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22nd January 2013

Dear Emma,

Notice under section 23 of the Gas Act 1986 (re modification of the Special Conditions of National Grid Gas plc's gas transporters licence) to amend certain existing Special Conditions, insert proposed new Special Conditions, delete certain Special Conditions and restructure and renumber the remaining Special Conditions to implement revised Gas System Operator incentive schemes from April 2013.

I refer to the notice (the "Notice") given by the Gas and Electricity Markets Authority on 17th December 2012 pursuant to section 23 of the Gas Act 1986 (the "Act") that proposes to modify National Grid Gas plc's ("National Grid") gas transporters licence (the "Licence") in the manner set out in Schedule 2 to the Notice.

National Grid has considered the drafting of the text in this Schedule to the Notice and believes that the drafting of it should be amended from the form of the Conditions in the notice proposed by the Authority. These changes are more fully described in more detail in the Appendices to this letter.

National Grid believes the changes are necessary in order to improve the clarity of the drafting, reflect discussions regarding the intent of the Final Proposals and ensure that the drafting clearly implements the Authority's intention set out in its Final Proposals Consultation for Gas System Operator Incentives from 2013 (reference 171/12).

The key changes National Grid proposes are as follows:

- clarify how the electricity and gas prompt volume targets for NTS Shrinkage ($PEVT_{t,w}$ and $PGVT_{t,w}$) are calculated for each week where a week falls within two different quarter years within Special Condition 3D;
- a new definition for nbq should be added to avoid more than one definition for the term nq within Special Condition 3D;
- clarify the cost recovery mechanism for additional audit requirements for the NTS Shrinkage Incentive Methodology Statement and Greenhouse Gas Emissions Calculation Methodology within Special Conditions 3D and 8H;
- change the order of the definition of AIC_t to clarify how this term is defined for the year commencing 1 April 2012 within Special Condition 3D;
- add further detail to the definition of Short Cycle Storage Facility to ensure that only those facilities intended to be included are covered within this definition for the purposes of the Quality of Day Ahead Demand Forecasting Incentive within Special Condition 3D;
- amend the publication time of the demand forecasts defined by the term DF_{d-1} from 14:00 to 16:00 to align with the systems and processes in place for demand forecasts made two to five days ahead of the gas day. These forecasts are defined for the

purposes of the Quality of Two to Five Days Ahead Demand Forecasting Incentive within Special Condition 3D;

- correct references as set out further in the annex, including a reference to the “Procurement Guidelines Statement” where we believe the drafting was intending to refer to the “System Management Principles Statement in 8A.13 within Special Condition 8A; and
- align the definitions within Special Condition 8H (Greenhouse Gas Emissions Calculation Methodology) to the Greenhouse Gas Emissions Incentive to refer to “mass” throughout.

We would appreciate it if these comments are taken into account in considering the appropriate changes to be made to the Licence.

If you would like to discuss this response further, in the first instance please contact Juliana Pollitt (juliana.pollitt@uk.ngrid.com on 01926 656195).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Train', with a stylized flourish at the end.

Chris Train

NB all references below link to the numbering in the statutory consultation and are not updated where that numbering is incorrect. Typographical errors are included in the tables below.

National Grid Gas Transmission Special Conditions - comments		
Comment number	Para Ref	Comment
1	Multiple	Multiple occurrences of the following terms have been amended to capitalise the first letter to be consistent with the remainder of the licence: <ul style="list-style-type: none"> • Licensee • Day (where the intention is to refer to a gas day: 6am – 5:59am) • Formula Year • Relevant Quarter Year
2	Multiple	Multiple occurrences of the term “£million” have been changed to “£m” to be consistent with the remainder of the licence
Special Condition 3D: NTS System Operator external incentives, costs and revenues		
2A	3D.2	Add new term $GHGA_t$ to the Principal Formula to clarify the cost recovery arrangements for costs associated with procurement of Independent Examiner services for the purposes of GHG venting calculation methodology and mass calculation assurance. Add in definition to read as follows “ <i>means the Greenhouse Gas Emissions Audit allowance (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.39 of this condition.</i> ” As a consequence of insertion of new paragraph 3D.39, revise the paragraph reference in the definition of MIR_t to 3D.41.
3	3D.3	In the definition of $RBIR_t$ change “ <i>Residual Balancing Incentive</i> ” to “ <i>Residual Gas Balancing Incentive</i> ” and in the definition of $GHGIR_t$ change “ <i>Greenhouse Gas Incentive</i> ” to “ <i>Greenhouse Gas Emissions Incentive</i> ” to match the Part D and Part F titles respectively.
4	3D.4	In the definition of $SCMR_t$ delete the space between ‘SCMR’ and ‘t’
5	3D.5	In the definition of MR_t , remove references to specific sections of the Uniform Network Code (i.e. OAD D1.2.1 and TPD M1.9) to be consistent with other references in the licence to network code defined terms. In addition, the terms USF_t , DSF_t , CAP_t and COL_t have been moved to the left to align to the formula in which these terms appear.
6	3D.6	In the definition of TA_t revise the wording from “ <i>TNUoS (Transmission Network use of System)</i> ” to “ <i>Transmission Network use of System (TNUoS)</i> ” to be consistent with the title of Part B section (g) of Special Condition 3D.
7	3D.7	Replace existing formula to calculate $PEVT_{t,w}$ with a new formula that clarifies how the electricity prompt volume target for NTS Shrinkage is calculated for each week where a week falls within two different Relevant Quarter Years, including replacing the term $FEVT_{t,q,d}$ with $FEVT_{t,q}$ to reflect the quarterly nature of this term which is already defined earlier in paragraph 3D.7 and

