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Email: [NGGD.Separation@ofgem.gov.uk](mailto:NGGD.Separation@ofgem.gov.uk)

Date: 30 Sep 2016

Dear Colleagues

**National Grid's intended sale of its gas distribution networks:  
Decision on statutory consultations under section 8AA and section 23 of the Gas Act 1986**

This document and associated annexes sets out our<sup>1</sup> decision further to our statutory consultations issued on 8 July 2016 on:

- a) whether to grant consent to the transfer of National Grid Gas Plc's ('NGG') gas transporter licence in respect of its distribution network ('DN') ('the NGG(DN) gas transporter licence') to a new subsidiary of National Grid Plc, National Grid Gas Distribution Limited ('NGGD') subject to modifications to the same licence under section 8AA of the Gas Act 1986 (the 'Act'); and
- b) whether to make consequential modifications under section 23 of the Act to the gas transporter licence held by NGG in respect of the national transmission system ('NTS') ('the NGG(NTS) gas transporter licence').

Following consideration of responses to our statutory consultations, we have decided to:

- a. grant consent to the transfer of the NGG(DN) gas transporter licence subject to modifications under section 8AA(4) of the Act, to NGGD as set out in the attached Notice; and
- b. make consequential modifications under section 23(1) of the Act to the NGG (NTS) gas transporter licence as set out in the attached Notice.

The **modifications** to the NGG(DN) gas transporter licence and to the NGG(NTS) gas transporter licences are published in separate Notices which, along with this letter, constitute notice of the reasons for the decision to modify the respective licences under section 38A of the Act. The details of our decision are set out in Annex 1.

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<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

## **Annexes**

This letter contains the following annexes:

**Annex 1:** Decisions on statutory consultations on the proposed transfer of the NGG(DN) gas transporter licence from NGG to NGGD under section 8AA(1) of the Act; and proposed modifications to the NGG(DN) gas transporter licence and NGG(NTS) gas transporter licences, under sections 8AA(4) and 23(1) of the Act respectively.

**Annex 2:** Transfer and modification notice under section 8AA of the Act, in relation to the NGG(DN) gas transporter licence.

**Annex 3:** Modification notice under section 23(1) of the Act in relation to the NGG(NTS) gas transporter licence.

## **Next Steps**

The transfer of the of NGG(DN) gas transporter licence from NGG to NGGD (subject to the NGG(DN) gas transporter licence modification conditions) is expected to take place on and from the date nominated by NGG. NGG has notified us that the nominated date is 1 October 2016. The licence modifications to the NGG(DN) gas transporter licence will take effect from the date of the transfer of the licence and of the NGG distribution network assets<sup>2</sup>.

Provided the NGG(DN) gas transporter licence transfers on 1 October, modifications to the NGG(DN) gas transporter licence would take effect on and from 1 October 2016, which is when the associated distribution network assets would also transfer to NGGD<sup>3</sup>.

The licence modifications to the of NGG (NTS) gas transporter licence<sup>4</sup> will take effect on and from 26 November 2016, 56 days from the date of this decision to proceed with the licence modifications.

Any questions in reference to this document and/or the associated annexes should be directed to:

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<sup>2</sup> Gas distribution assets are defined in Appendix 1 of our consent direction issued 6 July 2016

<sup>3</sup> We have also separately published our decision that we consider NGG have met conditions precedent that they were required to meet, prior to transferring its assets to NGGD - <https://www.ofgem.gov.uk/publications-and-updates/national-grid-s-intended-sale-its-gas-distribution-networks-decision-conditions-precedent-and-approval-asset-transfer>.

<sup>4</sup> We have also separately published a direction which relates to the back stop meter provided of last resort (BMPOLR) obligation. The purpose of this direction is to activate the obligation in the NGG(NTS) licence, as the obligation is being removed in the DN licence as a result of the modifications being made as a result of this decision - <https://www.ofgem.gov.uk/publications-and-updates/modification-national-grid-gas-plc-s-national-transmission-system-gas-transporter-licence-activate-back-stop-meter-provider-last-resort-obligations>

Yours faithfully,



**Ian Rowson**

Associate Partner, RIIO Finance & Investor Relations, Networks Division  
Duly authorised on behalf of the Gas and Electricity Markets Authority

## Annex 1 – Reasons for our decisions on statutory licence consultations

### Background

On 10 November 2015, National Grid Plc (NG) announced the commencement of a process for the intended sale of a majority stake in its gas distribution network business. NG has indicated that the sale process is likely to be completed by early 2017. This sale process consists of two stages:

1. **hive across** – NGG would transfer its gas distribution assets and the NGG(DN) gas transporter licence to a new licensed subsidiary of NG, namely NGGD, and
2. **share sale** – NG then intends to sell a majority of its shares in NGGD.

We are required to make a decision on whether to grant consent to a proposed transfer of the NGG(DN) gas transporter licence under section 8AA(1) of the Act. The consent to the transfer can be granted subject to modifications to the NGG (DN) gas transporter licence (and subject to other conditions) which must be complied with prior to any transfer (section 8AA(4) of the Act).

We received a request from NGG on 23 June 2016 for our consent to transfer the NGG(DN) gas transporter licence to NGGD under section 8AA(1) of the Act. On 08 July we published two statutory consultations<sup>5</sup> to seek stakeholder views before deciding whether to:

- a) grant consent to the transfer of the NGG(DN) gas transporter licence to NGGD (NG's new subsidiary) subject to modifications to the same licence under section 8AA of the Act; and
- b) make consequential modifications under section 23 of the Act to the NGG(NTS) gas transporter licence held by NGG.

These statutory consultations followed an earlier consultation<sup>6</sup> which sought views on the regulatory issues arising from the potential transfer of gas distribution assets and the NGG(DN) gas transporter licence from NGG to NGGD, in anticipation of receiving such a request from NGG. This earlier consultation also included the potential changes to the licences and we received no comments on the proposed changes.<sup>7</sup>

### Overview of consultation responses and our views

We did not receive any responses to our statutory consultations under section 8AA and under section 23 of the Act, other than from NGG themselves, who were supportive of our position in our consultation document. Their response is available on our website<sup>8</sup>.

This response was in support of our minded to decision to consent to the transfer of the NGG(DN) gas transporter licence under section 8AA(1) of the Act (subject to modification conditions), as well as the proposal to modify the NGG (NTS) gas transporter licence, as set out in the statutory consultations.

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<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/national-grid-s-intended-sale-its-gas-distribution-networks-statutory-consultations-under-section-8aa-and-section-23-gas-act-1986>

<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/national-grid-sale-gas-distribution-network-business-consultation-regulatory-aspects>

<sup>7</sup> We received comments on our initial view in one area (compliance officer and legal separation) for which we had not included licence modifications in our May 2016 consultation. Following consideration of these responses, we included licence conditions modifications in our statutory consultations.

<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/national-grid-s-intended-sale-its-gas-distribution-networks-statutory-consultations-under-section-8aa-and-section-23-gas-act-1986>

## **Our decision**

Having carefully considered the response received to our statutory consultations, and the engagement in our earlier consultation process and with National Grid, we have decided to:

- (1) grant consent to the transfer of the NGG(DN) gas transporter licence to NGGD, subject to modifications, as set out in the Notice under section 8AA(1)
- (2) make the modifications under section 23(1) of the Act to the NGG (NTS) gas transporter licence as set out in the Notice under section 23(2).

Our decision to consent to the transfer of the NGG(DN) gas transporter licence under section 8AA(1) of the Act follows our “minded to” decision to grant consent to the transfer of the NGG(DN) gas transporter licence to NGGD.

The criteria we apply in deciding whether to grant consent to a proposed licence transfer are the same as we would apply if we were deciding to grant a new licence to the transferee (section 8AA(6) of the Act). In this circumstance, we have decided it would have been appropriate to grant a gas transporter licence to NGGD had NGGD applied for such a licence.

In summary, the modifications to the NGG(DN) gas transporter licence subject to which the consent to transfer is given under section 8AA(4) of the Act are as follows:

### Backstop meter provider of last resort (BMPOLR):

NGG has previously held the BMPOLR obligations as part of the NGG(DN) gas transporter licence. We decided, as a result of our initial consultation, that the BMPOLR obligation should remain with NGG. As such, we have already amended the NGG(NTS) gas transporter licence to include dormant BMPOLR obligations, with the intention to activate them should we grant consent to the requested transfer of the NGG(DN) gas transporter licence. As such, the modifications being made will remove the obligation from the NGG(DN) gas transporter licence being transferred to NGGD. The direction activating the obligation in the NGG (NTS) gas transporter licence has been issued alongside this decision<sup>9</sup>.

### Compliance officer and legal separation:

Following the 2005 gas distribution networks sale, the same legal entity (NGG) holds both the NGG(DN) gas transporter licence and the NGG(NTS) gas transporter licences. We decided then that it would not be appropriate to require legal separation of the distribution and transmission businesses, so we introduced licence conditions that intended to deliver the same benefits as legal separation.

Given legal separation will now occur as a result of hive across these licence conditions will cease to be in effect. However, as was consulted on, we have modified the conditions to ensure they still apply in circumstances where related parties are carrying out both distribution and transmission activities.

