

## NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

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

1. The Authority proposes to modify the gas transporter licence held by National Grid Gas Plc (with respect to the NTS) (NGGT) granted or treated as granted under section 7 of the Act by:
  - (a) amending certain existing Special Conditions,
  - (b) inserting proposed new Special Conditions,
  - (c) deleting certain Special Conditions, and
  - (d) restructuring and renumbering the remaining Special Conditions to improve the clarity and ease of use of the Special Conditions with no changes to the licence obligations or underlying policy objectivesas specified in Schedule 1 to this notice.
2. The proposed Special Conditions to the gas transporter licence held by NGGT:
  - (a) incorporating proposed amendments, and
  - (b) reflecting the proposed new structure and numbering of the special conditionsare included at Schedule 2 to this notice.
3. In summary, the primary reason why the Authority proposes to make these licence modifications is to give effect to the new System Operator incentives regulatory framework.
4. The effect of the proposed modifications is primarily to implement the new SO Incentives schemes and secondly to update references and improve clarity.
5. Specific details on the reasons and effect of the proposed modifications can be found in Schedule 3 of this notice.
6. Further details and background on these proposed changes are set out in the following documents:
  - (a) System Operator incentive schemes from 2013 Initial Proposals, 27 July 2012.  
<http://www.ofgem.gov.uk/Markets/WhlMkts/EffSystemOps/SystOpIncent/Documents1/IP%20SO%202013.pdf>
  - (b) Gas System Operator incentive schemes from 2013 Final Proposals, 17 December 2012.  
<http://www.ofgem.gov.uk/Markets/WhlMkts/EffSystemOps/SystOpIncent/Documents1/Gas%20SO%20incentives%202013%20final%20proposals%20consultation%20.pdf>
7. A copy of the proposed modifications and other documents referred to in this notice are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
8. Any representations on the proposed licence modifications may be made on or before 22 January 2013 to: Graham Knowles, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [SOincentive@ofgem.gov.uk](mailto:SOincentive@ofgem.gov.uk).
9. All responses will normally be published on Ofgem's website. However, if

respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.

10. If the Authority decides to make the proposed modification it will take effect 56 days after the decision is published.

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**Rachel Fletcher**  
**Partner, Wholesale Markets**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**17 December 2012**

## Schedule 1

### Part 1 - Special Conditions to be amended (proposed amendments set out in Schedule 2)

Current Special Condition	To be amended as set out in Schedule 2 and renumbered/renamed as follows
C8F: NTS System Operator external incentives, costs and revenues	3D: NTS System Operator external incentives, costs and revenues
C5: System Management Services	8A: System Management Services
C25: Promoting competition in the provision to the licensee of operating margins services	8C: Procurement of Operating Margins
C28: Requirement to develop and undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases	8D: Requirement to undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases
C29: Requirement to undertake UAG Projects to investigate the causes of Unaccounted for Gas (UAG)	8E: Requirement to undertake UAG Projects to investigate the causes of Unaccounted for Gas (UAG)

### Part 2 – Proposed New Special Conditions to be inserted (draft text set out in Schedule 2)

Proposed new Special Conditions
3E: Uncertain Event affecting Special Condition 3B (Entry and Exit Capacity Constraint Management) and Special Condition 3D (NTS System Operator external incentives, costs and revenues)
8F: Provision of Information
8G: Maintenance and Operational Planning
8H: Greenhouse Gas Emissions Auditing Requirement

### Part 3 –Special Conditions to be deleted

Special Condition
C16: NTS performance reporting – content moved to RIGs

### Part 4 - Special Conditions to be renumbered (changes reflected in Schedule 2)

Current Special Condition name/number	Proposed new name/number
C6: Independent Market for balancing	8B: Independent market for balancing

## Schedule 2 – proposed Special Conditions to NGGT’s gas transporter licence

### Special Condition 3D: NTS System Operator external incentives, costs and revenues

#### Introduction

3D.1 The purpose of this condition is to set out the scope and methods for the determination of the level of ‘external’ costs and revenues that the licensee is entitled to recover including as a consequence of the application of a number of gas system operator external incentive schemes.

#### PART A External cost incentive revenue (SOOIRC<sub>t</sub>)

##### (a) Principal formula

3D.2 For each Formula Year t, for the purposes of Part C (Calculation of Maximum NTS System Operation Revenue (SOMR<sub>t</sub>)) of Special Condition 3A (Restriction of NTS System Operation Revenue), the maximum external cost incentive revenue allowed to the licensee (£million) in respect of Formula Year t (SOOIRC<sub>t</sub>) is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$\text{SOOIRC}_t = \text{SC}_t + \text{OMC}_t + \text{RBC}_t + \text{SIR}_t + \text{OMIR}_t + \text{RBIR}_t + \text{QDFIR}_t + \text{GHGIR}_t + \text{GHGC}_t + \text{MIR}_t$$

3D.3 In the Principal Formula:

SC<sub>t</sub> means the total costs incurred by the licensee (£million) in Formula Year t in respect of system costs as derived in accordance with the following formula:

$$SC_t = \sum_q [GC_{t,q} + ECC_{t,q}]$$

where:

$\sum_q$  means the sum over all relevant quarter years q in the relevant Formula Year t.

GC<sub>t,q</sub> means the total costs incurred by the licensee (£million), less any revenues received from third parties in respect of relevant quarter year q in Formula Year t in the management of NTS Shrinkage (which has the meaning given to that term in the network code) other than those payments included in the calculation of ECC<sub>t,q</sub>.

ECC<sub>t,q</sub> means the total costs (£million) incurred by the licensee in respect of relevant quarter year q in Formula Year t in procuring electricity for the purposes of operating Electric Compressors.

- OMC<sub>t</sub> means the total costs incurred by the licensee (£million) in respect of Formula Year t in respect of the procurement of availability and utilisation of Operating Margins services for the purposes of satisfying Operating Margins Requirements (having the meaning given to those terms in the network code) including all capacity fees, gas delivery service fees, standby fees and costs associated with reprofiling, withdrawing and injecting gas into and out of gas storage facilities and costs that may arise as a result of the difference between the Operating Margins WACOG and Net Margins WACOG (as calculated in accordance with network code) in the event of service utilisation multiplied by the relevant utilisation volume.
- RBC<sub>t</sub> means an amount (£million) equal to the revenue equivalent to the net residual balancing costs incurred by the licensee in respect of Formula Year t and shall be equal to the sum of the Basic Net Neutrality Amount and the Adjustment Neutrality Amount (having the meanings given to each of those terms in the network code) across all days in Formula Year t.
- SIR<sub>t</sub> means the NTS Shrinkage Incentive Revenue (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.4 of this condition.
- OMIR<sub>t</sub> means the Operating Margins Incentive Revenue (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.25 of this condition.
- RBIR<sub>t</sub> means the Residual Balancing Incentive Revenue (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.26 of this condition.
- QDFIR<sub>t</sub> means the Quality of Demand Forecasting Incentive Revenue (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.33 of this condition.
- GHGIR<sub>t</sub> means the Greenhouse Gas Incentive Revenue (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.37 of this condition.
- GHGC<sub>t</sub> means the efficient Greenhouse Gas Emissions Project Costs (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.38 of this condition.
- MIR<sub>t</sub> means the Maintenance Incentive Revenue (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.40 of this condition.

## PART B NTS Shrinkage Incentive

### (a) The NTS Shrinkage Incentive Revenue ( $SIR_t$ )

3D.4 For the purposes of the Principal Formula,  $SIR_t$  (£million) in respect of Formula Year  $t$  commencing on 1 April 2013 and each subsequent Formula Year  $t$  until 31 March 2021 is derived in accordance with the following formula:

if  $SIT_t \geq SCMR_t$ , then:

$$SIR_t = \text{Min}[USF_t \times (SIT_t - SCMR_t), CAP_t]$$

otherwise:

$$SIR_t = \text{Max}[DSF_t \times (SIT_t - SCMR_t), COL_t]$$

3D.5 In the above formula for  $SIR_t$ :

$SIT_t$  means the NTS shrinkage incentive target (£million) as derived in accordance with paragraph 3D.6 of this condition.

$SCMR_t$  means the NTS shrinkage incentive cost performance measure in respect of Formula Year  $t$  as derived in accordance with the following formula:

$$SCMR_t = SC_t + MR_t$$

where:

$SC_t$  has the meaning set out in paragraph 3D.3 of this condition.

$MR_t$  means the net amount of revenues received by the licensee (£million) due to the reconciliation of Measurement Errors (as defined in the network code OAD D1.2.1) and/or meter errors (as described in the network code TPD M1.9) in respect of Formula Year  $t$  commencing 1 April 2009 and each subsequent Formula Year  $t$ .

$USF_t$  means the upside sharing factor in respect of Formula Year  $t$  as set out in Table 1 below.

$DSF_t$  means the downside sharing factor in respect of Formula Year  $t$  as set out in Table 1 below.

$CAP_t$  means the maximum shrinkage incentive revenue (£million) in respect of Formula Year  $t$  as set out in Table 1 below.

COL<sub>t</sub> means the minimum shrinkage incentive revenue (£million) in respect of Formula Year t as set out in Table 1 below.

**Table 1**

	<b>For Formula Year t</b>
<b>USF<sub>t</sub></b>	0.45
<b>DSF<sub>t</sub></b>	0.45
<b>CAP<sub>t</sub> (£m)</b>	7
<b>COL<sub>t</sub> (£m)</b>	-7

**(b) The NTS Shrinkage Incentive Target**

3D.6 For the purposes of paragraph 3D.5 of this condition, SIT<sub>t</sub> (£million) is derived in accordance with the following formula:

$$SIT_t = EPT_t + EEPTA_t + TA_t + OSC_t$$

where:

EPT<sub>t</sub> means the NTS shrinkage energy procurement target including swing allowance (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.7 of this condition.

EEPTA<sub>t</sub> means the NTS shrinkage energy efficiency performance target adjustment (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.14 of this condition.

TA<sub>t</sub> means the TNUoS (Transmission Network Use of System) charges allowance (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.15 of this condition.

OSC<sub>t</sub> means other shrinkage costs (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.16 of this condition.

**(c) Energy procurement target**

3D.7 For the purposes of paragraph 3D.6 of this condition, EPT<sub>t</sub> (£million) is derived in accordance with the following formula:

$$EPT_t = \sum_{t,q} \left( \left( \frac{FEVT_{t,q} \times FECRP_{t,q}}{1000} \right) + \left( \frac{FGVT_{t,q} \times FGCRP_{t,q}}{100} \right) \right) + \sum_{t,w} \left( \left( \frac{PEVT_{t,w} \times PECRP_{t,w}}{1000} \right) + \left( \frac{PGVT_{t,w} \times PGCRP_{t,w}}{100} \right) \right) + SCA_t$$

where:

$\sum_{t,q} x_{t,q}$  means the sum of x over all relevant quarter years q in Formula Year t.

$\sum_{t,w} x_{t,w}$  means the sum of x over all relevant weeks w in Formula Year t.

$FEVT_{t,q}$  means the forward electricity volume target (GWh) in respect of relevant quarter year q of Formula Year t determined in accordance with the NTS Shrinkage Incentive Methodology Statement.

$FECRP_{t,q}$  means the forward electricity cost reference price (£/MWh) in respect of relevant quarter year q of Formula Year t as derived in accordance with paragraph 3D.11 of this condition.

$FGVT_{t,q}$  means the forward gas volume target (GWh) in respect of relevant quarter year q of Formula Year t determined in accordance with the NTS Shrinkage Incentive Methodology Statement.

$FGCRP_{t,q}$  means the forward gas cost reference price (p/kWh) in respect of relevant quarter year q of Formula Year t as derived in accordance with paragraph 3D.8 of this condition.

$PEVT_{t,w}$  means the prompt electricity volume target (GWh) in respect of relevant week w of Formula Year t as derived in accordance with the following formula:

$$PEVT_{t,w} = \sum_d \left( \left( \frac{\sum_d OEV_{t,w,d}}{7} \right) - \frac{FEVT_{t,q,d}}{nq} \right)$$

where:

$\sum_d x_{t,w,d}$  means the sum of x over all days d in relevant week w in Formula Year t.

$OEV_{t,w,d}$  means the volume of electricity (GWh) used by the licensee for the purposes of operating Electric Compressors on relevant day d in relevant week w in Formula Year t.

$FEVT_{t,q,d}$  means the forward electricity volume target (GWh) for relevant day d of quarter year q of Formula Year t.



t determined in accordance with the NTS Shrinkage Incentive Methodology Statement.

nq means the number of days in the quarter year q in which day d occurs.

PECRP<sub>t,w</sub> means the prompt electricity cost reference price (£/MWh) in respect of relevant week w of Formula Year t as derived in accordance with paragraph 3D.13 of this condition.

PGVT<sub>t,w</sub> means the prompt gas volume target (GWh) in respect of relevant week w of Formula Year t as derived in accordance with the following formula:

$$PGVT_{t,w} = \sum_d \left( \left( \frac{\sum_d OGV_{t,wd}}{7} \right) - \frac{FGVT_{t,q,d}}{nq} \right)$$

where:

$\sum_d x_{t,w,d}$  means the sum of x over all days in relevant week w in Formula Year t.