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		adding a new term DQ_w that means the number of Days within relevant week w which occur within Relevant Quarter Year q in Formula Year t . In addition, in the definition of nq the word “ <i>Relevant</i> ” should be inserted before “ <i>Quarter Year</i> ” to be consistent with the defined term.
8	3D.7	Replace existing formula to calculate $PGVT_{t,w}$ with a new formula that clarifies how the gas prompt volume target for NTS Shrinkage is calculated for each week where a week falls within two different Relevant Quarter Years, including replacing the term $FGVT_{t,q,d}$ with $FGVT_{t,q}$ to reflect the quarterly nature of this term which is already defined earlier in paragraph 3D.7. In addition, the sum function and nq definitions are not required as they are already defined earlier in paragraph 3D.7.
9	3D.7	In the definition of the “ <i>NTS Shrinkage Incentive Methodology Statement</i> ” insert the words “ <i>Part B</i> ” before “ <i>section (i)</i> ” to clarify the section to which the term is referring.
10	3D.8, 3D.10, 3D.11 and 3D.13	In the definition of terms $GQFP_{t,q,d}$, $GWFP_{t,w,d}$, $EQFP_{t,q,d}$ and $EWFP_{t,w,d}$ respectively, following the wording “ <i>published price reporting service directed by the Authority</i> ” add in the following text “ <i>following consultation with the Licensee</i> ” as we believe that where this was being contemplated by the Authority it is appropriate that this is discussed with National Grid.
11	3D.8, 3D.11	In the definition of the sum function in each formula add in the word “ <i>business</i> ” prior to “ <i>day a</i> ” and “ <i>day b</i> ” respectively for added clarity. In addition, in the definition of terms a and b in the formulas for $GQFP_{t,q,d}$ and $EQFP_{t,q,d}$ respectively, insert the word “ <i>Relevant</i> ” before “ <i>Quarter Year</i> ” to be consistent with the defined term.
12	3D.8, 3D.11	Revise the term ‘ nq ’ to ‘ nbq ’ to differentiate from the ‘ nq ’ term in 3D.7 which has a different meaning. Delete the definition of the term ‘ nq ’ in 3D.11 as the revised version (‘ nbq ’) of this term is already defined in 3D.8
13	3D.12	Remove the words “ <i>in respect of the</i> ” before the words “ <i>Formula Year</i> ” to be consistent with paragraph 3D.9. Further, following the words “ <i>paragraph 3D.11</i> ” add the words “ <i>of this condition</i> ” to add clarity.
13A	3D.13	Delete the definition of the summation symbol and the terms ‘ y ’, ‘ z ’ and ‘ nw ’ as they have all been previously defined in paragraph 3D.10.
14	3D.14	In the definition of the first sum function under the formula for $EEPTA_t$, insert the word “ <i>Relevant</i> ” before “ <i>Quarter Years</i> ” to be consistent with the defined term and move the two sum functions to below the formula for the term $WGRP_t$ as this is the formula in which the sum functions appear. Further, in the definition of $EEVCFU_t$, after the words “ <i>in a part of the pipeline system</i> ” insert the words “ <i>to which this licence relates</i> ” to clarify that the purpose is to increase pressure in the NTS.
14A	3D.15	Following the first instance of the term TA_t insert “ $(\pounds m)$ ” to clarify the units of measure.
15	3D.16	Following the first instance of the term OSC_t insert “ $(\pounds m)$ ” to clarify the units of measure. Further, in the definition of $KVAC_{t,s}$, $FC_{t,s}$, $CC_{t,s}$ and $RPC_{t,s}$ replace the words “ <i>relevant compressor site</i> ” with “ <i>Relevant Compressor Site</i> ” to be consistent with the definition in Part H and delete the sum function that is already defined in 3D.8.

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15A	3D.16	In the formula definition of OSC_t , add in the term SAA_t after $EUETS_t$ to clarify the treatment of costs associated with procurement of an Independent Examination of the application of the NTS Shrinkage Incentive Methodology Statement. Add in the definition of this term as “ <i>means the annual NTS shrinkage audit allowance (£m) in respect of examination of the application of the NTS Shrinkage Incentive Methodology Statement, including provision of an appropriate statement, by an Independent Examiner in accordance with paragraph 3D.21 and in respect of Formula Year t commencing on 1 April 2013 (and each subsequent Formula Year t until 31 March 2021) as derived in accordance with the following formula: $SAA_t = 0.02 \times RPIF_t$”</i> ”
16	3D.16	Change the references to the paragraphs which refer to price reporting services from “3D.8, 3D.10, 0 and 3D.13” to “3D.8, 3D.10, 3D.11 and 3D.13”.
16A	3D.20(c)	Following the word “ <i>of this condition,</i> ” insert the words “ <i>rules for the determination of</i> ” to be consistent with the wording in the other sub-paragraphs of paragraph 3D.20.
17	3D.22(b)(3)	Remove the full stop at the end of this sentence as there is following wording.
18	3D.27	Move the term RBF_t down the defined terms list in this paragraph to match the order in which they appear in the formula.
19	3D.28	In the definition of $DPIP_{t,d}$ delete the space between ‘DPIP’ and ‘ t,d ’.
20	3D.30	Revise the definition of $SAP_{t,d}$ for clarity from “ <i>the system average price (p/kWh, having the meaning</i> ” to “ <i>the system average price (in p/kWh and having the meaning</i> ”.
21	3D.31	The terms $LPUL_t$ and $LDCAP_t$ have been moved up the defined terms list in this paragraph to match the order in which they appear in the formula.
22	3D.35, 3D.36	In the formulae for $DAFIE_t$ and $FE_{d,i}$ replace the asterisk “*” and with “x” to represent multiplication consistent with other formulae where this operation is used.
23	3D.35	In the definition of AIC_t after the words “ <i>in respect of Formula Year</i> ” delete the word “ <i>as</i> ” and insert the words “ <i>t. In respect of the Formula Year t commencing on 1 April 2012 this shall take the value 30.3 and for all subsequent Formula Years will be</i> ” Remove the following wording subsequent to the formula “ <i>and for the Formula Year t commencing on 1 April 2012 shall take the value 30.3.</i> ”. This would remove the ambiguity concerning the value that should apply in the formula year commencing 1 April 2012.
24	3D.35	In the definition of DIY_t after the words “ <i>number of Days in</i> ” the words “ <i>the relevant</i> ” should be removed for the purposes of clarification.
25	3D.35	In the definition of Short-Cycle Storage Facility revise the wording from “ <i>means a Storage Facility which has the capability to withdraw and inject gas within-day.</i> ” to “ <i>means for the purposes of this condition a Storage Facility which has the capability to</i> ”

