:

$$SOOIR_t = CM_t + TSS_t$$

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

CM_t means the amount of the revenue from constraint management for Formula Year t as 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 as derived in accordance with [GTC132] Special Condition [x] (NTS Transportation Support Services).

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

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:

$$SOK_t = (SOR_{t-2} - SOMR_{t-2}) \times \left(1 + \frac{I_{t-2} + PR_t}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

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

SOR_{t-2} means the NTS System Operation Revenue as derived in accordance with Part B of this condition in respect of the Formula Year t-2. The only exception to this is for the Formula Year commencing 1 April 2014 where it 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-2} means the Maximum NTS System Operation Revenue as derived in accordance with Part C of this condition in respect of the Formula Year t-2. The only exception to this is for the Formula Year commencing 1 April 2014 where it 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 For the purposes of Part E of this condition, the value of the interest rate adjustment PR_t is to be treated as follows:

- (a) if, in respect of Formula Year t-2, NTS System Operation Revenue exceeds 103 per cent of Maximum NTS System Operation Revenue, PR_t must have the value of 3;

- (b) if, in respect of Formula Year $t-2$, NTS System Operation Revenue is less than 97 per cent of Maximum NTS System Operation Revenue, PR_t must have the value of zero;
- (c) and in all other cases
- (d) PR_t must have the value 1.5.

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

- 7.16 If, in respect of each of two successive Formula Years, the licensee’s NTS System Operation Revenue exceeds 106 per cent of Maximum NTS System Operation Revenue, the licensee:
- (a) must provide an explanation for that event in writing to the Authority by 31 July following the end of the Formula Years in question; and
 - (b) must not increase its NTS System Operation Charges during the following Formula Year except and to the extent that the Authority has consented to such an increase.

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

- 7.17 If, in respect of each of two successive Formula Years, the licensee’s NTS System Operation Revenue is less than 90 per cent of Maximum NTS System Operation Revenue, the Authority, after consultation with the licensee, may by notice to the licensee specify the value of the term SOR_{t-2} to be used for the purposes of calculating the licensee’s correction factor term (SOK_t) under Part F of this condition.
- 7.18 The value specified by the Authority for SOR_{t-2} under paragraph 7.18 may not be lower than the original value for SOR_{t-2} or higher than 90 per cent of the value of the $SOMR_{t-2}$ term to be used in the calculation to which that paragraph refers.

Appendix 1

Values for the SOPU term (2009/10 prices)

(see paragraph 7.8 of this condition)

	SOPU Value (£m)							
Relevant Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Value of SOPU (£m)	xxx	xxx	xxx	xxx	xxx	xxx		

Appendix 2

Values for the LRD term (2009/10 prices)

(see paragraph 7.8 of this condition)

	LRD Value (£m)							
Relevant Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Value of LRD (£m)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx

DRAFT

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

A draft of this condition can be found in Annex A of “RIIO-T1 (Gas): Further views sought on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives”.

DRAFT

[GTC 132] Special Condition [x]. NTS Transportation Support Services

Introduction

- 131.1. The purpose of this condition is to calculate the value of the NTS Transportation Support Services (TSS_t) allowed revenue. This is the sum of costs relating to NTS Transportation Support Services and the incentive revenue from the application of the incentive scheme.
- 131.2. The effect of the application of the TSS_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 NTS Transportation Support Services on the NTS.

Part A: Formula for the NTS Transportation Support Services allowed revenue (TSS_t)

- 131.3. For the purposes of Part [x] of [GTC 7] Special Condition [x] (Restriction of NTS System Operational Activity Charge) the TSS_t term is derived in accordance with the following formula:

$$TSS_t = (TSSC_{t-2} + TSSIR_{t-2}) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

where:

- TSSC_{t-2} means the costs, as defined in Part B of this condition, incurred by the licensee in respect of Formula Year t-2 in acquiring NTS Transportation Support Services.
- TSSIR_{t-2} means the incentive revenue, as defined in Part C of this condition, incurred by the licensee in respect of Formula Year t-2 in providing NTS Transportation Support Services.
- PVF_t is the present value adjustment term as defined in Part D of [GTC 20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).
- RPIF_t has the value given to it by Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).

Part B: Formula for the NTS Transportation Support Services Costs (TSSC_{t-2})

- 131.4. TSSC_{t-2} means the costs incurred by the licensee in respect of Formula Year t-2 in acquiring NTS Transportation Support Services derived in accordance with the following formula:

$$TSSC_{t-2} = TSSCA_{t-2} - \left(\frac{LRCIC_{t-2} + CLNGC_{t-2}}{RPIA_{t-2}} \right)$$

where:

- TSSCA_{t-2} means the licensee's allowance in Formula Year t-2 for NTS Transportation Support Services as set out in Appendix 1.
- LRCIC_{t-2} means the costs incurred by the licensee in Formula Year t-2 in respect of acquiring NTS Transportation Support Services in relation

to long run contracts for the delivery of NTS baseline exit flat capacity that the licensee is obliged to offer for sale at the following NTS offtakes: Abson (Seabank Power station phase I), Terra Nitrogen (also known as ICI/ Terra Severnside), Barton Stacey Max Refill and Avonmouth Max Refill.

CLNGC_{t-2} means the costs incurred by the licensee Formula Year t-2 in acquiring NTS Transportation Support Services provided in relation to its use of the constrained storage facility at Avonmouth (constrained storage facility having the meaning given in the Network Code).

RPIA_{t-2} has the value given to it by Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).

Part C: Formula for the NTS Transportation Support Services Incentive Revenue (TSSIR_{t-2})

131.5. TSSIR_{t-2} means the incentive revenue earned by the licensee in respect of Formula Year t-2 in providing NTS Transportation Support Services derived in accordance with the following formula:

$$TSSIR_{t-2} = TSSSF \times \left(TSSTC_{t-2} - \frac{TSSC_{t-2}}{RPIA_{t-2}} \right)$$

where:

TSSTC_{t-2} means the NTS Transportation Support Services target cost in respect of Formula Year t-2 as set out in Appendix 2;

TSSC_{t-2} means the costs incurred by the licensee in respect of Formula Year t-2 in acquiring NTS Transportation Support Services as given in paragraph 131.4;

RPIA_{t-2} has the value given to it by Part D of [GTC20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue).

TSSSF means the constraint management sharing factor and shall take the value of [Totex Incentive Strength Rate].

Part D: Scheme Length

131.6. This incentive shall apply, unless otherwise directed by the Authority, in relation to the costs incurred and revenues earned by the Licensee up to and including 30 September 2018. For the purposes of Part E of [GTC 7] Special Condition [x] (Restriction of NTS System Operation Revenue) the NTS Transportation Support Services costs (TSSC_t) shall be zero for all days from 1 October 2018.

Part E: Interpretation

131.7. For the purposes of this condition:

NTS Transportation Support Services means services rendered from either long run contracts at specific exit sites or from the constrained storage facility at Avonmouth that are used as a substitute for capacity during periods of high demand to avoid constraints and allow the licensee to meet its 1 in 20 peak day obligation

in the Safety case it has in place from time to time pursuant to the Gas Safety (Management) Regulations 1996.

Appendix 1: NTS Transportation Support Services allowance

NTS Transportation Support Services allowance (£m)								
Variable	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
TSSCA _t	xx	xx	xx	xx	xx	xx	xx	xx

Appendix 2: NTS Transportation Support Services incentive target

NTS Transportation Support Services target (£m)								
Variable	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
TSSTC _t	7.23	7.23	7.23	7.23	7.23	3.62	0	0

[GTC132 replaces sections 1(c) and 1(e) of special condition C8E. GTC132 feeds in to SOOIR_t in part E of GTC7 which then feeds in to SOMR_t in part C of GTC7. Sections 1(c) and 1(e) of C8E feed in to SOExIRC_t in section 1(a) of C8E which feeds in to SOMR_t in section 3 of C8C.]

[GTC 29] Special Condition [x]. Disapplication of Relevant Special Conditions

Currently being consulted on separately to RIIO - See

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=302&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

DRAFT

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

[We note that this condition has not changed since the First Consultation. Stakeholder responses to this draft can be found in Supporting Document 5 and we will consider as part of the ongoing working group process and in light of any new responses to this consultation]

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 in Part B below and that include, without limitation, those services listed in paragraph [31.12].
- 31.3 Excluded Services are services provided by the licensee for which revenue is derived but is excluded from MR_i 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); and
 - (b) NTS System Operator Charges as defined in [GTC7] Special Condition [x] (Restriction of NTS System Operation Activity Charges).

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,
- (c) it may give the licensee a direction to that effect.

31.12 Where a direction is given under paragraph [31.11], 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

DRAFT

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

Introduction

121.1 The purpose of this condition is to set out the obligations of the licensee in relation to non-incremental obligated entry and exit capacity in (Part A of this condition). These obligations are to be performed in accordance with the capacity methodology statements developed by the licensee and approved by the Authority in accordance with Part B of this condition. The capacity methodology statements shall be designed to meet the capacity objectives set out in Part C of this condition.

Part A: Capacity methodology obligations

121.2 The licensee shall, unless and insofar as the Authority may otherwise direct from time to time in writing, use reasonable endeavours to:

- (a) substitute entry and exit capacity in accordance with the relevant capacity methodology statements;
- (b) revise exit capacity in accordance with the relevant capacity methodology statement; and
- (c) meet any requests from a relevant shipper to transfer and/or trade entry capacity in accordance with the relevant capacity methodology statements,

in each case, the relevant capacity methodology statements shall be prepared pursuant to Part B of this condition and may be modified from time to time in accordance with Part D of this condition.

Part B: Capacity methodology statements

121.3 The licensee shall:

- (a) have in place capacity methodologies (“the methodologies”) that facilitate the achievement of the capacity objectives (as set out in Part C of this condition);
- (b) apply the methodologies for the purposes of fulfilling its duties under the Act and obligations under the licence in respect of entry capacity and exit capacity”; and
- (c) submit to the Authority for its approval statements setting out each of the methodologies (“the capacity methodology statements”).

121.4 The licensee shall make the capacity methodology statements from time to time applicable to the pipeline system to which this licence relates available on its website (and in such other manner as appears to the licensee to be appropriate).

Part C: Capacity methodology objectives

121.5 For the purposes of Part B of this condition, the methodologies shall facilitate the achievement of the following objectives (the “capacity objectives”):

- (a) ensuring that entry capacity substitution and exit capacity substitution, entry capacity transfer, entry capacity trade and exit capacity revision is effected in a manner consistent with the licensee's duties under the Act and the standard, Standard Special and Special Conditions including, in particular the duty to develop and maintain an efficient and economical pipeline system;
- (b) in so far as is consistent with (a) above, ensuring that:
 - (i) entry capacity substitution is effected in a manner which seeks to minimise the reasonably expected costs associated with revenue driver funded incremental obligated entry capacity taking into account the entry capacity that shippers have indicated that they will require in the future through making a financial commitment to the licensee; and
 - (ii) exit capacity substitution is effected in a manner which seeks to minimise the reasonably expected costs associated with revenue driver funded incremental obligated exit capacity taking into account the exit capacity that shippers and DN operators have indicated that they will require in the future through making a financial commitment to the licensee;

in so far as is consistent with (a) above, ensuring that entry capacity substitution, exit capacity substitution, entry capacity transfer, entry capacity trade and exit capacity revision is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;

- (c) in so far as is consistent with (a) above, avoiding material increases in the costs including:
 - (i) entry and exit capacity constraint management costs in respect of obligated entry and exit capacity previously allocated by the licensee to relevant shippers; and
 - (ii) exit capacity constraint management costs in respect of obligated exit capacity previously allocated by the licensee to DN operators,
- (d) that are reasonably expected to be incurred by the licensee as a result of entry capacity substitution, exit capacity substitution, entry capacity transfer, entry capacity trade and exit capacity revision; and
- (e) in so far as is consistent with a), (where relevant) (b), (c) and (d) above, facilitating effective competition between:
 - (i) relevant shippers and to the extent relevant to exit capacity, DN operators; and
 - (ii) relevant suppliers.

Part D: Modifications to the methodologies and capacity methodology statements

- 121.6 The licensee shall, if so directed by the Authority, and in any event at least once in every two years, review the current methodologies and capacity methodology statements, in consultation with:
- (a) relevant shippers;
 - (b) interested parties; and
 - (c) in the case of exit capacity substitution or revision, DN operators,
- and seek to make such modifications to the methodologies and capacity methodology statements as it considers reasonably necessary better facilitate the achievement of the capacity objectives.
- 121.7 Unless the Authority otherwise consents in writing, the methodologies and capacity methodology statements shall be accompanied by a statement from an independent examiner, confirming that they have carried out an examination, the scope and objectives of which shall have been established by the licensee and approved by the Authority and giving an opinion as to the extent to which the licensee has developed a methodology that is consistent with its duties under the Act and obligations under the licence.
- 121.8 Subject to paragraph 121.9, except where the Authority otherwise directs in writing, before modifying the methodologies and capacity methodology statements, 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 substitution or revision, also with DN operators,
 - (c) and allow them a period of not less than 28 days in which to make representations; and
 - (d) within 14 days of the close of the consultation required by paragraph 121.8(b), submit to the Authority a report setting out:
 - (i) the modifications originally proposed;
 - (ii) the representations made to the licensee by relevant shippers, interested parties (if any) and DN operators (where relevant) and not withdrawn; and
 - (iii) any changes to the modifications proposed as a result of such representations; or

- (e) 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 reasonable requirements as are specified in that direction.

121.9 The licensee shall be entitled to modify the methodologies and capacity methodology statements at any time pursuant to paragraph 121.8 of this condition, save that it shall not modify such statement:

- (a) if, within 2 months (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time, but in any event no more than 28 days, after receiving the report referred to in 121.8(c) of this condition) from the date on which the Authority receives the report referred to in paragraph 121.8(c) of this condition, the Authority directs the licensee not to make the modification;
- (b) where there is no such direction, until the expiry of 2 months (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 121.8(c) of this condition) from the date on which the Authority receives the report referred to in paragraph 121.8(c) of this condition; or
- (c) where paragraph 121.8(d) in this condition applies, before the day specified in any direction made pursuant to that paragraph.

Part E: Licensee's obligation to report to the Authority

121.10 The licensee shall, by 31 May in each formula year, provide the Authority with a report on the application and implementation of each methodology relevant to entry capacity transfer, entry capacity trade, entry capacity substitution and exit capacity substitution and exit capacity revision during the previous formula year setting out the extent to which, in the licensee's opinion, the capacity objectives were achieved during that previous formula year.

Part F: Interpretation

121.11 For the purposes of this condition, the following definitions shall apply:

Independent Examiner	means a person or persons nominated by and independent of the licensee with the skills and knowledge to undertake an examination;
Examination	means an evaluation of the processes and procedures used by the licensee to enable it to meet its obligation to apply the methodologies in a manner that is consistent with its duties under the Act and obligations under the licence.

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

Introduction

126.1 The purpose of this condition is to set out the obligations on the licensee to:

- (a) develop and, where relevant, modify methodology statements which relate 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];
- (b) (together “capacity release methodology statements”);
- (c) release entry and [exit capacity] in accordance with the capacity release methodology statements; and
- (d) produce a summary report relating to those obligations.

Part A: Capacity release obligation

126.2 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 statements

126.3 The licensee shall, within 30 days of the date that this licence condition takes effect, or such later date as the Authority may direct, and thereafter before 1 April in each subsequent Formula Year (or such later date in each Formula Year as the Authority may direct) prepare and submit for approval by the Authority capacity release methodology statements (that is consistent with the licensee’s duties under the Act, obligations under the licence 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.

126.4 The licensee shall publish the capacity release methodology statements prepared pursuant to paragraph 126.3 of this condition and each revision thereof on its website and in such other manner as the Authority may approve.

Part C: Modification to the capacity release methodology statements

126.5 The licensee shall, if so directed by the Authority and, in any event at least once in every two years, review the current capacity release methodology statements.

126.6 Unless the Authority otherwise consents in writing, the capacity release methodology statements shall be accompanied by a statement from an independent examiner, confirming that they have carried out an examination, the scope and objectives of which shall have been established by the licensee and approved by the Authority and giving an opinion as to the extent to which the licensee has developed a methodology that is consistent with its duties under the Act and obligations under the licence.

126.7 Subject to paragraph 126.6 and paragraph 126.8 except where the Authority otherwise directs in writing, before modifying the capacity release methodology statements, 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,
- (c) and allow them a period of not less than 28 days in which to make representations;
- (d) within 14 days of the close of the consultation required by paragraph 126.7(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
- (e) 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.

126.8 The licensee shall be entitled to modify the capacity release methodology statements at any time pursuant to paragraph 126.7, save that it shall not revise such statements:

- (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 126.7(c) of this condition) from the date on which the Authority receives the report referred to in paragraph 126.7(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 126.7(c) of this condition; or
- (c) where paragraph 126.7(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

126.9 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

126.10 For the purposes of this condition, the following definitions shall apply:

Independent Examiner means a person or persons nominated by and independent of the licensee with the skills and knowledge to undertake an examination;

Examination means an evaluation of the processes and procedures used by the licensee to enable it to meet its obligation to apply the methodologies in a manner that is consistent with its duties under the Act and obligations under the licence.

[GTC134] Special Condition [x]. Methodology to determine revenue drivers

Introduction

134.1 The purpose of this condition is to set out the obligations on the licensee to produce a methodology to determine any additional revenue allowances relating to the release of incremental obligated entry capacity and [incremental obligated exit capacity] (“generic entry and exit revenue driver methodology statements”)

Part A: Obligation to produce a methodology to determine any funding arrangements for the release of revenue driver funded incremental obligated entry capacity and of revenue driver funded incremental obligated exit capacity

134.2 The licensee shall, within 30 days of the date that this licence condition takes effect, or such later date as the Authority may direct, and thereafter before 1 April in each subsequent Formula Year (or such later date in each Formula Year as the Authority may direct) prepare and submit for approval by the Authority capacity release methodology statements (that is consistent with the licensee’s duties under the Act, obligations under the licence which sets out how the licensee shall determine any funding allowance for:

- (a) revenue driver funded incremental obligated entry capacity for each Formula Year t; and
- (b) revenue driver funded incremental obligated exit capacity for each Formula Year t.