### References to National Grid Gas and the Competition Commission:

We have modified the licences to remove references to incorrect entities. These are references to NGG, which is no longer relevant in the NGG(DN) gas transporter licence following transfer; and the Competition Commission, which has been replaced by the Competition and Markets Authority.

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<sup>9</sup> <https://www.ofgem.gov.uk/publications-and-updates/modification-national-grid-gas-plc-s-national-transmission-system-gas-transporter-licence-activate-back-stop-meter-provider-last-resort-obligations>

The modifications to the NGG (NTS) gas transporter licence are as follows:

Compliance officer and legal separation:

As above, the NGG (NTS) gas transporter licence has been modified to ensure the conditions apply to related parties carrying out both transmission and distribution activities.

Calculation of pass through items:

Historically, NGG was responsible for the business rates levied in respect of both the transmission and distribution businesses; however, this will cease to be the case in the event of hive across. The NGG (NTS) gas transporter licence allowed NGG(NTS) to recover 39.4% of the overall business rate charge on NGG (i.e. both distribution and transmission activities) from its transmission revenues. We have removed reference to 39.4% of distribution business rates.

## ANNEX 2

### CONSENT TO THE TRANSFER OF A GAS TRANSPORTER LICENCE HELD BY NATIONAL GRID GAS PLC TO NATIONAL GRID GAS DISTRIBUTION LIMITED

#### SECTION 8AA GAS ACT 1986

#### Whereas

- A. **National Grid Gas Plc** (company registration number 02006000) (“the Transferor”) is the holder of a gas transporter licence (“the Licence”) granted or treated as granted under section 7(2) of the Gas Act 1986 (“the Act”), in respect of its distribution networks (“DNs”).
- B. Section 8AA of the Act provides that a gas transporter licence may be transferred by the licence holder –
- i. with the consent of the Gas and Electricity Markets Authority (“the Authority”); and
  - ii. subject to any term of the licence relating to its transfer.
- C. Paragraph 2 of Part 1 of the Licence provides that the licence is subject to transfer in accordance with the Act, the special conditions or the conditions.
- D. The Transferor applied to the Authority on 23 June 2016 for its consent to transfer the licence to National Grid Gas Distribution Limited (company registration number 10080864), (“the Transferee”) with effect from a date nominated by the Transferor which must be no earlier than 1 October 2016 (“the Nominated Date”). The Nominated Date is 1 October 2016.
- E. The Transferee has satisfied the Authority as to the criteria set out in section 8AA(6) of the Act.
- F. The Authority gave notice to the Health and Safety Executive under section 8AA(7)(a) of the Act on **8 July 2016** and no objection was received within the period of the notice.
- G. The Authority gave notice under section 8AA(9) of the Act of its intention to consent to the transfer of the licence on **8 July 2016** and no objection was received within the period of notice.
- H. Pursuant to section 8AA(4) of the Act, the consent to transfer the Licence is granted subject to the Licence being modified. Consequential amendments are also being made to the national transmission system gas transporter licence (‘the NTS Licence’). The

modifications to the Licence are detailed in Schedules A and B of this notice respectively.

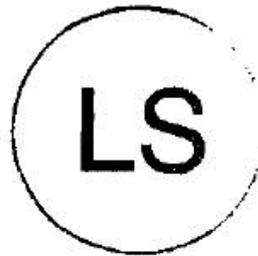
- I. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Schedule B. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Schedule B are to address minor issues that relate to certain paragraphs not being used. The minor alterations retain the original paragraph numbering, such that any references within the licence are not affected.

*Consent to transfer*

With effect from 30 September 2016 the Authority, pursuant to section 8AA(1) of the Act consents to the transfer of the whole of the Licence to the transferee which is proposed to take place on 1 October 2016.

The Authority is granting the consent to the transfer subject to the modification conditions to the DN licence set out in Schedule A and B of this notice.

**The Official Seal of the Authority  
hereunto affixed is authenticated  
by:–**



.....  
**Ian Rowson**

Associate Partner, RIIO Finance and Investor Relations, Networks Division  
Duly authorised for that purpose by the Authority

30 September 2016

**Schedule A – Modifications to the Standard Special Conditions in Part B of the Transferor’s gas transporter licence in respect of its DNs**

**Standard Special Condition D17. Provision and Return of Meters**

1. Subject to paragraph 2, the licensee shall comply with any reasonable request by a relevant supplier (or a gas supplier who is about to become such a relevant supplier) to provide through a meter asset manager and install at the premises of a domestic customer a gas meter, other than:

- (a) a gas meter capable of forming part of a smart metering system;
- (b) an advanced domestic meter; or
- (c) a prepayment advanced domestic meter

owned by the licensee and of a type specified by the supplier subject, however, to a meter of that type being reasonably available to the licensee and the supplier agreeing to pay its charges in respect of the meter.

1A. For the purposes of paragraph 1, “**meter asset manager**” means:

- (a) a person approved in accordance with the Supply Point Administration Agreement as possessing expertise satisfactorily to provide meter-related services or a class or description of persons so approved (the “**relevant expertise**”); or
- (b) an undertaking approved in accordance with the Supply Point Administrator Agreement as having staff possessing the relevant expertise

and for the purposes of this definition,

- (i) “**approved in accordance with the Supply Point Administration Agreement**” means approved in accordance with it for the purposes of this condition generally and “**staff**” includes officers, servants and agents; and
- (ii) “**meter-related services**” means the provision, installation, commissioning, inspection, repairing, alteration, repositioning, removal, renewal and maintenance of the whole or part of the Supply Meter Installation as defined in Section M, paragraph 1.2 of the Network Code of Transco plc, as at 12 July 2004, as defined within Amended Standard

Condition 9 (Network Code) of Transco plc's gas transporter licence on that date.

2. Paragraph 1 shall not apply
  - (a) Where:
    - (i) the premises in question are secondary sub-deduct premises; and
    - (ii) the owner or occupier of the premises has not agreed that the licensee may enter the premises for the purpose of removing the meter when the owner or occupier no longer requires the meter or the supply of gas; or
  - (b) where the licensee receives a reasonable request from a relevant supplier in accordance with paragraph 1, and the licensee submits that request within 14 days of receiving it to National Grid Gas plc to fulfil.
3. Where any gas meter owned by the licensee is disconnected by, or returned to, the licensee it shall promptly make an appropriate record of the details displayed on the register of the meter at the time of disconnection or return and of such other information in its possession as shall subsequently enable the identity of, and the date of disconnection or return of, the meter and the premises from which it was disconnected to be ascertained, and shall keep such a record for a period of not less than 2 years from the date of the disconnection or return, whichever is the later.
4. Where the licensee has reasonable cause to believe that any gas meter owned by it and disconnected by, or returned to, it is or may be relevant to -
  - (a) any investigation, proceedings or possible proceedings relating to the alleged theft of gas by any person or to an alleged offence under paragraph 10(1) of Schedule 2B to the Act; or
  - (b) any dispute as to the accuracy of the meter,the licensee shall use all reasonable endeavours to keep the meter in safe custody in the standard condition in which it was when disconnected or returned and with the register unaltered -
  - (i) during the period of 6 months beginning with the date on which the meter was disconnected or returned, for as long as the licensee continues to have reasonable cause to believe that the meter is or may be so relevant; and
  - (ii) thereafter, for as long as, to the licensee's knowledge, the meter is so relevant.

5. When the licensee receives, in connection with a proposed connection or disconnection of a meter, such a notice as is mentioned in sub-paragraph (1) of paragraph 12 of Schedule 2B to the Act or receives information in pursuance of sub-paragraph (3) of that paragraph, it shall promptly give the relevant shipper a copy thereof and furnish it with any further information relating to the meter which is requested by the relevant shipper and which the licensee either has or may readily obtain.
6. Where the record kept by the licensee under paragraph 8 of Standard Special Condition A50 (System Development Obligations) shows that a relevant supplier has supplied gas to particular premises for less than 2 years and that the supplier has not, since it began to supply gas to those premises, secured an inspection of the meter for the purposes of standard condition 12 (Matters relating to Gas Meters) of the standard conditions of the Gas Supply licence as incorporated in its licence, the licensee shall give to the relevant shipper, for transmission to the supplier (except where the recipient of the notice is itself the supplier), not less than 4 months' notice of the date by which the next such inspection should be carried out, being a date falling not more than 2 years after the date shown in the licensee's record as the date of the last such inspection or, if later, 5 months after the licensee is informed that the supplier has begun to supply gas to the premises.
7. Subject to any direction given by the Authority, paragraphs 1, 1A and 2 of this condition shall cease to have effect on the date specified in a direction made by the Secretary of State, in respect of the installation of a Smart Metering System, in accordance with his powers under condition 33.56 (The duty in relation to replacement meters and new connections) of the standard conditions of the gas supply licence.
8. Subject to any direction given by the Authority, paragraphs 3 to 6 and 9 of this condition shall cease to have effect on the date specified in condition 33.1 of the standard conditions of the gas supply licence (the date by which the duty to roll out a Smart Metering System must be fulfilled).
9. For the purposes of this condition and Standard Special Condition D18 (Provision of Metering and Meter Reading Services):

advanced domestic meter

has the same meaning as that provided in Condition 25B.16 (Definitions for the purposes of

interoperability of Advanced Domestic Meters) of the standard conditions of the gas supply licence