OGV<sub>t,w,d</sub> means the volume of gas (GWh) used by the licensee for the purposes of provision of NTS Shrinkage (which has the meaning given to that term in the network code) on relevant day d in relevant week w in Formula Year t.

FGVT<sub>t,q,d</sub> means the forward gas volume target (GWh) for relevant day d of quarter year q of Formula Year t determined in accordance with the NTS Shrinkage Incentive Methodology Statement.

nq means the number of days in the quarter year q in which day d occurs.

PGCRP<sub>t,w</sub> means the prompt gas cost reference price (p/kWh) in respect of relevant week w of Formula Year t as derived in accordance with paragraph 3D.10 of this condition;

SCA<sub>t</sub> means the swing cost allowance (£million) in respect of Formula Year t as derived in accordance with the following formula:

$$SCA_t = 2 \times RPIF_t$$

where:

RPIF<sub>t</sub> is the price index adjustment factor as derived in accordance with Part C of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence.

## NTS Shrinkage Incentive Methodology Statement

means the NTS Shrinkage Incentive Methodology Statement provided for in section (i) of this condition.

### (d) The NTS Shrinkage gas cost reference price

3D.8 For the purposes of paragraph 3D.7 of this condition,  $FGCRP_{t,q}$  (p/kWh) is derived in accordance with the following formula:

$$FGCRP_{t,q} = \frac{\sum_{d=a}^b GQFP_{t,q,d}}{nq}$$

where:

$\sum_{d=a}^b$  means the sum over all business days  $d$  between day  $a$  and day  $b$  (both inclusive).

$GQFP_{t,q,d}$  means the mid-point of the forward bid/offer price (expressed in p/kWh) as quoted in the “ICIS Heren European Spot Gas Markets” published price reporting service (or any similar reporting service directed by the Authority) on business day  $d$  for a gas contract for delivery at the national balancing point (having the meaning given to that term in the published price reporting service) in respect of relevant quarter year  $q$  in Formula Year  $t$ .

$a$  means the first business day of the ninth month prior to the commencement of the quarter year  $q$  of Formula Year  $t$ .

$b$  means the last business day of the month prior to the commencement of the quarter year  $q$  of Formula Year  $t$ .

$nq$  means the number of business days between  $a$  and  $b$  inclusive.

3D.9 For the purposes of paragraph 3D.7 of this condition,  $FGCRP_{t,q}$  in respect of relevant quarter year  $q$  of Formula Year  $t$  commencing 1 April 2021 shall be determined in accordance with paragraph 3D.8 of this condition unless an alternative method is identified which has been subject to consultation with industry parties, the conclusion of which occurs prior to 1 July 2020, or where this change is made with the prior consent of the licensee.

3D.10 For the purposes of paragraph 3D.7 of this condition,  $PGCRP_{t,w}$  (p/kWh) is derived in accordance with the following formula:

$$PGCRP_{t,w} = \frac{\sum_{d=y}^z GWFP_{t,w,d}}{nw}$$

where:

$\sum_{d=y}^z$  means the sum over all business days in the week prior to the commencement of week w of Formula Year t.

$GWFP_{t,w,d}$  means the mid-point of the forward bid/offer price (expressed in p/kWh) as quoted in the “ICIS Heren European Spot Gas Markets” published price reporting service (or any similar reporting service directed by the Authority) on business day d for the “working days next week” (WDNW) gas contract for delivery at the national balancing point (having the meaning given to that term in that published price reporting service) in respect of week w of Formula Year t.

y means the first business day of the week prior to the commencement of week w in Formula Year t.

z means the last business day of the week prior to the commencement of week w in Formula Year t.

nw means the number of business days between y and z inclusive.

### **(e) The NTS Shrinkage electricity cost reference price**

3D.11 For the purposes of paragraph 3D.7 of this condition,  $FECRP_{t,q}$  (£/MWh) is derived in accordance with the following formula:

$$FECRP_{t,q} = \frac{\sum_{d=a}^b EQFP_{t,q,d}}{nq}$$

where:

$\sum_{d=a}^b$  means the sum over all business days d between day a and day b (inclusive).

$EQFP_{t,q,d}$  means the mid-point of the forward bid/offer price (expressed in £/MWh) as quoted in the “ICIS Heren European Daily Electricity Markets” published price reporting service (or any similar reporting service directed by the Authority) on business day d for a baseload electricity contract for delivery in respect of relevant quarter year q of Formula Year t.

a means the first business day of the ninth month prior to the commencement of the quarter year q of Formula Year t.

b means the last business day of the ninth month prior to the commencement of the quarter year q of Formula Year t.

$nq$  means the number of business days between a and b inclusive.

3D.12 For the purposes of paragraph 3D.7 of this condition, the forward electricity cost reference price (£/MWh) in respect of relevant quarter year  $q$  of in respect of the Formula Year  $t$  commencing 1 April 2021 ( $FECRP_{t,q}$ ) shall be determined in accordance with paragraph 3D.11 unless an alternative method is identified which has been subject to consultation with interested parties, the conclusion of which occurs prior to 1 July 2020, or where this change is made with the prior consent of the licensee.

3D.13 For the purposes of paragraph 3D.7 of this condition,  $PECRP_{t,w}$  (£/MWh) is derived in accordance with the following formula:

$$PECRP_{t,w} = \frac{\sum_{d=y}^z EWFP_{t,w,d}}{nw}$$

where:

$\sum_{d=y}^z$  means the sum over all business days in the week prior to the commencement of week  $w$  of Formula Year  $t$ .

$EWFP_{t,w,d}$  means the mid-point of the forward bid/offer price (expressed in £/MWh) as quoted in the “ICIS Heren European Daily Electricity Markets” published price reporting service (or any similar reporting service directed by the Authority) on business day  $d$  for a baseload electricity contract for delivery in respect of week  $w$  of Formula Year  $t$ .

$y$  means the first business day of the week prior to the commencement of week  $w$  in Formula Year  $t$ .

$z$  means the last business day of the week prior to the commencement of week  $w$  in Formula Year  $t$ .

$nw$  means the number of business days between  $y$  and  $z$  inclusive.

#### **(f) The energy efficiency performance target adjustment**

3D.14 For the purposes of paragraph 3D.6 of this condition  $EEPTA_t$  (£million) is derived in accordance with the following formula:

$$EEPTA_t = \frac{WGRP_t \times (EEVCVS_t + EEVCFU_t)}{100}$$

where:

$\sum_q x_{t,q}$  means the sum of  $x$  over all quarter years  $q$  in Formula Year  $t$ .

$\sum_w x_{t,w}$  means the sum of  $x$  over all weeks  $w$  in Formula Year  $t$ .

WGRP<sub>t</sub> means the weighted gas reference price (p/kWh) in respect of Formula Year t as derived in accordance with the following formula:

$$WGRP_t = \frac{\sum_q (FGVT_{t,q} \times FGCRP_{t,q}) + \sum_w (PGVT_{t,w} \times PGCRP_{t,w})}{\sum_q FGVT_{t,q} + \sum_w PGVT_{t,w}}$$

EEVCS<sub>t</sub> means the energy efficiency variance for calorific value shrinkage (GWh) in respect of Formula Year t determined in accordance with the NTS Shrinkage Incentive Methodology Statement.

EEVCFU<sub>t</sub> means the energy efficiency variance for energy for gas and electrically powered gas compression equipment (GWh) used by the licensee to increase the pressure of gas in a part of the pipeline system in respect of Formula Year t determined in accordance with the NTS Shrinkage Incentive Methodology Statement.

### **(g) Transmission Network Use of System (TNUoS) charges allowance**

3D.15 For the purposes of paragraph 3D.6 of this condition, TA<sub>t</sub> is derived in accordance with the following formula:

$$TA_t = \frac{\sum_s (PC_{t,s} \times TDT_{t,s})}{1,000,000}$$

where:

$\sum_s x$  means the sum of x over all Relevant Compressor Sites s in respect of Formula Year t.

PC<sub>t,s</sub> means the prevailing capacity as defined in the relevant connection agreements (kW) with effect from the relevant date set out in the relevant Bilateral Agreement (or in the Use of System Supply Confirmation Notice) in respect of Relevant Compressor Site s in respect of Formula Year t.

TDT<sub>t,s</sub> means the TNUoS Demand Tariff (£/kW) in respect of Formula Year t and in respect of the charging zone in which the Relevant Compressor Site s is located, published by National Grid Electricity Transmission plc in its Statement of Use of System Charges at 1 April in Formula Year t or any other equivalent tariff or tariffs replacing it.

Bilateral Agreement and Use of System Supply Confirmation Notice

shall each have the meaning given to those terms in the electricity Connection and Use of System Code established under Condition 10 (Connection and Use of System Code

(CUSC)) of the electricity transmission licence of National Grid Electricity Transmission plc.

### (h) Other shrinkage costs

3D.16 For the purposes of paragraph 3D.6 of this condition,  $OSC_t$  is derived in accordance with the following formula:

$$OSC_t = CRCEES_t + EUETS_t + NEEC_t$$

where:

$CRCEES_t$  means the Carbon Reduction Commitment Energy Efficiency Scheme costs (£million) incurred by the licensee in operating its electric compressors in respect of Formula Year t.

$EUETS_t$  means the net amount of costs (whether of a positive or negative value) incurred by the licensee in respect of the European Union Emissions Trading System (£million) as a result of operation of its gas compressors in respect of Formula Year t.

$NEEC_t$  means the non-energy costs (£million) incurred by the licensee in respect of Formula Year t as derived in accordance with the following formula:

$$NEEC_t = DUoS_t + SMC_t$$

where:

$DUoS_t$  means the Distribution Use of System costs (£million) in respect of Formula Year t to be incurred by the licensee in operating its Electric Compressors as derived in accordance with the following formula:

$$DUoS_t = \sum_s [kVAC_{t,s} + FC_{t,s} + CC_{t,s} + RPC_{t,s}]$$

where:

$\sum_s x$  means the sum of x over all Relevant Compressor Sites s in respect of Formula Year t.

$kVAC_{t,s}$  means the capacity charge including any excess capacity charges (£million) applicable to that relevant compressor site s in respect of Formula Year t calculated as the Chargeable kVA specified in the electricity connection agreement for that site s multiplied by the

relevant kVA tariff in respect of Formula Year  $t$  applicable to that site published in the “Use of System Charging Statement” (or otherwise made available) by the relevant electricity distribution network operator.

$FC_{t,s}$  means the fixed charge (£million) applicable to that relevant compressor site  $s$  in respect of Formula Year  $t$  as published in the “Use of System Charging Statement” (or otherwise made available) by the relevant electricity distribution network operator or any other equivalent applicable charge replacing it.

$CC_{t,s}$  means the distribution use of system consumption charge (£million) for relevant compressor site  $s$  in respect of Formula Year  $t$  calculated from the half-hourly metered consumption of electricity at that site multiplied by the relevant consumption tariff in respect of Formula Year  $t$  applicable to that site as published in the “Use of System Charging Statement” (or otherwise made available) by the relevant electricity distribution network operator or any other equivalent applicable charge replacing it.

$RPC_{t,s}$  means the reactive power charge for relevant compressor site  $s$  in respect of Formula Year  $t$  as published in the “Use of System Charging Statement” (or otherwise made available) by the relevant electricity distribution network operator or any other equivalent applicable charge replacing it.

$SMC_t$  means the supplier and market charges (£million) incurred by the licensee in Formula Year  $t$  in the provision of NTS Shrinkage and shall include (without limitation) costs associated with trading gas and electricity and all invoiced charges for electricity procurement other than commodity charges (which cover the wholesale baseload and shape costs of electricity). These charges (without limitation) include Renewables Obligations costs, Assistance for Areas with High Electricity Distribution costs, Feed in tariff costs, Balancing Services Use of System costs, Climate Change Levy costs, supplier margins (including risk premiums), such other costs as may be levied on the market from time to time, subscription costs for published price reporting services as set out in paragraphs 3D.8, 3D.10, 0 and 3D.13 of this condition,

trading operations licence fees and credit management arrangement fees.

3D.17 For the avoidance of doubt for calculations relating to shrinkage electricity reference prices and electricity costs incurred by the licensee, including (without limitation) the terms  $ECC_t$ ,  $FECRP_{t,q}$ ,  $EQFP_{t,q,d}$ ,  $PECRP_{t,w}$ ,  $EWFP_{t,w,d}$ , a day is defined as a Settlement Day as defined in the Balancing and Settlement Code.

**(i) The NTS Shrinkage Incentive Methodology Statement**

3D.18 For the purposes of paragraph 3D.7 of this condition, the licensee shall use reasonable endeavours to establish a methodology (“the NTS Shrinkage Incentive Methodology Statement”) showing the methods by which, and the principles on which, the data mentioned in paragraph 3D.20 of this condition are to be determined as approved by the Authority.