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		<i>both withdraw and inject gas into that facility on the same day other than the Storage Facilities at the Rough Max Refill, Hornsea Max Refill, Hatfield Moor Max Refill, Avonmouth Max Refill and Barton Stacey Max Refill (Humbly Grove) NTS Exit Points or such other list of Storage Facilities as is notified by the Licensee to the Authority from time to time.</i> This is to clarify the facilities which are excluded from the calculation to enhance certainty as opposed to seeking to identify a definition of physical attributes. In addition the terms DIY_t and 'Short-Cycle Storage Facility' have been moved up the defined terms list in this paragraph to match the order in which they appear in the formula and the term $DFCI_t$ has been moved to the left to align to the formula in which this term appears.
26	3D.35	In the definition of $DADF_d$ before the word "Day" remove the word "gas" as this is defined in section H as a Day in the UNC, which is a gas day. In addition, in the definition of AIC_t remove the definition of the sum function as this is already defined in the definition of $DAFIE_t$
26A	3D.36 title	Following the words " <i>Forecasting Incentive</i> " add the word " <i>Revenue</i> " to be consistent with paragraph 3D.34.
27	3D.36	Within the definition of $DF_{d,i}$ amend the requirement to publish the relevant demand forecast on our website by 14:00 to require such publication by 16:00 as this is the current publication timescale for this forecast information. In addition, within the definition of $TFIE_t$ add in a definition of the sum function.
28	3D.37	In the definition of $VIPM_t$ insert the word " <i>in</i> " prior to the words " <i>tonnes of natural gas</i>)" and revise the wording from " <i>by venting from all relevant compressors</i> " to " <i>by Venting from all Relevant compressors</i> " the latter changes to match the definitions in paragraph 3D.39. Further, in the definition of $NTMCP_{m,t,y}$ at the end of the definition add the words " <i>(being the prices in respect of a particular year (year y) in such publication).</i> " to add clarity.
29	3D.37	In the definition of $VIRP_t$ revise the wording from " <i>Where</i> " to " <i>where</i> " to be consistent with other areas of this licence condition and in the definitions of $VIRP_t$ and VF_t revise the word " <i>vented</i> " to " <i>Vented</i> " to match the defined term.
29A	3D.39	Clarify the cost recovery arrangements for the treatment of costs associated with procurement of an Independent Examination of the Greenhouse Gas Emissions Calculation methodology and its application in calculating the mass of Natural Gas Vented. After paragraph 3D.38 add new section title " <i>Greenhouse Gas Emissions Audit Allowance (GHGA_t)</i> " and add in new paragraph 3D.39 with text as detailed in the marked change version of Schedule 2 to the section 23 Notice. Re-number existing paragraph numbers 3D.39 to 3D.44 (increment by one in each case) to become paragraphs 3D.40 to 3D.45 respectively. Reflect the revised paragraph number in the cross references within Part G.
30	3D.40	Revise the term " <i>Relevant compressor</i> " to " <i>Relevant Compressor</i> " and in the definition of Venting revise the wording from " <i>a relevant compressor</i> " to " <i>a Relevant Compressor</i> " to match the definition earlier in this paragraph.
31	3D.41	In the definition of $MCIPM_t$ reverse the order in which the terms $MCICD_t$ and $MCITD_t$ are described in order to match the

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		sequence in which they appear in the formula for MCIPM _t . Further, within the definition of MCICAP _t revise the wording from “ <i>Incentive cap</i> ” to “ <i>Incentive Cap</i> ” and within the definition of MCIFLOOR _t revise the wording from “ <i>Incentive floor</i> ” to “ <i>Incentive Floor</i> ” to match the respective defined terms.
32	3D.43	Revise the wording from “ <i>has undertaken Maintenance in respect of Short ILI runs</i> ” to “ <i>has undertaken maintenance by conducting Short ILI runs</i> ” in order to add clarity.
33	3D.43	In the definition of Short ILI run revise the wording from “ <i>section of the licensee’s pipeline where the length</i> ” to “ <i>section of the pipeline system to which this licence relates</i> ”. Further, in the definition of Long ILI run revise the wording from “ <i>section of the licensee’s pipeline where the length</i> ” to “ <i>section of the pipeline system to which this licence relates</i> ” to be consistent with other references to the pipeline system in the Licence.
34	3D.43	In the definition of MDVO _t revise the wording from “ <i>the work necessary to undertake an inspection of valves (Valve Operations) on the licensee’s pipeline and</i> ” to “ <i>the work necessary to undertake Valve Operations and</i> ” and within the same definition revise the wording from “ <i>including Pipeline Safety Regulations</i> ” to “ <i>including but not limited to The Pipeline Safety Regulation 1996 (SI 1996 N° 825)</i> ” to add clarity to the legislative instrument being referred to.
35	3D.44	Add in a new definition at the start of the list as follows: “ <i>In Line Inspection</i> ”, “ <i>shall be a short ILI run or a long ILI run as such terms are defined in paragraph 3D.44.</i> ” to add clarity
36	3D.44	In the definition of Maintenance Plan Day, following remove the words “ <i>included within the Maintenance Plan</i> ” as this would clarify that Maintenance Plan Days subject to changes following the Maintenance Plan fall within this definition. In paragraph (a) of the same definition, following the words “ <i>routine maintenance</i> ” delete the word “ <i>e.g.</i> ” and add the words “ <i>including but not limited to</i> ” to be consistent with how examples are described in other parts of the Licence.
37	3D.44	In the definition of Maintenance Plan Day, the words from and including “ <i>for the avoidance of doubt</i> ” should be on a new line as this exclusion applies to all sub-sections (a), (b) and (c) of this paragraph
38	3D.45	In the definition of “ <i>week and w</i> ” add in the word “ <i>commencing</i> ” prior to the word “ <i>from</i> ” to add clarity. Further, in the list of terms which shall have the meanings given to those terms in the network code add “ <i>NTS Exit Point</i> ” as this term is used within paragraph 3D.35 of this Special Condition and therefore requires a definition.
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)		
39	General	The paragraph numbering convention for this section should be 3E.1, 3E.2 etc as opposed to 8A.1, 8A.2 etc as this latter convention is utilised in respect of Special Condition 8A. Further, change numerous references to “ <i>allowed revenue</i> ” and “ <i>relevant allowed revenue</i> ” to “ <i>incentive revenue</i> ” and “ <i>relevant incentive revenue</i> ” respectively to clarify the definition.

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Comment number	Para Ref	Comment
39A	Title, 8A.1, 8A.3, 8A.6, 8A.7 Table 1	Replace the words “Special Condition 3B (Entry and Exit Capacity Constraint Management)” with “Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management)” to align with the proposed name of this condition within Schedule 2 (proposed Special Conditions to NGGT’s gas transporter licence) of the Notice under Section 23(2) of the Gas Act as published on 22 December 2012.
40	8A.1	Remove the following text “The circumstances in which that review will take place are set out below.” as this is not required
41	8A.2(b)	Remove the additional space between the words “ <i>significantly</i> ” and “ <i>affected</i> ”.
41A	8A.2(e), 8A.6, 8A.7 Table 1	Replace the words “ <i>residual balancing incentive</i> ” to “ <i>Residual Gas Balancing Incentive</i> ” to align with the definition of RBIR _t and match the title of Part D of Special Condition 3D.
42	8A.3(b)	Revise the wording from “ <i>that the unified incentive is acting</i> ” to “ <i>that the incentive set out in that condition is acting</i> ” to provide clarity.
42A	8A.7 Table 1	Add the words “ <i>in 2009/10 values</i> ” after the values for the relevant Cap and relevant Floor for the Constraint Management Incentive within Table 1. In addition, in the column headings for “ <i>Relevant Cap</i> ” and “ <i>Relevant Floor</i> ”, revise the wording to “ <i>relevant Cap</i> ” and “ <i>relevant Floor</i> ” respectively to reflect the usage of the terms elsewhere within this condition.
Special Condition 8A: System Management Services		
43	Part C	The name of this Part should be revised from “ <i>System Management Principle Statement</i> ” to “ <i>System Management Principles Statement</i> ” to match the name of the Statement concerned.
44	8A.13	Revise the wording from “ <i>revise its Procurement Guidelines Statement</i> ” to “ <i>revise its System Management Principles Statement</i> ” as this is the correct document to which the revision rules apply.
45	8A.24(b)	Replace the term “ <i>gas distribution network operator</i> ” with the words “ <i>DN Operator</i> ” to be consistent with other sections of the Licence.
Special Condition 8B: Independent market for balancing		
46	Title	In the title add in the words “ <i>Special Condition</i> ” before “ <i>8B: Independent market for balancing</i> ”
Special Condition 8C: Procurement of Operating Margins		
47	Second paragraph numbered 8C.1	This should be numbered 8C.6 as 8C.1 appears in the introduction of this Special Condition
Special Condition 8E: Requirement to undertake UAG Projects to investigate the causes of Unaccounted for Gas (UAG)		