National Grid Gas plc

has the same meaning as that provided in Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions) of National Grid plc's gas transporter licence in respect of the distribution networks which it owns

prepayment advanced domestic meter

has the same meaning as that provided in Condition 25B.16 of the standard conditions of the gas supply licence

smart metering system

has the same meaning as that provided in Condition 1 (Definition for standard conditions) of the standard conditions of the gas supply licence

**Schedule B –Modification to the Special Conditions of the Transferor’s gas transporter licence in respect of its DNs**

**Special Condition 1B. Restriction of revenue in respect of the Distribution Network Transportation Activity**

**Appendix 1**

**Values for the  $PU_t$  term (2009/10 prices) by Distribution Network**

**(see paragraph 1B.6 of this condition)**

	<b><math>PU_t</math> value (£m)</b>							
<b>Formula Year</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
<b>NGGD EOE</b>	525.5	506.4	509.7	500.2	499.0	497.9	495.1	496.2
<b>NGGD Lon</b>	353.1	346.4	368.5	358.9	354.0	353.0	347.6	347.2
<b>NGGD NW</b>	381.7	364.7	367.6	361.4	363.1	361.6	361.3	360.6
<b>NGGD WM</b>	281.9	276.3	276.3	268.5	271.6	271.9	272.2	270.0
<b>Northern Gas Networks Ltd</b>	340.5	338.6	348.9	340.2	330.8	333.5	336.2	341.0
<b>Scotland Gas Networks plc</b>	256.5	249.4	243.3	256.0	259.5	261.6	257.1	261.7
<b>Southern Gas Networks plc</b>	612.8	592.1	603.0	604.8	608.6	611.5	605.3	609.1
<b>Wales &amp; West Utilities Ltd</b>	344.4	340.1	335.0	336.0	347.3	343.6	343.0	340.8

## Special Condition 1C. Distribution Network allowed pass-through items

### APPENDIX 1: Prescribed rates allowance (£m, 2009/10 prices)

(see paragraph 1C.6 of this condition relating to the RBE term)

Distribution Network	RBE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	50.647	50.647	50.647	50.647	50.647	50.647	50.647	50.647
NGGD Lon	23.203	23.203	23.203	23.203	23.203	23.203	23.203	23.203
NGGD NW	26.284	26.284	26.284	26.284	26.284	26.284	26.284	26.284
NGGD WM	21.083	21.083	21.083	21.083	21.083	21.083	21.083	21.083
Northern Gas Networks Ltd	30.064	30.064	30.064	30.064	30.064	30.064	30.064	30.064
Scotland Gas Networks plc	22.155	22.157	22.157	22.157	22.157	22.157	22.157	22.157
Southern Gas Networks plc	51.917	51.917	51.917	51.917	51.917	51.917	51.917	51.917
Wales & West Utilities Ltd	22.607	22.607	22.607	22.607	22.607	22.607	22.607	22.607

### APPENDIX 2: Licence fee allowance (£m, 2009/10 prices)

(see paragraph 1C.10 of this condition relating to the LFE term)

Distribution Network	LFE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EOE	1.907	1.985	1.999	1.999	1.999	1.999	1.999	1.999
NGGD Lon	1.097	1.142	1.150	1.150	1.150	1.150	1.150	1.150
NGGD NW	1.288	1.340	1.350	1.350	1.350	1.350	1.350	1.350
NGGD WM	0.940	0.978	0.985	0.985	0.985	0.985	0.985	0.985

Northern Gas Networks Ltd	1.100	1.100	1.100	1.100	1.100	1.100	1.100	1.100
Scotland Gas Networks plc	0.768	0.768	0.768	0.768	0.768	0.768	0.768	0.768
Southern Gas Networks plc	1.753	1.753	1.753	1.753	1.753	1.753	1.753	1.753
Wales & West Utilities Ltd	0.900	0.900	0.900	0.900	0.900	0.900	0.900	0.900

### APPENDIX 3: Distribution Network Pensions Deficit Charge allowance

(£m, 2009/10 prices)

(see paragraph 1C.13 of this condition relating to the PDE term)

Distribution Network	PDE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD-EOE	6.471	6.471	6.471	6.471	6.471	6.471	6.471	6.471
NGGD Lon	3.772	3.772	3.772	3.772	3.772	3.772	3.772	3.772
NGGD NW	4.444	4.444	4.444	4.444	4.444	4.444	4.444	4.444
NGGD WM	3.209	3.209	3.209	3.209	3.209	3.209	3.209	3.209
Northern Gas Networks Ltd	4.121	4.121	4.121	4.121	4.121	4.121	4.121	4.121
Scotland Gas Networks plc	2.846	2.846	2.846	2.846	2.846	2.846	2.846	2.846
Southern Gas Networks plc	6.592	6.592	6.592	6.592	6.592	6.592	6.592	6.592
Wales & West Utilities Ltd	3.947	3.947	3.947	3.947	3.947	3.947	3.947	3.947

## Special condition 1D. NTS Exit Capacity Cost Adjustment

### Appendix 1

(see paragraph 1D.8 of this condition)

#### NTS Exit Capacity cost allowance (AEx<sub>t</sub>) (2009/10 prices)

Distribution Network	NTS Exit Capacity cost allowance (AExt)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD EoE	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7
NGGD Lon	17.2	17.1	17.1	17.1	17.1	17.1	17.1	17.1
NGGD-NW	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3
NGGD WM	17.4	17.2	16.9	16.9	16.9	16.9	16.9	16.9
Northern Gas Networks Ltd	8.9	8.9	8.8	8.8	8.8	8.8	8.8	8.8
Scotland Gas Networks plc	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Southern Gas Networks plc	45.0	46.7	46.7	46.7	46.7	46.7	46.7	46.7
Wales & West Utilities (Ltd)	23.0	23.1	23.1	23.1	23.1	23.1	23.1	23.1

## Appendix 2

(see paragraph 1D.6 of this condition in relation to the  $NTSTVE_{v,t}$  term)

Distribution Network	Offtake	Exit zone	Distribution Network target volume of NTS Exit (Flat) Capacity (GWh/d)							
			$NTSTVE_{v,t}$ (GWh/d)							
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>NGGD EoE</b>	Bacton	EA1	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
	Brisley	EA1	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
	Peterborough Tee	EA1	24.8	24.8	24.7	24.7	24.7	24.7	24.7	24.7
	West Winch	EA1	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
	Great Wilbraham	EA2	32.1	32.1	32.0	32.0	32.0	32.0	32.0	32.0
	Roudham Heath	EA2	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1
	Yelverton	EA3	58.6	58.5	58.5	58.5	58.5	58.5	58.5	58.5
	Matching Green	EA4	86.2	86.1	86.0	86.0	86.0	86.0	86.0	86.0
	Royston	EA4	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
	Whitwell	EA4	130.7	130.6	130.4	130.4	130.4	130.4	130.4	130.4
	Thornton Curtis	EM1	107.0	106.9	106.7	106.7	106.7	106.7	106.7	106.7
	Walesby	EM1	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
	Blyborough	EM2	74.6	74.5	74.4	74.4	74.4	74.4	74.4	74.4
	Gosberton	EM2	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5
	Kirkstead	EM2	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	Silk Willoughby	EM2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	Sutton Bridge	EM2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
	Alrewas EM	EM3	116.7	116.6	116.4	116.4	116.4	116.4	116.4	116.4
	Blaby	EM3	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
	Drointon	EM3	85.6	85.5	85.4	85.4	85.4	85.4	85.4	85.4
	Tur Langton	EM3	73.9	73.8	73.7	73.7	73.7	73.7	73.7	73.7
	Caldecott	EM4	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
	Market Harborough	EM4	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
<b>NGGD Lon</b>	Winkfield NT	NT1	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
	Horndon	NT2	34.4	34.4	34.3	34.3	34.3	34.3	34.3	34.3
	Luxborough Lane	NT2	98.6	98.5	98.4	98.4	98.4	98.4	98.4	98.4
	Peters Green	NT3	136.0	135.9	135.7	135.7	135.7	135.7	135.7	135.7
	Peters Green South Mimms	NT3	185.6	185.5	185.2	185.2	185.2	185.2	185.2	185.2
<b>NGGD-NW</b>	Blackrod	NW1	147.8	147.7	147.6	147.6	147.6	147.6	147.6	147.6
	Lupton	NW1	20.0	19.9	19.9	19.9	19.9	19.9	19.9	19.9
	Samlesbury	NW1	107.4	107.3	107.2	107.2	107.2	107.2	107.2	107.2
	Audley	NW2	9.9	9.9	9.9	9.9	9.9	9.9	9.9	9.9