134.3 The licensee shall publish the generic entry and exit revenue driver methodology statements prepared pursuant to paragraph 134.2 of this condition and each revision thereof available on its website and in such other manner as the Authority may approve.

Part B: Modifications to generic entry and exit revenue driver methodology statements

134.4 The licensee shall, if so directed by the Authority and, in any event, at least once a year, review the current generic entry and exit revenue driver methodology statements.

134.5 Unless the Authority otherwise consents in writing, the generic entry and exit revenue driver methodology statements shall be accompanied by a statement from an independent examiner, confirming that they have carried out an examination, the scope and objectives of which shall have been established by the licensee and approved by the Authority and giving an opinion as to the extent to which the licensee has developed a methodology that is consistent with its duties under the Act and obligations under the licence.

134.6 Subject to paragraph 134.5 and 134.7, except where the Authority otherwise directs in writing, before modifying the generic entry and exit revenue driver methodology statements, 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; and
 - (ii) interested parties,
- (c) and allow them a period of not less than 28 days in which to make representations;
- (d) within 14 days of the close of the consultation required by paragraph 134.6(b) of this condition, submit to the Authority a report setting out:
 - (i) the modifications originally proposed;
 - (ii) the representations made by relevant shippers and interested parties (if any) to the licensee and not withdrawn; and
 - (iii) any change to the modifications proposed as a result of such representations; or
- (e) 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.

134.7 The licensee shall be entitled to modify the generic entry and exit revenue driver methodology statements at any time pursuant to paragraph 134.5, save that it shall not revise such statements:

- (a) if, within 2 months (or 3 months if the Authority intends to undertake an impact assessment, the intent of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 134.5(c) of this condition) from the date on which the Authority receives the report referred to in paragraph 134.5(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 134.5(c) of this condition; or
- (c) where paragraph 134.5(d) of this condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph.

Part C: Interpretation

134.8 For the purposes of this condition, the following definitions shall apply:

Independent Examiner	means a person or persons nominated by and independent of the licensee with the skills and knowledge to undertake an examination;
Examination	means an evaluation of the processes and procedures used by the licensee to enable it to meet its obligation to apply the methodologies in a manner that is consistent with its duties under the Act and obligations under the licence.

**SPECIAL CONDITIONS: PRICE CONTROL FINANCIAL
MODEL (PCFM) VARIABLES**

DRAFT

[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 allowed innovation Roll-out expenditure ('IRM' values) and the Formula Years to which those revisions relate, for use in the Annual Iteration Process for the T1 Price Control Financial Model, as described in [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model).
- 9.2 The IRM value is set at £0m for all Formula Years unless otherwise directed by the Authority.
- 9.3 The IRM value relating to a particular Formula Year represents the total amount of the licensee's allowed innovation Roll-out expenditure (in 2009/10 prices) for that Formula Year.
- 9.4 The application of the mechanisms in this condition provides for:
- (a) the licensee to propose adjustments to its IRM values during either of the two windows specified in Part C;
 - (b) determinations by the Authority in relation to proposals by the licensee under sub-paragraph (a); and
 - (c) the direction, where applicable of revised IRM values.
- 9.5 The determination and direction of revised IRM values, where applicable will, as a consequence of the Annual Iteration Process for the T1 Price Control Financial Model, mean that the value of the term MOD as derived for Formula Year t for the purposes of Part C of [GTC 20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) will result in an adjustment of the licensee's Base Transmission Network Transportation Activity Revenue in a manner that:
- (a) takes account of the approval of changes to IRM values for particular Formula Years; and
 - (b) takes account of approved changes for the purposes of the Totex Incentive Mechanism adjustment as set out in [GTC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transportation Owner).

Part A: Features that qualify an innovation 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 deliver Carbon Benefits or any wider environmental benefits;
 - (b) will provide long-term value for money for gas consumers;
 - (c) will not enable the licensee to receive commercial benefits from the Roll-out within the remainder of the Price Control Period (for instance, where the Roll-out of a Proven Innovation will lead to cost savings (including benefits from

other incentives) equal to or greater than its implementation costs within the Price Control Period, the licensee will not be eligible for funding under this condition); 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 costs 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 Totex Incentive Strength Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's materiality threshold amount, 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 either of the 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 A 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 a Relevant Adjustment

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 whether the proposed Relevant Adjustment should result in an adjustment to the IRM values 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, the notice made under Part B 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.

Part F: Determination by the Authority of adjustments to IRM value

9.16 This part sets out the basis for determining revisions to the IRM value for use in the Annual Iteration Process for the T1 Price Control Financial Model.

9.17 Table 1 will be deemed to set out:

- (a) the amounts of allowed expenditure for each notice the Authority has determined in the year t-1 in accordance with Part E the licensee should be able to recover to fund the Roll-out of a Proven Innovation; and
- (b) the total amount of allowed expenditure for all notices the Authority has determined in the year t-1 in accordance with Part E the licensee should be able to recover under this condition, the IRM values.

Table 1: Allowed expenditure the Authority has determined in accordance with Part E the licensee should be recoverable to fund the Roll-out of a Proven Innovation.

Allowed expenditure (£m 2009/10 prices)	Formula Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
IRM notice								
Notice determined in year x the Authority has determined the licensee should be able to recover expenditure for Roll-out of innovation y.								
Etc								
Total								

9.18 The Authority shall, by 30 November in each Formula Year t-1 check whether the allowed expenditure for any Formula Year set out in Table 1 is different to the IRM value in the PCFM for the corresponding Formula Year and, in any case where it is different, the Authority shall:

- (a) determine that the IRM value for the applicable Formula Year is to be revised to reflect any changes as a result of determinations made by the Authority under Part E of this condition in the year t-1 set out in Table 1; and
- (b) issue a direction, in accordance with the provisions of Part G of this condition specifying any revised IRM values determined under sub-paragraph (a) and the Formula Years to which they relate.

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

9.19 Any revised IRM values determined by the Authority in accordance with Part F of this condition and GTC 47 (Determination of PCFM Variables Values for Totex Incentive Mechanism Adjustments – Transportation Owner) Special Condition[x] will be directed by the Authority by 30 November in each Formula Year t-1.

- 9.20 Before issuing any directions under paragraph 9.19, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 9.21 The notice referred to in paragraph 9.20 must:
- (a) state that any revised IRM values have been determined in accordance with Part F 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.
- 9.22 The Authority shall have due regard to any representations or objections duly received in response to this notice under paragraph 9.21, and give reasons for its decisions in relation to them.
- 9.23 Where the Authority directs any revised IRM values relating to Formula Years which are earlier than Formula Year t, the effect of using those revised IRM values in the Annual Iteration Process for the T1 Price Control Financial Model will, subject to a time value of money adjustment as set out in GTC 57 (Governance of GT1 Price Control Financial Instruments) Special Condition (x), be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.
- 9.24 If, for any reason in any Formula 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 [GTC 26] (Annual Iteration Process of the GT1 Price Control Financial Model) Special Condition [x] to be undertaken by the Authority by 30 November in that same Formula 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

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

Carbon Benefits	means a contribution to the Government’s current strategy for reducing greenhouse gas emissions, as set out in the document entitled the “Carbon Plan” published by the Department of Energy and Climate Change;
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 (GTC20) Part [C] of Special Condition (Restriction of NTS Transportation Revenue) and references to Formula Year t-1 are to be construed accordingly;
Innovation	means any or all of the following: <ul style="list-style-type: none"> (a) a specific piece of New Network Equipment; (b) a novel arrangement or

	<p>application of new or existing Network Equipment;</p> <p>(a) a novel operational practice;</p> <p>(b) or a novel commercial arrangement,</p> <p>that is not, or is not within the scope of, an Ordinary Business Arrangement;</p>
Innovation Roll-out Costs	means the proposed cost of Rolling out a Proven Innovation;
New Network Equipment	means any new asset that does not yet form part of the licensee's pipeline system or control centre for use in conjunction therewith;
Network Equipment	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;
Ordinary Business Arrangement	<p>means any or all of the following:</p> <p>(a) a specific piece of existing Network Equipment;</p> <p>(b) an arrangement or application of existing Network Equipment;</p> <p>(c) an operational practice; or</p> <p>(d) a commercial arrangement,</p> <p>that is being used or is capable of being used, without modification, by the licensee or another Gas Transporter at the start of the Price Control Period;</p>
PCFM Variable Value	<p>means a value held in the PCFM Variable Values Table for the licensee contained in the T1 Price Control Financial Model:</p> <p>(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition ; and</p> <p>(b) whose revision does not constitute a modification of the T1 Price Control Financial Model for the purposes of [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).</p>
Price Control Period	means the period of eight Formula Years beginning on 1 April 2013 and ending on 31

March 2021 during which, subject to [GTC29] Special Condition XX (Disapplication), the Special Conditions will have effect in this licence;

Proven Innovation

means an Innovation which the NTS Operator can demonstrate has been successfully trialled or demonstrated either on the pipe-line system to which this licence relates or elsewhere;

Relevant Adjustment

has the meaning given to it in paragraph 9.9 of this condition; and

Roll-out

means the incorporation of a Proven Innovation into an Ordinary Business Arrangement.

APPENDIX 1: Totex Incentive Strength Rate

Licensee	Totex Incentive Strength Rate (%)
xxx	xxx

APPENDIX 2: Materiality threshold amount

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

Licensee	£m
xxx	xxx

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

Introduction

- 28.1 The purpose of this condition is as follows:
- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of allowed expenditure ("relevant adjustments") in relation to the categories of costs set out in paragraph 28.3 (each "an uncertain cost category"); and
 - (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Formula Years to which those revised PCFM Variable Values 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).
- 28.2 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_t as calculated for Formula Year t for the purposes of Part D of [GTC 20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue) will result in an appropriate adjustment of the licensee's Base NTS Transportation Owner Revenue (whether upwards or downwards) in a manner that takes account of the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph 28.3, determined under Part A of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapter 6 and 7 of the GT1 Price Control Financial Handbook.
- 28.3 The uncertain cost categories referred to in paragraph 28.1 are:
- (a) Enhanced Physical Site Security Costs;
 - (b) Industrial Emissions Costs;
 - (c) Pipeline Diversion Costs;
 - (d) Quarry and Loss Development Claim Costs;
 - (e) One-off Asset Health Costs; and
 - (f) Network Flexibility Costs.
- 28.4 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: Proposal and determination of relevant adjustments

- 28.5 This part provides for:
- (a) the proposal of relevant adjustments by the licensee or by the Authority;
 - (b) the determination of relevant adjustments by the Authority; and

- (c) the deeming of relevant adjustments in certain circumstances.

Proposal of relevant adjustments

- 28.6 Subject to paragraph 28.9, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Formula Year or Formula Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:
- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's opening base revenue allowance was derived;
 - (b) takes account of any prior relevant adjustments determined under this condition;
 - (c) in aggregate constitutes a material amount within the meaning of paragraph 28.7;
 - (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
 - (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.
- 28.7 A material amount is an amount of change to allowed expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1, exceeds or is likely to exceed:
- (a) in the case of uncertain cost categories set out in paragraph 28.3 sub-paragraphs (a) to (d), one per cent of the licensee's materiality threshold amount as set out in Appendix 2; and
 - (b) in the case of uncertain cost categories set out in paragraph 28.3 sub-paragraphs (e) to (f), two per cent of the licensee's materiality threshold amount as set out in Appendix 2.
- 28.8 A proposal made under paragraph 28.6 must include statements setting out:
- (a) the uncertain cost category to which the proposal relates;
 - (b) the changes to the licensee's allowed expenditure levels that are proposed and the Formula Years to which those changes relate; and
 - (c) the basis of calculation for the changes to the licensee's allowed expenditure levels referred to in sub-paragraph (b).

Application windows for relevant adjustment proposals

- 28.9 The licensee and the Authority may only propose relevant adjustments, in relation to the uncertain cost categories set out in paragraph 28.3 sub-paragraphs (a) to (e), during the following application windows:
- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
 - (b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.

- 28.10 Relevant adjustments relating to an uncertain cost category set out in paragraph 28.3 sub-paragraphs (a) to (e) may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 28.6 to 28.8.
- 28.11 Relevant adjustment proposals, in relation to an uncertain cost category set out in paragraph 28.3 sub-paragraphs (a) to (e), made outside the application windows set out in paragraph 28.9 will not be determined by the Authority under the provisions of this condition.
- 28.12 The licensee and the Authority may propose relevant adjustments relating to Network Flexibility Costs at any time.

Authority's power to determine relevant adjustments

- 28.13 Where a proposal has been duly made under paragraph 28.6, the Authority may, within four months after the close of the relevant application window (or in relation to Network Flexibility Costs within four months of the receipt of a relevant adjustment proposal), determine any relevant adjustments that are to be made to the licensee's allowed expenditure levels and the Formula Years to which those changes relate, in such manner as it considers appropriate.
- 28.14 In determining any relevant adjustment under paragraph 28.13, the Authority must:
- (a) consult with the licensee and other interested parties;
 - (b) have particular regard to the purposes of this condition;
 - (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.
- 28.15 A determination under paragraph 28.13 may confirm, reject, or vary the proposed relevant adjustment.
- 28.16 Without limiting the general effect of paragraph 28.15, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the licensee in relation to an uncertain cost category for any Formula Year from 2013/14 to 2020/21.
- 28.17 The Authority must notify the licensee of any determination made under paragraph 28.13 within 14 days of making the determination concerned.
- 28.18 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 28.6 within four months after the close of the relevant application window (or in relation to Network Flexibility Costs within four months of the receipt of a relevant adjustment proposal), and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the licensee for Formula Years specified in the proposal, shall be deemed to have been made.

Part B: Determination of revisions to PCFM Variable Values

- 28.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:
- (a) Enhanced Physical Site Security Costs (IAEES values);
 - (b) Industrial Emissions Costs (IAEIE values);

- (c) Pipeline Diversion Costs (IAEPD values);
- (d) Quarry and Loss Development Claim Costs (IAEQL values);
- (e) One-off Asset Health Costs (IAEAH values); and
- (f) Network Flexibility Costs (IAENF values).

28.20 The Authority shall determine whether any PCFM Variable Values should be revised by 30 November following the relevant application window, or in relation to Network Flexibility Costs by 30 November or as soon as reasonable practicable thereafter following the end of the four month assessment period, for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.

28.21 Determinations under paragraph 28.20 are to be made in accordance with the methodology contained in chapter 7 of the GT1 Price Control Financial Handbook.

28.22 Where the Authority directs any revised PCFM Variable 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 time value of money 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 C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs

28.23 In relation to PCFM Variable Values set out in paragraph 28.19 sub-paragraph (a) to (e), revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:

- (a) 30 November 2015 (or as soon as reasonable practicable thereafter), following the first application window; and
- (b) 30 November 2018 (or as soon as reasonable practicable thereafter), following the second application window.

28.24 In relation to PCFM Variable Values for Network Flexibility Costs, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by 30 November following the end of the four month assessment period.

28.25 Before issuing any directions under paragraphs 28.23 or 28.24, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

28.26 The notice referred to in paragraph 28.25 must:

- (a) state that any revised PCFM Variable Values 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 PCFM Variable Values.

28.27 The Authority shall have due regard to any representations or objections duly received under paragraph 28.26, and give reasons for its decisions in relation to them.

28.28 If, for any reason, the Authority does not make a direction required under paragraphs 28.23 and 28.24 by the date specified in that paragraph, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 26.10 of [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model) and, in any case, before directing a value for MOD_t under that paragraph.

Part D: Consequential changes to the Constraint Management Target

[This provision is subject to further development of the Constraint Management licence condition [GTC120]. This includes whether the target can change during the price control period]

28.29 For the following uncertain cost categories specified in this condition:

- (a) Industrial Emissions Costs;
- (b) One-off Asset Health Costs; and
- (c) Network Flexibility Costs.

28.30 The Authority may direct modifications to the licensee's constraint management target CMDT_t based on the process set out in [GTC 120] Special condition [x] (Entry and exit capacity constraint management.)

Part E: Interpretation

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

Enhanced Physical Site Security Costs means costs incurred, or expected to be 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.

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

Industrial Emissions Costs means costs incurred, or expected to be incurred, by the licensee in relation to works triggered as a result of emissions related legislation, such as Directive 2008/1/EC of the European Parliament and of the Council of 15 January 2008 concerning integrated pollution prevention and control, and the Industrial Emissions Directive. Such works may require the installation of electric drives, compatible gas drives, or other technical solution such as retrofit of appropriate equipment that will render the facility compliant.

Network Flexibility Costs means costs incurred, or expected to be incurred, by the licensee in relation to additional network

investment required to continue to meet its 1 in 20 peak day obligation in the Safety Case it has in place from time to time pursuant to the Gas Safety (Management) Regulations 1996.

One-off Asset Health Costs

means costs incurred, or expected to be 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.

PCFM Variable Value

means a value held in a 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 to the GT1 Price Control Financial Model for the purposes of [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

Pipeline Diversion Costs

means costs incurred, or expected to be incurred, by the licensee in relation to sleeping extant liabilities or other obligations to divert existing pipelines. Costs recoverable through this mechanism will be

- (a) those arising as a result of existing obligations/liabilities taken on by the Gas Council/ British Gas for which the licensee is now responsible; and
- (b) where the licensee can demonstrate it has done everything in its powers to recover costs from the relevant party requesting the pipeline diversion.