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48	8E.5	In the list of terms which bear the same meanings as are given to those terms in the network code add “ <i>NTS Shrinkage</i> ” as this term is used elsewhere within this Special Condition and therefore requires definition.
Special Condition 8F: Provision of information		
49	8F.2(b)	Replace the term “ <i>National Transmission System</i> ” with the abbreviation “ <i>NTS</i> ” to be consistent with the existing defined term in the licence.
50	8F.3	Add in an additional definition for “ <i>Actual NTS Throughput</i> ” as “ <i>shall have the meaning given to that term in Part G of Special Condition 3D (NTS System Operator external incentives, costs and revenues).</i> ” as this term appears in this section and requires definition.
Special Condition 8G: Maintenance and Operational Planning		
51	8G.10	Remove the definition of Maintenance Day as this term is not utilised in this Special Condition.
Special Condition 8H: Greenhouse Gas Emissions Calculation Methodology		
52	8H.1, 8H.2(a), 8H.5(a), 8H.5(b) and 8H.6 (within the definition of Independent Examiner)	Where the phrase “ <i>volume of Natural Gas Vented</i> ” is utilised replace with “ <i>mass of Natural Gas Vented</i> ” and where the word “ <i>value</i> ” is utilised replace with “ <i>mass</i> ” in order to be consistent with the definition within the Greenhouse Gas Emissions Incentive in Special Condition 3D (NTS System Operator external incentives, costs and revenues).
53	8H.2(a)	Revise the wording from “ <i>in accordance with accepted greenhouse gas accounting and auditing principles, by 31 July 2013. ; and</i> ” to “ <i>in accordance with such greenhouse gas accounting and auditing principles as agreed by the Licensee and the Authority to represent best practice, by 31 July 2013; and</i> ” as this term is not yet defined and National Grid believes that this would enable Ofgem and National Grid to agree on the prevailing best practice for the measurement of GHG emissions.
54	8H.2(b), 8H.3	Revise the wording from “ <i>consistent with accepted greenhouse gas accounting and auditing principles.</i> ” to “ <i>consistent with greenhouse gas accounting and auditing best practice</i> ” for the reason identified above.
55	8H.5(b)	The words from and including “ <i>for Formula Year t-1 by 31 July 2014</i> ” should be on a new line as this timed requirement applies to both sub-sections (a) and (b) of this paragraph
56	8H.6 (within the definition	Revise the wording from “ <i>knowledge of accepted greenhouse gas accounting and audit principles.</i> ” to “ <i>knowledge of greenhouse gas accounting and audit best practice</i> ” for the reason identified above.

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Comment number	Para Ref	Comment
	of Independent Examiner)	
	Schedule 3	We note that in the Maintenance section of Schedule 3, the targets shown for Maintenance Days are as proposed at Initial Proposals. However, the targets shown in the Final Proposals consultation document have been reflected in the licence drafting notice, published as Schedule 2.

Appendix 3: Marked changes to 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.

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PART A External cost incentive revenue (SOOIRC_t)

(a) Principal formula

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

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$$SOOIRC_t = SC_t + OMC_t + RBC_t + SIR_t + OMIR_t + RBIR_t + QDFIR_t + GHGIR_t + GHGC_t + \underline{GHGA_t} + MIR_t$$

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3D.3 In the Principal Formula:

SC_t means the total costs incurred by the Licensee (£m) in Formula Year t in respect of system costs as derived in accordance with the following formula:

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

where:

\sum_q means the sum over all Relevant Quarter Years q in the relevant Formula Year t.

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GC_{t,q} means the total costs incurred by the Licensee (£m), 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_{t,q}.

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	<p>$ECC_{t,q}$ means the total costs (£m) incurred by the <u>Licensee</u> in respect of <u>Relevant Quarter Year</u> q in Formula Year t in procuring electricity for the purposes of operating Electric Compressors.</p>	<p>Deleted: million Deleted: licensee Deleted: r Deleted: q Deleted: y</p>
<p>OMC_t</p>	<p>means the total costs incurred by the <u>Licensee</u> (£m) 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.</p>	<p>Deleted: licensee Deleted: million</p>
<p>RBC_t</p>	<p>means an amount (£m) equal to the revenue equivalent to the net residual balancing costs incurred by the <u>Licensee</u> 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 <u>Days</u> in Formula Year t.</p>	<p>Deleted: million Deleted: licensee</p>
<p>SIR_t</p>	<p>means the NTS Shrinkage Incentive Revenue (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.4 of this condition.</p>	<p>Deleted: day Deleted: million</p>
<p>$OMIR_t$</p>	<p>means the Operating Margins Incentive Revenue (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.25 of this condition.</p>	<p>Deleted: million</p>
<p>$RBIR_t$</p>	<p>means the Residual <u>Gas</u> Balancing Incentive Revenue (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.26 of this condition.</p>	<p>Deleted: million</p>
<p>$QDFIR_t$</p>	<p>means the Quality of Demand Forecasting Incentive Revenue (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.33 of this condition.</p>	<p>Deleted: million</p>
<p>$GHGIR_t$</p>	<p>means the Greenhouse Gas <u>Emissions</u> Incentive Revenue (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.37 of this condition.</p>	<p>Deleted: million</p>
<p>$GHGC_t$</p>	<p>means the efficient Greenhouse Gas Emissions Project Costs (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.38 of this condition.</p>	<p>Deleted: million</p>
<p><u>$GHGA_t$</u></p>	<p><u>means the Greenhouse Gas Emissions Audit allowance (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.39 of this condition.</u></p>	
<p>MIR_t</p>	<p>means the Maintenance Incentive Revenue (£m) in respect of Formula Year t as derived in accordance with paragraph <u>3D.41</u> of this condition.</p>	<p>Deleted: million Deleted: 3D.40</p>

PART B NTS Shrinkage Incentive

(a) The NTS Shrinkage Incentive Revenue (SIR_t)

3D.4 For the purposes of the Principal Formula, SIR_t (£m) 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:

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if $SIT_t \geq SCMR_t$, then:

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

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 (£m) as derived in accordance with paragraph 3D.6 of this condition.

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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 (£m) due to the reconciliation of Measurement Errors (as defined in the network code) and/or meter errors (as described in the network code) in respect of Formula Year t commencing 1 April 2009 and each subsequent Formula Year t.