	Eccleston	NW2	17.0	16.9	16.9	16.9	16.9	16.9	16.9	16.9
	Holmes Chapel	NW2	21.2	21.2	21.1	21.1	21.1	21.1	21.1	21.1
	Malpas	NW2	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
	Mickle Trafford	NW2	23.3	23.3	23.3	23.3	23.3	23.3	23.3	23.3
	Partington	NW2	62.6	62.5	62.5	62.5	62.5	62.5	62.5	62.5
	Warburton	NW2	113.3	113.2	113.2	113.2	113.2	113.2	113.2	113.2
	Weston Point	NW2	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
<b>NGGD WM</b>	Aspley	WM1	63.6	62.2	61.0	61.0	61.0	61.0	61.0	61.0
	Audley WM	WM1	15.2	14.8	14.2	14.2	14.2	14.2	14.2	14.2
	Milwich	WM1	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.2
	Alrewas WM	WM2	65.3	62.7	60.8	60.8	60.8	60.8	60.8	60.8
	Austrey	WM2	61.2	61.2	60.9	60.9	60.9	60.9	60.9	60.9
	Shustoke	WM2	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7
	Leamington Spa	WM3	2.6	2.5	2.4	2.4	2.4	2.4	2.4	2.4
	Lower Quinton	WM3	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
	Ross on Wye WM	WM3	9.6	9.5	9.5	9.5	9.5	9.5	9.5	9.5
	Rugby	WM3	60.7	60.1	58.2	58.2	58.2	58.2	58.2	58.2
	Stratford-upon-Avon	WM3	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
<b>Northern Gas Networks Ltd</b>	Bishop Auckland	NO1	60.1	60.1	60.1	60.1	60.1	60.1	60.1	60.1
	Coldstream	NO1	2.3	2.6	2.8	2.8	2.8	2.8	2.8	2.8
	Corbridge	NO1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	Cowpen Bewley	NO1	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1
	Elton	NO1	59.6	60.2	60.2	60.2	60.2	60.2	60.2	60.2
	Guyzance	NO1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Humbleton	NO1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	Keld	NO2	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
	Little Burdon	NO1	16.6	18.7	20.9	20.9	20.9	20.9	20.9	20.9
	Melkinton	NO2	2.0	2.2	2.4	2.4	2.4	2.4	2.4	2.4
	Little Saltwick	NO1	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
	Big Saltwick	NO1	60.1	60.1	60.1	60.1	60.1	60.1	60.1	60.1
	Thrintoft	NO1	5.6	6.2	6.9	6.9	6.9	6.9	6.9	6.9
	Tow Law	NO2	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
	Wetheral	NO2	28.4	28.7	28.7	28.7	28.7	28.7	28.7	28.7
	Asselby	NE1	4.4	4.4	4.6	4.6	4.6	4.6	4.6	4.6
	Baldersby	NE1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	Burley Bank	NE1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
	Ganstead	NE2	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
	Pannal	NE1	139.8	139.8	139.8	139.8	139.8	139.8	139.8	139.8
	Paull	NE2	42.6	44.8	46.9	46.9	46.9	46.9	46.9	46.9
	Pickering	NE2	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
	Rawcliffe	NE1	4.6	4.6	5.0	5.0	5.0	5.0	5.0	5.0

	Towton	NE1	69.5	69.5	69.5	69.5	69.5	69.5	69.5	69.5
<b>Southern Gas Networks plc</b>	Braishfield A	SO2	85.1	85.1	85.1	85.1	85.1	85.1	85.1	85.1
	Braishfield B	SO2	54.2	57.1	57.1	57.1	57.1	57.1	57.1	57.1
	Hardwick	SO1	105.1	105.1	105.1	105.1	105.1	105.1	105.1	105.1
	Ipsden North	SO2	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1
	Ipsden South	SO2	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
	Mappowder	SO2	42.1	42.1	42.1	42.1	42.1	42.1	42.1	42.1
	Winkfield (SO)	SO2	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3
	Farningham	SE1	55.0	86.6	86.6	86.6	86.6	86.6	86.6	86.6
	Farningham B	SE1	117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9
	Shorne	SE1	47.4	48.3	48.3	48.3	48.3	48.3	48.3	48.3
	Tatsfield	SE1	187.4	192.8	192.8	192.8	192.8	192.8	192.8	192.8
	Winkfield (SE)	SE2	89.7	90.4	90.4	90.4	90.4	90.4	90.4	90.4
<b>Scotland Gas Networks plc</b>	Aberdeen	SC01	23.5	23.5	23.5	23.5	23.5	23.5	23.5	23.5
	Armadale	SC02	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
	Balgray	SC01	14.8	15.0	15.0	15.0	15.0	15.0	15.0	15.0
	Bathgate	SC04	20.4	21.1	21.1	21.1	21.1	21.1	21.1	21.1
	Broxburn	SC02	56.3	56.3	56.3	56.3	56.3	56.3	56.3	56.3
	Careston	SC01	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
	Drum	SC04	82.5	82.5	82.5	82.5	82.5	82.5	82.5	82.5
	Glenmavis	SC04	128.3	128.3	128.3	128.3	128.3	128.3	128.3	128.3
	Hume	SC02	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
	Kinknockie	SC01	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
	Langholm	SC04	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	Lockerbie	SC04	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8
	Moss-side	SC01	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
	Nether Howcleugh	SC04	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	Pitcairngreen	SC01	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
	Soutra	SC02	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
	St. Fergus	SC01	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	Stranraer	SC04	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
<b>Wales &amp; West Utilities (Ltd)</b>	Evesham	SW 1	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
	Ross on Wye	SW 1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
	Fiddington	SW 1	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4
	Littleton Drew	SW 2	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
	Cirencester	SW 2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
	Easton Grey	SW 2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2
	Seabank	SW 2	53.8	53.8	53.8	53.8	53.8	53.8	53.8	53.8
	Pucklechurch	SW 2	23.2	23.2	23.2	23.2	23.2	23.2	23.2	23.2
	Ilchester	SW 2	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1

Aylesbeare	SW 3	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6
Kenn	SW 3	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2
Coffinswell	SW 3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Choakford	SW 3	41.6	41.6	41.6	41.6	41.6	41.6	41.6	41.6
Gilwern	WA2	80.0	80.1	80.1	80.1	80.1	80.1	80.1	80.1
Dowlais	WA2	102.2	102.3	102.2	102.2	102.2	102.2	102.2	102.2
Dyffryn	WA2	38.7	38.7	38.7	38.7	38.7	38.7	38.7	38.7
Maelor	WA1	47.6	47.7	47.6	47.6	47.6	47.6	47.6	47.6

## Special Condition 1F. Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions

### Appendix 1: Distribution Network allowance in respect of Shrinkage costs for the period beginning on 1 April 2013 and ending on 31 March 2021

Distribution Network	Shrinkage allowance (£m 2009/10 prices)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NGGD EoE	11.8	11.7	11.6	11.4	11.2	11.0	10.9	10.7
NGGD Lon	6.1	6.0	5.9	5.8	5.7	5.6	5.4	5.3
NGGD NW	9.0	8.8	8.7	8.5	8.3	8.1	7.9	7.7
NGGD WM	7.0	6.9	6.9	6.7	6.6	6.5	6.4	6.3
Northern Gas Networks Ltd	10.0	9.7	9.5	9.1	9.0	8.9	8.7	8.5
Scotland Gas Networks plc	5.2	5.1	5.0	4.9	4.8	4.7	4.6	4.5
Southern Gas Networks plc	13.3	13.1	13.0	12.7	12.5	12.3	12.1	11.6
Wales & West Utilities Ltd	8.8	8.7	8.7	8.5	8.4	8.3	8.1	7.9

### Appendix 2: Distribution Network allowed Shrinkage volume (the SB term) for the period beginning on 1 April 2013 and ending on 31 March 2021

Distribution Network	Shrinkage volume (GWh)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NGGD EoE	569	558	547	535	524	513	502	491
NGGD Lon	317	310	302	295	288	281	274	267
NGGD NW	407	397	386	376	366	355	345	335
NGGD WM	335	328	321	315	308	301	295	288
Northern Gas Networks Ltd	459	449	438	428	418	407	397	386
Scotland Gas Networks plc	247	240	234	226	221	213	208	202
Southern Gas Networks plc	637	622	606	591	575	558	544	527
Wales & West Utilities Ltd	440	433	425	417	409	401	393	385

### Appendix 3: Distribution Network allowed Leakage volume (the LB term) for the period beginning on 1 April 2013 and ending on 31 March 2021

Distribution Network	Leakage volume (GWh)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NGGD EoE	535	525	514	503	492	481	470	459
NGGD Lon	299	292	285	278	271	264	257	251
NGGD NW	385	375	365	355	344	334	324	314

NGGD WM	320	314	308	301	295	288	282	275
Northern Gas Networks Ltd	434	424	413	403	392	382	371	361
Scotland Gas Networks plc	231	224	218	211	205	198	192	186
Southern Gas Networks plc	604	589	573	558	542	526	511	495
Wales & West Utilities Ltd	415	407	400	392	384	376	369	361

## Special Condition 1H. The Network Innovation Allowance

### APPENDIX 1: NIA Percentage

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

<b>Distribution Network</b>	<b>NIA Percentage</b>
NGGD NW	0.7
NGGD EoE	0.7
NGGD WM	0.7
NGGD LON	0.7
Wales & West Utilities Ltd	0.5
Northern Gas Networks Ltd	0.7
Scotland Gas Networks plc	0.5
Southern Gas Networks plc	0.5