3D.19 Prior to the commencement of the Formula Year commencing on 1 April 2013 and each subsequent Formula Year, the licensee shall use reasonable endeavours to publish on its website the NTS Shrinkage Incentive Methodology Statement (or Statements) to apply in respect of that Formula Year.

3D.20 The NTS Shrinkage Incentive Methodology Statement will contain:

- (a) for the purposes of paragraph 3D.7 of this condition, rules for the determination of  $FGVT_{t,q}$  and the timetable for the publication of such values;
- (b) for the purposes of paragraph 3D.7 of this condition, rules for the determination of  $FEVT_{t,q}$  and the timetable for the publication of such values;
- (c) for the purposes of paragraph 3D.14 of this condition,  $EEVCVS_t$  and the timetable for the publication of such values; and
- (d) for the purposes of paragraph 3D.14 of this condition, rules for the determination of  $EEVCFU_t$  and the timetable for the publication of such values.

3D.21 Unless the Authority otherwise directs in writing, the licensee must use reasonable endeavours to publish a statement from an Independent Examiner by 31 July 2014 and by 31 July in each subsequent Formula Year in respect of Formula Year  $t-1$ , confirming that the Independent Examiner has carried out an examination of the application of the NTS Shrinkage Incentive Methodology Statement. Such examination shall include:

- (a) examination of the analysis and formulae to confirm that the methodologies and rules have been correctly applied; and
- (b) analysis of data flows to observe whether the values derived have been determined correctly in accordance with the methodology.

3D.22 Prior to the publication of the NTS Shrinkage Incentive Methodology Statement on the licensee’s website in respect of the Formula Year commencing on 1 April 2013



and prior to any modification to the NTS Shrinkage Incentive Methodology Statement the licensee shall:

- (a) consult interested parties on the NTS Shrinkage Incentive Methodology Statement and, where applicable, any proposed modification and allow them a period of not less than 28 days within which to make written representations; and
- (b) furnish the Authority with a report setting out:
  - (1) the original NTS Shrinkage Incentive Methodology Statement and any modification proposal;
  - (2) the representations (if any) made by interested parties; and
  - (3) any changes to the proposed NTS Shrinkage Incentive Methodology Statement and any proposed modification as a consequence of such representations.

provided that where the licensee has complied with the requirements of sub-paragraphs (a) and (b), it will not make any modification to the NTS Shrinkage Incentive Methodology Statement where the Authority has, within 28 days of the report being furnished to it under sub-paragraph (b) given a direction to the licensee that the modification shall not be made.

3D.23 Notwithstanding the licensee's ability to modify the NTS Shrinkage Incentive Methodology Statement as described in paragraph 3D.22 above, the licensee will use reasonable endeavours to undertake a full review of the NTS Shrinkage Incentive Methodology Statement such that any consequential modification of such can be achieved prior to commencement of the Formula Year commencing on 1 April 2017.

3D.24 For the purposes of paragraph 3D.21 of this condition, the following definition will apply:

Independent Examiner means a person or persons nominated by and independent of the licensee with the skills and knowledge to undertake an examination of the application of the NTS Shrinkage Incentive Methodology Statement.

## **PART C Operating Margins Incentive Revenue (OMIR<sub>t</sub>)**

3D.25 For the purposes of the Principal Formula, OMIR<sub>t</sub>, in respect of Formula Year t commencing on 1 April 2013 and each subsequent Formula Year t until 31 March 2021 shall take the value zero.

## **PART D Residual Gas Balancing Incentive Revenue (RBIR<sub>t</sub>)**

3D.26 For the purposes of the Principal Formula, RBIR<sub>t</sub> (£million) in respect of Formula Year commencing on 1 April 2013 and each subsequent Formula Year t until 31 March 2021 is derived in accordance with the following formula:

$$RBIR_t = \text{Min} [RBCAP_t, \text{Max} (STIP_t, RBF_t)]$$

3D.27 In the above formula for RBIR<sub>t</sub>:

RBCAP<sub>t</sub> means the maximum residual gas balancing incentive revenue (£million) in respect of Formula Year t, and shall take the value £2million.

RBF<sub>t</sub> means the minimum residual gas balancing incentive revenue (£million) in respect of Formula Year t, and shall take the value £-3.5million.

STIP<sub>t</sub> means the sum of the total daily incentive payments (£million) under the residual gas balancing incentive in respect of Formula Year t as derived in accordance with paragraph 3D.28 of this condition.

### **(a) The sum of the total daily incentive payments under the residual gas balancing incentive**

3D.28 For the purposes of paragraph 3D.27 of this condition, STIP<sub>t</sub> (£million) in Formula Year t is derived in accordance with the following formula:

$$STIP_t = \frac{\sum_d DPIP_{t,d} + \sum_d DLIP_{t,d}}{1,000,000}$$

where:

$\sum_d$  means the sum across all days d in Formula Year t.

DPIP<sub>t,d</sub> means the daily price incentive payment (£) in respect of day d of Formula Year t as derived in accordance with paragraph 3D.29 of this condition.

DLIP<sub>t,d</sub> means the daily linepack incentive payment (£) in respect of day d of Formula Year t as derived in accordance with paragraph 3D.31 of this condition.

### **(b) The daily price incentive payment**

3D.29 For the purposes of paragraph 3D.28 of this condition, DPIP<sub>t,d</sub> (£) on day d in Formula Year t shall depend on the value of PPM<sub>t,d</sub> and is derived in accordance with Table 2 below:

**Table 2**

<b>For Formula Year t,</b>	
$PPM_{t,d}$	$DPIP_{t,d}$
$0 \leq PPM_{t,d} \leq 5$	$1,500 - (PPM_{t,d} \times 1000)$
$5 < PPM_{t,d} < 75.667$	$-3,500 - (375 \times (PPM_{t,d} - 5))$
$75.667 \leq PPM_{t,d}$	$-30,000$

where:

$PPM_{t,d}$  means the daily price performance measure (%) in respect of day d of Formula Year t as derived in accordance with paragraph 3D.30 of this condition.

### (c) The daily price performance measure

3D.30 For the purposes of paragraph 3D.29 of this condition,  $PPM_{t,d}$  is derived in accordance with the following formula:

$$PPM_{t,d} = \left( \frac{(TMIBP_{t,d} - TMISP_{t,d})}{|SAP_{t,d}|} \right) \times 100$$

where:

$TMIBP_{t,d}$  means the price (p/kWh) which is equal to the highest market offer price (having the meaning given to that term in the network code) in relation to an eligible balancing action (having the meaning given to that term in the network code) excluding any locational actions taken in respect of day d of Formula Year t unless the licensee took no such eligible balancing action in respect of that day in which case  $TMIBP_{t,d}$  shall equal  $SAP_{t,d}$ .

$TMISP_{t,d}$  means the price (p/kWh) which is equal to the lowest market offer price (having the meaning given to that term in the network code) in relation to an eligible balancing action (having the meaning given to that term in the network code) excluding any locational actions taken in respect of day d of Formula Year t unless the licensee took no such eligible balancing action in respect of that day in which case  $TMISP_{t,d}$  shall equal  $SAP_{t,d}$ .

$SAP_{t,d}$  means the system average price (p/kWh, having the meaning given to that term in the network code) in respect of day d of Formula Year t.

**(d) The daily linepack incentive payment**

3D.31 For the purposes of paragraph 3D.28 of this condition,  $DLIP_{t,d}$  (£) in respect of day d in Formula Year t shall depend on the value of  $LPM_{t,d}$  and is derived in accordance with Table 3 below:

**Table 3**

$LPM_{t,d}$	$DLIP_{t,d}$
$0 \leq LPM_{t,d} \leq LPUL_t$	$LDCAP_t$
$LPUL_t < LPM_{t,d} < LPT_t$	$LDCAP_t \times \left( \frac{LPT_t - LPM_{t,d}}{LPT_t - LPUL_t} \right)$
$LPM_{t,d} = LPT_t$	0
$LPLL_t > LPM_{t,d} > LPT_t$	$LDF_t \times \left( \frac{LPT_t - LPM_{t,d}}{LPT_t - LPLL_t} \right)$
$LPM_{t,d} \geq LPLL_t$	$LDF_t$

where:

- $LPM_{t,d}$  means the daily linepack performance measure (mcm) in respect of day d of Formula Year t as derived in accordance with paragraph 3D.32 of this condition.
- $LPT_t$  means the linepack performance target (mcm) in respect of Formula Year t and shall take the value 2.8mcm.
- $LPUL_t$  means the linepack upper band limit (mcm) in respect of Formula Year t and shall take the value 1.5mcm.
- $LDCAP_t$  means the linepack daily cap amount (£) in respect of Formula Year t and shall take the value £4,000.
- $LPLL_t$  means the linepack lower limit (mcm) in respect of Formula Year t and shall take the value 15mcm.
- $LDF_t$  means the linepack daily floor amount (£) in respect of Formula Year t and shall take the value -£30,000.

**(e) The daily linepack performance measure**

3D.32 For the purposes of paragraph 3D.31 of this condition,  $LPM_{t,d}$  is derived in accordance with the following formula:

$$LPM_{t,d} = \text{Max} [(OLP_{t,d} - CLP_{t,d}), (CLP_{t,d} - OLP_{t,d})]$$

where:

- $OLP_{t,d}$  means the total NTS linepack in respect of day d of Formula Year t as at 06:00 hours on day d.
- $CLP_{t,d}$  means the total NTS linepack in respect of day d of Formula Year t as at 06:00 hours on day d+1.
- NTS linepack means the volume of gas within the NTS as calculated by the licensee in accordance with the methodology proposed by the licensee for that purpose from time to time and approved by the Authority.

**PART E Quality of Demand Forecasting Incentive Revenue (QDFIR<sub>t</sub>)**

3D.33 For the purposes of the Principal Formula, QDFIR<sub>t</sub> (£million) in respect of the Formula Year t is derived in accordance with the following formula:

$$QDFIR_t = QDAIR_t + QTFIR_t$$

3D.34 In the above formula for QDFIR<sub>t</sub>:

QDAIR<sub>t</sub> means the Quality of Day Ahead Demand Forecasting Incentive Revenue (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.35 of this condition.

QTFIR<sub>t</sub> means the Quality of Two to Five Days Ahead Demand Forecasting Incentive Revenue (£million) in respect of Formula Year t as derived in accordance with paragraph 3D.36 of this condition.

**(a) Quality of Day Ahead Demand Forecasting Incentive Revenue (QDAIR<sub>t</sub>)**

3D.35 For the purposes of paragraph 3D.33 of this condition, QDAIR<sub>t</sub> (£million) allowed to the licensee in respect of the Formula Year t commencing on 1 April 2013 and each subsequent Formula Year t until 31 March 2021 is derived in accordance with Table 4 below:

**Table 4**

<b>For Formula Year t</b>	
<b>DAFIE<sub>t</sub></b>	<b>QDAIR<sub>t</sub></b>
$0 \leq DAFIE_t < DFA_t$	10
$DFA_t \leq DAFIE_t < 7.65 + DFA_t$	$10 - (1.111x (DAFIE_t - DFA_t))$
$7.65 + DFA_t \leq DAFIE_t < 9.35 + DFA_t$	$15 - (1.7647x (DAFIE_t - DFA_t))$
$9.35 + DFA_t \leq DAFIE_t$	-1.5

where:

DAFIE<sub>t</sub> means the day ahead demand forecasting incentivised average forecast error as derived in accordance with the following formula:

$$DAFIE_t = \sum_d \left( \left| DADF_d - AD_d \right| * \frac{AD_d}{\sum_d AD_d} \right)$$

where:

$\sum_d x$  means the sum of x for all days d in the Formula Year t.

DADF<sub>d</sub> means the day ahead forecast NTS throughput value (mcm) for all days in Formula Year t published by the licensee (in accordance with the network code) on its website not later than 14:00 hours at day ahead (d-1) in respect of each day of Formula Year t. Where the day ahead 14:00 forecast NTS throughput value is not published by 14:00 hours at day ahead (d-1), the next forecast published on the licensee's website for the gas day concerned shall be used.

AD<sub>d</sub> means Actual NTS Throughput (mcm) on a given day d, calculated five days following the day (d+5), on each day of Formula Year t.

DFA<sub>t</sub> means the day ahead demand forecasting adjustment in respect of Formula Year t as derived in accordance with the following formula:

$$DFA_t = \text{Min} [DFSA_t, 1]$$

where :

DFSA<sub>t</sub> means the demand forecasting short-cycle storage adjustment in respect of Formula Year t as derived in accordance with the following formula:

$$DFSA_t = 0.038 \times (AIC_t - AIC_{t-1}) + (DFSA_{t-1} \times DFCI_t)$$

and for the Formula Year t commencing on 1 April 2012 shall take the value zero.

where:

AIC<sub>t</sub> means the average annual capability to have gas injected (expressed in mcm/d) at Short-Cycle Storage Facilities connected to the NTS in respect of Formula Year t as derived in accordance with the following formula:

$$AIC_t = \left[ \frac{\sum_d ASF_{d,t}}{DIY_t} \right]$$

and for the Formula Year t commencing on 1 April 2012 shall take the value 30.3.

where:

$\sum_d x$  means the sum of x for all days d in the Formula Year t.