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

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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 (£m) in respect of Formula Year t as set out in Table 1 below.

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COL_t means the minimum shrinkage incentive revenue (£m) in respect of Formula Year t as set out in Table 1 below.

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Table 1

	For Formula Year t
USF _t	0.45
DSF _t	0.45
CAP _t (£m)	7
COL _t (£m)	-7

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(b) The NTS Shrinkage Incentive Target

3D.6 For the purposes of paragraph 3D.5 of this condition, SIT_t (£m) is derived in accordance with the following formula:

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

where:

EPT_t means the NTS shrinkage energy procurement target including swing allowance (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.7 of this condition.

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EEPTA_t means the NTS shrinkage energy efficiency performance target adjustment (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.14 of this condition.

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TA_t means the Transmission Network Use of System (TNUoS) charges allowance (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.15 of this condition.

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OSC_t means other shrinkage costs (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.16 of this condition.

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(c) Energy procurement target

3D.7 For the purposes of paragraph 3D.6 of this condition, EPT_t (£m) is derived in accordance with the following formula:

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

where:

$$\sum_{t,q} x_{t,q}$$

means the sum of x over all Relevant Quarter Years q in Formula Year t.

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$$\sum_{t,w} x_{t,w}$$

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.

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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.

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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.

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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.

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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:

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

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

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.

nq

means the number of Days in the Relevant Quarter Year q in which Day d occurs.

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- Deleted: FEVT_{t,q,d} - means the forward electricity 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.¶
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DQ_w means the number of Days within relevant week w which occur within Relevant Quarter Year q in Formula Year t

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PECRP_{t,w} 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_{t,w} 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:

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

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where:

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OGV_{t,w,d} 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.

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 . means the sum of x over all days in relevant week w in Formula Year t.

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PGCRP_{t,w} 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;

Deleted: FGVT_{t,q,d} . 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.¶

SCA_t means the swing cost allowance (£/m) in respect of Formula Year t as derived in accordance with the following formula:

$$SCA_t = 2 \times RPIF_t$$

where:

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RPIF_t 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 Part B 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:

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

where:

$\sum_{d=a}^b$ means the sum over all business days d between business day a and business 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 following consultation with the Licensee) 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 Relevant Quarter Year q of Formula Year t.

b means the last business day of the month prior to the commencement of the Relevant Quarter Year q of Formula Year t.

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

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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.

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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 [following consultation with the Licensee](#)) 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:

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

where:

$\sum_{d=a}^b$ means the sum over all business days d between [business day a](#) and [business 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 [following consultation with the Licensee](#)) 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 [Relevant Quarter Year q](#) of Formula Year t.

b means the last business day of the ninth month prior to the commencement of the [Relevant Quarter Year q](#) of Formula Year t.

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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 Formula Year t

commencing 1 April 2021 (FECRP_{t,q}) shall be determined in accordance with paragraph 3D.11 [of this condition](#) 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](#).

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

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

where:

$EWF_{t,w,d}$ 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 [following consultation with the Licensee](#)) on business day d for a baseload electricity contract for delivery in respect of week w of Formula Year t.

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Deleted: means the sum over all business days in the week prior to the commencement of week w of Formula Year t.

(f) The energy efficiency performance target adjustment

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

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

where:

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

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

where:

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

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

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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.¶

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

EEVCSV_t 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_t 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 to which this licence relates in respect of Formula Year t determined in accordance with the NTS Shrinkage Incentive Methodology Statement.

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

3D.15 For the purposes of paragraph 3D.6 of this condition, TA_t (£m) 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_{t,s} 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_{t,s} 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 (£m) is derived in accordance with the following formula:

$$OSC_t = CRCEES_t + EUETS_t + SAA_t + NEEC_t$$

where:

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

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$EUETS_t$ 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 (£m) as a result of operation of its gas compressors in respect of Formula Year t.

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SAA_t means the annual NTS shrinkage audit allowance (£m) in respect of examination of the application of the NTS Shrinkage Incentive Methodology Statement, including provision of an appropriate statement, by an Independent Examiner in accordance with paragraph 3D.21 and in respect of Formula Year t commencing on 1 April 2013 (and each subsequent Formula Year t until 31 March 2021) as derived in accordance with the following formula:

$$SAA_t = 0.02 \times RPIF_t$$

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

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$$NEEC_t = DUoS_t + SMC_t$$

where:

$DUoS_t$ means the Distribution Use of System costs (£m) 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:

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

where:

<p>$kVAC_{t,s}$</p>	<p>means the capacity charge including any excess capacity charges (£<u>m</u>) applicable to that <u>Relevant Compressor Site s</u> 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.</p>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> <p>Deleted: $\sum_s x$</p> <p>means the sum of x over all Relevant Compressor Sites s in respect of Formula Year t.</p> </div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: million</p> </div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: r</p> </div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: c</p> </div> <div style="border: 1px solid black; padding: 2px;"> <p>Deleted: s</p> </div>
<p>$FC_{t,s}$</p>	<p>means the fixed charge (£<u>m</u>) applicable to that <u>Relevant Compressor Site s</u> 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.</p>	<div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: million</p> </div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: r</p> </div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: c</p> </div> <div style="border: 1px solid black; padding: 2px;"> <p>Deleted: s</p> </div>
<p>$CC_{t,s}$</p>	<p>means the distribution use of system consumption charge (£<u>m</u>) for <u>Relevant Compressor Site s</u> 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.</p>	<div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: million</p> </div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: r</p> </div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: c</p> </div> <div style="border: 1px solid black; padding: 2px;"> <p>Deleted: s</p> </div>
<p>$RPC_{t,s}$</p>	<p>means the reactive power charge for <u>Relevant Compressor Site s</u> 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.</p>	<div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: r</p> </div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: c</p> </div> <div style="border: 1px solid black; padding: 2px;"> <p>Deleted: s</p> </div>
<p>SMC_t</p>	<p>means the supplier and market charges (£<u>m</u>) incurred by the <u>Licensee</u> 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</p>	<div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;"> <p>Deleted: million</p> </div> <div style="border: 1px solid black; padding: 2px;"> <p>Deleted: licensee</p> </div>

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, 3D.11, and 3D.13 of this condition, trading operations licence fees and credit management arrangement fees.

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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.

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(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.

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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.

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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, rules for the determination of $EEVCS_t$ 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:

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- (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:

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- (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.

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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.

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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.

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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.

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PART C Operating Margins Incentive Revenue (OMIR_t)

3D.25 For the purposes of the Principal Formula, OMIR_t, 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_t)

3D.26 For the purposes of the Principal Formula, RBIR_t (£m) 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:

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

3D.27 In the above formula for RBIR_t:

RBCAP_t means the maximum residual gas balancing incentive revenue (£m) in respect of Formula Year t, and shall take the value £2m.