## Special Condition 3B. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments

### APPENDIX 1: Totex Incentive Strength Rate and Totex Capitalisation Rates

(see Part A of this condition)

Distribution Network	Totex Incentive Strength Rate (%)	Non-Repex Capitalisation Rate (%)	Repex Capitalisation Rate (%)							
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<del>NGGD</del> EOE	63.04	26.63	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
<del>NGGD</del> Lon	63.04	23.47	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
<del>NGGD</del> NW	63.04	26.10	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
<del>NGGD</del> WM	63.04	24.95	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
Northern Gas Networks Ltd	63.98	34.98	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
Scotland Gas Networks plc	63.73	35.13	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
Southern Gas Networks plc	63.73	32.23	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00
Wales & West Utilities Ltd	63.17	35.78	50.00	57.14	64.29	71.43	78.57	85.71	92.86	100.00

## Special Condition 3D. The Innovation Roll-out Mechanism

### APPENDIX 1: Totex Incentive Strength Rate

Distribution Network	Totex Incentive Strength Rate (%)
NGGD EOE	63.04%
NGGD Lon	63.04%
NGGD NW	63.04%
NGGD WM	63.04%
Northern Gas Networks Ltd	63.98%
Scotland Gas Networks plc	63.73%
Southern Gas Networks plc	63.73%
Wales & West Utilities Ltd	63.17%

### APPENDIX 2: Materiality threshold amount

Distribution Network	£m
NGGD EOE	503.751
NGGD Lon	353.576
NGGD NW	365.242
NGGD WM	273.597
Northern Gas Networks Ltd	338.713
Scotland Gas Networks plc	255.631
Southern Gas Networks plc	605.906
Wales & West Utilities Ltd	341.301

## Special Condition 3E. Mains and Services Replacement Expenditure

### Appendix 1

Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: **NGGD EOE**

	Specific matrix costs (£ per metre)							
Diameter band n	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	174	174	174	174	174	174	174	174
2	340	340	340	340	340	340	340	340
3	569	569	569	569	569	569	569	569

Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: **NGGD LON**

	Specific matrix costs (£ per metre)							
Diameter band n	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	244	244	244	244	244	244	244	244
2	473	473	473	473	473	473	473	473
3	788	788	788	788	788	788	788	788

Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: **NGGD NW**

	Specific matrix costs (£ per metre)							
Diameter band n	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	161	161	161	161	161	161	161	161
2	312	312	312	312	312	312	312	312
3	520	520	520	520	520	520	520	520

Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: **NGGD WM**

	Specific matrix costs (£ per metre)							
Diameter band n	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	170	170	170	170	170	170	170	170
2	329	329	329	329	329	329	329	329
3	548	548	548	548	548	548	548	548

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: Northern Gas Networks Ltd**

	Specific matrix costs (£ per metre)							
Diameter band n	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	143	143	143	143	143	143	143	143
2	259	259	259	259	259	259	259	259
3	419	419	419	419	419	419	419	419

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: Scotland Gas Networks plc**

	Specific matrix costs (£ per metre)							
Diameter band n	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	202	202	202	202	202	202	202	202
2	374	374	374	374	374	374	374	374
3	608	608	608	608	608	608	608	608

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: Southern Gas Networks plc**

	Specific matrix costs (£ per metre)							
Diameter band n	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	204	204	204	204	204	204	204	204
2	389	389	389	389	389	389	389	389
3	636	636	636	636	636	636	636	636

**Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Action Threshold Tier 2 Mains: Distribution Network: Wales & West Utilities Ltd**

<b>Diameter band n</b>	<b>Specific matrix costs (£ per metre)</b>							
	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
1	164	164	164	164	164	164	164	164
2	306	306	306	306	306	306	306	306
3	501	501	501	501	501	501	501	501

**Special Condition 3F. Arrangements for the recovery of uncertain costs**

**APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE**

(see paragraph 3F.7 of this condition)

<b>Distribution Network</b>	<b>Totex Incentive Strength Rate (%)</b>
NGGD EOE	63.04%
NGGD Lon	63.04%
NGGD NW	63.04%
NGGD WM	63.04%
Northern Gas Networks Ltd	63.98%
Scotland Gas Networks plc	63.73%
Southern Gas Networks plc	63.73%
Wales & West Utilities Ltd	63.17%

**APPENDIX 2: MATERIALITY THRESHOLD AMOUNT**

(see paragraph 3F.7 of this condition)

<b>Distribution Network</b>	<b>£m</b>
NGGD EOE	503.751
NGGD Lon	353.576
NGGD NW	365.242
NGGD WM	273.597
Northern Gas Networks Ltd	338.713
Scotland Gas Networks plc	255.631
Southern Gas Networks plc	605.906
Wales & West Utilities Ltd	341.301

## **Special Condition 4A. Disapplication of Relevant Special Conditions and Relevant Metering Special Condition**

### **Introduction**

4A.1 The purpose of this condition is to enable the Licensee to make a formal request for the disapplication of the Relevant Special Conditions or Relevant Metering Special Condition (in whole or in part) and for such provisions to be disappplied following such a request in the circumstances specified below.

### **Part A: Conditions are to continue subject to disapplication**

4A.2 The Relevant Special Conditions or Relevant Metering Special Condition apply for as long as this licence continues in force, but will cease to have effect (in whole or in part, as the case may be) if the Licensee serves a Disapplication Request on the Authority in accordance with the provisions of Parts B and C below and:

- (a) the Authority agrees in writing to the Disapplication Request; or
- (b) the application of the Relevant Special Conditions or Relevant Metering Special Condition (in whole or in part) is terminated by a notice given by the Licensee in accordance with the provisions of Part D below.

### **Part B: Procedure for making a Disapplication Request**

4A.3 The Licensee may ask the Authority to consent to the disapplication of the Relevant Special Conditions or Relevant Metering Special Condition (in whole or in part) by serving a “Disapplication Request” on the Authority under this condition.

4A.4 A Disapplication Request must:

- (a) be in writing and addressed to the Authority;
- (b) specify to which of the Relevant Special Conditions or Relevant Metering Special Condition (or any part or parts of them) the request relates;
- (c) provide a full statement of the Licensee’s reasons for making the request;
- (d) contain such other information or analysis as the Licensee considers sufficient to enable the Authority to fully assess the Disapplication Request;

- (e) state the date that is proposed by the Licensee (which must not be earlier than the appropriate date that is mentioned in Part C below) on and after which the specified Relevant Special Conditions or Relevant Metering Special Condition (or part or parts of them) would cease to have effect (the “Disapplication Date”); and
- (f) specify the Distribution Network (or any part or parts of it) to which the request relates.

4A.5 A Disapplication Request served under this condition may be served in respect of a specified geographical area.

4A.6 If, within 28 days of receipt of a Disapplication Request, the Authority gives notice to the Licensee;

- (a) specifying further information or analysis that it reasonably considers is required in order to fully assess the Disapplication Request, and
- (b) requests the Licensee to provide that information or analysis,

the Disapplication Request shall be treated for the purposes of paragraph 4A.8 of this condition as not served on the Authority until that further information or analysis has been provided to the Authority and, if in consequence the Disapplication Date set out in the Disapplication Request no longer complies with paragraph 4A.8 below, the Disapplication Date shall be treated as being the earliest date that would comply with that paragraph.

4A.7 The Licensee may withdraw a Disapplication Request at any time.

#### **Part C: Date from which a disapplication may take effect**

4A.8 Except where the Authority otherwise consents, a disapplication following the service of a Disapplication Request may not have effect until a date that is no earlier than 18 months after service on the Authority of the Disapplication Request.

#### **Part D: Licensee’s right to terminate under a Disapplication Request**

4A.9 If the Licensee has served on the Authority a Disapplication Request that complies with the requirements of Parts B and C of this condition, it may subsequently give the Authority a notice (a “Disapplication Notice”) that terminates the application of some or all of the provisions of this licence specified in that request:

- (a) in the circumstance described in Part E; or

(b) in the circumstance described in Part F,

but in either case the Disapplication Notice may not take effect before the Disapplication Date or such earlier date to which the Authority may have consented under Part C.

**Part E: Termination without involvement of the Competition and Markets**

**AuthorityCommission**

4A.10 The circumstance referred to in paragraph 4A.9(a) above is that by the beginning of the period of six months that would end on the Disapplication Date, the Authority has not in response to the Disapplication Request published a decision under section 23(7) of the Act to modify:

- (a) the Relevant Special Conditions or Relevant Metering Special Condition (or any part or parts of them) to which the Disapplication Request applies; or
- (b) this condition so as to remove the Licensee's right to give the Authority a Disapplication Notice under paragraph 4A.9 in respect of the relevant Disapplication Request.