Quarry and Loss Development Claim Costs

means costs incurred, or expected to be incurred, by the licensee in relation to settling any claims which have been demonstrably challenged by the licensee 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 or Deed of Servitude are included:

- (a) loss of crop and drainage;
- (b) loss of land development (including in relation to housing and quarrying);
- (c) sterilised minerals;
- (d) landfill and tipping; and
- (e) power generation.

Totex Incentive Strength Rate means the incentive rate for the licensee set out in Appendix 1 to this condition.

28.32 Expressions defined in paragraph 28.31 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] Special Condition [x] (Regulatory Instructions and Guidance).

APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 28.7 of this condition)

Licensee	Totex Incentive Strength Rate
National Grid Gas	xxx

APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 28.7 of this condition)

Licensee	£m (2009/10) prices
National Grid Gas	xxx

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

Introduction

117.1 The purpose of this condition is as follows:

- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of allowed expenditure ("relevant adjustments") in relation to the categories of costs set out in paragraph 117.3 (each "an uncertain cost category");
- (b) to allow the Authority to review Agency Costs (as set out in Part B of this condition), and the Authority to determine, relevant adjustments to the licensee's level of allowed expenditure in relation to Agency Costs; and
- (c) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Formula Years to which those revised PCFM Variable Values 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).

117.2 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 $SOMOD_t$ as calculated for Formula Year t for the purposes of Part [D] of [GTC 7] Special Condition [x] (Restriction of NTS System Operator Revenue) will result in an appropriate adjustment of the licensee's Base NTS System Operation Revenue (whether upwards or downwards) in a manner that takes account of the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph 117.3, determined under Part A of this condition, and allowed expenditure levels in relation to Agency Costs determined under Part B of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapter 6 and 7 of the ET1 Price Control Financial Handbook.

117.3 The uncertain cost categories referred to in paragraph 117.1 are:

- (a) Enhanced Security Costs.

117.4 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: Proposal and determination of relevant adjustments

117.5 This part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

Proposal of relevant adjustments

117.6 Subject to paragraph 117.9, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Formula Year or Formula Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:

- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's opening base revenue allowance was derived;
- (b) takes account of any prior relevant adjustments determined under this condition;
- (c) in aggregate constitutes a material amount within the meaning of paragraph 117.7;
- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.

117.7 A material amount is an amount of change to allowed expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2.

117.8 A proposal made under paragraph 117.6 must include statements setting out:

- (a) the uncertain cost category to which the proposal relates;
- (b) the changes to the licensee's allowed expenditure levels that are proposed and the Formula Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's allowed expenditure levels referred to in sub-paragraph (b).

Application windows for relevant adjustment proposals

117.9 The licensee and the Authority may only propose relevant adjustments during the following application windows:

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

117.10 Relevant adjustments relating to any uncertain cost category may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 117.6 to 117.8.

117.11 Relevant adjustment proposals made outside the application windows set out in paragraph 117.9 will not be determined by the Authority under the provisions of this condition.

Authority's power to determine relevant adjustments

117.12 Where a proposal has been duly made under paragraph 117.6, the Authority may, within four months after the close of the relevant application window, determine any relevant adjustments that are to be made to the licensee's allowed expenditure levels and the Formula Years to which those changes relate, in such manner as it considers appropriate.

117.13 In determining any relevant adjustment under paragraph 117.12, the Authority must:

- (a) consult with the licensee and other interested parties;
- (b) have particular regard to the purposes of this condition;
- (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.

117.14 A determination under paragraph 117.12 may confirm, reject, or vary the proposed relevant adjustment.

117.15 Without limiting the general effect of paragraph 117.14, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the licensee in relation to an uncertain cost category for any Formula Year from 2013/14 to 2020/21.

117.16 The Authority must notify the licensee of any determination made under paragraph 117.12 within 14 days of making the determination concerned.

117.17 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 117.6 within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the licensee for Formula Years specified in the proposal, shall be deemed to have been made.

Part B: Review of Agency Costs

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

117.19 In conducting that review, the Authority must consult:

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

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

117.21 Following its review, the Authority may decide that the efficient level of Agency Costs:

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

117.22 Where the Authority decides that the efficient level of Agency Costs should be modified, it may direct that an adjustment be made to the PCFM Variable Values to reflect the effect of its decision in relation to the allowed expenditure levels 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 (Agency).

Part C: Determination of revisions to PCFM Variable Values

117.23 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

- (a) Enhanced Security Costs (SOIAEEPS values); and
- (b) Agency Costs (SOIAECA values).

117.24 The Authority shall determine whether any PCFM Variable Values should be revised by 30 November or as soon as reasonable practicable thereafter following the relevant application window, or in relation to Agency Costs by 30 November or as soon as reasonable practicable thereafter following the end of a review of Agency Costs, for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A and B of this condition.

117.25 Determinations under paragraph 117.24 are to be made in accordance with the methodology contained in chapter 7 of the GT1 Price Control Financial Handbook.

117.26 Where the Authority directs any revised PCFM Variable 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 time value of money 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 the direction of revised PCFM Variable Values relating to the recovery of uncertain costs

117.27 Revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part C of this condition will be directed by the Authority by:

- (a) 30 November 2015 (or as soon as reasonable practicable thereafter), following the first application window; and
- (b) 30 November 2018 (or as soon as reasonable practicable thereafter), following the second application window.

117.28 In relation to PCFM Variable Values for Agency Costs, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part C of this condition will be directed by the Authority by 30 November following the end of a review of Agency Costs.

117.29 Before issuing any directions under paragraphs 117.27 and 117.28, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

117.30 The notice referred to in paragraph 117.29 must:

- (a) state that any revised PCFM Variable Values have been determined in accordance with Part C 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 PCFM Variable Values.

117.31 The Authority shall have due regard to any representations or objections duly received under paragraph 117.30, and give reasons for its decisions in relation to them.

117.32 If, for any reason, the Authority does not make a direction required under paragraphs 117.27 and 117.28 by the date specified in that paragraph, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 26.10 of [GTC 26] Special Condition [x] (Annual Iteration Process for the GT1 Price Control Financial Model) and, in any case, before directing a value for $SOMOD_t$ under that paragraph.

Part E: Interpretation

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

Agency Costs means costs incurred, or expected to be incurred, by the licensee for the purposes of meeting its obligations under Standard Special Condition A15 (Agency).

Enhanced Security Costs means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the security of any of the IT systems required to operate the licensee's Transportation System.

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] (Restriction of NTS System Operator Revenue).

PCFM Variable Value means a value held in a 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 to the GT1 Price Control Financial Model for the purposes of [GTC 57] Special Condition [x] (Governance of GT1 Price Control Financial Instruments).

Totex Incentive Strength Rate means the incentive rate for the licensee set out in Appendix 1 to this condition.

117.34 Expressions defined in paragraph 117.34 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] Special Condition [x] (Regulatory Instructions and Guidance).

APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 117.8 of this condition)

Licensee	Totex Incentive Strength Rate
National Grid Gas	xxx

APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 117.8 of this condition)

Licensee	£m (2009/10) prices
National Grid Gas	xxx

DRAFT

[GTC 3] Special Condition [x]. Determination of incremental obligated entry capacity volumes and the appropriate revenue drivers to apply

Introduction

XX.1 The purpose of this condition is as follows:

- (a) to set out the obligations on the licensee to calculate appropriate revenue drivers for NTS Entry Points in a timely manner; and
- (b) to set out the process by which the licensee can propose, and the Authority can approve:
 - (i) the volume of incremental obligated entry capacity; and
 - (ii) how that incremental obligated entry capacity will be treated for the purposes of the Special Conditions, including the appropriate funding allowance for that incremental obligated entry capacity.
- (c) The [EnRD_t term] derived in accordance with this condition will be a revised input variable for the Annual Iteration Process for the GT1 Price Control Financial Model as described in Special Condition [x] [GTC26] (Annual Iteration Process for the T1 Price Control Financial Model). As a consequence of the Annual Iteration Process, the value of the term MOD_t as calculated for formula year t for the purposes of Part D of Special Condition [•] [GTC20] (Restriction of NTS Transportation Owner Revenue) may result in an adjustment of the licensee's Base NTS Transportation Activity Revenue in a manner that is consistent with the policy outlined in the GT1 Price Control Financial Methodologies contained within the GT1 Price Control Financial Handbook.

XX.2 The determination of the EnRD_t term in accordance with this condition will also constitute an element of Total Allowed Totex for the purposes of deriving the PCFM Variable Value for the TO Totex Incentive Mechanism as set out in Special Condition [GTC 47] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner). Total Allowed Totex is derived in accordance with the methodology set out in Chapter [•] of the GT1 Price Control Financial Methodologies contained within the GT1 Price Control Financial Handbook.

Part A: Proposal to release incremental obligated entry capacity and the associated funding arrangements

XX.3 Where the licensee reasonably believes that there is or will be demand from Users for additional firm entry capacity as a result of calculations carried out by the licensee in accordance with its capacity methodology statements for the time being in force pursuant to [GTC121] (Entry and Exit Capacity Methodologies and Statements), it shall give a notice in writing (“the Entry Capacity Notice”) to the Authority setting out its proposals in respect of each NTS entry point at which it believes there is or will be

demand for that additional firm entry capacity to be treated as incremental obligated entry capacity (the “proposal”).

- XX.4 The Entry Capacity Notice shall set out the licensee’s proposal for that additional firm entry capacity to be treated for the purposes of this condition as either:
- (a) Funded incremental obligated entry capacity; or
 - (b) non-incremental obligated entry capacity provided by entry capacity substitution in accordance with [GTC121].
- XX.5 The Entry Capacity Notice must include the following information, in sufficient detail to enable the Authority to determine (in accordance with paragraph [XX.8] of this condition) whether the licensee shall implement the proposal:
- (a) the results of applying the capacity release methodology statements for the time being in force pursuant to [GTC126] (Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes) and the rationale and justification for why the licensee considers that the additional firm entry capacity should be released;
 - (b) how the capacity release methodology statements for the time being in force pursuant to [GTC126] have been applied (including the provision of all relevant input data) by the licensee to determine the amount of additional firm entry capacity that it proposes to treat as incremental obligated entry capacity;
 - (c) the NTS entry point or points to which the application relates;
 - (d) the volume of incremental obligated entry capacity that the licensee proposes to treat as:
 - (i) Funded incremental obligated entry capacity and the associated revenue driver allowance for each relevant formula year t [$EnRD_t$] calculated in accordance with Part B of this condition and/or associated variation to the constraint management target for each relevant formula year t [$CMDT_t$] for the purposes of Part F of GTC120 (Entry and Exit capacity constraint management); and
 - (ii) non-incremental obligated entry capacity substituted to that NTS entry point in accordance with the entry capacity substitution methodology for the time being in force pursuant to [GTC121] to which the application relates;
 - (e) the volume of unsold non-incremental obligated entry capacity that has been substituted from one or more other NTS entry points, in accordance with the entry capacity substitution methodology for the time being in force pursuant to [GTC121] ;
 - (f) the first month in which the additional firm entry capacity referred to in paragraph XX.5(d) of this condition would be provided at the relevant NTS entry point or in which the additional firm entry capacity referred to in paragraph XX.5(e) of this condition would cease to be provided at the relevant NTS entry points (for the avoidance of doubt, the capacity will be deemed to be used from the first day of the month in question); and

- (g) the date in respect of which the licensee's obligations to offer for sale the volume of additional firm entry capacity referred to in paragraph XX.5(d) of this condition would commence and the date on which the licensee's obligations to offer for sale that volume of non-incremental obligated entry capacity substituted away from those NTS entry points referred to in paragraph XX.5(e) of this condition would cease.

XX.6 The licensee shall keep each Entry Capacity Notice.

XX.7 The licensee shall provide the Authority with such additional information as the Authority reasonably requests for the purposes of considering an Entry Capacity Notice made by the licensee.

XX.8 The licensee shall implement the proposal as set out within the Entry Capacity Notice made pursuant to paragraph [XX.3] of this condition or as modified in accordance with paragraph XX.9(b) of this condition, unless:

- (a) the Authority has, within 7 days from the receipt by the Authority of the Entry Capacity Notice notified the licensee in writing that it should suspend the implementation of the proposal contained in the Entry Capacity Notice because, in its opinion, the Authority requires further consideration to evaluate whether that proposal, and the supporting information, is consistent with the licensee's entry capacity release methodology, the licensee's entry capacity substitution methodology (established pursuant to GTC121 (Entry and Exit Methodologies Statements)), and the licensee's duties under the Act and the standard, Standard Special and Special Conditions; or
- (b) the Authority has, within 28 days from the receipt by the Authority of the application made pursuant to paragraph XX.3 of this condition, directed the licensee, on or before that date, not to implement that proposal.

XX.9 Where the Authority has notified the licensee in writing to suspend implementation of the proposal in accordance with paragraph XX.8(a) of this condition but has not issued a direction under paragraph XX.8(b) of this condition, the Authority may direct the licensee, within 28 days from the receipt by the Authority of the Entry Capacity Notice either:

- (a) to implement the proposal as set out in the Entry Capacity Notice; or
- (b) to implement the proposal in a modified form, subject to the agreement of the licensee to that modified form, where such modifications relate to:
 - (i) the volume of incremental obligated entry capacity that the licensee proposes to treat as:
 - 1) Funded incremental obligated entry capacity; or
 - 2) non-incremental obligated entry capacity substituted to any NTS entry point in accordance with the entry capacity substitution methodology for the time being in force pursuant to GTC121 (Entry and Exit Methodologies Statements); and
 - (ii) the first month in respect of which the additional firm entry capacity referred to in:

- 1) paragraph XX.5(d) of this condition would be provided at the relevant NTS entry point; or
- 2) paragraph XX.5(e) of this condition would cease to be provided at the relevant NTS entry points.

XX.10 The licensee may withdraw an Entry Capacity Notice within 7 days from receipt by the Authority of the Entry Capacity Notice, except that where the Authority has notified the licensee under paragraph XX.8(a) of this condition to suspend implementation of the proposal set out in an Entry Capacity Notice. Where such notification has been given by the Authority, the licensee may withdraw such a proposal within 28 days from receipt by the Authority of the Entry Capacity Notice, unless the Authority has otherwise directed the licensee to implement the proposal in accordance with paragraph XX.9 of this condition.

XX.11 Where the Authority has made a direction that the licensee should not implement a proposal set out in an Entry Capacity Notice, the licensee shall remain entitled to make available firm entry capacity additional to the prevailing level of obligated entry capacity at the time the proposal is made, and any such additional firm entry capacity sold by the licensee shall be treated as non-obligated entry capacity.

XX.12 The licensee shall publish on its website the effect of implementing each proposal set out in an Entry Capacity Notice on the cumulative volume of Funded incremental obligated entry capacity and non-incremental obligated entry capacity for each NTS entry point *i* for each month *m* in a form and manner approved by the Authority. The licensee shall use reasonable endeavours to ensure that the information published pursuant to this paragraph is accurate and up-to-date.

Part B: Additional totex allowance in respect of the release of Funded incremental obligated entry capacity

XX.13 This paragraph applies where the licensee has made a proposal pursuant to Part A above which has proposed that NTS entry capacity be treated for the purposes of this condition as Funded incremental obligated entry capacity.

XX.14 The total totex allowance for formula year *t* due to the licensee in respect of the release of Funded incremental obligated entry capacity ($EntRD_t$) shall be determined in accordance with the following formula:

$$EntRD_t = 0.2 \times \sum_{all\ i} \sum_{all\ j} TotEntRevD_{i,j,y} \times EntIND_t; \text{ where } t = y-2$$

$$EntRD_t = 0.8 \times \sum_{all\ i} \sum_{all\ j} TotEntRevD_{i,j,y} \times EntIND_t; \text{ where } t = y-1$$

$$EntRD_t = 0.01 \times \sum_{all\ i} \sum_{all\ j} TotEntRevD_{i,j,y} \times EntIND_t; \text{ where } t = y \text{ and any subsequent formula year to the end of the RIIO-T1 period}$$

$$EntRD_t = 0; \text{ otherwise}$$

where:

y is the formula year during which the contractual delivery date for Funded incremental obligated entry capacity at NTS entry point *i* for an amount of incremental capacity of *j* GWh/d falls;

TotEntRevD_{i,j,y}

is the additional totex allowance in respect of the release of Funded incremental obligated entry capacity at NTS entry point i for an amount of incremental capacity of j GWh/d, calculated as provided for in with Part C of this condition; and

EntIND_t

is the real additional cost inflation index above RPI based on the RPE allowance for Formula Year t and shall take the values in Table 1 below:

Table 1: Values for the real additional cost inflation index

Formula Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
EntIND _t	1	1.007	1.014	1.021	1.028	1.035	1.043	1.050

Part C: Additional totex allowances in respect of the release of Funded incremental obligated entry capacity (TotEntRevD_{i,j,y})

XX.15 Except where the licensee has in place a generic entry and exit revenue driver methodology statement pursuant to [GTC126], the additional totex allowances in respect of the release of Funded incremental obligated entry capacity for use at NTS entry point i, for an amount of incremental capacity of j GWh/d (TotEntRevD_{i,j,y}) shall be calculated in accordance with Part D of this condition.

XX.16 Where the licensee has in place a generic entry and exit revenue driver methodology statement pursuant to GTC126, the licensee shall calculate the appropriate additional totex allowances in respect of the release of Funded incremental obligated entry capacity for use at NTS entry point i, for an amount of incremental capacity of j GWh/d in accordance with that methodology. The licensee shall send the Authority a notice to indicate the amount for TotEntRevD_{i,j,y} and this value will be subsequently determined by the Authority in accordance with Part E of this condition.