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STIP_t means the sum of the total daily incentive payments (£m) under the residual gas balancing incentive in respect of Formula Year t as derived in accordance with paragraph 3D.28 of this condition.

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RBF_t means the minimum residual gas balancing incentive revenue (£m) in respect of Formula Year t, and shall take the value £-3.5m.

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Moved down [1]: means the minimum residual gas balancing incentive revenue (£million) in respect of Formula Year t, and shall take the value £-3.5million.

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(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_t (£m) in Formula Year t is derived in accordance with the following formula:

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

where:

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

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DPIP_{t,d} 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.

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DLIP_{t,d} 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.

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(b) The daily price incentive payment

3D.29 For the purposes of paragraph 3D.28 of this condition, DPIP_{t,d} (£) on Day d in Formula Year t shall depend on the value of PPM_{t,d} and is derived in accordance with Table 2 below:

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Table 2

For Formula Year t,	
PPM _{t,d}	DPIP _{t,d}
0 ≤ PPM _{t,d} ≤ 5	1,500 – (PPM _{t,d} x 1000)
5 < PPM _{t,d} < 75.667	-3,500 – (375 x (PPM _{t,d} – 5))
75.667 ≤ 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.

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(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}.

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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}.

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

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(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:

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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.

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$LPUL_t$ means the linepack upper band limit (mcm) in respect of Formula Year t and shall take the value 1.5mcm.

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$LDCAP_t$ means the linepack daily cap amount (£) in respect of Formula Year t and shall take the value £4,000.

LPT_t means the linepack performance target (mcm) in respect of Formula Year t and shall take the value 2.8mcm.

$LPLL_t$ means the linepack lower limit (mcm) in respect of Formula Year t and shall take the value 15mcm.

Moved up [3]: $LPUL_t$ means the linepack upper band limit (mcm) in respect of Formula Year t and shall take the value 1.5mcm.¶

LDF_t means the linepack daily floor amount (£) in respect of Formula Year t and shall take the value -£30,000.

Deleted: $LDCAP_t$ means the linepack daily cap amount (£) in respect of Formula Year t and shall take the value £4,000.¶

(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.

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$CLP_{t,d}$ means the total NTS linepack in respect of Day d of Formula Year t as at 06:00 hours on Day d+1.

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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.

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PART E Quality of Demand Forecasting Incentive Revenue (QDFIR_t)

3D.33 For the purposes of the Principal Formula, QDFIR_t (£m) in respect of the Formula Year t is derived in accordance with the following formula:

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$$QDFIR_t = QDAIR_t + QTFIR_t$$

3D.34 In the above formula for QDFIR_t:

QDAIR_t means the Quality of Day Ahead Demand Forecasting Incentive Revenue (£m) in respect of Formula Year t as derived in accordance with paragraph 3D.35 of this condition.

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

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(a) Quality of Day Ahead Demand Forecasting Incentive Revenue (QDAIR_t)

3D.35 For the purposes of paragraph 3D.33 of this condition, QDAIR_t (£m) 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:

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Table 4

For Formula Year t	
DAFIE _t	QDAIR _t
$0 \leq DAFIE_t < DFA_t$	10
$DFA_t \leq DAFIE_t < 7.65 + DFA_t$	$10 - (1.111 \times (DAFIE_t - DFA_t))$
$7.65 + DFA_t \leq DAFIE_t < 9.35 + DFA_t$	$15 - (1.7647 \times (DAFIE_t - DFA_t))$
$9.35 + DFA_t \leq DAFIE_t$	-1.5

where:

DAFIE_t means the Day ahead demand forecasting incentivised average forecast error as derived in accordance with the following formula:

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

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where:

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

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DADF_d 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 Day concerned shall be used.

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AD_d 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.

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DFA_t 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_t 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_t 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. In respect of Formula Year t commencing on 1 April 2012 this shall take the value 30.3 and for all subsequent Formula Years will be derived in accordance with the following formula:

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

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

where:

ASF_{d,t} means the aggregate capability of any relevant Short-Cycle Storage Facilities

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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.

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DIY_t means the number of Days in Formula Year t.

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Short-Cycle Storage Facility

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means for the purposes of this condition a Storage Facility which has the capability to both withdraw and inject gas into that facility on the same day other than the Storage Facilities at the Rough Max Refill, Hornsea Max Refill, Hatfield Moor Max Refill, Avonmouth Max Refill and Barton Stacey Max Refill (Humbly Grove) NTS Exit Points or such other list of Storage Facilities as is notified by the Licensee to the Authority from time to time.

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DFCI_t means the Demand Forecasting Adjustment Continuous Improvement Factor and in Formula Year t shall take the value 0.5.

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Moved up [4]: DIY_t means the number of days in the relevant Formula Year t.¶

Moved up [5]: 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 Revenue (QTFIR_t)

3D.36 For the purposes of paragraph 3D.33 of this condition, QTFIR_t (£m) 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:

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Table 5

For Formula Year t	
TFIE _t	QTFIR _t
0 ≤ TFIE _t ≤ 17.6	10 - (0.625 x TFIE _t)

17.6 < TFIE _t	-1
--------------------------	----

where:

TFIE_t means the two to five days ahead demand forecasting incentivised average forecast error as derived in accordance with the following formula:

$$TFIE_t = \frac{\sum_{i=2}^5 FE_{d-i}}{4}$$

where:

$$\sum_{i=2}^5 x_{d-i} \text{ means the sum of } x_{d-i} \text{ for all } i \text{ from } i=2 \text{ to } i=5.$$

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

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

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where:

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

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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 16:00 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 16:00 forecast NTS throughput values are not published by 16:00 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.

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PART F Greenhouse Gas Emissions Incentive Revenue (GHGIR_t)

3D.37 For the purposes of the Principal Formula, GHGIR_t (£m) 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_t and is derived in accordance with Table 6 below:

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Table 6

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

where:

VIPM_t means the venting incentive performance measure (in 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.

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VIT_t 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 _t
2013/14	2,917
2014/15	2,829
2015/16	2,744

VIRP_t 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:

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$$VIRP_t = NTCP_t \times VF_t$$

where:

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NTCP_t means the Non Traded Carbon Price (in £/tCO₂e) 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:

$\sum_{m=1}^{12} [x_{m,t}]$ 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 .

NTMCP_{m,t,y} means the latest Non Traded Central Carbon Price (£/tCO₂e) 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 ([being the prices in respect of a particular year \(year y\) in such publication](#)).

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:

$$IF_{m,t,y} = \frac{AI_t}{AI_y}$$

where:

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 $t-1$.

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 $y-1$.

VF_t means the venting equivalent factor that represents the number of tonnes of CO₂ equivalent of each tonne of natural gas [V](#)ented in respect of Formula Year t shall take the value 21.

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Greenhouse Gas Emissions Project Costs (GHGC_t)

3D.38 For the purposes of the Principal Formula, 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 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

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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 GHGC_t. The value of GHGC_t in Formula Year t shall be zero or as directed by the Authority.