**Part F: Termination after involvement of the Competition and Markets**

**AuthorityCommission**

4A.11 The circumstance referred to in paragraph 4A.9(b) above is that the Authority has published a decision as described in paragraph 4A.10(a) or 4A.10(b) above and:

- (a) the Licensee has exercised its right to appeal to the Competition and Markets AuthorityCommission against that decision of the Authority as provided for by section 23B of the Act;
- (b) the Competition and Markets AuthorityCommission, acting under section 23F of the Act, has, in respect of the provision to which the Disapplication Notice relates: (i) quashed the Authority's decision, and (ii) neither remitted the matter back to the Authority under section 23E(2)(b) of the Act nor substituted its own decision for that of the Authority under section 23E (2)(c) of the Act; and
- (c) no more than 30 days have elapsed since the date on which the Competition and Markets AuthorityCommission quashed the decision in the circumstances described in paragraph 4A.11(b) above.

## Special Condition 4E. Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity

1. Consistently with the undertaking to be procured under paragraph 2 below, where the licensee:

(a) procures services from a NTS Operator, ~~the licence for which~~ has an ultimate controller which is also an ultimate controller of ~~is held in the same legal entity as~~ the licensee; and/or

(b) provides services to such NTS Operator,

~~notwithstanding the fact that these licences are held in the same legal entity,~~ the licensee shall enter into and comply with written arrangements for the provision and/or procurement of services between the licensee and such NTS Operator. Such arrangements are to be entered into on arm's-length commercial terms having the same effect as, and not being unduly different from, those which would apply ~~to~~

~~i. if any relevant gas transporter entered into a contract with the NTS Operator to provide and/or procure the same services (regardless of whether such contract exists or not); and~~

~~ii. if the licensee and such NTS Operator were in fact held in separate and unrelated legal entities.~~

2. The Licensee shall procure from each company or other person which is at any time an ultimate controller of the licensee and also an ultimate controller of the NTS Operator, a legally enforceable undertaking in favour of the licensee in the form specified by the Authority that the ultimate controller will instruct, direct and procure that the licensee shall:

(i) conduct its transportation business in a manner best calculated to secure that the businesses of NTS Operator, ~~the licences for which~~ has an ultimate controller which is also an ultimate controller of the licensee ~~are held by the holder of this licence in the same legal entity~~, does not obtain any unfair commercial advantage (including any such advantage from a preferential or discriminatory arrangement); and

(ii) enter into and comply with written arrangements, which if the businesses of such NTS Operator ~~were not held within the same legal entity~~ did not have an ultimate controller which is also an ultimate controller of the licensee, would be a contract on arm's-length commercial terms.

3. The licensee shall:

- (a) deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with its obligation to procure undertakings pursuant to paragraph 2;
- (b) Inform the Authority immediately in writing if the directors of the licensee become aware that any such undertaking has ceased to be legally enforceable or that its terms have been breached; and
- (c) Comply with any direction from the Authority to enforce any such undertaking;

and shall not, save with the consent in writing of the Authority, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or any of the subsidiaries of any such corporate ultimate controller (other than the subsidiaries of the licensee) at a time when -

- (i) an undertaking complying with paragraph 2 is not in place in relation to that ultimate controller; or
- (ii) there is an unremedied breach of such undertaking; or
- (iii) the licensee is in breach of the terms of any direction issued by the Authority under paragraph 3 of this condition.

4. In this condition, "relevant gas transporter" shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that it shall exclude the licensee and National Grid Gas plc ~~both in its capacity as the licensee and in its capacity as a NTS Operator.~~

## Special Condition 4F. Separation of NTS and Distribution Network Businesses

1. The licensee shall use its best endeavours to ensure compliance with the terms of the statement prepared in accordance with paragraph 2 of Special Condition 10B (Separation of NTS and Distribution Network Businesses) of the licence relating to the NTS Operator which has an ultimate controller which is also an ultimate controller of the licensee~~the holder of this licence holds, in the same legal entity, in respect of its operation of the NTS~~ as from time to time revised and approved by the Authority. In particular, the licensee shall ensure that no associated gas transporter business solicits any action from the NTS Operator (which has an ultimate controller which is also an ultimate controller of the licensee) which would constitute a breach of Standard Special Condition A6 (Conduct of the Transportation Business) and Standard Special Condition A35 (Prohibition of Cross-Subsidies). To the extent required, the statement referred to above shall also be construed appropriately in respect of the licensee's role as a DN Operator.

### 2. Not Used

~~2. The managerial and operational independence of the associated gas transporter business from any NTS Operator which is required to be demonstrated by the statement referred to in paragraph 1 above shall include the establishment of separate managerial boards for each of:~~

- ~~(a) the associated gas transporter businesses, taken as a whole, as defined in this condition; and~~
- ~~(b) the transportation business in respect of the NTS, and~~

### 3. Not Used

~~3. such managerial boards shall include at least two members, two of which shall be directors of National Grid Gas plc. These managerial boards shall be responsible for directing the affairs of, and taking all substantial decisions relating to, the business in respect of which they have been established. Each member of those managerial boards who is also a director of National Grid Gas plc shall fulfil their role in relation to the taking of such decisions as if he or she were a director of a legally incorporated company whose sole business is the business in respect of which the managerial board he or she is a member of has been established.~~

4. The licensee shall appoint a business separation compliance officer for the purposes of facilitating compliance with this condition on the same terms and with the same duties as are required in respect of the NTS as set out in ~~the holder of this licence is required to appoint a compliance officer in respect of~~ Special Condition 10C (Appointment and duties of the business separation compliance officer) of the licence relating to an NTS Operator which has an ultimate controller which is also an ultimate controller of the licensee~~any licensee held with respect to an NTS Operator.~~

5. The licensee shall establish a compliance committee (being a sub-committee of the board of directors of the licensee) for the purpose of overseeing and ensuring the performance of the duties and tasks of the compliance officer set out in paragraph 34 and the compliance of the licensee with its duties under paragraph 1. The compliance committee shall have the same duties in respect of this licence as the compliance committee established in respect of the NTS (as set out in Special Condition 10C of the licence relating to the NTS Operator which has an ultimate controller which is also an ultimate controller of the licensee~~which the~~

~~holder of this licence holds in respect of its operation of the NTS~~). Such compliance committee shall include among its members such person in the licensee's business as is responsible for the management of regulatory issues relating to the licensee.

6. In this condition "associated gas transporter business" means an affiliate, related undertaking, or business unit of the licensee which is a DN Operator.

## Special Condition 4J. Non Gas Fuel Poor Network Extension Scheme Incentive Mechanism

### ANNEX A: Scheme Connection Targets

<b>Licensee</b>	<b>Scheme Connection Targets from 1 April 2013 to 31 March 2021</b>
NGGD EOE	12,046
NGGD Lon	2,880
NGGD NW	13,330
NGGD WM	8,360
Northern Gas Networks Ltd	14,500
Scotland Gas Networks plc	17,130
Southern Gas Networks plc	10,367
Wales & West Utilities Ltd	12,590

## **Special Condition 5A. Provision of Meters**

~~5A.1. This condition applies only in relation to the provision of gas meters other than:~~

- ~~(a) a gas meter capable of forming part of a Smart Metering System;~~
- ~~(b) an Advanced Domestic Meter; or~~
- ~~(c) a Prepayment Advanced Domestic Meter.~~

~~5A.2. Except in so far as the Authority otherwise consents, the Licensee shall comply with any reasonable request by a Relevant Gas Transporter, pursuant to paragraph 2(b) of Standard Special Condition D17 (Provision and Return of Meters), to provide, through a Meter Asset Manager and install at the premises of a domestic customer, a gas meter owned by the Licensee and of a type specified by the Supplier subject, however, to a meter of that type being reasonably available to the Licensee and the Supplier agreeing to pay the Licensee's charges in respect of that meter.~~

## **Special Condition 5B. Provision of Terms**

~~5B.1—This condition applies only in relation to the provision of gas meters other than:~~

- ~~(a) — a gas meter capable of forming part of a Smart Metering System;~~
- ~~(b) — an Advanced Domestic Meter; or~~
- ~~(c) — a Prepayment Advanced Domestic Meter.~~

~~5B.2.—Where the Licensee receives a request from a Relevant Gas Transporter, pursuant to paragraph 2(b) of Standard Special Condition D17 (Provision and Return of Meters), the Licensee shall provide to the Supplier the terms provided for in paragraph 5B.4.~~

~~5B.3.—Where the Licensee is required to provide the services described in paragraph 5A.2, it shall be the duty of the Licensee to provide those services on reasonable terms~~

~~5B.4.—The terms referred to in paragraph 5B.2 are the Licensee's terms regarding:~~

- ~~(a) — the date by which the services required shall be provided (time being of the essence unless otherwise agreed between the parties);~~
- ~~(b) — the charges to be paid in respect of the services required, such charges (save to the extent set out in any direction under paragraph 5B.11 or unless manifestly inappropriate):~~
  - ~~(i) — to be presented in such a way as to be referable to the statements prepared in accordance with paragraph 5B.6 of this condition, or any revision thereof; and~~
  - ~~(ii) — to be set in conformity with the requirements of paragraphs 5B.5 to 5B.8 of this condition; and~~
- ~~(c) — such other detailed terms in respect of each of the services required as are or may be appropriate for the purpose of the agreement.~~