ASF<sub>d,t</sub> means the aggregate capability of any relevant Short-Cycle Storage Facilities connected to the NTS to have gas injected (expressed in mcm/d) on day d of Formula Year t as specified in the storage capacity notices submitted by the relevant Storage Operator to the licensee (and updated from time to time) pursuant to the relevant Storage Connection Agreements.

DFCI<sub>t</sub> means the Demand Forecasting Adjustment Continuous Improvement Factor and in Formula Year t shall take the value 0.5.

DIY<sub>t</sub> means the number of days in the relevant Formula Year t.

Short-Cycle Storage Facility

means a Storage Facility which has the capability to withdraw and inject gas within-day.

**(b) Quality of Two to Five Days Ahead Demand Forecasting Incentive (QTFIR<sub>t</sub>)**

3D.36 For the purposes of paragraph 3D.33 of this condition, QTFIR<sub>t</sub> (£million) allowed to the licensee in respect of Formula Year t commencing on 1 April 2013 and each subsequent Formula Year t until 31 March 2015 is derived in accordance with Table 5 below:

**Table 5**

<b>For Formula Year t</b>	
<b>TFIE<sub>t</sub></b>	<b>QTFIR<sub>t</sub></b>
$0 \leq \text{TFIE}_t \leq 17.6$	$10 - (0.625 \times \text{TFIE}_t)$
$17.6 < \text{TFIE}_t$	-1

where:

TFIE<sub>t</sub> means the two to five days ahead demand forecasting incentivised average forecast error as derived in accordance with the following formula:

$$\text{TFIE}_t = \frac{\sum_{i=2}^5 FE_{d-i}}{4}$$

where:

$FE_{d-i}$  means the average forecast error (mcm) as derived in accordance with the following formula:

$$FE_{d-i} = \sum_d \left( |DF_{d-i} - AD_d| * \frac{AD_d}{\sum_d AD_d} \right) \quad \text{for } i = 2, 3, 4 \text{ and } 5$$

where:

$\sum_d x$  means the sum of x for all days d in the Formula Year t.

$DF_{d-i}$  means the demand forecast NTS throughput value (mcm) for all days in Formula Year t published by the licensee on its website not later than 14:00 hours at two, three, four and five days ahead (d-2, d-3, d-4, d-5) in respect of each day of Formula Year t. Where the two, three, four or five days ahead 14:00 forecast NTS throughput values are not published by 14:00 hours at two, three, four or five days ahead (d-2, d-3, d-4, d-5), the next forecast published on the licensee's website for the gas day concerned shall be used.

**PART F Greenhouse Gas Emissions Incentive Revenue (GHGIR<sub>t</sub>)**

3D.37 For the purposes of the Principal Formula, GHGIR<sub>t</sub> (£million) allowed to the licensee in respect of Formula Year t commencing on 1 April 2013 and each subsequent Formula Year t until 31 March 2016 shall depend on the value of VIPM<sub>t</sub> and is derived in accordance with Table 6 below:

**Table 6**

VIPM <sub>t</sub>	GHGIR <sub>t</sub>
VIPM <sub>t</sub> ≤ VIT <sub>t</sub>	0
VIPM <sub>t</sub> > VIT <sub>t</sub>	[(VIT <sub>t</sub> – VIPM <sub>t</sub> ) x VIRP <sub>t</sub> ]/1,000,000

where:

VIPM<sub>t</sub> means the venting incentive performance measure (tonnes of natural gas) in respect of Formula Year t which shall be the aggregate amount of natural gas released to the atmosphere by venting from all relevant compressors.

VIT<sub>t</sub> means the venting incentive target (in tonnes of natural gas) in respect of Formula Year t and shall take the value as set out in Table 7 below:

**Table 7**

Formula Year	VIT <sub>t</sub>
2013/14	2,917
2014/15	2,829
2015/16	2,744

VIRP<sub>t</sub> means the venting incentive reference price (in £/tonne of natural gas vented) in respect of Formula Year t as derived in accordance with the following formula:

$$VIRP_t = NTCP_t \times VF_t$$

Where:

NTCP<sub>t</sub> means the Non Traded Carbon Price (in £/tCO<sub>2</sub>e) in respect of Formula Year t as derived in accordance with the following formula:

$$NTCP_t = \frac{\sum_{m=1}^{12} [NTMCP_{m,t,y} \times IF_{m,t,y}]}{12}$$

where:

$\sum_{m=1}^{12} [ \mathbf{x}_{m,t} ]$  means the sum of  $x_{m,t}$  for months  $m=1$  to  $m=12$  where  $m=1$  is the first month of Formula Year  $t$  and  $m=12$  is the last month of Formula Year  $t$ .

$\text{NTMCP}_{m,t,y}$  means the latest Non Traded Central Carbon Price (£/tCO<sub>2</sub>e) for month  $m$  in Formula Year  $t$  as published in advance of month  $m$  by the Department of Energy and Climate Change (or any other government department from time to time) in year  $y$  prices.

$\text{IF}_{m,t,y}$  means the inflation factor from year  $y$  to month  $m$  in Formula Year  $t$  as derived in accordance with the following formula:

$$\text{IF}_{m,t,y} = \frac{\text{AI}_t}{\text{AI}_y}$$

where:

$\text{AI}_t$  means the annual inflation index for Formula Year  $t$  and is equal to the arithmetic average of the retail prices index numbers published or determined with respect to each of the six months from July to December (both inclusive) in Formula Year  $t-1$ .

$\text{AI}_y$  means the annual inflation index for year  $y$  and is equal to the arithmetic average of the retail prices index numbers published or determined with respect to each of the six months from July to December (both inclusive) in year  $y-1$ .

$\text{VF}_t$  means the venting equivalent factor that represents the number of tonnes of CO<sub>2</sub> equivalent of each tonne of natural gas vented in respect of Formula Year  $t$  shall take the value 21.

### **Greenhouse Gas Emissions Project Costs (GHGC<sub>t</sub>)**

3D.38 For the purposes of the Principal Formula,  $\text{GHGC}_t$  shall be of a positive or zero value as directed by the Authority for the purposes of paragraph 8D.3 of Special Condition 8D (Requirement to undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases). In the event that the licensee incurs costs in fulfilling its obligations pursuant to Special Condition 8D that it considers should be recovered via  $\text{GHGC}_t$ , the licensee shall by 31 July in the Formula Year  $t$  following the Formula Year in which those costs are incurred provide a statement to the Authority detailing the costs incurred in Formula Year  $t-1$  and justification that those costs were efficiently incurred. Upon

receipt of the statement, the Authority will determine the extent to which the licensee's costs were efficiently incurred and, if appropriate, shall issue a direction specifying the value of  $\text{GHGC}_t$ . The value of  $\text{GHGC}_t$  in Formula Year  $t$  shall be zero or as directed by the Authority.

3D.39 For the purpose of Part F of this condition:

- |                     |  |
|---------------------|--|
| Relevant compressor | means gas and electrically powered gas compression equipment forming part of the pipeline system to which this licence relates that is used by the licensee to increase the pressure of gas in part of that pipeline system.   |
| Venting             | means the release of natural gas from a relevant compressor as a result of: <ul style="list-style-type: none"><li>(a) starting a compressor;</li><li>(b) purging a compressor;</li><li>(c) depressurising a compressor; or</li><li>(d) the leakage of gas through a seal around the shaft of a compressor.</li></ul> |

## **PART G The Maintenance Incentive Revenue (MIR<sub>t</sub>)**

3D.40 For the purposes of the Principal Formula, MIR<sub>t</sub> (£million) allowed to the licensee in respect of Formula Year t commencing on 1 April 2013 and 1 April 2014 is derived in accordance with the following formula:

$$\text{MIR}_t = \text{MCIR}_t + \text{MDIR}_t$$

In the above formula for MIR<sub>t</sub>:

MCIR<sub>t</sub> means, the Maintenance Change Incentive Revenue (£million) allowed to the licensee in respect of Formula Year t as derived in accordance with paragraph 3D.41 of this condition.

MDIR<sub>t</sub> means the Maintenance Days Incentive Revenue (£million) allowed to the licensee in respect of Formula Year t as derived in accordance with paragraph 3D.42 of this condition.

### **(a) The Maintenance Change Incentive Revenue (MCIR<sub>t</sub>)**

3D.41 For the purposes of paragraph 3D.40 of this condition, MCIR<sub>t</sub> (£million) is derived in accordance with the following formula:

if  $\text{MCICD}_t < \text{MCITD}_t$ , then:

$$\text{MCIR}_t = \text{Min}[\text{MCIPM}_t \times 0.05, \text{MCICAP}_t];$$

otherwise:

$$\text{MCIR}_t = \text{Max}[\text{MCIPM}_t \times 0.05, \text{MCIFLOOR}_t]$$

In the above formula for MCIR<sub>t</sub>:

MCIPM<sub>t</sub> means the Maintenance Change Incentive Performance Measure in respect of Formula Year t as derived in accordance with the following formula:

$$\text{MCIPM}_t = \text{MCITD}_t - \text{MCICD}_t;$$

where:

MCICD<sub>t</sub> means the total number of actual Maintenance Change Days in Formula Year t.

MCITD<sub>t</sub> means the Maintenance Change Incentive Target (days) in respect of Formula Year t as derived in accordance with the following formula:

$$\text{MCITD}_t = 0.145 \times \text{MW}_t$$

where:

$MW_t$  means the Maintenance Workload (days) in respect of Formula Year t and shall be equal to the number of Maintenance Plan Days in Formula Year t.

$MCICAP_t$  means the Maintenance Change Incentive cap, and in Formula Year t shall take the value of £0.5million.

$MCIFLOOR_t$  means the Maintenance Change Incentive floor, and in Formula Year t shall take the value of -£0.5million.

**(b) The Maintenance Days Incentive Revenue ( $MDIR_t$ )**

3D.42 For the purpose of paragraph 3D.40 of this condition  $MDIR_t$  (£million) is derived in accordance with the following formula:

if  $MD_t < MDT_t$ , then:

$$MDIR_t = \text{Min}[MDPM_t \times 0.02, MDICAP_t]$$

otherwise:

$$MDIR_t = \text{Max}[MDPM_t \times 0.02, MDIFLOOR_t]$$

3D.43 In the above formula for  $MDIR_t$ :

$MDPM_t$  means the Maintenance Days Performance Measure in respect of Formula Year t as derived in accordance with the following formula:

$$MDPM_t = MDT_t - MD_t;$$

where:

$MD_t$  means the total number of Maintenance Plan Days on which the licensee has undertaken Maintenance in respect of Short ILI runs, Long ILI runs and Valve Operations in Formula Year t. Where a Maintenance Plan Day is used for activities other than Short ILI runs, Long ILI runs and Valve Operations, it shall not be included within  $MD_t$ .

$MDT_t$  means the target number of Maintenance Plan Days in the Formula Year t as derived in accordance with the following formula:

$$MDT_t = MDILI_t + MDVO_t$$

where:

MDILI<sub>t</sub> means the Maintenance Plan Days In Line Inspection benchmark (days) as derived in accordance with the following formula:

$$MDILI_t = \sum_{\substack{\text{Each short} \\ \text{ILI run}}} \text{Benchmark for Short ILI run} + \sum_{\substack{\text{Each Long} \\ \text{ILI run}}} \text{Benchmark for Long ILI run}$$

where:

$$\sum_{\substack{\text{Each short} \\ \text{ILRun}}} x$$

means the sum of x for each short ILI run undertaken by the licensee in Formula Year t.

$$\sum_{\substack{\text{Each Long} \\ \text{ILRun}}} x$$

means the sum of x for each long ILI run undertaken by the licensee in Formula Year t.

**Short ILI run**

means work necessary to undertake an In Line Inspection of a section of the licensee's pipeline where the length of pipeline concerned is 10km or less and requiring one or more Maintenance Plan Days.

**Benchmark for Short ILI run**

means the benchmark number of days required to undertake a Short ILI run and shall take the value 4.23.

**Long ILI run**

means work necessary to undertake an In Line Inspection of a section of the licensee's pipeline where the length of pipeline concerned is more than 10km and requiring one or more Maintenance Plan Days.

**Benchmark for Long ILI run**

means the benchmark number of days required to undertake a Long ILI run and shall take the value 5.53.

MDVO<sub>t</sub> means the annual benchmark number of Maintenance Plan Days for the work necessary to undertake an inspection of valves (Valve Operations) on the licensee's pipeline and shall take the value of 44.65 (unless otherwise directed by the Authority following notification to it by the licensee



of a change made to maintenance and operational policy to comply with new or revised safety regulations including Pipeline Safety Regulations).

MDICAP<sub>t</sub> means the Maintenance Plan Days Incentive cap, and in Formula Year t shall take the value of £1million.

MDIFLOOR<sub>t</sub> means the Maintenance Plan Days Incentive floor, and in Formula Year t shall take the value of -£1million.