Part D: Additional totex allowances in respect of the release of Funded incremental obligated entry capacity (TotEntRevD_{i,j,y}) where a generic entry and exit revenue driver methodology has not been approved by the Authority and published by the licensee

XX.17 Where no generic entry and exit revenue driver methodology is in place, the value for the additional totex allowances in respect of the release of Funded incremental obligated entry capacity, TotEntRevD_{i,j,y} will be calculated in accordance with the relevant formula specified in Table 2 below:

Table 2: Calculation of relevant additional totex allowance

where: $j \leq 25$ GWh/d	TotEntRevD _{i,j,y} shall be calculated using the formula specified in paragraph XX.19(i) of this condition (“Formula A”);
where: 25 GWh/d < $j \leq 100$ GWh/d	TotEntRevD _{i,j,y} shall be calculated using the formula specified in paragraph XX.19(ii) of this condition (“Formula B”);
where: 100 GWh/d < $j \leq 500$ GWh/d	TotEntRevD _{i,j,y} shall be calculated using the formula specified in paragraph XX.19(iii) of this condition (“Formula C”);
where: 500 GWh/d < j	TotEntRevD _{i,j,y} shall be calculated using the formula specified in paragraph XX.19(iv) of this condition (“Formula D”);

XX.18 For the purposes of Table 2, j means the volume (in units of GWh per day) of Funded incremental obligated entry capacity at NTS Entry Point i which was contractually delivered within Formula Year y .

XX.19 For the purposes of paragraph XX.17 of this condition:

i) Formula A shall be:

$$\text{TotEntRevD}_{i,j,y} = j \times \text{EnFIR1}_i$$

where :

$$\text{EnFIR1}_i = \text{EnFIRz}_i, \text{ where } z=1.$$

ii) Formula B shall be:

$$\text{TotEntRevD}_{i,j,y} = (25 \times \text{EnFIR1}_i) + (j - 25) \times \text{EnFIR2}_i$$

where :

$$\text{EnFIR1}_i = \text{EnFIRz}_i, \text{ where } z=1; \text{ and}$$

$$\text{EnFIR2}_i = \text{EnFIRz}_i, \text{ where } z=2.$$

iii) Formula C shall be:

$$\text{TotEntRevD}_{i,j,y} = (25 \times \text{EnFIR1}_i) + (75 \times \text{EnFIR2}_i) + (j - 100) \times \text{EnFIR3}_i$$

where :

$$\text{EnFIR1}_i = \text{EnFIRz}_i, \text{ where } z=1;$$

$$\text{EnFIR2}_i = \text{EnFIRz}_i, \text{ where } z=2; \text{ and}$$

$$\text{EnFIR3}_i = \text{EnFIRz}_i, \text{ where } z=3.$$

iv) Formula D shall be:

$$\text{TotEntRevD}_{i,j,y} = (25 \times \text{EnFIR1}_i) + (75 \times \text{EnFIR2}_i) + (400 \times \text{EnFIR3}_i) + (j - 500) \times \text{EnFIR4}_i$$

where :
 $EnFIR1_i = EnFIRz_i$, where $z=1$;
 $EnFIR2_i = EnFIRz_i$, where $z=2$;
 $EnFIR3_i = EnFIRz_i$, where $z=3$; and
 $EnFIR4_i = EnFIRz_i$, where $z=4$.

XX.20 Where $EnFIRz_i$ is the totex allowance for Funded incremental obligated entry capacity at NTS Entry Point i and shall take the values in accordance with Table 3 below.

Table 3: Totex allowances for NTS Entry Points

	EnFIR _{z_i}	z =			
		1	2	3	4
	Capacity Range	£M/GW - marginal cost (2009/10 prices)			
		0-25GW	25-100GW	100-500GW	>500GW
Entry Point i	Easington				
	Bacton				
	Isle of Grain				
	Milford Haven				
	St Fergus				
	Teesside				
	Barrow				
	Theddlethorpe				
	Burton Point				
	Hole House Farm				
	Barton Stacey				
	Hatfield Moor				
	Garton				
	Cheshire				
	Hornsea				
	Fleetwood				
	Burton Agnes (Caythorpe)				
	Wytch Farm				
	Blyborough (Welton)				
	Winkfield				
	Tatsfield				
	Glenmavis				
	Partington				
	Avonmouth				
Dynevor Arms					
Albury					
Palmers Wood					
Portland					
Canonbie					

Part E: Additional totex allowances in respect of the release of Funded incremental obligated entry capacity (TotEntRevD_{i,j,y}) where a generic entry and exit revenue driver methodology has been approved by the Authority and published by the licensee

XX.21 The Authority will determine a value for TotEntRevD_{i,j,y} by 30 September or as soon as reasonably practicable thereafter in formula year t-1 where an additional totex allowance in respect of the release of Funded incremental obligated entry capacity will apply for formula year t and shall bring forward a proposal to modify this condition to implement that determination by modifying Table 4 as soon as is reasonably practicable.

Table 4: Directed values for additional totex allowance for Funded incremental obligated entry capacity (TotEntRevD_{i,j,y}) (£m 2009/10 prices)

Entry point i	Date Directed	Date of contractual delivery of capacity (within Formula Year y)	Volume (in units of GWh per day) of capacity delivered (j)	TotEntRevD _{i,j,y} (£m 2009/10 prices)
Entry point A	nn/nn/nn			
Entry point B	nn/nn/nn			
etc	nn/nn/nn			

Part F: Procedure for direction of EntRD_t values by the Authority

XX.22 Any value for EntRD_t applying for Formula Year t determined by the Authority in accordance with Part B of this condition will be directed by the Authority by 30 November or as soon as reasonably practical thereafter in each Formula Year t-1.

XX.23 The values directed by the Authority under paragraph XX.22 shall be deemed to be set out in the format of Table 5 below:

Table 5: Directed values for additional totex allowance for Funded incremental obligated entry capacity (EntRD_t) (£m 2009/10 prices)

Value for EntRD _t (£m) (2009/10 prices)		Formula year							
	Date Directed	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Entry point A	nn/nn/nn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Entry point B	nn/nn/nn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
etc	nn/nn/nn								

Total value of EntRD _t		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Part G: Interpretation

XX.24 For the purposes of this condition, the following definitions shall apply:

generic revenue driver methodology	means an approach to calculating revenue drivers across different entry points approved by the Authority and published by the licensee on its website;
incremental obligated entry capacity	means that additional firm entry capacity which the licensee is required to offer for sale following implementation of a proposal made by the licensee in accordance with Part A of this condition. For the avoidance of doubt, incremental obligated entry capacity comprises additional firm entry capacity which is either subsequently treated as Funded incremental obligated entry capacity, or non-incremental obligated entry capacity (where that capacity has been provided by entry capacity substitution);
Funded incremental obligated entry capacity	is incremental obligated entry capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not been provided through Entry capacity substitution and for which the licensee has not received an additional funding allowance through legacy incremental entry capacity, legacy incremental exit capacity or any previous allowance in respect of Funded incremental obligated entry capacity or Funded incremental obligated exit capacity;
Funded incremental obligated exit capacity	is incremental obligated exit capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not been provided through exit capacity substitution and for which the licensee has not received an additional funding allowance through legacy incremental entry capacity, legacy incremental exit capacity or any previous allowance in respect of Funded incremental obligated entry capacity or Funded incremental obligated exit capacity;
legacy incremental entry capacity	is incremental obligated entry capacity for which the obligation to offer such capacity for sale commenced before 1 April 2013, for which the licensee receives a revenue entitlement in accordance with Table xx of GTC7 (Restriction of

legacy incremental exit capacity	NTS System Operation Activity Revenue); is incremental obligated exit capacity for which the obligation to offer such capacity for sale commenced before 1 April 2013, for which the licensee receives a revenue entitlement in accordance with Table xx of GTC7;
non-incremental obligated entry capacity	means obligated entry capacity other than cumulative Funded incremental obligated entry capacity; and
Entry capacity substitution	means the process by which unsold non-incremental obligated entry capacity is moved from one or more NTS entry points to meet the demand for incremental obligated entry capacity at another NTS entry point in accordance with the obligations set out in GTC 121.

DRAFT

[GTC4] Special Condition [x]. Determination of incremental obligated exit capacity volumes and the appropriate revenue drivers to apply

Introduction

XX.1 The purpose of this condition is as follows:

- (a) to set out the obligations on the licensee to calculate appropriate revenue drivers for NTS Exit Points in a timely manner; and
- (b) to set out the process by which the licensee can propose, and the Authority can approve:
 - (i) the volume of incremental obligated exit capacity; and
 - (ii) how that incremental obligated exit capacity will be treated for the purposes of the Special Conditions, including the appropriate funding allowance for that incremental obligated exit capacity.

XX.2 The [ExRD_t term] derived in accordance with this condition will be a revised input variable for the Annual Iteration Process for the T1 Price Control Financial Model as described in Special Condition [x] [GTC26] (Annual Iteration Process for the T1 Price Control Financial Model). As a consequence of the Annual Iteration Process, the value of the term MOD_t as calculated for formula year t for the purposes of Part [x] of Special Condition [•] [GTC20 (C8B)] (Restriction of Gas Transmission Transportation Activity Charges) may result in an adjustment of the licensee's Base NTS Transportation Owner Activity Revenue 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.

XX.3 The determination of the ExRD_t term in accordance with this condition will also constitute an element of Total Allowed Totex for the purposes of deriving the PCFM Variable Values for the TO Totex Incentive Mechanism set out in Special Condition GTC47 (Determination of PCFM Variable Values of Totex Incentive Mechanism Adjustments – Transmission Owner). Total Allowed Totex is derived in accordance with the methodology set out in Chapter [•] of the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.

Part A: Proposal to release incremental obligated exit capacity and the associated funding arrangements

XX.4 Where the licensee reasonably believes that there is or will be demand from Users for additional firm exit capacity as a result of calculations carried out by the licensee in accordance with its capacity release methodology statements for the time being in force pursuant to [GTC121], it shall give a notice in writing (“the Exit Capacity Notice”) to the Authority setting out its proposals in respect of each NTS exit point at which it believes there is or will be demand for that additional firm exit capacity to be treated as incremental obligated exit capacity (the “proposal”).

XX.5 The Exit Capacity Notice shall set out the licensee's proposal for that additional firm exit capacity to be treated for the purposes of this condition as either:

- (a) Funded incremental obligated exit capacity; or
- (b) non-incremental obligated exit capacity provided by exit capacity substitution in accordance with GTC121 (Entry and Exit Capacity Methodologies and Statements).

XX.6 The Exit Capacity Notice must include the following information, in sufficient detail to enable the Authority to determine (in accordance with paragraph XX.9 of this condition) whether the licensee shall implement the proposal:

- (a) the results of applying the capacity release methodology statements for the time being in force pursuant to GTC126 (Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes) and the rationale and justification for why the licensee considers that the additional firm exit capacity should be released;
- (b) how the capacity release methodology statements for the time being in force pursuant to [GTC126] have been applied (including the provision of all relevant input data) by the licensee to determine the amount of additional firm exit capacity that it proposes to treat as incremental obligated exit capacity;
- (c) the NTS exit point or points to which the application relates;
- (d) the volume of incremental obligated exit capacity that the licensee proposes to treat as:
 - (i) Funded incremental obligated exit capacity and the associated revenue driver allowance for each relevant formula year t [ExRD t], calculated in accordance with Part B of this condition and/or associated variation to the constraint management target for each relevant formula year t [CMDT t] for the purposes of Part F of GTC120 (Constraint Management); and
 - (ii) non-incremental obligated exit capacity substituted to that NTS exit point in accordance with the exit capacity substitution methodology for the time being in force pursuant to GTC121 (Entry and Exit Methodologies Statements) to which the application relates;
- (e) the volume of unsold non-incremental obligated exit capacity that has been substituted from one or more other NTS exit points, in accordance with the exit capacity substitution methodology for the time being in force pursuant to GTC121 (Entry and Exit Methodologies Statements);
- (f) the first month in which the additional firm exit capacity referred to in paragraph XX.6(d) of this condition would be provided at the relevant NTS exit point or in which the additional firm exit capacity referred to in paragraph XX.6(e) of this condition would cease to be used at the relevant NTS exit points (for the avoidance of doubt, the capacity will be deemed to be used from the first day of the month in question); and

- (g) the date in respect of which the licensee's obligations to offer for sale the volume of additional firm exit capacity referred to in paragraph XX.6(d) of this condition would commence and the date on which the licensee's obligations to offer for sale that volume of non-incremental obligated exit capacity substituted away from those NTS exit points referred to in paragraph XX.6(e) of this condition would cease.

XX.7 The licensee shall keep each Exit Capacity Notice.

XX.8 The licensee shall provide the Authority with such additional information as the Authority reasonably requests for the purposes of considering an Exit Capacity Notice made by the licensee.

XX.9 The licensee shall implement the proposal as set out within the Exit Capacity Notice made pursuant to paragraph XX.4 of this condition or as modified in accordance with paragraph XX.10(b) of this condition, unless:

- (a) the Authority has, within 7 days from the receipt by the Authority of the Exit Capacity Notice, notified the licensee in writing that it should suspend the implementation of the proposal contained in the Exit Capacity Notice because, in its opinion, the Authority requires further consideration to evaluate whether that proposal, and the supporting information, is consistent with the licensee's exit capacity release methodology, the licensee's exit capacity substitution methodology (established pursuant to GTC121 (Entry and Exit Methodologies Statements)), and the licensee's duties under the Act and the Standard, Standard Special and Special Conditions; or
- (b) the Authority has, within 28 days from the receipt by the Authority of the application made pursuant to paragraph XX.4 of this condition, directed the licensee, on or before that date, not to implement that proposal.

XX.10 Where the Authority has notified the licensee in writing to suspend implementation of the proposal in accordance with paragraph XX.9(a) of this condition but has not issued a direction under paragraph XX.9(b) of this condition the Authority may direct the licensee, within 28 days from the receipt by the Authority of the Exit Capacity Notice either:

- (a) to implement the proposal as set out in the Exit Capacity Notice; or
- (b) to implement the proposal in a modified form, subject to the agreement of the licensee to that modified form, where such modifications relate to:
 - (i) the volume of incremental obligated exit capacity that the licensee proposes to treat as:
 - 1) Funded incremental obligated exit capacity; or
 - 2) non-incremental obligated exit capacity substituted to any NTS exit point in accordance with the exit capacity substitution methodology for the time being in force pursuant to GTC121 (Entry and Exit Methodologies Statements); and
 - (ii) the first month in respect of which the additional firm exit capacity referred to in:

- 1) paragraph XX.6(d) of this condition would be used at the relevant NTS exit point; or
- 2) paragraph XX.6(e) of this condition would cease to be used at the relevant NTS exit points.

XX.11 The licensee may withdraw an Exit Capacity Notice within 7 days from receipt by the Authority of the Exit Capacity Notice, except where the Authority has notified the licensee under paragraph XX.9(a) of this condition to suspend implementation of the proposal set out in an Exit Capacity Notice. Where such notification has been given by the Authority, the licensee may withdraw such a proposal within 28 days from receipt by the Authority of the Exit Capacity Notice, unless the Authority has otherwise directed the licensee to implement the proposal in accordance with paragraph XX.10 of this condition.

XX.12 Where the Authority has made a direction that the licensee should not implement a proposal set out in an Exit Capacity Notice, the licensee shall remain entitled to make available firm exit capacity additional to the prevailing level of obligated exit capacity at the time the proposal is made, and any such additional firm exit capacity sold by the licensee shall be treated as non-obligated exit capacity.

XX.13 The licensee shall publish on its website the effect of implementing each proposal set out in an Exit Capacity Notice on the cumulative volume of Funded incremental obligated exit capacity and non-incremental obligated exit capacity for each NTS exit point *i* for each month *m* in a form and manner approved by the Authority. The licensee shall use reasonable endeavours to ensure that the information published pursuant to this paragraph is accurate and up-to-date.

Part B: Additional totex allowance in respect of the release of Funded incremental obligated exit capacity

XX.14 This paragraph applies where the licensee has made a proposal pursuant to Part A above which has proposed that NTS exit capacity be treated for the purposes of this condition as Funded incremental obligated exit capacity.

XX.15 The total totex allowance for formula year *t* due to the licensee in respect of the release of Funded incremental obligated exit capacity ($ExRD_t$) shall be determined in accordance with the following formula:

$$ExRD_t = 0.2 \times \sum_{all\ i} \sum_{all\ j} TotExRevD_{i,j,y} \times ExIND_t; \text{ where } t = y-2$$

$$ExRD_t = 0.8 \times \sum_{all\ i} \sum_{all\ j} TotExRevD_{i,j,y} \times ExIND_t; \text{ where } t = y-1$$

$$ExRD_t = 0.01 \times \sum_{all\ i} \sum_{all\ j} TotExRevD_{i,j,y} \times ExIND_t; \text{ where } t = y \text{ and any subsequent formula year to the end of the RIIO-T1 period}$$

$$ExRD_t = 0; \text{ otherwise}$$

where :

y is the Formula Year during which the contractual delivery date for Funded incremental obligated exit capacity at NTS exit point *i* for an amount of incremental capacity of *j* GWh/d falls;

TotExRevD_{i,j,y}

is the additional totex allowance in respect of the release of Funded incremental obligated exit capacity at NTS exit point i for an amount of incremental capacity of j GWh/d, calculated as provided for in Part C of this condition; and

ExIND_t

is the real additional cost inflation index above RPI based on the RPE allowance for Formula Year t and shall take the values in Table 1 below:

Table 1: Values for the real additional cost inflation index

Formula Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
ExIND _t	1	1.007	1.014	1.021	1.028	1.035	1.043	1.050

Part C: Additional totex allowances in respect of the release of Funded incremental obligated exit capacity (TotExRevD_{i,j,y})

XX.16 Except where the licensee has in place a generic entry and exit revenue driver methodology statement pursuant to GTC126 (Special Condition [x]. Methodology to determine the release of NTS Exit Capacity and NTS Exit Capacity volumes and methodology to determine revenue drivers), the additional totex allowances in respect of the release of Funded incremental obligated exit capacity for use at NTS exit point i, for an amount of incremental capacity of j GWh/d (TotExRevD_{i,j,y}) shall be calculated in accordance with Part D of this condition.