~~5B.5.—The Licensee shall provide to the Supplier such terms as are referred to in paragraph 5BA as soon as practicable and (save where the Authority consents to a longer period) in any event not more than 28 days after receipt by the Licensee from the Relevant Gas Transporter of any request containing all such information as may reasonably be required for the purpose of formulating the terms of the agreement.~~

~~5B.6.—The Licensee shall as soon as reasonably practicable prepare statements in a form approved by the Authority setting out:~~

- ~~(a) — the basis upon which charges for the provision of services of a type described in paragraph 5B.2 will be made; and~~

- ~~(b) — information relating to the other terms that will apply to the provision of each service,~~
- ~~in each case in such form and with such detail as shall be necessary to enable any Supplier to make a reasonable estimate of the charges to which he would become liable for the provision of such services and of the other terms, likely to have a material impact on the conduct of his business, upon which the service would be provided and (Without prejudice to the foregoing) including the information set out in paragraph 5B.7.~~
- ~~5B.7. — The statements referred to in paragraph 5B.6 shall include:~~
- ~~(a) — a schedule of charges for such services; and~~
- ~~(b) — an explanation of the methods by which and the principles on which such charges will be calculated.~~
- ~~5B.8. — The Licensee may periodically review the information set out in and, with the approval of the Authority, alter the form of the statements prepared In accordance with paragraph 5B.6 and shall, at least once in every year that this licence is in force, make any necessary revisions to such statements in order that the information set out in the statements shall continue to be accurate in all material respects.~~
- ~~5B.9. — The Licensee shall send a copy of the statements prepared in accordance with paragraph 5B.6, and of each revision of such statements in accordance with paragraph 5B.8, to the Authority.~~
- ~~5B.10. — The Licensee shall give or send a copy of tile statements prepared in accordance with paragraph 5B.6, or (as the case may be) of the latest revision of such statements In accordance with paragraph 5B.8, to any Supplier following a request from a Relevant Gas Transporter, pursuant to paragraph 2(b) of Standard Special Condition D17 (Provision and Return of Meters), who requests a copy of such statement or statements.~~
- ~~5B.11. — The Licensee may make a charge for any statement given or sent pursuant to paragraph 5B.10 of an amount which shall not exceed the amount specified in directions Issued by the Authority for the purposes of Standard Special Condition D18 (Provision of Metering and Meter Reading Services) based on the Authority's estimate of the Licensee's reasonable costs of providing such a statement.~~
- ~~5B.12. — The Authority, having regard, in particular, to any representations made to it by the licensee, and other persons may issue a direction relieving the Licensee of its obligations under this condition to such extent and subject to such terms and conditions as it may specify in that direction.~~
- ~~5B.13. — Subject to any direction given by the Authority, the provisions of Chapter 5 of Part E of this licence shall cease to have effect on the date specified In a direction made by the~~

Secretary of State, in respect of the installation of a Smart Metering System, in accordance with his powers in Condition 33.5 (The duty in relation to replacement meters and new connections) of the standard conditions of the gas supply licence.

5B.14. For the purposes of Chapter 5:

~~Advanced Domestic Meter~~ has the same meaning as that provided in Condition 25B.16 (Definitions for the purposes of interoperability of advanced domestic meters) of the standard conditions of the gas supply licence

~~Meter Asset Manager~~ has the same meaning as that provided in paragraph 1A of Standard Special Condition D 17 (Provision and Return of Meters).

~~Prepayment Advanced Domestic Meter~~ has the same meaning as that provided in Condition 25B.16 of the standard conditions of the gas supply licence

~~Relevant Gas Transporter~~ has the same meaning as that provided in paragraph 1 of Standard Special Condition A3 (Definitions and Interpretation).

~~Smart Metering System~~ has the same meaning as that provided in Condition 1 (Definition for standard conditions) of the standard conditions of the gas supply licence

~~Supplier~~ references to Supplier in this Chapter are a reference to the Relevant Supplier (as defined in Standard Special Condition A3 (Definitions and Interpretation) who has made a request, pursuant to paragraph 1 of Standard Special Condition D17, and which forms the basis of a request from a

~~Relevant Gas Transporter to the Licensee,  
pursuant to paragraph 2(b) of Standard  
Special Condition D 17.~~

## Annex 3

### To: National Grid Gas Plc

Company registration number 02006000

### Gas Act 1986 Section 23(1)(a)

#### Modification of the special conditions of the National Transmission System gas transporter licence held by National Grid Gas Plc

1. National Grid Gas Plc ('NGG') is the holder of a transmission gas transporter licence ('the Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. Under section 23(2) of the Act the Gas and Electricity Markets Authority ('the Authority')<sup>10</sup> gave notice on 8 July 2016 ('the Notice') that we propose to modify the following Special Conditions 2B, 10A, 10B and 10C of the Licence:
  - 2B (Calculation of allowed pass-through items),
  - 10A (Undertaking from ultimate controller concerning non-discrimination between the NTS Transportation Owner Activity and the Distribution Network Transportation Activity),
  - 10B (Separation of NTS and Distribution Network Businesses), and
  - 10C (Appointment and duties of the business separation compliance officer)

We stated that any representations to the modification proposal must be made on or before 9 September 2016.

3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Act, and we have not received a direction that the proposed change should not be made.
4. We received 1 response to the Notice, which we carefully considered. We have placed this response on our website<sup>11</sup>.
5. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Schedule 1. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Schedule 1 are address minor issues that relate to certain paragraphs not being used. The minor alterations retain the original paragraph numbering, such that any references within the licence are not affected.
6. We are making these licence changes because NGG is seeking to transfer its gas distribution assets and gas distribution gas transporter licence to a new legal entity ahead of selling a majority stake in its gas distribution business.
7. The effect of the modifications is twofold:
  - modifying Special Condition 2B will ensure that it only applies to business rates applicable to the transmission business, and
  - modifying Special Conditions 10A, 10B and 10C to ensure the compliance officer and legal separation provisions of the licence apply to activities not solely within the same legal entity, but also between related entities.
8. Where an application for permission to appeal our decision is made to the

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<sup>10</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

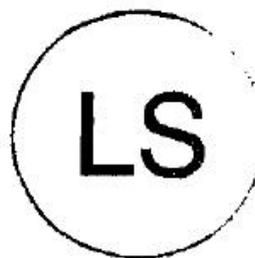
<sup>11</sup> <https://www.ofgem.gov.uk/publications-and-updates/national-grid-sale-gas-distribution-network-business-consultation-regulatory-aspects>

Competition and Markets Authority ('CMA') under section 23B of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules<sup>12</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The relevant licence holder is National Grid Gas Plc. Section 23(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section 23(1)(a) of the Act, we hereby modify the Special Conditions of the Licence of NGG in the manner specified in attached Schedule 1. This decision will take effect on and from 26 November 2016.

This document is notice of the reasons for the decision to modify the Licence as required by section 38A of the Act.

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



.....  
**Ian Rowson**

Associate Partner, RIIO Finance and Investor Relations, Networks Division

Duly authorised for that purpose by the Authority

30 September 2016

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<sup>12</sup> The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.

## Schedule 1 – Licence drafting

### Schedule A

#### Deleted text is shown as strike through and new text as double underscore

### Special Condition 2B. Calculation of allowed pass-through items

#### Introduction

- 2B.1 The purpose of this condition is to provide for the calculation of the term  $PT_t$  (the allowed pass-through term) for the purposes of Part C of Special Condition 2A (Restriction of NTS Transportation Owner Revenue).
- 2B.2 The effect of the application of the  $PT_t$  term in Part C of Special Condition 2A is to ensure that the level of the Licensee’s Maximum NTS Transportation Owner Revenue derived in accordance with that condition reflects certain costs that can be passed through to users.

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

- 2B.3 For the purposes of Part C of Special Condition 2A, the  $PT_t$  term is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$PT_t = RB_t + LF_t + OPTC_t + ISA_t$$

- 2B.4 In the Principal Formula:

$RB_t$  means the business rates adjustment in Formula Year t as derived in accordance with the formula set out in Part B of this condition.

$LF_t$  means the licence fee adjustment in Formula Year t as derived in accordance with the formula set out in Part C of this condition.

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

$ISA_t$  means the Independent Systems adjustment in Formula Year t, in respect of the recovery of costs incurred pursuant to arrangements associated with the conveyance of gas to Independent Systems, as

derived in accordance with Part E of this condition.

**Part B: Calculation of the business rates adjustment term (RB<sub>t</sub>)**

2B.5 For the purposes of the Principal Formula, subject to paragraph 2B.7 and 2B.8, RB<sub>t</sub> is derived in accordance with the following formula:

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

2B.6 In the above formula for RB<sub>t</sub>:

RBA<sub>t-2</sub> means the amount NTS prescribed rates, in Formula Year t-2, of the charge incurred in respect and has the value of 39.4 per cent, or such other value as agreed in writing by the Authority, of the prescribed rates (or any equivalent tax or duty replacing them) levied on the Licensee in Formula Year t-2 in relation to its NTS Transportation Owner Activity ~~and Distribution Network Transportation Activity.~~

RBE<sub>t-2</sub> means the ~~NTS prescribed rates~~ amount of the allowance in respect of the prescribed rates (or any equivalent tax or duty replacing them) in Formula Year t-2 in relation to the NTS Transportation Owner Activity, and is represented by the amount set out in Appendix 1 of this condition.