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Greenhouse Gas Emissions Audit Allowance (GHGA_t)

3D.39 For the purposes of the Principal Formula, GHGA_t (£m) in respect of Formula Year t commencing on 1 April 2013 and each subsequent Formula Year t until 31 March 2022 is derived in accordance with the following formula:

$$GHGA_t = GHGAC_t + ((GHGAT_t - GHGAC_t) \times 0.45)$$

where:

GHGAC_t means the greenhouse gas emissions audit costs (£m) incurred by the Licensee in respect of Formula Year t in respect of:

- (a) examination of the Greenhouse Gas Emissions Calculation Methodology (or any proposed modification to it) and provision of an appropriate statement by an Independent Examiner in accordance with paragraphs 8H.2(b) and 8H.3(b) of Special Condition 8H (Greenhouse Gas Emissions Calculation Methodology); and
- (b) examination of whether the mass calculated by the Licensee in respect of Formula Year t-1 been determined in accordance with the Greenhouse Gas Emissions Calculation Methodology and provision of an appropriate statement by an Independent Examiner in accordance with paragraph 8H.5(b) of Special Condition 8H (Greenhouse Gas Emissions Calculation Methodology).

GHGAT_t means the greenhouse gas emissions audit costs target (£m) in respect of Formula Year t and shall take the value as set out in table 8 below:

Table 8

<u>Formula Year</u>	<u>GHGAT_t</u>
<u>2013/14</u>	<u>0.02 x RPIF_t</u>
<u>2014/15</u>	<u>0.02 x RPIF_t</u>
<u>2015/16</u>	<u>0.04 x RPIF_t</u>
<u>2016/17</u>	<u>0.02 x RPIF_t</u>
<u>2017/18</u>	<u>0.02 x RPIF_t</u>
<u>2018/19</u>	<u>0.02 x RPIF_t</u>
<u>2019/20</u>	<u>0.02 x RPIF_t</u>

<u>2020/21</u>	<u>0.02 x RPIF_t</u>
<u>2021/22</u>	<u>0.02 x RPIF_t</u>

3D.40 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:

- (a) starting a compressor;
- (b) purging a compressor;
- (c) depressurising a compressor; or
- (d) the leakage of gas through a seal around the shaft of a compressor.

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PART G The Maintenance Incentive Revenue (MIR_t)

3D.41 For the purposes of the Principal Formula, MIR_t (£m) 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:

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$$MIR_t = MCIR_t + MDIR_t$$

In the above formula for MIR_t:

MCIR_t means, the Maintenance Change Incentive Revenue (£m) allowed to the Licensee in respect of Formula Year t as derived in accordance with paragraph 3D.42, of this condition.

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MDIR_t means the Maintenance Days Incentive Revenue (£m) allowed to the Licensee in respect of Formula Year t as derived in accordance with paragraph 3D.43, of this condition.

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(a) The Maintenance Change Incentive Revenue (MCIR_t)

3D.42 For the purposes of paragraph 3D.41, of this condition, MCIR_t (£m) is derived in accordance with the following formula:

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if MCICD_t < MCITD_t, then:

$$MCIR_t = \text{Min}[MCIPM_t \times 0.05, MCICAP_t];$$

otherwise:

$$MCIR_t = \text{Max}[MCIPM_t \times 0.05, MCIFLOOR_t]$$

In the above formula for MCIR_t:

MCIPM_t means the Maintenance Change Incentive Performance Measure in respect of Formula Year t as derived in accordance with the following formula:

$$MCIPM_t = MCITD_t - MCICD_t;$$

where:

MCITD_t means the Maintenance Change Incentive Target (Days) in respect of Formula Year t as derived in accordance with the following formula:

Moved down [6]: MCICD_t means the total number of actual Maintenance Change Days in Formula Year t.

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$$MCITD_t = 0.145 \times MW_t$$

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.

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$MCICD_t$ means the total number of actual Maintenance Change Days in Formula Year t.

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

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

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

3D.43 For the purpose of paragraph 3D.41 of this condition $MDIR_t$ (£m) is derived in accordance with the following formula:

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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.44 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 by conducting 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 .

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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_t means the Maintenance Plan Days In Line Inspection benchmark (days) as derived in accordance with the following formula:

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

where:

$$\sum_{\text{Each short ILI run}}^x$$

means the sum of x for each short ILI run undertaken by the [Licensee](#) in Formula Year t.

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$$\sum_{\text{Each Long ILI run}}^x$$

means the sum of x for each long ILI run undertaken by the [Licensee](#) in Formula Year t.

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Short ILI run

means work necessary to undertake an In Line Inspection of a section of the pipeline [system to which this licence relates](#) where the length of pipeline concerned is 10km or less and requiring one or more Maintenance Plan Days.

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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.

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Long ILI run

means work necessary to undertake an In Line Inspection of a section of the pipeline [system to which this licence relates](#) where the length of pipeline concerned is more than 10km and requiring one or more Maintenance Plan Days.

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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.

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MDVO_t means the annual benchmark number of Maintenance Plan Days for the work necessary to undertake [Valve Operations](#) and shall take the value of 44.65 (unless otherwise directed by the Authority

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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 but not limited to The Pipeline Safety Regulations 1996 (SI 1996 N° 825)).

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MDICAP_t means the Maintenance Plan Days Incentive cap, and in Formula Year t shall take the value of £1m.

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MDIFLOOR_t means the Maintenance Plan Days Incentive floor, and in Formula Year t shall take the value of -£1m.

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3D.45 For the purpose of Part G of this condition:

In Line Inspection

shall be a short ILI run or a long ILI run as such terms are defined in paragraph 3D.44.

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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:

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- (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.

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Maintenance Plan Day

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

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- (a) routine maintenance, including but not limited to 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

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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.

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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.46 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.

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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).

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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 commencing from Monday to Sunday inclusive.

NTS shrinkage, Storage Facility, NTS Exit Point, 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.

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

Introduction

3E.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 **Capacity** and Exit Capacity Constraint Management) and Special Condition 3D (NTS System Operator external incentives, costs and revenues).

Comment [p1]: Numbering changed from 8A.1, 8A.2 etc to 3E.1, 3E.2 etc to align with condition numbering

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Part A: Definition of Uncertain Events

3E.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);

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(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 incentive revenue** in respect of those incentives is significantly affected such as:

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i. circumstances in which the relevant **incentive 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 **incentive revenue** in respect of those incentives increasing or reducing by **£5m** or greater when compared to an assessment of the relevant **incentive revenue** if that event or series of events had not occurred or there is an expectation that the relevant **incentive revenue** will be increased or reduced by **£5m** or greater by the event or series of events in question;

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(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 Gas Balancing Incentive**, set out in Part D of Special Condition 3D (NTS System Operator external incentives, costs and revenues) where:

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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 .