XX.17 Where the licensee has in place a generic entry and exit revenue driver methodology statement pursuant to GTC126 (Special Condition [x]. Methodology to determine the release of NTS Exit Capacity and NTS Exit Capacity volumes and methodology to determine revenue drivers), the licensee shall calculate the appropriate additional totex allowances in respect of the release of Funded incremental obligated exit capacity for use at NTS exit point i, for an amount of incremental capacity of j GWh/d in accordance with that methodology and send the Authority a notice to indicate the amount for TotExRevD_{i,j,y} and this value will be subsequently determined by the Authority in accordance with Part E of this condition.

Part D: Additional totex allowances in respect of the release of Funded incremental obligated exit capacity (TotExRevD_{i,j,y}) where a generic entry and exit revenue driver methodology has not been approved by the Authority and published by the licensee

XX.18 Where no generic entry and exit revenue driver methodology is in place, the value for the additional totex allowances in respect of the release of Funded incremental obligated exit capacity, TotExRevD_{i,j,y} will be calculated in accordance with the following formula:

$$\text{TotExRevD}_{i,j,y} = \text{ExCIIR}_y^{\text{sequad}} + \text{ExCIIR}_y^{\text{storage}}$$

where

$\text{ExCIIR}_y^{\text{sequad}}$ is the additional totex allowance in respect of the release of Funded incremental obligated exit capacity at NTS exit point i in the south east quadrant for an amount of incremental capacity of j GWh/d which was first contractually delivered within formula year y, calculated in accordance with paragraph XX.19 of this condition; and

$\text{ExCIIR}_y^{\text{storage}}$ is the additional totex allowance in respect of the release of funded incremental obligated exit capacity at NTS exit point i which are storage sites connected to the Bacton terminal as set out in paragraph XX.19 of this condition for an amount of incremental capacity of j GWh/d which was first contractually delivered within formula year y, calculated in accordance with paragraph xx22 of this condition.

XX.19 For the purpose of paragraph XX.17 of this condition, the additional totex allowance in respect of the release of funded incremental obligated exit capacity at NTS exit point i in the south east quadrant for an amount of incremental capacity of j GWh/d which was first contractually delivered within formula year y is calculated in accordance with the following formula:

$$\text{ExCIIR}_y^{\text{sequad}} = \sum_{\text{all } i \text{ in sequad}} \text{ExCIIRS}_{i,y}$$

where:

sequad means NTS exit points in the south east quadrant and which are set out below:

NTS exit points i in the South East quadrant
Horndon
Barking (Horndon)
Stanford Le Hope (Coryton)
Coryton 2 (Thames Haven) Power
Shorne
Middle Stoke (Damhead Creek, aka Kingsnorth Power Station)
Grain Power Station

$\text{ExCIIRS}_{i,y}$ means the additional totex allowance calculated in accordance with the relevant formula specified in Table 2 below:

Table 2: Calculation of relevant additional totex allowance for NTS exit points in the south east quadrant

where: $j \leq 50$ GWh/d	ExCIIRS _{i,y} shall be calculated using the formula specified in paragraph (C) of this condition (“Formula A”);
where: 50 GWh/d < $j \leq 100$ GWh/d	ExCIIRS _{i,y} shall be calculated using the formula specified in paragraph (D) of this condition (“Formula B”);
where: 100 GWh/d < $j \leq 150$ GWh/d	ExCIIRS _{i,y} shall be calculated using the formula specified in paragraph (E) of this condition (“Formula C”);
where: 150 GWh/d < $j \leq 200$ GWh/d	ExCIIRS _{i,y} shall be calculated using the formula specified in paragraph 1 (F) of this condition (“Formula D”);
where: $j > 200$ GWh/d	ExCIIRS _{i,y} shall be calculated using the formula specified in paragraph (G) of this condition (“Formula E”);

XX.20 For the purposes of Table 2, j means the volume (in units of GWh per day) of Funded incremental obligated exit capacity at NTS Exit Point i in the south east quadrant which was contractually delivered within Formula Year y .

XX.21 For the purposes of paragraph XX.19 of this condition:

i) Formula A shall be:

$$\text{ExCIIRS}_{i,y} = j \times \text{IREx1}_i$$

where :

$$\text{IREx1}_i = \text{IRExz}_i, \text{ where } z=1.$$

ii) Formula B shall be:

$$\text{ExCIIRS}_{i,y} = (50 \times \text{IREx1}_i) + (j - 50) \times \text{IREx2}_i$$

where :

$$\text{IREx1}_i = \text{IRExz}_i, \text{ where } z=1; \text{ and}$$

$$\text{IREx2}_i = \text{IRExz}_i, \text{ where } z=2.$$

iii) Formula C shall be:

$$\text{ExCIIRS}_{i,y} = (50 \times \text{IREx1}_i) + (50 \times \text{IREx2}_i) + (j - 100) \times \text{IREx3}_i$$

where :

$$\text{IREx1}_i = \text{IRExz}_i, \text{ where } z=1;$$

$$\text{IREx2}_i = \text{IRExz}_i, \text{ where } z=2; \text{ and}$$

$$\text{IREx3}_i = \text{IRExz}_i, \text{ where } z=3.$$

iv) Formula D shall be:

$$ExCIIRS_{i,y} = (50 \times IREx1_i) + (50 \times IREx2_i) + (50 \times IREx3_i) + (j - 150) \times IREx4_i$$

where :

$$IREx1_i = IRExz_i, \text{ where } z=1;$$

$$IREx2_i = IRExz_i, \text{ where } z=2;$$

$$IREx3_i = IRExz_i, \text{ where } z=3; \text{ and}$$

$$IREx4_i = IRExz_i, \text{ where } z=4.$$

v) Formula E shall be:

$$ExCIIRS_{i,y} = (50 \times IREx1_i) + (50 \times IREx2_i) + (50 \times IREx3_i) + (50 \times IREx4_i) + (j - 200) \times IREx5_i$$

where :

$$IREx1_i = IRExz_i, \text{ where } z=1;$$

$$IREx2_i = IRExz_i, \text{ where } z=2;$$

$$IREx3_i = IRExz_i, \text{ where } z=3;$$

$$IREx4_i = IRExz_i, \text{ where } z=4; \text{ and}$$

$$IREx5_i = IRExz_i, \text{ where } z=5.$$

In each of the formulae A to E above $IRExz_i$ is the additional totex allowance for Funded incremental obligated exit capacity at NTS Exit Point i in the south east quadrant and shall take the values in accordance with Table 3 below:

Table 3: Calculation of relevant additional totex allowance for NTS exit points in the south east quadrant

Increment	50 GWh/d	100 GWh/d	150 GWh/d	200 GWh/d	250 GWh/d
z =	1	2	3	4	5
£m/GWh (2009/10 prices)	£2.598	£2.532	£2.768	£3.094	£3.202

XX.22 For the purpose of paragraph XX.17 of this condition, the additional totex allowance in respect of the release of funded incremental obligated exit capacity at NTS exit point i which are storage sites connected to the Bacton terminal of j GWh/d which was first contractually delivered within Formula Year y is calculated in accordance with the following formula:

$$ExCIIR_y^{storage} = \sum_{\text{all storage sites}} j \times STPROJ_i$$

where:

$STPROJ_i$ is the revenue allowance at NTS exit points which are storage sites connected to the Bacton terminal which shall be determined in accordance with Table 4 below in respect of the incremental exit capacity required for each relevant project(s):

Table 4: Calculation of relevant additional totex allowance for NTS exit points at storage sites

Incremental exit capacity j (GWh/d)	STPROJ_i (£m/GWh) (2009/10 prices)
j = 353	£1.275
j = 657	£0.965
j = 1010	£0.992

Part E: Additional totex allowances in respect of the release of Funded incremental obligated exit capacity (TotExRevD_{i,j,y}) where a generic entry and exit revenue driver methodology has been approved by the Authority and published by the licensee

XX.23 The Authority will determine a value for TotExRevD_{i,j,y} by 30 September or as soon as reasonably practicable thereafter in Formula Year t-1 where an additional totex allowance in respect of the release of Funded incremental obligated exit capacity will apply for Formula Year t and shall bring forward a proposal to modify this condition to implement that determination by modifying Table 5 as soon as is reasonably practicable.

Table 5: Directed values for additional totex allowance for Funded incremental obligated exit capacity (TotExRevD_{i,j,y}) (£m 2009/10 prices)

Exit point i	Date Directed	Date of contractual delivery of capacity (within Formula Year y)	Volume (in units of GWh per day of capacity delivered (j))	TotExRevD _{i,j,y} (£m 2009/10 prices)
Exit point A	nn/nn/nn			
Exit point B	nn/nn/nn			
etc	nn/nn/nn			

Part F: Procedure for direction of revised ExRD_t values by the Authority

XX.24 Any value for ExRD_t applying for Formula Year t determined by the Authority in accordance with Part B of this condition will be directed by the Authority by 30 November or as soon as reasonably practical thereafter in each Formula Year t-1.

XX.25 The values directed by the Authority under paragraph XX.24 shall be deemed to be set out in Table 6 below:

Table 6: Directed values for additional totex allowance for Funded incremental obligated exit capacity (ExRD_t) (£m 2009/10 prices)

Value for ExRD _t (£m) (2009/10 prices)		Formula year							
	Date Directed	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Exit point A	nn/nn/nn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exit point B	nn/nn/nn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
etc	nn/nn/nn								
Total value of ExRD _t		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Part G: Interpretation

XX.26 For the purposes of this condition, the following definitions shall apply:

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Generic revenue driver methodology	Means an approach to calculating revenue drivers across different exit points approved by the Authority and published by the licensee on its website;
Incremental obligated exit capacity	means that additional firm exit capacity which the licensee is required to offer for sale following implementation of a proposal made by the licensee in accordance with Part A of this condition. For the avoidance of doubt, incremental obligated exit capacity comprises additional firm exit capacity which is either subsequently treated as Funded incremental obligated exit capacity or non-incremental obligated exit capacity (where that capacity has been provided by exit capacity substitution);
Funded incremental obligated exit capacity;	is incremental obligated exit capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not been provided through Exit capacity substitution and for which the licensee has not received an additional funding allowance through legacy incremental entry capacity, legacy incremental exit capacity or any previous allowance in respect of Funded incremental obligated entry capacity or Funded incremental obligated exit capacity;
Funded incremental obligated entry capacity	is incremental obligated entry capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not been provided through Entry capacity substitution and for which the licensee has not received an additional funding allowance through Legacy incremental entry capacity, Legacy incremental exit capacity or any previous allowance in respect of Funded incremental obligated entry capacity or Funded incremental obligated exit capacity;
Legacy incremental entry capacity	is incremental obligated entry capacity for which the obligation to offer such capacity for sale commenced before 1 April 2013, for which the licensee receives a revenue entitlement in accordance with Table xx of GTC7 ;
Legacy incremental exit capacity	is incremental obligated exit capacity for which the obligation to offer such capacity for sale commenced before 1 April 2013, for which the licensee receives a revenue entitlement in accordance with Table xx of GTC7;
non-incremental obligated exit capacity	Use current definition from Sp C C8A; and

Exit capacity substitution means the process by which unsold non-incremental obligated exit capacity is moved from one or more NTS exit points to meet the demand for incremental obligated exit capacity at another NTS exit point in accordance with the obligations set out in GTC 121 (Entry and Exit Capacities Methodologies Statements).

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SPECIAL CONDITIONS: FINANCIAL CONDITIONS

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[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 the PCFM Variable Values relating to the items specified in Part A of this condition; and
- (b) the Formula Years to which the revised PCFM Variable 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 [GTC 20] Special Condition [x] (Restriction of NTS Transportation Owner Revenue and references to Formula Year t-1 are to be construed accordingly; and

PCFM Variable Value means a value held in a 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).

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 [GTC 20] Special Condition [x] will result in an appropriate adjustment of the licensee's Base NTS Transportation Owner Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the licensee in respect of:

- (a) activities carried out by the licensee;
- (b) incentivised performance by the licensee; and/or

(c) costs or expenditure incurred by the licensee,

in Formula Years prior to Formula Year 2013/14 (the 'legacy period'), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.

64.4 This condition should be read and construed in conjunction with Special Conditions [GTC 26 and GTC 57].

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

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

- (a) legacy price control revenue allowance adjustments (LAR values); and
- (b) legacy price control adjustments to RAV balance additions (LRAV values).

64.6 The LAR and LRAV values for each Formula Year are zero as at 1 April 2013.

64.7 Subject to paragraphs 64.8 and 64.9 of this condition, the Authority shall, by 30 November in each Formula Year t-1:

- (a) determine whether any LAR or LRAV values should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined and the Formula Years to which they relate.

64.8 The first Formula Year in which the Authority will make a determination pursuant to paragraph 64.7 is Formula Year 2013/14.

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

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

where, in each case, for the same Formula Year:

PAR means the revenue allowance adjustment in respect of adjustments for pension scheme expenditure in the legacy period, determined in accordance with Part B of this condition;

TAR means the revenue allowance adjustment in respect of the licensee's gearing levels and corporate debt interest costs in the legacy period, determined in accordance with Part B of this condition;

CAR means the revenue allowance adjustment in respect of the Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition; and

SAR means the revenue allowance adjustment in respect of adjustments for logged up and security

costs in the legacy period, determined in accordance with Part B of this condition.

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

$$\text{LRAV} = \text{CRAV} + \text{SRAV}$$

where, in each case, for the same Formula Year.

CRAV means the adjustment to the licensee's RAV balance additions in respect of the Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition; and

SRAV means the adjustment to the licensee's RAV balance additions in respect of adjustments for logged up and security costs in the legacy period, determined in accordance with Part B of this condition.

64.11 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 time value of money 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 component values for the determination of LAR and LRAV values

64.12 This Part provides for the determination of component values for the determination of LAR values and LRAV values.

64.13 Subject to paragraph 64.14, the Authority shall, by 30 November in each Formula Year $t-1$, determine the value of the following terms:

- (a) PAR, in accordance with the methodology set out in part A of chapter 11 of the GT1 Price Control Financial Handbook;
- (b) TAR, in accordance with the methodology set out in part B of chapter 11 of the GT1 Price Control Financial Handbook;
- (c) CAR and CRAV, in accordance with the methodology set out in part C of chapter 11 of the GT1 Price Control Financial Handbook; and
- (d) SAR and SRAV, in accordance with the methodology set out in part E of chapter 11 of the GT1 Price Control Financial Handbook.

64.14 The first Formula Year in which the Authority will make determinations pursuant to paragraph 64.13 is Formula Year 2013/14.

64.15 The Authority shall include a statement of any values determined pursuant to paragraph 64.13 in a direction given under Part C of this condition.

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

- 64.16 Subject to paragraph 64.8, revised LAR value 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.
- 64.17 Before issuing any directions under paragraph 64.16, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 64.18 The notice referred to in paragraph 64.17 must:
- (a) state that any revised LAR and LRAV values have been determined in accordance with Parts A and 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 LAR or LRAV values.
- 64.19 The Authority shall have due regard to any representations or objections duly received under paragraph 64.18, and give reasons for its decisions in relation to them.
- 64.20 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 reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition [GTC 26] and, in any case, before directing a value for MOD_t or SOMOD_t under paragraph 26.12 of that condition.

Part D: Interpretation

- 64.21 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 Special Condition GTC 26 (Annual Iteration 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;
Capex Rolling Incentive	means the mechanism giving rise to the baseline capital expenditure incentive revenue adjustment term, CxIncRA _t in Special Condition C8B of this licence in the form it was in on 31 March 2013;
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:

- (a) are named as such in the GT1 Price Control Financial Handbook; and
- (b) together comprise a complete and documented explanation 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; and

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 and SOMOD through the application of the Annual Iteration Process,

as modified from time to time.

64.22 Expressions used in paragraphs 64.2 and 64.21 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

67.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Part A 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 Special Condition [GTC 26] (Annual Iteration Process for the GT1 Price Control Financial Model).

67.2 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 Special Condition GTC 57 (Restriction of NTS System Operation Activity Revenue) and references to Formula Year t-1 are to be construed accordingly; and

PCFM Variable Value

means a value held in a 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 Special Condition [GTC 57].

67.3 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 Special Condition GTC 7 (Restriction of NTS System Operation Activity Charges) will result in an appropriate adjustment of the licensee's Base NTS System Operation Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, SO Regulatory Asset Value (SO RAV) balance adjustments attributable to the licensee in respect of:

- (a) activities carried out by the licensee;
 - (b) incentivised performance by the licensee; and/or
 - (c) costs or expenditure incurred by the licensee,
- 67.4 in Formula Years prior to Formula Year 2013/14 (the ‘legacy period’), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.
- 67.5 This condition should be read and construed in conjunction with Special Conditions GTC 26 and GTC 57.

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

- 67.6 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) SO legacy price control revenue allowance adjustments (SOLAR values); and
 - (b) SO legacy price control adjustments to SO RAV balance additions (SOLRAV values).
- 67.7 The SOLAR and SOLRAV values for each Formula Year are zero as at 1 April 2013.
- 67.8 Subject to paragraphs 67.9 and 67.10 of this condition, the Authority shall, by 30 November in each Formula Year t-1:
- (a) determine whether any SOLAR or SOLRAV values should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and
 - (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined and the Formula Years to which they relate.
- 67.9 The first Formula Year in which the Authority will make a determination pursuant to paragraph 67.8 is Formula Year 2013/14.
- 67.10 The revised SOLAR value for any Formula Year from 2013/14 onwards is determined in accordance with the following formula:
- $$\text{SOLAR} = \text{SOPAR} + \text{SOTAR} + \text{SOCAR} + \text{SODAR}$$
- where, in each case, for the same Formula Year:

SOPAR means the revenue allowance adjustment in respect of adjustments for SO pension scheme expenditure in the legacy period, determined in accordance with Part B of this condition;

SOTAR means the revenue allowance adjustment in respect of the licensee’s SO gearing levels and corporate debt interest costs in the legacy period, determined in accordance with Part B of this condition;

SOCAR means the revenue allowance adjustment in respect of the SO Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition; and

SODAR means the revenue allowance adjustment in respect of adjustments for SO capacity driver incentive schemes in the legacy period, determined in accordance with Part B of this condition.