3D.44 For the purpose of Part G of this condition:

Maintenance Change Day shall be any Maintenance Plan Day, where the licensee has initiated a change compared to the Maintenance Plan, unless the licensee has requested the change to facilitate the requirements of another Maintenance Relevant Party. Changes for the purposes of this term result in:

- (a) a change in date, including a change to the number of days that one or more Maintenance Relevant Parties are affected by a Maintenance Plan Day; and
- (b) a cancellation of a Maintenance Plan Day.

Maintenance Plan shall be the year ahead plan that is made up of the notifications of Maintenance Plan Days that the licensee sends to Maintenance Relevant Parties on or before 1 April for the Formula Year t in respect of Maintenance Plan Days.

Maintenance Plan Day shall be any planned Maintenance Day included within the Maintenance Plan that is related to one or more of the following maintenance activities:

- (a) routine maintenance (e.g. routine valve operations);
- (b) planned asset replacement and reinforcements, including but not limited to boiler replacements, work to facilitate the replacement of compressors to enable compliance with emissions related legislation and incremental capacity requirements; and
- (c) In-Line Inspections where these activities affect one or more Maintenance Relevant Parties where this party is a NTS Supply Point or an NTS Connected System Exit Point. For the avoidance of doubt, this does not include activities that cannot reasonably be planned in advance of the draft Maintenance Plan in respect of Formula Year t including work

following a network gas supply emergency or force majeure, work following a fault or defect, pipeline feature inspections or any activities carried out on behalf of one or more third parties. For the avoidance of doubt, where a single Maintenance activity affects multiple Maintenance Relevant Parties on a day, this will be construed as a single Maintenance Plan Day.

Maintenance Relevant Party; NTS Supply Point; NTS Connected System Exit Point; Maintenance Day

shall have the meanings given to those terms in the network code.

Valve Operations

means the work necessary to undertake an inspection of valves on the pipeline system to which this licence relates or any part or parts of it.

## PART H Interpretation

3D.45 For the purposes of this condition:

Actual NTS Throughput	means the total offtake of gas from the NTS on each day (measured in mcm), including gas offtakes by DN Operators, Storage Facilities, interconnectors and Very Large Daily Metered Consumers (VLDMC) connected to the NTS, plus the physical elements of NTS Shrinkage.
Electric Compressor	means electrically powered gas compression equipment forming part of the pipeline system to which this licence relates that is used by the licensee to increase the pressure of gas in part of that pipeline system.
Min [x,y]	is the value which is the lesser of x and y.
Max [x,y]	is the value which is the greater of x and y.
mcm	means millions of cubic meters of gas.
relevant quarter year and q	means each quarter in Formula Year t, where a quarter is a continuous period of three calendar months and where q=1 is the period between 1 April and 30 June, q=2 is the period between 1 July and 30 September, q=3 is the period between 1 October and 31 December and q=4 is the period between 1 January and 31 March (each inclusive).
Relevant Compressor Site s	means a relevant compressor site being a location at which one or more Electric Compressors are installed.
week and w	means each week in the Formula Year t, where a week is a continuous period of seven days from Monday to Sunday inclusive.
NTS shrinkage, Storage Facility, day and VLDMC	shall have the meaning given to those terms in the network code. Where storage facilities are mentioned these are defined as a multiple storage facility.

## **Special Condition 3E: Uncertain Event affecting Special Condition 3B (Entry and Exit Capacity Constraint Management) and Special Condition 3D (NTS System Operator external incentives, costs and revenues)**

### **Introduction**

8A.1 The purpose of this condition is to set out the circumstances in which the Authority will review the provisions of Special Condition 3B (Entry and Exit Capacity Constraint Management) and Special Condition 3D (NTS System Operator external incentives, costs and revenues). The circumstances in which that review will take place are set out below.

### **Part A: Definition of Uncertain Events**

8A.2 An Uncertain Event, as a result of which the Authority may review the provisions of Special Condition 3D (NTS System Operator external incentives, costs and revenues), may arise from any one or more of the following:

- (a) any change in applicable legislation or regulations which affects or may be expected to affect the functions of the licensee in connection with the NTS System Operator external incentives, costs and revenues as set out in Special Condition 3D (NTS System Operator external incentives, costs and revenues);
- (b) an event or series of events which leads the Authority to believe that one or more of the incentives as set out in Special Condition 3D (NTS System Operator external incentives, costs and revenues) may no longer be appropriate, with the result that the licensee's allowed revenue in respect of those incentives is significantly affected such as:
  - i. circumstances in which the relevant allowed revenue in respect of any of those incentives is equal to or there is an expectation that it will be equal to the relevant Cap or relevant Floor for that incentive for at least two consecutive Formula Years; or
  - ii. circumstances which have resulted in the relevant allowed revenue in respect of those incentives increasing or reducing by £5million or greater when compared to an assessment of the relevant allowed revenue if that event or series of events had not occurred or there is an expectation that the relevant allowed revenue will be increased or reduced by £5 million or greater by the event or series of events in question;
- (c) an event or circumstance constituting force majeure under the network code;
- (d) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code); or
- (e) in relation to the residual balancing incentive set out in Part D of Special Condition 3D (NTS System Operator external incentives, costs and revenues) where:

- i. there is material evidence that there is an increase in within-day volatility of gas demand has resulted from changes in CCGT operation as a consequence of increased levels of wind generation; and
  - ii. the increased levels of within-day volatility of gas demand have had a material impact on the Licensee's performance as calculated by the  $LPM_t$  or  $PPM_t$ .
- 8A.3 An Uncertain Event, as a result of which the Authority may review the provisions of Special Condition 3B (Entry and Exit Capacity Constraint Management), may arise where:
  - (a) the relevant allowed revenue in respect of this incentive is equal to or there is an expectation that it will be equal to the relevant Cap or relevant Floor for that incentive for at least four consecutive Formula Years; or
  - (b) there is material evidence that the unified incentive is acting in a detrimental way compared to its predecessor separate incentive schemes applicable to the licensee prior to 31 March 2013.

### **Part B: Process of determining an Uncertain Event**

- 8A.4 The licensee or any interested party may notify the Authority of an event or circumstance or series of events or circumstances which, in their opinion, constitutes or may be likely to constitute an Uncertain Event.
- 8A.5 Where the Authority has received a notification under paragraph 8A.4, it shall, within three months from the date of the receipt of that notification, determine whether an Uncertain Event has occurred or is likely to occur and shall give reasons for its decision.
- 8A.6 Where the Authority determines in accordance with paragraph 8A.5 that an event constitutes an Uncertain Event in respect of one or more relevant incentives set out in Special Condition 3D (NTS System Operator external incentives, costs and revenues) or Special Condition 3B (Entry and Exit Capacity Constraint Management), the Authority may modify the relevant incentive(s) pursuant to the licence modification procedure in Section 23 of the Act in order to ensure that the relevant Incentives affected by the Uncertain Event have an appropriate incentive effect on the licensee. In relation to the residual balancing incentive set out in Part D of Special Condition 3D (NTS System Operator external incentives, costs and revenues) only, any licence condition modified in accordance with Section 23 of the Act as a result of the operation of this condition for an Uncertain Event set out under paragraph 8A.2(e) shall not take effect prior to 1 April 2017.

### **Part C: Interpretation**

- 8A.7 For the purposes of this condition, the relevant allowed revenue, relevant Cap and relevant Floor are set out in Table 1 below:

**Table 1**

<b>Relevant External Incentive each as set out in the relevant Parts of Special Condition 3D (NTS System Operator external incentives, costs and revenues) and Constraint Management Incentive as set out in the relevant Parts of Special Condition 3B (Entry and Exit Capacity Constraint Management)</b>	<b>Relevant allowed revenue</b>	<b>Relevant Cap</b>	<b>Relevant Floor</b>
NTS Shrinkage Incentive as set out in Part B	$SIR_t$	£7 million	-£7 million
Operating Margins Incentive as set out in Part C	$OMIR_t$	Not applicable	Not applicable
Residual Balancing Incentive as set out in Part D	$RBIR_t$	£2 million	-£3.5 million
Quality of Day Ahead Demand Forecasting Incentive as set out in Part E	$QDAIR_t$	£10 million	-£1.5 million
Quality of Two to Five Days Ahead Demand Forecasting Incentive as set out in Part E	$QTFIR_t$	£10 million	-£1 million
Greenhouse Gas Emissions Incentive as set out in Part F	$GHGIR_t$	Not applicable	Not applicable
Maintenance Change Incentive as set out in Part G	$MCIR_t$	£0.5 million	-£0.5 million
Maintenance Day Incentive as set out in Part G	$MDIR_t$	£1 million	-£1 million
Constraint Management Incentive as set out in Special Condition 3B (Entry and Exit Capacity Constraint Management)	$CMIR_t$	£20 million	-£60 million

## **Special Condition 8A: System Management Services**

### **Introduction**

- 8A.1 The purpose of this condition is to ensure that the licensee operates the pipeline system to which this licence relates in an efficient, economic and co-ordinated manner and at all times has in place and maintains:
- (a) a statement that complies with the requirements of Part B below in respect of the licensee's procurement of System Management Services;
  - (b) a statement that complies with the requirements of Part C below in respect of the licensee's use of System Management Services;
  - (c) a methodology for determining the licensee's charges for System Management Services that complies with the requirements of Part D below; and
  - (d) a statement under Part D below in respect of that methodology.
- 8A.2 The methodology and each of the statements:
- (e) must be consistent with the licensee's duties under Part A below, with its other duties under the Act and the conditions of this licence; and
  - (f) must be in a form approved by the Authority.

### **Part A: General duties under this Condition**

- 8A.3 The licensee shall operate the pipe-line system to which this licence relates in an efficient, economic and co-ordinated manner.
- 8A.4 In procuring or using System Management Services, the licensee must not show undue preference to, or unduly discriminate between, any person or any class or classes of persons.
- 8A.5 The licensee's obligations under paragraph 8A.4 include an obligation to ensure that the following persons or undertakings also comply with the prohibitions imposed by that paragraph:
- (a) any Affiliate or Related Undertaking of the licensee; and
  - (b) any other business operated by the holder of this licence, or by any Affiliate or Related Undertaking of the licensee, under a separate gas transporter licence for a relevant gas transporter.

### **Part B: Procurement Guidelines document**

- 8A.6 The licensee must have in place before 1 April in each Formula Year, a Procurement Guidelines document which sets out:
- (a) the types of System Management Services that the licensee may be interested in purchasing during that Formula Year; and
  - (b) the mechanisms by which the licensee envisages purchasing, entering into agreements for the provision of, or otherwise acquiring those services.
- 8A.7 The licensee shall promptly revise its Procurement Guidelines document within the relevant Formula Year if its intentions in relation to the procurement of System Management Services change during that period.
- 8A.8 Within one month of the start of each Formula Year, the licensee must prepare a report, in a form approved by the Authority, about the System Management Services that the licensee has bought or acquired in the preceding Formula Year.

## **Part C: System Management Principle Statement**

- 8A.9 The licensee must at all times have in place a System Management Principles Statement which sets out the principles and criteria by which the licensee will at different times and in different circumstances determine:
- (a) which System Management Services the licensee will use to assist it in the operation of the NTS; and
  - (b) when and for what purpose the licensee would resort to measures not involving the use of System Management Services in the operation of the NTS.
- 8A.10 The licensee must use reasonable endeavours to comply with the provisions of the System Management Principles Statement.
- 8A.11 As soon as practicable after the end of each Formula Year, the licensee must prepare a report that:
- (a) describes the manner in which and the extent to which the licensee has, during that year, complied with the provisions of the System Management Principles Statement; and
  - (b) states whether any modification should be made to that statement to reflect more closely the practice of the licensee.
- 8A.12 The report must be accompanied by a statement from an independent examiner, being a person having the appropriate skills that:
- (a) confirms that they have carried out an investigation, the scope and objectives of which were established by the licensee and approved by the Authority; and
  - (b) gives their view on the extent to which the licensee has complied with the provisions of the System Management Principles Statement.
- 8A.13 The licensee may from time to time revise its Procurement Guidelines Statement in accordance with the requirements of Part E below.

## **Part D: System Management Services Adjustment Methodology**

- 8A.14 This Part D applies where the network code provides that any charge is to be determined (in whole or in part) by reference to the costs and volumes of Relevant System Management Services.
- 8A.15 Where this Part D applies, the licensee must at all times have in place and comply with a System Management Services Adjustment Methodology approved by the Authority.
- 8A.16 The System Management Services Adjustment Methodology is a methodology which the licensee must use to determine which costs and volumes of Relevant System Management Services are to be taken into account under the network code for the purposes of determining (in whole or in part) the charges in any period, and which covers each of the kinds of System Management Services which the licensee buys, sells, or acquires, and the mechanisms by means of which the licensee buys, sells, or acquires them, at the time at which the methodology is established.
- 8A.17 The licensee must at all times have in place a System Management Services Adjustment Methodology Statement that contains a complete and fully documented explanation of its System Management Services Adjustment Methodology.
- 8A.18 The licensee may from time to time revise its System Management Services Adjustment Methodology in accordance with the requirements of Part F below.