3E.3 An Uncertain Event, as a result of which the Authority may review the provisions of Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management), may arise where:

- (a) the relevant incentive 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 incentive set out in that condition is acting in a detrimental way compared to its predecessor separate incentive schemes applicable to the Licensee prior to 31 March 2013.

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Part B: Process of determining an Uncertain Event

3E.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.

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3E.5 Where the Authority has received a notification under paragraph 3E.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.

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3E.6 Where the Authority determines in accordance with paragraph 3E.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 Capacity 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 Gas 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 3E.2(e) shall not take effect prior to 1 April 2017.

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Part C: Interpretation

3E.7 For the purposes of this condition, the relevant incentive revenue, relevant Cap and relevant Floor are set out in Table 1 below:

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Table 1

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 Capacity and Exit Capacity Constraint Management)	<u>relevant incentive revenue</u>	<u>relevant Cap</u>	<u>relevant Floor</u>	<div style="border: 1px solid red; padding: 2px;">Deleted: Relevant</div> <div style="border: 1px solid red; padding: 2px;">Deleted: Relevant</div> <div style="border: 1px solid red; padding: 2px;">Deleted: Relevant</div> <div style="border: 1px solid red; padding: 2px;">Deleted: allowed revenue</div>
NTS Shrinkage Incentive as set out in Part B	SIR _t	£7 <u>m</u>	-£7 <u>m</u>	<div style="border: 1px solid blue; padding: 2px;">Deleted: million</div> <div style="border: 1px solid blue; padding: 2px;">Deleted: million</div>
Operating Margins Incentive as set out in Part C	OMIR _t	Not applicable	Not applicable	
<u>Residual Gas Balancing Incentive</u> as set out in Part D	RBIR _t	£2 <u>m</u>	-£3.5 <u>m</u>	<div style="border: 1px solid red; padding: 2px;">Deleted: Residual Balancing Incentive</div>
Quality of Day Ahead Demand Forecasting Incentive as set out in Part E	QDAIR _t	£10 <u>m</u>	-£1.5 <u>m</u>	<div style="border: 1px solid blue; padding: 2px;">Deleted: million</div> <div style="border: 1px solid blue; padding: 2px;">Deleted: million</div> <div style="border: 1px solid blue; padding: 2px;">Deleted: million</div>
Quality of Two to Five Days Ahead Demand Forecasting Incentive as set out in Part E	QTFIR _t	£10 <u>m</u>	-£1 <u>m</u>	<div style="border: 1px solid blue; padding: 2px;">Deleted: million</div> <div style="border: 1px solid blue; padding: 2px;">Deleted: million</div>
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 <u>m</u>	-£0.5 <u>m</u>	<div style="border: 1px solid blue; padding: 2px;">Deleted: million</div> <div style="border: 1px solid blue; padding: 2px;">Deleted: million</div>
Maintenance Day Incentive as set out in Part G	MDIR _t	£1 <u>m</u>	-£1 <u>m</u>	<div style="border: 1px solid blue; padding: 2px;">Deleted: million</div> <div style="border: 1px solid blue; padding: 2px;">Deleted: million</div>
Constraint Management Incentive as set out in Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management)	CMIR _t	£20 <u>m in 2009/10 values</u>	-£60 <u>m in 2009/10 values</u>	<div style="border: 1px solid blue; padding: 2px;">Deleted: million</div> <div style="border: 1px solid blue; padding: 2px;">Deleted: million</div>

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 Principles 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 System Management Principles 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. Deleted: licensee
- 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. Deleted: 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 Deleted: licensee
(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. Deleted: licensee
- 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. Deleted: licensee

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. Deleted: licensee
- 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 DN Operators and allow them a period of not less than 28 days in which to make representations; Deleted: gas distribution network
(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. Deleted: o
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- 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. Deleted: licensee
- 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 Deleted: licensee

(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

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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”).

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8A.28 The Licensee, subject to the provisions of Part H below, must:

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- (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.

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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.

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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:

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- (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.

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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.

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.

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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.

Special Condition 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.

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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.

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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.

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

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- (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.

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Part B: Interpretation

8C.6 For the purposes of this condition:

Comment [p2]: Numbering changed 8C.1 to 8C.6

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.

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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.

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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.

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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_t 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.

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8D.5 The Scheme of Work may be amended from time to time subject to agreement by the [Licensee](#) and the Authority.

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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.

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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:

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(a) an approach, estimated costs (where the estimated non recoverable costs shall not exceed £500,000) and timetable;

(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

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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).

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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.

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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.

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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](#).

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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.

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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.

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Part B: Interpretation

8E.5 For the purposes of this condition:

UAG Projects

means the projects currently undertaken by the [Licensee](#) including:

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

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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.

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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; [NTS Shrinkage](#)

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.

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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:

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(a) the key assumptions and analysis used by the Licensee in its development of future energy scenarios;

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(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 NTS and the overall security of supply position; and

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(c) Operational Data which will aim to reduce market uncertainty, increase transparency and give equal access for stakeholders to the information that is available.

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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.

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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.

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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.

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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.

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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.

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Actual NTS Throughput shall have the meaning given to that term in Part H of Special Condition 3D (NTS System Operator external incentives, costs and revenues).

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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.

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Part A: Provision of information

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

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- (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.

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

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- (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).

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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.

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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.

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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").

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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.

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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.

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8G.9 The provisions of this Special Condition operate without prejudice to the obligations of the Licensee pursuant to the network code.

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Part B: Interpretation

8G.10 For the purposes of this condition:

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| Maintenance | includes: |
| | (a) maintenance, inspection, repair, replacement, reinstatement and recommissioning of the pipeline system to which this licence relates or any part or parts of it; |
| | (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 |
| | (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. |

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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).
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Maintenance Relevant Party	shall have the meaning given to that term in the network code.
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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 mass 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.

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Part A: Calculation Methodology

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

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(a) a Greenhouse Gas Emissions Calculation Methodology for calculating the mass of Natural Gas Vented which has been verified by an Independent Examiner, and in accordance with such greenhouse gas accounting and auditing principles as agreed by the Licensee and the Authority to represent best practice, by 31 July 2013; and

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(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 greenhouse gas accounting and auditing best practice.

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

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(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 greenhouse gas accounting and auditing best practice before 31 July in the Formula Year in which the modification is proposed to be effective.

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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.

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Part B: Calculation of Values

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

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(a) the mass (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

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(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 mass 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

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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.

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Part C: Interpretation

8H.6 For the purposes of this condition:

Greenhouse Gas Emissions Calculation Methodology	means the methodology required under paragraph <u>8H.2(a)</u> .
Independent Examiner	means a person or persons nominated by and independent of the <u>Licensee</u> with the skills and knowledge of <u>greenhouse gas accounting and audit best practice</u> so as to be qualified to undertake an examination of the methodology for calculating the <u>mass</u> 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 <u>Licensee</u> , 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).

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Maintenance Day shall have the meaning given to that term in the network code.