67.11 The SOLRAV value for any Formula Year from 2013/14 onwards is determined in accordance with the following formula:

$$\text{SOLRAV} = \text{SOCRAV} + \text{SODRAV}$$

where, in each case, for the same Formula Year:

SOCRAV means the adjustment to the licensee's SO RAV balance additions in respect of the SO Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition; and

SODRAV means the adjustment to the licensee's RAV balance additions in respect of adjustments for SO capacity driver incentive schemes in the legacy period, determined in accordance with Part B of this condition.

67.12 Where the Authority directs any revised SOLAR values or SOLRAV 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 time value of money 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: Determination of component values for the determination of SOLAR and SOLRAV values

67.13 This Part provides for the determination of component values for the determination of SOLAR and SOLRAV values.

67.14 Subject to paragraph 67.15, the Authority shall, by 30 November in each Formula Year t-1, determine the value of the following terms:

- (a) SOPAR, in accordance with the methodology set out in part A of chapter 11 of the GT1 Price Control Financial Handbook;
- (b) SOTAR, in accordance with the methodology set out in part B of chapter 11 of the GT1 Price Control Financial Handbook;

- (c) SOCAR and SOCRAV, in accordance with the methodology set out in part C of chapter 11 of the GT1 Price Control Financial Handbook; and
- (d) SODAR and SODRAV, in accordance with the methodology set out in part D of chapter 11 of the GT1 Price Control Financial Handbook.

67.15 The first Formula Year in which the Authority will make determinations pursuant to paragraph 64.14 is Formula Year 2013/14.

67.16 The Authority shall include a statement of any values determined pursuant to paragraph 67.14 in a direction given under Part C of this condition.

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

67.17 Subject to paragraph 67.9, revised SOLAR and SOLRAV 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.

67.18 Before issuing any directions under paragraph 67.17, the Authority will give notice to the licensee of all of the values that it proposes to direct.

67.19 The notice referred to in paragraph 67.18 must:

- (a) state that any revised SOLAR and SOLRAV values have been determined in accordance with Parts A and B of this condition; and
- (b) 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 SOLAR or SOLRAV values.

67.20 The Authority shall have due regard to any representations or objections duly received under paragraph 67.19, and give reasons for its decisions in relation to them.

64.24 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised SOLAR and SOLRAV values by 30 November, the Authority shall direct the values concerned as soon as reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition GTC 26, and in any case, before directing a value for MOD_t or SOMOD_t under paragraph 26.12 of that condition.

Part D: Interpretation

67.21 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 Special Condition GTC 26 (Annual Iteration 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;
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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;

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 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;

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 and SOMOD through the application of the Annual Iteration Process,

as modified from time to time; and

SO Capex Rolling Incentive

means the mechanism giving rise to the internal capital expenditure incentive revenue adjustment term, ICEIRC_t, in Special Condition C8G of this licence in the form it was in on 31 March 2013.

67.22 Expressions used in paragraphs 67.2 and 67.21 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

47.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the licensee's actual TO Totex expenditure, in relation to the 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 Special Condition GTC 26 (Annual Iteration Process for the GT1 Price Control Financial Model).

47.2 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 Special Condition GTC 20 (Restriction of NTS Transportation Owner Revenue) and references to Formula Year t-1 and t-2 are to be construed accordingly; and

PCFM Variable Value means a value held in a 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 Special Condition GTC 57 (Governance of Price Control Financial Instruments).

47.3 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 MOD as calculated for Formula Year t for the purposes of Special Condition GTC 20 (Restriction of NTS Transportation Owner Revenue) will result in an adjustment of the licensee's Base NTS Transportation Owner Revenue; and
- (b) appropriate adjustments will be made to the licensee's Regulatory Asset Value (RAV) balance that reflect the licensee's performance under the Totex

Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the GT1 Price Control Financial Handbook.

- 47.4 This condition should be read and construed in conjunction with Special Conditions GTC 26 and GTC57.

Part A: TO Totex Incentive Mechanism applicable to the licensee

- 47.5 The TO Totex Incentive Mechanism provides for the licensee to bear an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Formula Year, between:
- (a) the licensee's allowed TO Totex expenditure; and
 - (b) the licensee's actual TO Totex expenditure.
- 47.6 The 'appropriate share' referred to in paragraph 47.5 is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).
- 47.7 TO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the GT1 Price Control Financial Model.
- 47.8 This condition provides for the determination and direction of revisions to the six PCFM Variable Values that relate to the licensee's actual TO Totex expenditure. PCFM Variable Values which relate to the licensee's allowed TO Totex expenditure are specified in other special conditions of the licence, and are scheduled in the methodology set out in Chapter 6 of the GT1 Price Control Financial Handbook.

Part B: Process for determining 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 (ALC values);
 - (b) actual asset replacement capex expenditure (ARC values);
 - (c) actual other capex expenditure (AOC values);
 - (d) actual controllable opex (ACO values);
 - (e) actual non-operational capex (ANC values);
 - (f) actual load related capex expenditure (uncertain) (ALU values);
 - (g) actual asset replacement capex expenditure (uncertain) (ARU values);
 - (h) actual other capex expenditure (uncertain) (AOU values); and
 - (i) actual controllable opex (uncertain) (ACU values).
- 47.10 Subject to paragraph 47.11, the Authority shall, by 30 November in each Formula Year t-1:
- (a) determine revised ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU and ACU values for Formula Year t-2; and

- (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Formula 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 The Authority may also direct revisions to ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU and ACU values for Formula Years earlier than Formula Year t-2, where that is necessary to take into account any restatement of, or correction to, Price Control Review Information submitted by the licensee, under any provision of the licence. Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.
- 47.13 Where the Authority directs any revised ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU or ACU values for Formula Years earlier than Formula Year t-2, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a time value of money 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 C: Procedure to be followed for direction of revised Transmission Owner PCFM Variable Values relating to the licensee's actual TO Totex expenditure by the Authority

- 47.14 Subject to paragraph 47.11, revised ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU and ACU 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.
- 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:
 - (a) state that any revised ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU or ACU values 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 ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU or ACU values.
- 47.17 The Authority shall have due regard to any representations or objections duly received under paragraph 47.16, and give reasons for its decisions in relation to them.
- 47.18 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU and ACU values by 30 November, the Authority shall direct the values concerned as soon as reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition GTC 26, and in any case, before directing a value for MOD_t or SOMOD_t under paragraph 26.12 of that condition.

Part D: Interpretation

47.19 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 Special Condition GTC 26 (Annual Iteration 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;

Baseline Totex Capitalisation Rate has the meaning given to that term in chapter 6 of the GT1 Price Control Financial Handbook;

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;

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 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;

Price Control Review Information has the meaning given in Standard Special Condition A40 (Price Control Review

Information);

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 and SOMOD through the application of the Annual Iteration Process,

as modified from time to time has the meaning given to that term in chapter 6 of the GT 1 Price Control Financial Handbook;

Incremental Totex Capitalisation Rate

has the meaning given to that term in the Glossary of the GT1 Price Control Financial Handbook; and

Regulatory Asset Value Totex and TO Totex

have the meanings given to those terms in the methodology in chapter 6 of the GT1 Price Control Financial Handbook.

47.20 Expressions used in paragraphs 47.2 and 47.19 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: Totex Incentive Strength and Totex Capitalisation Rates

(see Part A of this condition)

Licensee	Totex Incentive Strength Rate (%)	Baseline Totex Capitalisation Rate (%)	Incremental Totex Capitalisation Rate (%)
National Grid Gas plc	XX	XX	XX

[GTC 66] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator

Introduction

66.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the licensee’s actual SO Totex expenditure in relation to the 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 Special Condition GTC 26 (Annual Iteration Process for the GT1 Price Control Financial Model).

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 Special Condition GTC 7 (Restriction of NTS System Operation Activity Charges) and references to Formula Year t-1 and t-2 are to be construed accordingly; and

PCFM Variable Value means a value held in a 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 Special Condition GTC 57 (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 Special Condition GTC 7 will result in an adjustment of the licensee’s Base NTS System Operation Revenue; and
- (b) appropriate adjustments will be made to the licensee’s SO Regulatory Asset Value (SO RAV) balance that reflect the licensee’s performance under the Totex Incentive Mechanism, in accordance 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 Special Conditions GTC 26 and GTC57.

Part A: SO Totex Incentive Mechanism applicable to the licensee

- 66.5 The SO Totex Incentive Mechanism provides for the licensee to bear an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Formula Year, between:
- (a) the licensee's allowed SO Totex expenditure; and
 - (b) the licensee's actual SO Totex expenditure.
- 66.6 The 'appropriate share' referred to in paragraph 66.5 is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).
- 66.7 SO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the GT1 Price Control Financial Model.
- 66.8 This condition provides for the determination and direction of revisions to the two PCFM Variable Values that relate to the licensee's actual SO Totex expenditure. PCFM Variable Values which relate to the licensee's allowed SO Totex expenditure are specified in other special conditions of the licence, and are scheduled in the methodology set out in Chapter 6 of the GT1 Price Control Financial Handbook.

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

- 66.9 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) actual controllable opex (SOACO values); and
 - (b) actual non-operational capex (SOANC values).
- 66.10 Subject to paragraph 66.11, the Authority shall, by 30 November in each Formula Year t-1:
- (a) determine revised SOACO and SOANC values for Formula Year t-2; and
 - (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Formula Years to which they relate,

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

- 66.11 The first Formula Year in which the Authority will make a determination pursuant to paragraph 66.10 is Formula Year 2015/16.
- 66.12 The Authority may also direct revisions to SOACO and SOANC values for Formula Years earlier than Formula Year t-2, where that is necessary to take into account any restatement of, or correction to, Price Control Review Information submitted by the licensee, under any provision of the licence. Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.

66.13 Where the Authority directs any revised SOACO or SOANC values for Formula Years earlier than Formula Year t-2, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a time value of money 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 PCFM Variable Values relating to the licensee's actual SO Totex expenditure by the Authority

- 66.14 Subject to paragraphs 66.11 revised SOACO and SOANC 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.
- 66.15 Before issuing any directions under paragraph 66.14 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 66.16 The notice referred to in paragraph 66.15 must:
- (a) state that any revised SOACO or SOANC values 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 SOACO or SOANC values.
- 66.17 The Authority shall have due regard to any representations or objections duly received under paragraph 66.16, and give reasons for its decisions in relation to them.
- 66.18 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised SOACO and SOANC values by 30 November, the Authority shall direct the values concerned as soon as reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition GTC 26, and in any case, before directing a value for MODt or SOMODt under paragraph 26.12 of that condition.

Part D: Interpretation

66.19 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 Special Condition GTC 26 (Annual Iteration 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;
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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:
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- (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:
	(a) are named as such in the GT1 Price Control Financial Handbook; and
	(b) together comprise a complete and documented explanation 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;
Price Control Review Information	has the meaning given in Standard Special Condition A40 (Price Control Review Information);
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 and SOMOD through the application of the Annual Iteration Process,
Regulatory Asset Value	as modified from time to time;
SO Totex Capitalisation Rate	has the meaning given to that term in the Glossary of the GT1 Price Control Financial Handbook;
	has the meaning given to that term in Chapter 6 of the GT 1 Price Control Financial Handbook; and

Totex and TO Totex

have the meanings given to those terms in the methodology in Chapter 6 of the GT1 Price Control Financial Handbook.

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: Totex Incentive Strength and SO Totex Capitalisation Rates

(see Part A of this condition)

Licensee	Totex Incentive Strength Rate (%)	SO Totex Capitalisation Rate (%)
National Grid Gas plc	xxx	xxx

DRAFT

[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 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 sub-paragraph (a) relate,

for use in the Annual Iteration Process for the GT1 Price Control Financial Model as described in Special Condition GTC 26 (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 MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Special Condition GTC 20 (Restriction of NTS Transportation Owner Revenue) and references to Formula Year t-1 are to be construed accordingly; and

PCFM Variable Value

means a value held in a 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 Special Condition GTC 57 (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 MOD as calculated for Formula Year t for the purpose of Special Condition GTC 20 will result in an appropriate adjustment to the licensee's Base NTS TO Revenue in a manner that appropriately reflects the licensee's:

- (a) revenue allowances for Pension Scheme Established Deficits, Pension Scheme administration and the Pension Protection Fund levy;

- (b) revenues allowances for tax liabilities; and
- (c) allowed TO percentage cost of corporate debt,

determined under the methodologies set out in chapters 3, 4 and 5 of the GT1 Price Control Financial Handbook respectively.

27.4 This condition should be read and construed in conjunction with Special Conditions GTC 26 and GTC 57.

Part A: TO revenue allowances for 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 TO revenue allowances (EDE values); and
- (b) Pension Scheme Administration and Pension Protection Fund levy TO revenue allowances (APFE values).

27.6 Subject to paragraph 27.7, the Authority shall, by 30 November in each Formula Year t-1, determine whether any 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 3 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 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 3 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 3 of the GT1 Price Control Financial Handbook, any EDE values or 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 EDE values and APFE values that have been determined and the formula years to which they relate.

- 27.11 Where the Authority directs any revised EDE values or 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 time value of money 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: TO tax liability allowances

- 27.12 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) TO tax liability revenue allowance adjustments in respect of tax trigger events (TTE values); and
 - (b) TO tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (TGIE values).
- 27.13 The TTE values and TGIE values for each formula year 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 TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 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 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 4 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 4 of the GT1 Price Control Financial Handbook, any TTE values or 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 TTE values and TGIE values that have been determined and the formula years to which they relate.
- 27.19 Where the Authority directs any revised TTE values or 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 time value of money 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 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 (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 CDE value for Formula Year t and each subsequent Formula Year in accordance with the methodology contained in chapter 5 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 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 paragraph 27.21 is Formula Year 2013/14.
- 27.23 The Authority may also revise the 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 5 of the GT1 Price Control Financial Handbook.
- 27.24 Where the Authority directs any revised 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 time value of money 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 D: Procedure to be followed for direction of revised PCFM Variable Values relating to specified TO financial adjustments by the Authority

- 27.25 Subject to paragraphs 27.6, 27.9, 27.15, 27.17 and 27.22, revised EDE, APFE, TTE, TGIE and 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 27.25, 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 27.26 must:
- (a) state that any revised EDE and APFE values have been determined in accordance with Part A of this condition;
 - (b) state that any revised TTE and TGIE values have been determined in accordance with Part B of this condition;
 - (c) state that any revised 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 EDE, APFE, TTE, TGIE or CDE values.

27.28 The Authority shall have due regard to any representations or objections duly received under paragraph 27.27, 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 EDE, APFE, TTE, TGIE and CDE values by 30 November, the Authority shall direct the values concerned as soon as reasonably practicable consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition GTC 26, and in any case, before directing a value for MODt or SOMODt under paragraph 26.12 of that condition.

Part E: Interpretation

27.30 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 Special Condition GTC 26 (Annual Iteration 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;

Pension Scheme Administration has the meaning given in chapter 3 of the GT1 Price Control Financial Handbook;

Pension Scheme Established Deficit has the meaning given in chapter 3 of the GT1 Price Control Financial Handbook;

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;

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 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;

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 and SOMOD through the application of the Annual Iteration Process,

as modified from time to time; and

Pension Protection Fund

Has the meaning given in chapter 3 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 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 sub-paragraph (a) relate,

for use in the Annual Iteration Process for the GT1 Price Control Financial Model as described in Special Condition GTC 26 (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 Special Condition GTC 7 (Restriction of NTS System Operation Activity Charges) and references to Formula Year t-1 are to be construed accordingly; and

PCFM Variable Value

means a value held in a 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 Special Condition GTC 57 (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 Special Condition GTC 7 will result in an appropriate adjustment to the licensee's Base NTS System Operation Revenue in a manner that appropriately reflects the licensee's:

- (a) revenue allowance for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy;

- (b) revenue allowances for tax liabilities; and
- (c) allowed SO percentage cost of corporate debt,

determined under the methodologies set out in chapters 3, 4 and 5 of the GT1 Price Control Financial Handbook respectively.

65.4 This condition should be read and construed in conjunction with Special Conditions GTC 26 and GTC 57.

Part A: SO revenue allowances for 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 SO revenue allowances (SOEDE values); and
- (b) Pension Scheme Administration and Pension Protection Fund levy SO revenue allowances (SOAPFE values).

65.6 Subject to paragraph 65.7, the Authority shall, by 30 November in each Formula Year t-1 determine whether any SOEDE 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 3 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 SOAPFE 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 3 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 3 of the GT1 Price Control Financial Handbook, any SOEDE values or SOAPFE 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 SOEDE values and SOAPFE values that have been determined and the formula years to which they relate.

- 65.11 Where the Authority directs any revised SOEDE values or SOAPFE 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 time value of money 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 revenue allowance adjustments in respect of tax trigger events (SOTTE values); and
 - (b) SO tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (SOTGIE values).
- 65.13 The SOTTE values and SOTGIE values for each formula year 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 SOTTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 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 SOTGIE 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 4 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 4 of the GT1 Price Control Financial Handbook, any SOTTE values or SOTGIE 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 SOTTE values and SOTGIE values that have been determined and the Formula Years to which they relate.
- 65.19 Where the Authority directs any revised SOTTE values or SOTGIE 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 time value of money 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 (SOCDE values).
- 65.21 Subject to paragraph 65.22, the Authority shall by 30 November in each Formula Year t-1:
- (a) determine a revised SOCDE value for Formula Year t and each subsequent Formula Year in accordance with the methodology contained in chapter 5 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 SOCDE values that have been determined and the Formula 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 SOCDE 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 5 of the GT1 Price Control Financial Handbook.
- 65.24 Where the Authority directs any revised SOCDE 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 time value of money 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 SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE 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 SOEDE and SOAPFE values have been determined in accordance with Part A of this condition;
 - (b) state that any revised SOTTE and SOTGIE values have been determined in accordance with Part B of this condition;
 - (c) state that any revised SOCDE 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 SOEDE, SOAPFE, SOTTE, SOTGIE or SOCDE 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 SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values by 30 November, the Authority shall direct the values concerned as soon as reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition GTC 26, and in any case, before directing a value for MOD t or SOMOD t under paragraph 26.12 of that condition.