## **Part E: Procedure for revising the System Management Principles Statement**

- 8A.19 The licensee must, if so directed by the Authority, and in any event at least once in each Formula Year, review its System Management Principles Statement in consultation with gas shippers, DN operators, and other persons likely to be materially affected by the licensee's use of System Management Services.
- 8A.20 The consultation must allow a period of not less than 28 days in which persons can make representations or objections to the licensee.
- 8A.21 Within seven days after completing the consultation, the licensee must send to the Authority:
- (a) a report on the outcome of the review;
  - (b) a statement of any proposed revisions to the Systems Management Principles Statement that the licensee (having regard to the outcome of the review) reasonably considers would better achieve the principles and criteria set out at paragraph 8A.9; and
  - (c) any written representations or objections (including any proposals for revising the statement that have not been accepted by the licensee) that were received from any of the persons mentioned in paragraph 8A.19 during the consultation process and have not been withdrawn.
- 8A.22 The licensee may revise the System Management Principles Statement only in accordance with any revision that falls within 8A.21 (b), and only if the Authority consents to that revision.

## **Part F: Procedure for revising the System Management Services Adjustment Methodology**

- 8A.23 Whenever the licensee first buys, sells, or acquires any Relevant System Management Service of a kind or under a mechanism that is not already covered by its System Management Services Adjustment Methodology, it must promptly seek to establish a revised methodology, approved by the Authority, which does cover that kind of service or that mechanism, as the case may be.
- 8A.24 Subject to paragraph 8A.25 below, before revising its System Management Services Adjustment Methodology, the licensee must:
- (a) send a copy of its proposed revisions to the Authority and to any person who asks for a copy;
  - (b) consult gas shippers and gas distribution network operators and allow them a period of not less than 28 days in which to make representations;
  - (c) within seven days of the close of the consultation under this paragraph, submit to the Authority a report ("the revisions report") that sets out the revisions originally proposed, the representations (if any) received by the licensee, and any proposed change to the original proposals.
- 8A.25 The Authority may direct that any of sub-paragraphs (a) to (c) of paragraph 8A.24 is not to apply, in which event the licensee must comply with such other requirements as are specified in the direction.
- 8A.26 The licensee must not revise its System Management Services Adjustment Methodology:
- (a) until the end of the period of 28 days from the date on which the Authority receives the revisions report; or
  - (b) if within that period the Authority directs the licensee not to make the revision; or

- (c) if paragraph 8A.25 applies, before the day (if any) specified in the Authority's direction under that paragraph.

### **Part G: Availability of licensee's statements and reports**

- 8A.27 This Part G applies, to the extent set out below, to the statements methodologies and reports prepared by the licensee in accordance with Parts B to D above (each a "relevant statement" or a "relevant report", as the case may be) and to any revisions of a statement or methodology under Part B, E, or F above (each a "relevant revision").
- 8A.28 The licensee, subject to the provisions of Part H below, must:
- (a) give the Authority a copy of each relevant statement, each relevant report, and each relevant revision;
  - (b) give a copy of each relevant statement (or the most recent relevant revision of it) and of each relevant report to any person who asks for a copy and makes such payment to the licensee as it may require (which must not exceed such amount as the Authority may from time to time approve for that purpose); and
  - (c) publish, by such date and in such form and manner as the Authority may approve, each relevant statement and each relevant revision.

### **Part H: Exclusion of certain matters**

- 8A.29 In complying with the requirements of paragraphs 8A.28(b) and (c), the licensee must have regard to the need for excluding, so far as is practicable, any matter that relates to the affairs of a person where the publication of that matter would or might seriously and prejudicially affect his interests.
- 8A.30 Any question arising under paragraph 8A.29 as to whether the publication of some matter that relates to the affairs of a person would or might seriously and prejudicially affect his interests is to be resolved by the Authority unless the Authority otherwise consents in writing.

### **Part I: Retention of particulars and records**

- 8A.31 Unless the Authority otherwise consents, the licensee must maintain for a period of seven years:
- (a) particulars of all System Management Services offered to it;
  - (b) particulars of all contracts for System Management Services that it has entered into;
  - (c) records of all System Management Services called for and provided; and
  - (d) records of the quantities of gas transported through the NTS.

### **Part J: Derogations**

- 8A.32 The Authority may (after consulting the licensee) give a direction that relieves it of any or all of its obligations under this condition to such extent, for such period of time, and subject to such conditions as may be specified in the direction.

### **Part K: Interpretation**

- 8A.33 For the purposes of this condition:

Balancing Trade	means an Eligible Balancing Action within the meaning given to that term in the network code.
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Relevant System  
Management Services

means System Management Services other than:

- (a) those that the licensee has acquired through a Balancing Trade (if that trade was not made pursuant to any prior agreement); and
- (b) those that the Authority directs the licensee not to treat as Relevant System Management Services.

System Management  
Services

means services in relation to the balancing of gas inputs to and gas offtakes from the NTS, and includes Balancing Trades and Balancing Trade derivatives and constraint management services.

## 8B: Independent market for balancing

8B.1 Standard Special Condition A11 (Network Code and Uniform Network Code) shall be amended by the insertion of the following paragraphs after paragraph 22:

“22A. Where the network code makes provision for energy balancing by the licensee, as the energy balancing gas transporter, of the total system through a market established by the operator of the independent market for balancing (as such terms are defined in Standard Special Condition A16 (Independence of the Independent Market for Balancing)) then the following paragraphs 22B, 22C and 22D shall apply.”

“22B. The licensee shall, in appointing any such operator as is mentioned in paragraph 22A, use all reasonable endeavours to appoint a person having:

- (a) financial resources,
- (b) skilled and experienced personnel, and
- (c) systems

adequate to ensure that the market is conducted in an orderly and proper manner according to clear and fair rules with a clearing function that enables the licensee and relevant shippers to offset any sale to any one participant in the market against any equivalent purchase from that or any other participant in the market.”

“22C. The requirement in paragraph 22B shall be treated as satisfied in respect of any appointment if the licensee appoints as operator of the independent market for balancing a person who, at the time of appointment, is:

- (a) a person recognised by the Financial Services Authority under the Financial Services and Markets Act 2000 as an investment exchange; or
- (b) a person designated by the Authority for the purposes of that paragraph and if that designation has not expired or been revoked.”

“22D. If a person appointed by the licensee in reliance on paragraph 22C ceases to be recognised as provided in sub-paragraph (a) or to be designated as provided in sub-paragraph (b) of that paragraph then the licensee shall use all reasonable endeavours to terminate the appointment of that person and, if the licensee elects that the market operated by that person shall continue to be established, to appoint another person in place of the first person in accordance with paragraph 22B.”

## Special Condition 8C: Procurement of Operating Margins

### Introduction

8C.1 The purpose of this condition is to set out the obligations of the licensee in respect of the procurement of its Operating Margins requirements and the provision of an Operating Margins Report.

### Part A: Licensee's obligations under this condition

8C.2 The licensee shall use reasonable endeavours to procure its Operating Margins requirements in an economic and efficient manner and promote competition in the provision of Operating Margins to the licensee in respect of the Formula Year commencing on 1 April 2013 and each subsequent Formula Year until 31 March 2021.

8C.3 To meet its obligations pursuant to paragraph 8C.2 of this condition, the licensee shall, wherever the licensee considers it is appropriate to do so, consult with Interested Parties on the actions it proposes to take to procure Operating Margins and promote competition in the provision of Operating Margins.

8C.4 The licensee shall, from 1 April 2013 and thereafter every 12 months (unless the Authority otherwise directs in writing):

- (a) provide to the Authority by 31 August in each Formula Year an Operating Margins Report; and
- (b) publish a non-confidential version of the Operating Margins Report on its website.

8C.5 The Operating Margins Report shall set out, to an appropriate level of detail:

- (a) for the Operating Margins Report provided in respect of the Storage Year ending on 30 April 2014 and each Operating Margins Report provided thereafter, the actions the licensee has taken pursuant to its obligations under this condition during the previous Storage Year;
- (b) the actions the licensee intends to take pursuant to its obligations under this condition in the current Storage Year; and
- (c) details of the Operating Margins services it has procured for the current Storage Year.

### Part B: Interpretation

8C.1 For the purposes of this condition:

Interested Party	means any party which may be affected by the procurement of Operating Margins by the licensee, including those parties which may be able to provide Operating Margins to the licensee.
Operating Margins	shall have the same meaning as is given to that term in the network code.
Storage Year	shall have the same meaning as is given to that term in the network code.

## **Special Condition 8D: Requirement to undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases**

### **Introduction**

8D.1 The purpose of this condition is to set out the obligations of the licensee in respect of the activities set out in the Scheme of Work.

### **Part A: Licensee's obligations under this condition**

8D.2 The licensee shall undertake the activities set out in the Scheme of Work, as agreed between the licensee and the Authority, within the timescales outlined in the Scheme of Work or such later timescales as the Authority may reasonably direct.

8D.3 The Authority may direct the recovery of up to 60% of the non recoverable costs up to a maximum of £300,000 in accordance with the procedure for the direction of the value of GHGC<sub>t</sub> set out in paragraph 3D.38 of Special Condition 3D (NTS System Operator external incentives, costs and revenues).

8D.4 The licensee shall comply with all the requirements of this condition in a timely fashion and in good faith.

8D.5 The Scheme of Work may be amended from time to time subject to agreement by the licensee and the Authority.

### **Part B: Interpretation**

8D.6 For the purposes of this condition:

Greenhouse Gas Emissions Incentive	means any Greenhouse Gas Emissions Incentive equivalent to that specified in Part F of Special Condition 3D (NTS System Operator external incentives, costs and revenues) and any future incentive schemes for the reduction of the licensee's Greenhouse Gas Emissions.
Scheme of Work	means a specification of work for the purposes of developing a long term Greenhouse Gas Emissions Incentive to reduce Greenhouse Gas Emissions resulting from the operation of the pipeline system to which this licence relates by the licensee. The Scheme of Work should include: <ul style="list-style-type: none"><li>(a) an approach, estimated costs (where the estimated non recoverable costs shall not exceed £500,000) and timetable;</li><li>(b) the development of a methodology for the quantification of the licensee's Greenhouse Gas Emissions arising from venting of natural gas from the pipeline system, to which this licence relates and shall be designed to improve the information available to the Authority when the Authority is developing its</li></ul>

proposals for a Greenhouse Gas Emissions Incentive; and

- (c) projects relating to alternatives to venting natural gas.

Greenhouse Gas Emissions

means:

- (a) the release of natural gas; and
- (b) other emissions as a result of activities of the licensee as an alternative to the release of natural gas from the pipeline system to which this licence relates as a result of operation, maintenance or decommissioning of that system (or any part of it).

non recoverable costs

means any costs incurred by the licensee in undertaking the activities set out in the Scheme of Work that are not recoverable by the licensee through mechanisms other than those referred to in paragraph 8D.3 of this condition.

## **Special Condition 8E: Requirement to undertake UAG Projects to investigate the causes of Unaccounted for Gas (UAG)**

### **Introduction**

8E.1 The purpose of this condition is to set out the obligations of the licensee in respect of undertaking projects for the purposes of investigating the causes of Unaccounted for Gas (UAG) and the publication of the findings of these projects, including relevant data.

### **Part A: Licensee's obligations under this condition**

8E.2 The licensee shall use reasonable endeavours to undertake the UAG Projects as specified in this condition for the purposes of investigating the causes of Unaccounted for Gas in respect of Formula Year t commencing on 1 April 2013 and each subsequent Formula Year t until 31 March 2021. The UAG Projects shall include but need not be limited to those set out in paragraph 8E.5. Where the licensee does not undertake certain UAG Projects it shall clearly set out its reasoning in the UAG Reports referred to in paragraph 8E.3.

8E.3 The licensee shall publish UAG Reports of the findings of these UAG Projects on its website and provide a copy of the UAG Reports to the Authority. The licensee shall publish the UAG Reports by 1 May 2013, 1 October 2013 and every subsequent six months thereafter or such other dates as agreed by the Authority.

8E.4 Within one month of publishing a UAG Report the licensee shall publish on its website all the relevant data referred to in the UAG Report. Where there are legitimate reasons for not publishing certain data on the website the Authority may consent for the licensee not to do so.

### **Part B: Interpretation**

8E.5 For the purposes of this condition:

UAG Projects	means the projects currently undertaken by the licensee including: <ul style="list-style-type: none"><li>(a) the witnessing by the licensee of the validation of Measurement Equipment at NTS System Entry Points or Supply Meter Installations at NTS Exit Points; and</li><li>(b) investigation and analysis of data in order to seek to identify causes of UAG.</li></ul>
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UAG Report	means the report of the findings of the UAG Projects undertaken by the licensee. The UAG Report shall detail the UAG Projects the licensee has undertaken in the previous period, the UAG Projects it proposes to undertake in the next period and the licensee's views on whether, and if so how, the findings of the UAG
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Projects may be taken forward in order to reduce the volume of UAG. The UAG Report shall also detail the reasons why any UAG Projects that the licensee proposed to undertake have not been undertaken. The UAG Report shall summarise any relevant discussion concerning UAG at industry fora and with interested parties on a one-to-one basis.

Unaccounted for Gas (UAG)

means the amount of gas (GWh) that remains unaccounted for after the Entry Close-out Date following the assessment of NTS Shrinkage performed in accordance with the network code.

Measurement Equipment; NTS System Entry Points; Supply Meter Installations; NTS Exit Points; Entry Close-out Date

shall bear the same meanings as are given to those terms in the network code.

## Special Condition 8F: Provision of information

### Introduction

8F.1 The purpose of this condition is to set out the obligations of the licensee in respect of the publication of information on its website.

### Part A: Licensee's obligations under this condition

8F.2 The licensee shall use reasonable endeavours to publish information on its website in a timely manner and which will provide:

- (a) the key assumptions and analysis used by the licensee in its development of future energy scenarios;
- (b) the licensee's view on what the licensee believes the outlook will be for the coming summer and winter (as appropriate) for gas. These reports shall include, but shall not be limited to, forecast levels of demand, forecast levels of supply, information on the National Transmission System and the overall security of supply position; and
- (c) Operational Data which will aim to reduce market uncertainty, increase transparency and give equal access for stakeholders to the information that is available.

### Part B: Interpretation

8F.3 For the purposes of this condition:

Operational Data	shall, unless directed by the Authority, include, but not be limited to: the National Forecast Flow Data Item or Report; the National Physical Flow Data Item or Report; the NTS Throughput Data Item or Report; and the Predicted Closing Linepack Data Item or Report.
National Forecast Flow Data Item or Report	means an hourly data item or report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on delivery flow nominations.
National Physical Flow Data Item or Report	means an hourly data item or report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on actual (aggregate) physical flows into the NTS.
NTS Throughput Data Item or Report	means a data item or report published by the licensee showing, amongst other data, the forecast level of Actual NTS Throughput.
Predicted Closing Linepack Data Item or Report	means an hourly data item or report published by the licensee showing, for each day, the opening NTS Linepack, two projected closing NTS Linepack figures, and Forecast Total System Demand. NTS Linepack and Forecast Total System Demand have the meaning given to those terms in the network code.

## Special Condition 8G: Maintenance and Operational Planning

### Introduction

8G.1 The purpose of this condition is to set out the obligations of the licensee in respect of the provision of information in relation to its maintenance planning.

### Part A: Provision of information

8G.2 The licensee shall use reasonable endeavours to communicate its Maintenance Plan to:

- (a) Maintenance Relevant Parties who may be affected by planned maintenance; and
- (b) parties who are not likely to be affected by planned maintenance

as early as may be reasonably practicable. Such information shall cover a three year period and the licensee shall use reasonable endeavours to update it on, at least, an annual basis.

8G.3 The information to be provided under paragraph 8G.2(a) shall include, but not be limited to:

- (a) the type of work the licensee intends to carry out and reasons for carrying out the work;
- (b) the location of the work the licensee intends to carry out;
- (c) an indication of the impact of any work identified under (a) and (b) on Maintenance Relevant Parties (for example this may relate to a requirement for a reduced flow, steady flow, or total cessation of the flow of gas);
- (d) an indication of the dates upon which any work identified under (a) and (b) will take place; and
- (e) an indication of the duration of the work identified under (a) and (b) (number of hours or days).

8G.4 The licensee's communications under this condition should, as far as is reasonably practicable, include the publication of such Maintenance requirements on the licensee's website and shall include the appropriate contact details for the licensee. For the avoidance of doubt, this condition does not require the licensee to provide any information that, in the opinion of the licensee, may be commercially sensitive or confidential, or which it would, but for the application of this condition, not be entitled to disclose as a result of the application of Section 105 of the Utilities Act 2000.

8G.5 The licensee shall use reasonable endeavours to agree all changes to its Maintenance Plan with any Maintenance Relevant Parties who may be affected by the Maintenance set out in the Maintenance Plan.

8G.6 The licensee shall use reasonable endeavours to ensure all Maintenance Relevant Parties are aware of the services offered by the licensee which enable Maintenance Relevant Parties to pay the incremental costs of the licensee working flexibly outside normal working practices where possible in respect of Maintenance ("the Minor Works Agreement").

8G.7 By 1 June in each Formula Year  $t$ , commencing 1 June 2013, the licensee shall publish a report on its website that summarises the Maintenance that it undertook in Formula Year  $t-1$  and shall detail the changes made to its Maintenance Plan in respect of Formula Year  $t-1$ .

- 8G.8 The licensee shall collate and provide to the Authority information in respect of its Maintenance Plan and changes to its Maintenance Plan such that the Authority is able to implement updated financial incentives in respect of Maintenance from 1 April 2015. Such information shall include, but shall not be limited to, the number of Maintenance Relevant Parties affected by each occasion when it has undertaken Maintenance and the licensee's response when a Maintenance Relevant Party requests a change to the Maintenance Plan.
- 8G.9 The provisions of this Special Condition operate without prejudice to the obligations of the licensee pursuant to the network code.

**Part B: Interpretation**

8G.10 For the purposes of this condition:

- |                            |  |
|----------------------------|--|
| Maintenance                | includes:  |
|                            | <ul style="list-style-type: none"> <li>(a) maintenance, inspection, repair, replacement, reinstatement and recommissioning of the pipeline system to which this licence relates or any part or parts of it;</li> <li>(b) works for the expansion, reinforcement or extension of the pipeline system to which this licence relates, including works in relation to existing parts of the pipeline system to which this licence relates (including taking any part of the pipeline system to which this licence relates which are out of service, whether on a temporary or permanent basis) to enable such works to be carried out; and</li> <li>(c) any inspection, testing and commissioning of works within paragraphs (a) and (b), and works preparatory thereto, and any works required for bringing any new or existing part of the pipeline system to which this licence relates into, or back into, service.</li> </ul> |
| Maintenance Day            | shall have the meaning given to that term in the network code.   |
| Maintenance Plan           | shall have the meaning given to that term in Part G of Special Condition 3D (NTS System Operator external incentives, costs and revenues).   |
| Maintenance Relevant Party | shall have the meaning given to that term in the network code.   |

## **Special Condition 8H: Greenhouse Gas Emissions Calculation Methodology**

### **Introduction**

8H.1 The purpose of this condition is to establish obligations on the licensee in respect of the provision of a methodology for calculating the volume of Natural Gas Vented and of the values resulting from the application of this methodology in respect of the Formula Year commencing on 1 April 2013 and each subsequent Formula Year until 31 March 2021.

### **Part A: Calculation Methodology**

8H.2 The licensee shall submit to the Authority:

- (a) a Greenhouse Gas Emissions Calculation Methodology for calculating the volume of Natural Gas Vented which has been verified by an Independent Examiner, and in accordance with accepted greenhouse gas accounting and auditing principles, by 31 July 2013. ; and
- (b) unless the Authority otherwise consents in writing, a statement from an Independent Examiner by 31 July 2013 confirming that the Independent Examiner has carried out an examination of the Greenhouse Gas Emissions Calculation Methodology. Such examination shall include an assessment of whether the Greenhouse Gas Emissions Calculation Methodology is consistent with accepted greenhouse gas accounting and auditing principles.

8H.3 Prior to any modification of the Greenhouse Gas Emissions Calculation Methodology the licensee shall:

- (a) submit a copy of any proposed modifications to the Authority; and
- (b) unless the Authority otherwise consents in writing, provide a statement from an Independent Examiner giving view as to the extent to which the modifications are consistent with accepted greenhouse gas accounting and auditing principles before 31 July in the Formula Year in which the modification is proposed to be effective.

8H.4 The Greenhouse Gas Emissions Calculation Methodology submitted under paragraph 8H.2(a) and as modified and submitted under paragraph 8H.3(a) shall take into account the outcomes of the Scheme of Work and any other information the Authority may reasonably direct.

### **Part B: Calculation of Values**

8H.5 The licensee shall submit to the Authority:

- (a) the value (in tonnes) of the Natural Gas Vented for the Formula Year t-1 calculated in accordance with the Greenhouse Gas Emissions Calculation Methodology for Formula Year t-1; and
- (b) unless the Authority otherwise consents in writing, a statement from an Independent Examiner confirming that the Independent Examiner has carried out an examination to observe whether the value calculated by the licensee in respect of Formula Year t-1 in accordance with paragraph 8H.5(a) has been determined in accordance with the Greenhouse Gas Emissions Calculation Methodology for Formula Year

t-1 by 31 July 2014 and by 31 July in each subsequent Formula Year in respect of Formula Year t-1.

## Part C: Interpretation

8H.6 For the purposes of this condition:

Greenhouse Gas Emissions Calculation Methodology	means the methodology required under paragraph 8H.2(a).
Independent Examiner	means a person or persons nominated by and independent of the licensee with the skills and knowledge of accepted greenhouse gas accounting and audit principles so as to be qualified to undertake an examination of the methodology for calculating the volume of Natural Gas Vented and verification of the application of this methodology.
Natural Gas Vented	means the release of natural gas in tonnes as a result of: (a) starting a compressor; (b) purging a compressor; (c) depressurising a compressor; (d) the leakage of gas through a seal around the shaft of a compressor; or (e) such other sources identified as a result of the work completed under the Scheme of Work.
Scheme of Work	means a specification of work for the purposes of developing a long term Greenhouse Gas Emissions Incentive to reduce Greenhouse Gas Emissions resulting from the operation of the pipeline system to which this licence relates by the licensee, as specified in Special Condition 8D (Requirement to undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases).

## Schedule 3

### Reasons and effect of proposed modifications to the Special Conditions in NGGT's gas transporter licence

#### (a) Special Conditions to be amended

*Special Condition C8F: NTS System Operator external incentives, costs and revenues*

#### **Proposal to amend and renumber condition as Special Condition 3D: NTS System Operator external incentives, costs and revenue**

Part A of this condition sets out the scope and methods for determination of the level of external costs and revenues (the Principal Formula) that NGGT is entitled to recover including as a result of the operation of a number of gas system operator external incentive schemes.

#### **NTS Shrinkage**

Part B of this condition sets out the NTS Shrinkage Incentive. The scheme will continue to be a bundled scheme comprising the volume of gas and electricity required to be procured as a result of compressor fuel usage (CFU), calorific value (CV) shrinkage and Unaccounted for Gas. The volume target will comprise a baseline volume target and a short term volume target. The short term volume target being based on the difference between the forecast and outturn volumes. These volumes will each be multiplied by an appropriate reference price to form the target. The methodology for setting the parameters (that is, the target, sharing factors, caps and floors) or the parameters themselves will be set for a total of eight years.

#### *Methodology statement*

We agreed with NGGT that it would not be possible to set the target volume for the baseline volume level of shrinkage for eight years at the start of the scheme. Therefore NGGT will be required to produce and publish a methodology statement setting out the methods and principles on which it calculates each component of the volume target for gas and electricity. This methodology will be verified on an annual basis by an independent examiner. NGGT must consult on any proposed modification to the methodology statement.

#### *Reference Prices*

The reference prices for gas and electricity will continue to be a mix of forward and prompt prices. The forward reference price will be calculated as a nine month rolling daily delivery average ahead of the delivery quarter. The short term reference price will be calculated as an average of week ahead forward prices. There will also be a small allowance to take account of NGGT's requirement to procure gas and electricity close to real time.

#### *Efficiency Adjusters*

The NTS Shrinkage Incentive will include an adjuster that will increase the shrinkage target for an efficient level of CFU and CV Shrinkage costs and decrease the target for inefficient levels.

### *Ancillary costs*

Any ancillary costs which NGGT incurs as a result of procuring shrinkage (e.g. electricity supplier costs) will be included in the target.

### *Sharing Factors, Cap and Floor*

The sharing factors will be set at 45% for the NTS Shrinkage Incentive. The cap will be set at £7 million and the floor at -£7 million. This corresponds to an incentivised range of +/- £15.5 million around the target.

The objective of this incentive is to incentivise the efficient purchase of the elements of shrinkage gas and electricity. The effect of these changes should incentivise NGGT to seek to minimise the cost at which it purchases gas and electricity whilst limiting the risk to which it exposes consumers to and to reduce the volume of elements of shrinkage where it is able to influence these factors.

### **Operating Margins**

Part C of this condition sets the financial incentive in respect of NGGT's procurement of Operating Margins to zero.

### **Residual Gas Balancing**

Part D of this condition sets out the financial incentive in respect of Residual Balancing. This scheme comprises two elements: a price performance measure (PPM) which is designed to incentivise NGGT to minimise the impact of trades that it takes to balance supply and demand on the market on a daily basis, and a linepack performance measure (LPM) which is designed to incentivise NGGT to ensure that the volume of gas in the system (linepack) at the end of each trading day is similar to that at the start of the gas day. This financial scheme will run for a total of eight years and annual payments will be capped at £2 million with a floor at -£3.5 million. The parameters of the scheme are summarised in the table below.