Part E: Interpretation

65.30 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 Special Condition GTC 26 (Annual Iteration 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;
Pension Scheme Administration	has the meaning given in chapter 3 of the GT1 Price Control Financial Handbook;
Pension Scheme Established Deficit	has the meaning given in chapter 3 of the GT1 Price Control Financial Handbook;
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 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;

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 and SOMOD through the application of the Annual Iteration Process,

as modified from time to time; and

Pension Protection Fund

has the meaning given in chapter 3 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 MOD and SOMOD, determined under a particular Annual Iteration Process, are used in the formulae set out in Special Condition GTC 20 (Restriction of NTS Transportation Owner Revenue) and Special Condition GTC 7 (Restriction of NTS System Operation Activity Charges) respectively, and references to “Formula Year t-1” are to be construed accordingly; and

PCFM Variable Value means a value held in a PCFM Variable Values Variable Table for the licensee, contained in the GT1 Price Value 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 Special Condition GTC 57 (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 MOD and SOMOD for Formula Year t, for the purposes of the formulae that are specified in Special Conditions GTC 20 and GTC7.

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 in accordance with the procedures set out in chapter 1 of the GT1 Price Control Financial Handbook.

26.4 The outcome of the Annual Iteration Process with respect to the value of the terms MOD_t and SOMOD_t 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 annual 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 adjustments for the licensee under:
- (a) Special Condition GTC 3 (Determination of incremental obligated entry capacity volumes and the appropriate revenue drivers to apply);
 - (b) Special Condition GTC 4 (Determination of incremental obligated exit capacity volumes and the appropriate revenue drivers to apply);
 - (c) Special Condition GTC 9 (The Innovation Roll-out Mechanism);
 - (d) Special Condition GTC 27 (Specified financial adjustments – Transmission Owner) and/or Special Condition GTC 65 (Specified financial adjustments – System Operator);
 - (e) Special Condition GTC 28 (Arrangements for the recovery of uncertain costs) and/or Special Condition GTC 117 (Arrangements for the recovery of SO uncertain costs);
 - (f) Special Condition GTC 47 (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); and
 - (g) Special Condition GTC 64 (Legacy price control adjustments – Transmission Owner) and/or Special Condition GTC 67 (Legacy price control adjustments – System Operator).
- 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 PCFM Variable Values Tables for the licensee, where and to the extent required.
- 26.8 Step 3: The Authority will identify and record the values of the terms MOD_t and SOMOD_t calculated as a result of Step 2 and shown as outputs of the GT1 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 any previously directed value of the term MOD or SOMOD.
- 26.9 Step 4: The Authority will give a direction to the licensee, in accordance with Part B of this condition, setting out the values for the terms MOD_t and SOMOD_t which are to be used in the formulae set out in out in Special Conditions GTC 20 and GTC 7 for the purposes of ascertaining the values of the terms BR_t and SOBR_t respectively.

Part B: Direction of the values of MOD_t and SOMOD_t

- 26.10 The values of the terms MOD and SOMOD for Formula Year t will be directed by the Authority no later than 30 November in each Formula Year $t-1$.
- 26.11 If, for any reason, the Authority does not direct a value for one or both of the terms MOD_t or SOMOD_t by 30 November in any Formula Year $t-1$, then the Annual Iteration

Process set out in Part A of this condition shall not have been completed and the provisions set out in paragraphs 26.12 and 26.13 shall apply.

26.12 The Authority shall complete the Annual Iteration Process set out in Part A of this condition as soon as reasonably practicable after 30 November in the Formula Year t-1 concerned by directing values for MODt and SOMODt.

26.13 In the intervening period (between the 30 November in the Formula Year t-1 concerned and the making of a direction under paragraph 26.12), the value of MODt and/or SOMODt shall be held to be the values shown for MODt-1 and/or SOMODt-1, in the Price Control Financial Model in its state following the last completed Annual Iteration Process which, for the avoidance of doubt, shall exclude the effect of any functional modifications under Special Condition GTC 57 made after the completion of that Annual Iteration Process.

Part C: Interpretation

26.14 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: includes specific information and advice about the operation of the Annual Iteration Process and the GT1 Price Control Financial Model; and contains, in particular, the GT1 Price Control Financial Methodologies, as modified from time to time;

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 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; and

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 values for the terms MODt and SOMODt through the application of the Annual Iteration Process.

26.15 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 at paragraphs 57.18(b) and (c)] of Special Condition GTC 57,

shall constitute a modification of the GT1 Price Control Financial Model within the meaning of Part B of Special Condition GTC 57.

26.16 This condition should be read and construed in conjunction with Special Condition GTC 57.

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

Introduction

- 57.1 The purpose of this condition is to establish a change control framework for each of the following GT1 Price Control Financial Instruments, namely:
- (a) the GT1 Price Control Financial Handbook, which contains the GT1 Price Control Financial Methodologies; and
 - (b) the GT1 Price Control Financial Model.
- 57.2 Each of the GT1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 57.3) may only be modified by the Authority in accordance with the provisions of Parts A and B below.
- 57.3 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.
- 57.4 For the purposes of this condition, Formula Year t means the Formula Year in which values for the terms MOD and SOMOD, calculated through a particular Annual Iteration Process, are used in the formulae set out in Special Condition GTC 20 (Restriction of NTS Transportation Owner Activity Revenue) and Special Condition GTC 7 (Restriction of NTS System Operation Activity Revenue) respectively, and references to Formula Year $t-1$ are to be construed accordingly.

Part A: Assessment of the likely impact of an intended modification

- 57.5 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.
- 57.6 In making the assessment required by paragraph 57.5, 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.

- 57.7 For the purposes of paragraph 57.5, it is to be presumed (subject to paragraph 57.8) 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.
- 57.8 The presumption established by paragraph 57.7 is without prejudice to the licensee's right under paragraph 57.14 to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 57.5 or 57.6(a).

Part B: Circumstances in which a modification may be made

- 57.9 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 57.5, it may modify that instrument in accordance with paragraphs 57.10 to 57.14 below.
- 57.10 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 57.5; 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.
- 57.11 The Authority must publish any notice issued under paragraph 57.10 on its Website and place a copy on the public register file for the licensee.
- 57.12 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.
- 57.13 Having complied with paragraphs 57.10 to 57.12, 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).
- 57.14 If the licensee [states/demonstrates] in representations made under paragraph 57.10(d) that it reasonably considers that the proposed modification would be likely to have a significant impact of the type referred to in paragraph 57.5 or 57.6(a), the Authority may not make the modification under this Part B.

Part C: Availability and updating of GT1 Price Control Financial Instruments

- 57.15 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.
- 57.16 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.

57.17 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.

57.18 Without limiting the general effect of paragraph 57.17, 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 MOD and SOMOD with respect to Formula Year t for the purposes of Special Conditions GTC 20 and GTC 7;
- (b) ensure that the electronic name of the file is "GT1 Price Control Financial Model" followed by the Formula Year t-1 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-1 expressed in the format 20XX-XX are included as text within the file itself; and
- (d) 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

57.19 This condition should be read and construed in conjunction with Special Condition GTC 26 (Annual Iteration Process for the GT1 Price Control Financial Model).

57.20 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 Special Condition GTC 26 (Annual Iteration 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 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 and SOMOD through the
application of the Annual
Iteration Process,

as modified from time to time, whether under this
condition or otherwise; and

GT1 Price Control Financial
Model Working Group

means the working group identified in and whose
terms of reference are set out in Chapter 1 of the
GT1 Price Control Financial Handbook.

SPECIAL CONDITIONS: OTHER

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[GTC 30] Special Condition [x]. Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity

Introduction

- 30.1 This condition sets out how the licensee must allocate revenues and costs for the purposes of calculating 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)].
- 30.2 The condition also requires the licensee to have in place:
- (a) a methods statement that sets out the methods that the licensee will use in the allocation and attribution of revenues and costs; and
 - (b) a methods report, which describes the manner in which, and the extent to which the licensee complied with the provisions of the methods statement.

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 [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

- 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 Business and the Metering Business to the following activities:
- (a) the NTS Transportation Owner Activity (as defined in GTC [XX]);
 - (b) the NTS System Operation Activity (as defined in GTC [XX]);

- (c) Liquefied Natural Gas import or export facility activity (has the meaning given in Part F of this condition);
- (d) LNG Storage Business (has the meaning given in Part F of this condition); and
- (e) any Excluded Services provided in accordance with the principles set out in [GTC31] Special Condition [x] (Services treated as Excluded Services).

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 each 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 and any direction made by the Authority under Part D 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) gives the opinion as to the extent to which the licensee has properly prepared the methods report.

30.15 To the extent that the licensee earns revenues or incurs costs in the provision of de minimis activities under Standard Special Condition A36 (Restriction on Activity and Financial Ring-Fencing), the licensee must report on those revenues and costs in accordance with this condition.

Part F: Interpretation

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

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 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.

[GTC37] Special condition [x].Transmission Planning Code

[Replaces Special Condition C11]

Introduction

37.1 The licensee must at all times, maintain, 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 it expects 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 it expects 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.

- 37.7 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.
- 37.8 The licensee may revise the TPC only in accordance with any revisions that are set out in the statements referred to in paragraph [37.7(b)] and only if the Authority has approved such revisions (but this is subject to paragraph [37.10]).
- 37.9 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 TPC.

Part C: Derogations

- 37.10 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

- 37.11 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; and
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 pipe-line 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 revisions 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.

[GTC73] Special Condition [x]. Methodology for Network Output Measures

Introduction

73.1 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 [73.3].

Part A: Licensee's general obligations under this condition

73.2 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

73.3 The NOMs Methodology Objectives as referred to in paragraph 73.2(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 NOMs methodology

73.4 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 73.2(b) refers.

73.5 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

73.6 Except where the Authority otherwise consents in writing, 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).

73.7 The information and other matters mentioned in paragraph [73.7] 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

73.8 The licensee must from time to time, and at least once every year, review the NOMs Methodology to ensure that it facilitates the achievement of the NOMs Methodology Objectives.

73.9 The NOMs Methodology may be modified from time to time to enable the methodology to better facilitate its achieving of the NOMs Methodology Objectives.

73.10 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.

73.11 The matters to which paragraph [73.11(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 [73.11(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 years prior to the date of the modification proposal) that the licensee has used for the purpose of developing the proposed modification; and
- (f) a presentation of any changes to the Network Replacement Outputs, as set out in the tables in Special Condition [GTC 133], that are necessary as a result of the proposed modification to the NOMs Methodology; and
- (g) 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 [73.13] would expire).

73.12 Where the licensee has complied with the requirements of paragraphs [73.11] and [73.12], 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 [73.11(b)], issues a direction to the licensee requiring it not to implement the proposed modification.

73.13 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.

73.14 The licensee must comply with the requirements of any direction given to it under paragraph [73.14].

Part F: Interpretation

73.15 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
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	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	means the assets that collectively form the pipeline system to which this licence relates, and includes the principal components of those assets;
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[73. 4];
NOMs Methodology	means the methodology for Network Output Measures;
NOMs Methodology Objectives	means the objectives listed under part B of this condition.

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[GTC133] Special Condition [x]. Specification of Network Replacement Outputs

Note for reviewers: This condition is simply to set out the NOMs outputs in the licence. If the outputs need to change (eg because of a change in the NOMs methodology as set out in ETC73/GTC73) then it is proposed to raise a licence modification to this condition.

Introduction

XX.1 The purpose of this condition is to specify the Network Replacement Outputs the Licensee shall deliver during the price control period and the allowed expenditure associated with them.

Part A: Specification of Network Replacement Outputs

XX.2 Table [z] gives details of the Network Replacement Outputs the Licensee is required to deliver during RIIO-T1 that were specified at the start of the RIIO-T1 price control period.

Table [z]: Allowed expenditure for Network Replacement Outputs

[NOTE: THIS IS AN EXAMPLE TABLE]

Asset categories	Units	Asset distribution based on replacement priority in 2012/13				Asset Register
		RP1	RP2	RP3	RP4	
		Replacement priority				31/03/2013
Category 1						
1	No.					
2	No.					
3	No.					
4	Km					
5	Km					

6		Km					
7		No.					
Category 2							
1		No.					
2		No.					
3		No.					
4		Km					
5		Km					
6		Km					
7		No.					
Category 3							
1		No.					
2		No.					
3		No.					
4		Km					
5		Km					
6		Km					
7		No.					

XX.3 The allowed expenditure figures to deliver the Network Replacement Outputs set out in Tables [z] have been reflected in the licensee's opening base revenue allowances, set against the licensee's name in Appendix 1 to Special Condition GTC 20 (Restriction of Transmission Transportation Activity Charges).

Table [z]: Allowed expenditure for Network Replacement Outputs

Formula Year	Allowed expenditure (£m 2009/10 prices)
2013/14	XX.X

Formula Year	Allowed expenditure (£m 2009/10 prices)
etc	

Part B: Interpretation

XX.4 For the purposes of this condition:

Network Replacement
Outputs

means the asset health and criticality profile that the licensee is required to deliver in its transportation system during RIIO-T1 that has been approved as part of the price control review and funded in its opening base revenues, as measured by the Network Output Measures.

Network Output Measures
(NOMs)

has the meaning given to that term in paragraph [•] of [GTC 73] Standard Condition [TBA] [Methodology for Network Output Measures].

STANDARD CONDITIONS

DRAFT

Condition 1: Definitions and Interpretation [GTC/GDC 105 & 106]

~~"industry framework document" for the purposes of standard condition 13 (Change Co-ordination for the Utilities Act 2000) only, has the meaning given in that condition;~~

DRAFT

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~~7~~
~~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).⁴⁷

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 13: ~~Change Co-ordination for the Utilities Act 2000~~ Not Used [GTC/GDC 93]

[Delete entire current text]

DRAFT

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 the 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 pipe-line 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.

STANDARD SPECIAL CONDITIONS – PART A

DRAFT

Standard Special Condition A3. Definitions and Interpretation [GTC/GDC 109]

The following definitions to be amended in the manner set out below.

“ appropriate auditors”

means:

(a) in the case of a licensee which is a company within the meaning of section ~~1735~~ of the Companies Act ~~2006~~¹⁹⁸⁵, a person appointed as auditor under Chapter 2 of Part 16 of ~~that the Companies Act 2006~~;

(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed; and

(c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006, or in relation to auditors appointed for financial years beginning before 6 April 2008, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989;

"financial year"

means, subject to Standard Special Condition ~~A29 (Change of Financial Year)~~ ~~A30 (Regulatory Accounts)~~ (where applicable), a period of 12 months beginning on 1st April of each year and ending on 31st March of the following calendar year;

[Substitute current definition of "Permitted Purpose with the following]

"permitted purpose"

means the purpose of all or any of the following:

(a) the transportation business;

(b) the metering business;

(c) the meter reading business;

(d) any other business or activity within the limits of paragraph 4 of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing); and/or

without prejudice to the generality of paragraph (a) to (d), any payment or transaction lawfully made or undertaken by the licensee for a purpose within sub-paragraphs 1(b)(i) to (vii) of Standard Special Condition A39 (Indebtedness).

Standard Special Condition A8: Emergency Services and Enquiry Service Obligations [GTC/GDC 82]

1. The licensee shall -
 - (a) establish, or procure the establishment of, and subsequently operate and maintain, or procure the subsequent operation and maintenance of, in co-ordination with all other gas transporters a single continuously manned telephone service for use by any person, with the facilities mentioned in paragraph 2, for the receipt of reports and the offering of information, guidance or advice about any matter or incident that -
 - (i) causes danger or requires urgent attention, or is likely to cause danger or require urgent attention, in relation to the supply of gas conveyed through pipes; or
 - (ii) involves the escape of gas from a network or from a gas fitting supplied with gas from a network (where the reference to an escape of gas from a gas fitting includes a reference to an escape or emission of carbon monoxide gas resulting from incomplete combustion of gas in such a fitting);
 - (b) arrange with other gas transporters for the information contained in reports received by that service of escapes of gas in respect of which the licensee may have any obligations to be given without delay to the licensee; and
 - (c) secure adequate publicity for the service and its telephone number, having regard, in particular, to the special needs of blind or partially sighted persons.
2. The facilities referred to in paragraph 1(a) shall include facilities for deaf or partially hearing persons which will assist them (if they have the equipment enabling them to take advantage thereof) to use the service.
3. The service established by the licensee in accordance with paragraph 1(a) shall -
 - (a) [except for any charge applied by a user's telephone operator to 0800 numbers](#) be provided without charge by the licensee to the user at the point of use; and
 - (b) ensure that all reports and enquiries are processed in a prompt and efficient manner.