#### **Parameters for the Residual Balancing Scheme**

	<b>PPM</b>	<b>LPM</b>
<b>Target</b>	Difference between maximum and minimum price of NGGT's balancing trades: 1.5 per cent of SAP	Daily difference between opening and closing linepack: 2.8 mcm
<b>Daily maximum payment (£)</b>	1,500	4,000
<b>Daily maximum penalty (£)</b>	-30,000	-30,000

The scheme can be re-opened in the following specified circumstances:

- (i) there is material evidence that within day volatility of gas demand has resulted from changes in CCGT operation as a consequence of increased level of wind generation;
- (ii) the levels of within day volatility of gas demand have severely impacted on NGGT's attainment of the residual balancing targets; and
- (iii) the Authority has consulted interested parties.

The effect of this incentive is to incentivise NGGT to minimise its impact on the market in its role as residual balancer.



## **Quality of Demand Forecasting**

Part E of this condition sets out the two Quality of Demand Forecasting financial incentives in respect of: (a) D-1 demand forecast and (b) D-2 to D-5 demand forecast.

### *D-1 demand forecast*

This is a financial incentive which will be in place for eight years. NGGT is incentivised to minimise the error in its gas demand forecast published at 13.00 on the day ahead of the gas day (13.00 D-1). We have changed the methodology for the calculation of NGGT's demand forecasting performance from a percentage of total annual demand, which created the risk of windfall gains and losses when demand was exceptionally low or high, to a weighted average forecast error (in mcm). The new performance measure weights the daily forecast error by the proportion of annual demand accounted for by each day's demand, therefore giving more weight to errors on days of higher demand (e.g. winter). The target will be set at 8.5 mcm, with a £10 million payment for a zero forecast error and a payment floor of -£1.5 million above an average forecast error of 9.35 mcm.

An automatic adjuster to the demand forecasting target is included to operate in the event that additional fast cycle storage injection capability comes on line during the incentive period.

### *D-2 to D-5 demand forecast*

This scheme is a new financial scheme to be set for two years in respect of the accuracy of NGGT's demand forecasts from two to five days ahead. The D-2 to D-5 demand forecasting performance measure is a bundled measure across the four forecasts, calculated as the average of the forecast error of each individual demand forecast. The target is set at the level of NGGT's average performance over the last eight years (16 mcm). Unlike the D-1 demand forecast incentive, there will be no automatic adjuster for this incentive scheme.

NGGT would receive a payment of £1 million for a 10% improvement over the target and, conversely, would have to pay £1 million for a forecast error of 10% above the target. The penalty floor would be set at £-1million.

The effect of these two incentives is to incentivise NGGT to ensure that its demand forecasts are as accurate as possible, in respect of its day ahead and 2 to 5 days ahead of the gas day. Accurate demand forecasts are highly valued by users and this will become increasingly important as demand volatility increases.

### *Information Provision*

The amendments in this part of 3D also have the effect of removing the current incentive on NGGT in respect of the publication of information on its website.

## **Greenhouse Gas Emissions**

Part F of this condition sets out the Greenhouse Gas Emissions financial incentive scheme.

This is an asymmetric downside only scheme which will run for three years. We have retained the existing target of 3007 tonnes minus an efficiency factor of three per cent for each of the three years of the scheme. The resultant targets for each year are set out in table below.

### Proposed targets for Greenhouse Gas Emissions

Incentive Year	Target
2013/14	2,917
2014/15	2,829
2015/16	2,744

The effect of the scheme is to incentivise NGGT to reduce the emissions resulting from compressor venting.

### Maintenance

Part G of this condition sets out the Maintenance financial incentive schemes.

There are two financial schemes, one in respect of the number of planned maintenance days and one in respect of minimising the number of changes to the maintenance plan. Both incentives are to be set for two years.

#### *Maintenance days*

In respect of the number of days incentive, the target comprises a number of components: short run and long run in-line inspections (ILIs) and valve operations. The target is set at a five per cent level of improvement compared to NGGT's current performance. The resultant targets for each year are set out in the table below.

#### Proposed targets for Maintenance days

Incentive year	Target for each ILI Short run	Target for each ILI Long run	Target for Valve Operations
2013/14	4.005	5.240	42.3
2014/15	3.560	4.660	37.6

The value of £20k has been set for each day higher or lower than the target with a cap and floor of ±£1 million per year.

#### *Changes to maintenance plan*

The incentive target will be set in proportion to the number of maintenance days called rather than a fixed number of days. NGGT provided data concerning the number of notices of changes for 2010, 2011 and 2012. We have calculated the average of these three sets of data and reduced it by five per cent to set the target at 14.5 per cent for each of the two years of the scheme. A value of £50K will be set for each change higher or lower than the target with a cap and floor of +/-£0.5 million (that is a total of ten changes in either direction).

#### *Special Condition C5: System Management Services*

### **Proposal to amend and renumber as Special Condition 8A: System Management Services**

This condition has undergone a number of housekeeping changes and been renumbered.

*Special Condition C25: Promoting competition in the provision to the licensee of operating margin services*

**Proposal to amend and renumber as Special Condition 8C: Procurement of Operating Margins**

The obligation under Special Condition C25 to promote competition in the provision of Operating Margins (OM) gas has now lapsed. The purpose of this amended reputational condition is to incentivise NGGT to promote competition in the procurement of OM services, with an additional obligation to provide an Operating Margins Report (the Report) to the Authority setting out:

- i. the actions it has taken under the condition in respect of the previous Storage Year;
- ii. the actions it intends to undertake in respect of the current Storage Year; and
- iii. details of the OM services it has procured for the current Storage Year.

NGGT must also publish a non-confidential version of the Report on its website.

The effect of this condition is to incentivise NGGT to procure its OM requirements in an economic and efficient manner, promote competition in the provision of OM services and ensure greater transparency regarding its actions under this incentive.

*Special Condition C28: Requirement to develop and undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases*

**Proposal to amend and renumber as Special Condition 8D: Requirement to undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases**

The purpose of this condition is to incentivise NGGT to continue to undertake activities as set out in the Scheme of Work to facilitate the establishment of a long term external gas system operator incentive in order to reduce specified greenhouse gases.

The effect of this condition is that NGGT will produce, as part of the Scheme of Work, a methodology for the quantification of NGGT's Greenhouse Gas Emissions and propose projects as alternatives for venting gas.

*Special Condition C29: Requirement to undertake UAG Projects to investigate the causes of Unaccounted for Gas (UAG)*

**Proposal to amend and renumber as Special Condition 8E: Requirement to undertake UAG Projects to investigate the causes of Unaccounted for Gas (UAG)**

The purpose of this reputational incentive condition is to incentivise NGGT to identify the causes and report on the volumes of Unaccounted for Gas (UAG). This condition will be set for eight years.

Under this condition, NGGT shall undertake certain UAG Projects, including, but not limited to the following:

- (i) the witnessing by NGGT of the validation of Measurement Equipment at NTS System Entry Points or Supply Meter Installations at NTS Exit Points; and

- (ii) investigation and analysis of data in order to seek to identify causes of UAG.

NGGT is required to publish the findings of these UAG Projects it has undertaken in the last six month period on its website and provide a copy to the Authority and to specify the UAG Projects which it proposes to undertake in the next six month period. NGGT is required to actively engage with wider industry stakeholders in investigating the causes of UAG.

The effect of this condition is to progress the UAG Projects with the aim of identifying solutions to reducing the levels of UAG.

#### **(b) New Special Conditions**

##### **Special Condition 3E: Uncertain Event affecting Special Condition 3B (Entry and Exit Capacity Constraint Management) and Special Condition 3D (NTS System Operator external incentives, costs and revenues)**

The purpose of this condition is to set out the specified circumstances (each an "Uncertain Event") in which the Authority will review the provisions of Special Condition 3B (Entry and Exit Capacity Constraint Management) or Special Condition 3D (NTS System Operator external incentives, costs and revenues). We have concluded that an uncertainty mechanism is necessary on the grounds that the length of some of the schemes are being increased and there is an increased risk the scheme(s) may no longer be fit for purpose during the period of the scheme or a legislative change or another one-off event will significantly change the role of the SO.

The new condition specifies the circumstances which may give rise to an Uncertain Event. The Uncertain Events which may lead the Authority to review the provisions of Special Condition 3D (NTS System Operator external incentives, costs and revenues) are:

- a. any change in applicable legislation or regulations which affects or may be expected to affect the SO's role;
- b. an event or series of events which may lead to one or more of the incentive schemes no longer be appropriate;
- c. an event or circumstance constituting force majeure under the network code;
- d. an event or circumstance resulting in the declaration of a network gas supply emergency (as set out in the network code); or
- e. in relation to the residual balancing incentive the specific circumstances set out above under the specific scheme.

The Uncertain Events which may lead the Authority to review the provisions of Special Condition 3B (Entry and Exit Capacity Constraint Management) are:

- a. the relevant allowed revenue in respect of this incentive is equal to or there is an expectation that it will be equal to the relevant Cap or relevant Floor for that incentive for at least four consecutive Formula Years; or
- b. there is material evidence that the unified investment incentive or the unified operational incentive is acting in a detrimental way compared to its predecessor separate incentive schemes.

NGGT or any interested third party may notify the Authority of an event(s) which they consider an Uncertain Event. The Authority has to determine whether the notified

event(s) is an Uncertain Event for the purposes of the condition within three months from the date of notification and must give reasons for its decision. If the Authority determines that the notified event is an Uncertain Event then it may propose a modification to the relevant external incentive(s) which are affected.

We have included the constraint management incentive within the scope of this special condition. The specific triggers for possible review of the incentive relate to four consecutive years where actual or expected values are in excess of the cap or below the collar amount or separately where the unified incentive produces a detrimental outcome as opposed to the existing schemes being replaced. The effect of this is to allow a review under these limited conditions. The reason for including within the scope of Special Condition 3E is that the constraints management incentive is closely related to SO activities and there is a degree of uncertainty around the behaviour of the incentive. This is not the same degree of uncertainty as with the shrinkage incentive. Also there is scope for great volatility in costs when the incentive is operating normally. This is why the temporal threshold is set at four, as opposed to two, consecutive years in relation to this specific incentive.

Whilst we continue to believe that our Final Proposals adequately capture the risks to NGGT and consumers, the effect of this condition is to enable the Authority to re-open one or more incentives schemes in specified circumstances with a view to amending the scheme by way of a licence modification.

#### **Special Condition 8F: Provision of Information**

The purpose of this reputational incentive condition is for NGGT to publish market data in a timely manner. The reputational incentive, which replaces the current financial incentive in respect of the availability and timeliness of certain key data items, and will also cover forward looking market information. This scheme will run for eight years. The market data to be published will provide:

- the key assumptions and analysis used by NGGT in the development of its future energy scenarios;
- NGGT's outlook for the coming summer and winter for gas, including amongst other things, levels of demand, forecast levels of supply and the overall security of supply position; and
- operational data which will seek to reduce market uncertainty, increase transparency and give equal access to relevant information to all stakeholders.

The effect of the condition is to provide greater transparency to the wider gas market.

#### **Special Condition 8G: Maintenance and Operational Planning**

This is a reputational incentive to require NGGT to further consider users' views as it develops its maintenance plan and to collect accurate data.

Under the condition NGGT will, as soon as it is practicable, communicate its Maintenance Plan to stakeholders. The Maintenance Plan should include (but is not limited to) the following:

- the type of work to be undertaken and the reasons why;
- the location of the work;
- the anticipated impact of the work;
- an indication of the dates and duration of the planned work.

The effect of the condition will be to incentivise NGGT to encourage efficient planning of maintenance days on the NTS and promote flexibility where it is valued by the NGGT's stakeholders.

### **Special Condition 8H: Greenhouse Gas Emissions Auditing Requirement**

The purpose of this condition is for NGGT to develop a methodology for calculating the volume of Natural Gas Vented and of the values (in tonnes) resulting from the application of the methodology in respect of the relevant Formula Year. The methodology must be consistent with accepted greenhouse gas accounting and auditing principles and both the methodology and the values must be verified by an Independent Auditor.

The methodology should take into account the projects being undertaken under the Scheme of Work (renumbered Special Condition 8D) which seeks to facilitate the establishment of long term incentive to reduce targeted greenhouse gas emissions and any other information which the Authority directs it to consider.

### **(c) Deleting Certain Special Conditions**

#### **Special Condition C16: NTS Performance Reporting**

The recording of carbon dioxide emissions from gas powered compressor stations currently required under the definition of specified information (a ii.) will be addressed through the Regulatory Instructions and Guidance (RIGs) recording of the licensee's business carbon footprint as part of RIIO-T1 (covering both TO and SO emissions). This condition has therefore been removed.

### **(d) Restructuring and renumbering the remaining Special Conditions to improve clarity and ease of use of the Special Conditions with no changes to the licence obligations or underlying policy objectives**

#### **Special Condition C6 Independent Market for Balancing**

This condition will be renumbered as Special Condition 8B Independent Market for Balancing.