4. In the establishment and operation of the service in accordance with paragraph 1 the licensee shall not discriminate between any persons or class or classes thereof.
5. In the establishment and operation of the service in accordance with paragraph 1 the licensee shall not restrict, distort or prevent competition in the supply of gas.
6. The licensee shall prepare and submit a statement setting out details of the service to be provided in accordance with paragraph 1, and the licensee shall give or send a copy of such statement to any person requesting it.
7. The licensee shall take steps to inform users of the service of any change to the telephone number of the service established in accordance with paragraph 1 as soon as is practicable prior to such change becoming effective.
8. Subject to paragraph 9, the licensee shall make arrangements which will secure that in preventing an escape of gas in any premises to which it conveys gas (or, where it conveys gas to any primary sub-deduct premises, in any secondary sub-deduct premises to which the gas is subsequently conveyed) -
 - (a) the prevention is effected, so far as it is reasonably practicable and safe to do so -
 - (i) in such a way as to maintain the supply of gas to those premises and to appliances designed for use by domestic customers for heating or cooking; and
 - (ii) by carrying out any appropriate minor repairs to appliances;
 - (b) the prevention is effected, so far as is reasonably practicable, by a person adequately trained to recognise signs of leakage of carbon monoxide and instructed to report any such signs to the owner or occupier of the premises; and
 - (c) if further repair work is required, information is given to the owner or occupier of the premises or, in their absence, left at the premises, as to persons in the locality who are members of a class of persons permitted pursuant to regulations under the Health and Safety at Work etc Act 1974 to perform repairs on gas fittings.
9. Nothing in paragraph 8(a) shall oblige the licensee to carry out any work which cannot be completed within 30 minutes of entering the premises for the purpose of preventing the escape or would use materials costing more than £4.65,

adjusted in accordance with standard condition 27 (Adjustment of Amounts by Reference to the Retail Price Index) by reference to the day on which the premises were entered for that purpose.

10. **NOT USED**

11. **NOT USED**

12. Except in the case of changes reasonably consequential upon an extension or a restriction of its licence, which are made with effect from the effective date of the extension or the restriction, the licensee shall not make any material change in the arrangements referred to in paragraph 8 except with the consent of the Authority.

13. The licensee shall use its best endeavours to ensure, so far as is reasonably practicable, that it conducts itself towards domestic customers in conformity with the arrangements referred to in paragraph 8.

14. Paragraph 15 shall apply in relation to relevant customers (defined in paragraph 21) and the premises of relevant customers.

15. The licensee shall ensure, so far as is reasonably practicable in the circumstances, having regard to the over-riding importance of safety, that where for reasons of safety (not being reasons relating solely to particular premises or a particular locality), the supply of gas to any relevant customer or the conveyance of gas to that customer's premises needs to be interrupted, reduced or restricted, the licensee shall, -

(a) when making such a request of a relevant supplier or shipper as is mentioned in paragraph 1 of standard condition 16 (Security and emergency arrangements) of the standard conditions of gas suppliers' licences or paragraph 2 of standard condition 5 (Obligations as Respects Emergencies etc) of the standard conditions of gas shippers' licences;

(b) when telling a relevant customer that he should refrain from using gas, in pursuance of such a term of that customer's contract for the supply of gas as is mentioned in paragraph 4(b) of standard condition 16 (Security and emergency arrangements) of the standard conditions of Gas Suppliers' licences, or

(c) when interrupting, reducing or restricting the conveyance of gas,

give priority to the maintenance of the supply of gas to, and the conveyance of gas to the premises of, relevant customers or classes of relevant customers in

accordance with, and to the extent specified in the list required by paragraph 17, and (to the extent that they supersede or supplement such list) such directions as may from time to time have been given by the Secretary of State under paragraph 19 or 20.

16. Where the reasons of safety referred to in paragraph 15 relate to the whole or a substantial part of Great Britain or there is a significant shortage of gas affecting the whole or a substantial part of Great Britain, the licensee shall so far as is reasonably practicable in the circumstances having regard to the over-riding importance of safety -
- (a) (i) consult the network emergency co-ordinator; or
 - (ii) where the licensee is the network emergency co-ordinator, inform and if appropriate consult the Secretary of State, on the taking of any such steps as are mentioned in sub-paragraph (a) or (b) of that paragraph; and
 - (b) shall do so before taking any such steps.
17. The licensee, if licensed under section 7(2)(a) of the Act, shall -
- (a) unless it has done so before being so licensed, establish a list of relevant customers who should be given priority as respects the maintenance of a supply of gas and the maintenance of the conveyance of gas to their premises; and
 - (b) as often as is appropriate, review the list, and so far as appears appropriate, amend it, after consultation with all relevant shippers which appear to the licensee to have an interest in the proposed amendment, and, without prejudice as aforesaid, shall conduct such a review and make any such amendments on being directed so to do by the Secretary of State.
18. When the licensee establishes, reviews or amends any list established under paragraph 17, it shall comply with any direction given by the Secretary of State as to:
- (a) the classes of relevant customers on which the list is to be based;
 - (b) any other criteria on which the list is to be based;

- (c) any other customers or classes of customers specifically required to be included in the list; and
 - (d) the nature and extent of any priority which will be given to any relevant customer or class of relevant customer as specified in the list.
- 19. The licensee shall comply with any directions given by the Secretary of State for the purposes of this condition generally requiring priority to be given, in such manner and to such extent as may be specified in the directions, to the maintenance of the supply of gas to, and the conveyance of gas to the premises of, one or more relevant customers or classes of relevant customers.
- 20. Any question arising under this condition as to whether a particular relevant customer is required to be included in the list established, reviewed or amended under paragraph 17 shall be determined by the Secretary of State.
- 21. In this condition –
 - (a) “**network emergency co-ordinator**” shall be construed in the same manner as that term is construed in the Gas Safety (Management) Regulations 1996; and
 - (b) “**relevant customer**” includes –
 - (i) any person who is supplied by a relevant supplier with gas conveyed to a particular supply point at a rate which is reasonably expected to exceed 732,000 kilowatt hours a year, to the extent that the terms on which that person is supplied permit such supply to be interrupted or reduced only in pursuance of such a term as is mentioned in paragraph 4 of standard condition 16 (Security and emergency arrangements) of the standard conditions of gas suppliers’ licences or in pursuance of directions given under section 2(1)(b) of the Energy Act 1976; and
 - (ii) any person mentioned in any direction given by the Secretary of State in relation to paragraph 18(c) of this condition.
- 22. References in this condition to the maintenance of supply or conveyance of gas include references to the resumption of such supply or conveyance following its interruption or reduction.
- 23. Charges for the provision of services under this condition shall be set at a level which will allow the licensee to recover no more than its reasonable costs and a reasonable profit in providing this service.

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**Standard Special Condition A10. Provision and Return of Meters
Not Used [GTC 32]**

[Delete entire current text]

DRAFT

**Standard Special Condition A29. Change of Financial Year Not
Used [GTC/GDC 93]**

[Delete entire current text]

DRAFT

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 C 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 below.

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 [GTC 19] Special Condition [x] (Revenue restriction definitions in respect of the Distribution Network Transportation Activity: Definitions), 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 LNG Storage Business and LNG import or 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) 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, which must be prepared under the same Applicable Accounting Framework as the most recent or concurrent statutory accounts of the licensee.

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 Accounting 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, that 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 19 (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 (Conduct of Transportation Business), A35 (Prohibition of Cross-Subsidies) and, to the extent applicable, A46 (Non-discrimination in the provision of metering activities) 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 LNG storage and LNG import or 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 UK Corporate Governance Code

issued under the UK Listing 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. For the avoidance of doubt, the licensee should prepare Regulatory Accounts for the consolidated transmission business for the Financial Year commencing on or after 1 April 2012 in accordance with the licence condition in force as at 31 March 2013.

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;

Applicable Accounting Framework

means:

- (a) in accordance with section 396 of the Companies Act 2006 ("Companies Act individual accounts"), or in accordance with international accounting standards ("IAS individual accounts"); or
- (b) in accordance with section 403 Companies Act group accounts, or IAS group accounts;

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;

Directors report

[to be defined]

Quoted Company

has the meaning given in section 385 of the

Companies Act 2006;

UK Listing Authority

[to be defined]

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**Standard Special Condition A32. ~~Definition of Permitted Purpose~~
Not Used[GTC/GDC 94]**

[Delete entire current text]

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Standard Special Condition A35: Prohibition of Cross-Subsidies [GTC/GDC 138]

1. The licensee shall procure that the transportation business shall not give any cross-subsidy to, or receive any cross-subsidy from, any other business of the licensee or of an affiliate or related undertaking of the licensee.
2. In the event that the holder of this licence also owns one or more relevant gas transporters, the licences for which are held in the same legal entity, such that the holder of this licence is:
 - (a) an NTS operator; and/or
 - (b) a DN operator,
3. the licensee acting as either an NTS operator or a DN operator, as the context requires, shall procure that:
 - (i) it shall neither give any cross-subsidy to, or receive any cross-subsidy from, directly or indirectly, a DN operator or any other business operated by the holder of this licence pursuant to any such other gas transporter licence held by the holder of this licence; and/or
 - (ii) it shall neither give any cross-subsidy to, or receive any cross-subsidy from, directly or indirectly, an NTS operator or any other business operated by the holder of this licence pursuant to any such other gas transporter licence held by the holder of this licence.
4. If applicable, where the licensee is a DN operator that operates more than one Distribution Network (as defined in Special Condition E1 (Revenue Restriction Definitions in respect of the Distribution Network)) no such Distribution Network shall be operated in a manner that gives any cross-subsidy to, or receives any cross-subsidy from, any other such Distribution Network.

~~4.a) Unless the Authority otherwise consents, the licensee must procure, for each formula year a report by an appropriate auditor that sets out the procedures, and the results of those procedures, carried out by the auditor for the purposes of demonstrating the extent to which the licensee has complied with paragraphs 1 and 2 of this condition.~~

- ~~b) The procedures to be carried out shall have been approved by the Authority.~~
- ~~c) The report shall be delivered to the Authority by 31 July following the end of the formula year to which it relates.~~
- ~~5. If the Authority is satisfied that the report referred to in paragraph 4 above demonstrates that the licensee has complied with the obligation to avoid discrimination and cross-subsidies specified in Article 31 of the Directive and imposed on the licensee by paragraph 1 of this condition, then the report shall be deemed as representing the results of an audit of this obligation, as required by the Article.~~

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Standard Special Condition A36: Restriction on Activity and Financial Ring Fencing [GTC 139]

1. Subject to paragraph 1A, and save as provided by paragraphs 3 and 4, the licensee shall not conduct any business or carry on any activity other than any business carried on by the licensee for a purpose within sub-paragraphs (a), (b), and (c) of the definition of "**permitted purpose**" in Standard Special Condition ~~A32 (Definition of Permitted Purpose)~~-[A3 \(Definitions and Interpretation\)](#).
- 1A. Nothing in this condition prevents the licensee from carrying out gas production if the licensee:
 - (a) conveys gas to less than 100,000 premises; and
 - (b) is not a transmission system operator.
2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:
 - (a) shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose;
 - (b) shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for any purpose falling within sub-paragraphs (a), (b) or (c) of the definition of permitted purpose contained in Standard Special Condition ~~A32 (Definition of Permitted Purpose)~~-[A3 \(Definitions and Interpretation\)](#) of this licence and any other licence held by the licensee in the same legal entity; or
 - (c) investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or, in the absence of any such requirement, recommended) by the UK listing authority (or a successor body) from time to time for listed companies in the United Kingdom.
3. Subject to the provisions of paragraph 2, nothing in this condition shall prevent:
 - (a) any affiliate in which the licensee does not hold shares or other investments from conducting any business or carrying on any activity;
 - (b) the licensee from holding shares as, or performing the supervisory or

management functions of, an investor in respect of any body corporate in which it holds an interest consistent with the provisions of this licence;

- (c) the licensee from performing the supervisory or management functions of a holding company in respect of any subsidiary; or
- (d) the licensee from carrying on any business or conducting any activity to which the Authority has given its consent in writing.

4. Nothing in this condition shall prevent the licensee or an affiliate or related undertaking of the licensee in which the licensee holds shares or other investments (a "**relevant associate**") from conducting de minimis business as defined in this paragraph so long as the limitations specified in this paragraph are complied with:

(a) For the purpose of this paragraph, "**de minimis business**" means any business or activity carried on by the licensee or a relevant associate or relevant associates other than:

- (i) the business or activities falling within sub-paragraph (a), (b), or (c) of the definition of "permitted purpose" contained in Standard Special Condition ~~A32 (Definition of Permitted Purpose)~~[A3 \(Definitions and Interpretation\)](#);
- (ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d); and
- (iii) gas production.

(b) The licensee or a relevant associate may carry on de minimis business provided that neither of the following limitations is exceeded, namely:

- (i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transportation business, the metering business and the meter reading business (excluding the turnover on transactions which each of those businesses make with each other) as shown by the most recent audited regulatory accounts of the licensee ~~produced prepared~~ under ~~paragraph 3(b) of~~ Standard Special Condition A30 (Regulatory Accounts); and
- (ii) the aggregate amount (determined in accordance with sub-

paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in this licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee ~~produced~~ prepared under ~~paragraph 3(b) of~~ Standard Special Condition A30 (Regulatory Accounts) then available.

(c) For the purpose of sub-paragraph (b) above, "**investment**" means any form of financial support or assistance given by or on behalf of the licensee for the de minimis business whether on a temporary or permanent basis and including (without limiting the generality of the foregoing) any commitment to provide any such support or assistance in the future.

(d) At any relevant time, the amount of an investment shall be the sum of:

(i) the value at which such investment was included in the audited historical cost balance sheet of the licensee as at its latest accounting reference date to have occurred prior to 13 December 1999 (or, where the investment was not so included, zero);

(ii) the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by the licensee in respect of such investment in all completed accounting reference periods since such accounting reference date; and

(iii) all commitments and liabilities (whether actual or contingent) of the licensee relating to such investment outstanding at the end of the most recently completed accounting reference period,

less the sum of the aggregate gross amount of all income (whether of a capital or revenue nature) howsoever received by the licensee in respect of such investment in all completed accounting reference periods since the accounting reference date referred to in sub-paragraph (d)(i).

5 For the purposes of paragraph 4, "**equity share**", in relation to any shareholding, means the nominal value of the equity shares held by the licensee in a relevant

associate, as a percentage of the nominal value of the entire issued equity share capital of that relevant associate.

- 5A. For the purposes of this condition, "**gas production**" means the production of gas for the purpose of its conveyance through pipes to premises, or through a pipeline system operated by a gas transporter or a transmission system operator, including where a licence is held under section 3 of the Petroleum Act 1998 for that purpose but not where such a licence is held for a different purpose.
6. Where the holder of this licence owns one or more relevant gas transporters, the licences for which are held in a single legal entity, references in this condition to "**licensee**" shall mean this legal entity.

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Standard Special Condition A40. Regulatory Instructions and Guidance [GTC/GDC 74]

Introduction

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.
2. The RIGs are the primary means by which the Authority directs the licensee to collect and provide the information to the Authority that the Authority needs to enable it to administer the Special Conditions of this licence and, where not referenced in the licence, the Final Proposals.

Part A: Licensee's obligations under this condition

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.
4. To facilitate compliance with paragraph 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

5. Subject to paragraphs 6 and 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 as to the circumstances in which the Authority may appoint an Examiner to examine the recording of the Specified Information by the licensee;
 - (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).
- 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.
- 7. No Specified Information may exceed what could be requested from the licensee by the Authority under paragraph 1 of standard special condition A26 (Provision of Information to the Authority) [excluding any reference to paragraph 8 of that condition].

Part C: Development and modification of the RIGs

- 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.
- 9. Data collected in Formula Year 2012/2013 should be reported according to the relevant reporting requirements provided for in the licence as in force in 2012/2013.
- 10. A direction issued by the Authority under paragraph 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 in response to such proposals may be made; and

- (b) considered any representations in response to the notice that are duly made and not withdrawn.
11. The requirements for the issuing of new RIGs or modification of existing RIGS set out in paragraph 10 may be satisfied by actions taken by the Authority before as well as after the coming into effect of this condition.

Part D: Requirements for new or more detailed information

12. 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, which has not previously been collected by the licensee, whether under the provisions of the RIGs or otherwise.
13. 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.
14. The estimates that are mentioned in paragraph 13 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

15. The licensee must at all times comply with the provisions of the RIGs for the time being in force pursuant to this condition.
16. Any licensee that is a DN Operator and operates one or more Distribution Networks (as defined in [GDC 19] Special Condition [x])(Definitions for the Charge Restriction Conditions) in a single legal entity must comply with the requirements of this condition separately in respect of each such network.
17. 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

18. 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.

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Standard Special Condition A43. ~~Provision of Metering and Meter Reading Services Not Used~~ [GTC 32]

[Delete entire current text]

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Standard Special Condition A46. Non-discrimination in the Provision of Metering Activities Not Used [GTC 32]

[Delete entire current text]

DRAFT

Standard Special Condition A55. Data Assurance requirements [GTC/GDC 76]

Introduction

1. This condition requires the licensee to undertake processes and activities for the purpose of reducing the risk, and subsequent impact and consequences, of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority.
2. This condition comes into effect in this licence on the earlier of:
 - (a) the date on which a Data Assurance Direction in accordance with the provisions of Part B below has effect; and
 - (b) 1 April 2015.

Part A: Licensee's obligations under this condition

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) subject to paragraph 76.4, where required to provide Data 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 Data Assurance Activities 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 Data Assurance Activities.
4. Data provided to the level of accuracy and reliability required under the relevant licence condition will be considered to be accurate and complete for the purposes of this condition.
 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.
 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

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 or objections in response to the Notice that are duly made and not withdrawn.

Part C: Scope and contents of the Data Assurance Guidance

8. The Data Assurance Guidance ("the DAG") may from time to time revised by the Authority under Part D of this condition.
9. The purposes of the DAG are to establish a process under which the licensee must comply with its obligations as set out in paragraph 76.3.
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 Activities to the Authority.
11. Reference in paragraph 76.10 to the format of an assessment, review, or reporting requirement includes references to its form, layout, scope and content.
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.
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: Modification of Data Assurance Guidance

14. The DAG may be modified by the Authority by direction.

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

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.

17. The requirements for the direction under paragraph 76.16 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

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

19. For the purposes of this condition:

Data	means the relevant submissions 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.
Data Assurance Guidance	shall be a document incorporated into this licence condition by way of licence modification.
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.