RPIA<sub>t-2</sub> has the value given to it by Part D of Special Condition 2A.

PVF<sub>t</sub> has the value given to it by Part D of Special Condition 2A.

RPIF<sub>t</sub> has the value given to it by Part D of Special Condition 2A.

2B.7 In the Formula Years 2013/14 and 2014/15 RB<sub>t</sub> will have the value zero.

2B.8 In respect of any Formula Year t-2 in which the revaluation by The Valuation Office Agency (in England and Wales) or the Scottish Assessors Association (in Scotland) of the assets used by the Licensee in respect of its NTS Transportation Owner Activity for the purposes of setting prescribed rates came into effect, RB<sub>t</sub> will have the value of zero in Formula Year t and in each subsequent Formula Year, unless the Authority has satisfied itself that the Licensee has used reasonable endeavours to minimise the amount of the prescribed rates. If the Authority has so satisfied itself, it will direct that the formula set out in this Part B is to apply for the purposes of calculating the RB<sub>t</sub> term in the specific Formula Year and in each of the subsequent Formula Years.

### Part C: Calculation of the licence fee adjustment term (LF<sub>t</sub>)

2B.9 For the purposes of the Principal Formula, subject to paragraph 2B.11 of this condition, LF<sub>t</sub> is derived in accordance with the following formula:

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

2B.10 In the above formula for LF<sub>t</sub>:

LFA<sub>t-2</sub> means the amount of the payments, in Formula Year t-2, made by the Licensee in respect of the NTS Transportation Owner Activity under Standard Condition 3 (Payments by the Licensee to the Authority).

LFE<sub>t-2</sub> means the amount of the licence fee allowance in Formula Year t-2, and is represented by the amount set out in Appendix 2 of this condition.

RPIA<sub>t-2</sub> has the value given to it by Part D of Special Condition 2A.

PVF<sub>t</sub> has the value given to it by Part D of Special Condition 2A.

RPIF<sub>t</sub> has the value given to it by Part D of Special Condition 2A.

2B.11 In the Formula Years 2013/14 and 2014/15 LF<sub>t</sub> will have the value zero.

### Part D: Calculation of the policing cost adjustment term (OPTC<sub>t</sub>)

2B.12 For the purposes of the Principal Formula, subject to paragraph 2B.14 of this condition, OPTC<sub>t</sub> is derived in accordance with the following formula:

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

2B.13 In the above formula for OPTC<sub>t</sub>:

OPTA<sub>t-2</sub> means the amount of the payments, in Formula Year t-2, made by the Licensee to the Secretary of State in respect of provision of policing services.

OPTE<sub>t-2</sub> means the amount of the policing cost allowance in Formula Year t-2, and has the value of £13.5 million.

RPIA<sub>t-2</sub> has the value given to it by Part D of Special Condition 2A.

PVF<sub>t</sub> has the value given to it by Part D of Special Condition 2A.

RPIF<sub>t</sub> has the value given to it by Part D of Special Condition 2A.

2B.14 In the Formula Years 2013/14 and 2014/15 OPTC<sub>t</sub> will have the value zero.

**Part E: Calculation of the Independent Systems adjustment term (ISA<sub>t</sub>)**

2B.15 For the purposes of the Principal Formula, ISA<sub>t</sub> is derived in accordance with the following formula:

$$ISA_t = IS_t - (ISE_t \times RPIF_t)$$

2B.16 In the above formula for ISA<sub>t</sub>:

IS<sub>t</sub> means the amount paid in Formula Year t, in respect of the recovery of costs incurred pursuant to arrangements associated with the conveyance of gas to Independent Systems and as derived in accordance with Special Condition 11F (Gas Conveyed to Independent Systems).

ISE<sub>t</sub> means the Independent Systems allowance in Formula Year t, and is represented by the amount set out in Appendix 3 of this condition.

RPIF<sub>t</sub> has the value given to it by Part D of Special Condition 2A.

## Special Condition 10A. Undertaking from ultimate controller concerning non-discrimination between the NTS Transportation Owner Activity and the Distribution Network Transportation Activity.

1. Consistently with the undertaking to be procured under paragraph 2 below, where the licensee:
  - (a) procures services from a DN operator, ~~the licensee for which~~ has an ultimate controller which is also an ultimate controller of ~~is held in the same legal entity as~~ the licensee; and/or

- (b) provides services to such DN operator,

~~notwithstanding the fact that these licences are held in the same legal entity,~~ the licensee shall enter into and comply with written arrangements for the provision and/or procurement of services between the licensee and such DN operator. Such arrangements are to be entered into on arm's-length commercial terms having the same effect as, and not being unduly different from, those which would apply ~~;~~

~~a. —if the licensee entered into a contract with a relevant gas transporter to provide and/or procure the same services (regardless of whether such contract exists or not); and~~  
~~b. if the licensee and such DN operator were in fact held in separate and unrelated legal entities.~~

2. The licensee shall procure from each company or other person which is at any time an ultimate controller of the licensee and also an ultimate controller of a DN Operator, a legally enforceable undertaking in favour of the licensee in the form specified by the Authority that the ultimate controller will instruct, direct and procure that the licensee shall:

- (a) conduct its transportation business in a manner best calculated to secure that the businesses of DN operators, ~~the licences for which~~ have an ultimate controller which is also an ultimate controller of the licensee ~~are held by the holder of this licence in the same legal entity~~, do not obtain any unfair commercial advantage (including any such advantage from a preferential or discriminatory arrangement); and

(b) enter into and comply with written arrangements, which if the businesses of such DN operators ~~did not have an ultimate controller which is also an ultimate controller of the licensee were not held within the same legal entity~~, would be a contract on arm's-length commercial terms.

3. The licensee shall:

(a) deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with its obligation to procure undertakings pursuant to paragraph 2;

(b) inform the Authority immediately in writing if the directors of the licensee become aware that any such undertaking has ceased to be legally enforceable or that its terms have been breached; and

(c) comply with any direction from the Authority to enforce any such undertaking;

and shall not, save with the consent in writing of the Authority, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or any of the subsidiaries of any such corporate ultimate controller (other than the subsidiaries of the licensee) at a time when -

(i) an undertaking complying with paragraph 2 is not in place in relation to that ultimate controller; or

(ii) there is an unremedied breach of such undertaking; or

(iii) the licensee is in breach of the terms of any direction issued by the Authority under paragraph 3 of this condition.

4. In this condition, "relevant gas transporter" shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that it shall exclude ~~Transeo~~ ~~ple both in its capacity as~~ the licensee and ~~in its capacity as~~ a DN operator which has an ultimate controller which is also an ultimate controller of the licensee.

## Special Condition 10B. Separation of NTS and Distribution Network Businesses

1. The licensee, in carrying out its gas transportation business in respect of the NTS, shall forthwith put in place and at all times maintain such managerial and operational systems which are necessary to ensure that the licensee complies with the obligations contained in Standard Special Condition A6 (Conduct of the Transportation Business) and Standard Special Condition A35 (Prohibition of Cross-Subsidies).
2. Unless otherwise directed by the Authority, the licensee shall by no later than 1 May 2005 have in place a statement (“**the statement**”), approved by the Authority, describing the practices, procedures and systems which the licensee has adopted (or intends to adopt) to secure compliance with paragraph 1.
3. Where the Authority does not indicate otherwise within 60 days of receipt of the statement, the statement shall be deemed to be approved by the Authority.
4. The statement shall in particular (but without prejudice to the generality of paragraph 1) set out how the licensee shall:
  - (a) maintain appropriate managerial and operational independence of the transportation business in respect of the NTS from any associated gas transporter business;
  - (b) secure that no breach of the requirements of paragraph 1 shall occur as a result of any arrangements for access by any associated gas transporter business or by any person engaged in, or in respect of, the associated gas transporter business with respect to:
    - (i) premises or parts of premises occupied by persons engaged in, or engaged in respect of, the management or operation of the transportation business in respect of the NTS;
    - (ii) systems for the recording, processing or storage of data to which persons engaged in, or engaged in respect of, the management or operation of the transportation business in respect of the NTS have access;
    - (iii) equipment, facilities or property employed for the management or operation of the transportation business in respect of the NTS; or

- (iv) the services of persons who are (whether or not as their principal occupation) engaged in, or in respect of, the management or operation of the transportation business in respect of the NTS; and
- (c) manage the transfer of employees from the transportation business in respect of the NTS to any associated gas transporter business.

**5. Not used**

~~5. The managerial and operational independence referred to in paragraph 4(a) above shall include the establishment of separate managerial boards for each of:~~

~~(a) the transportation business in respect of the NTS; and~~

~~(b) the associated gas transporter businesses, taken as a whole, as defined in this condition.~~

~~Such managerial boards shall be bodies consisting of at least two members, two of whom shall be directors of Transco plc. These managerial boards shall be responsible for directing the affairs and taking all substantial decisions relating to the business in respect of which they have been established. Each member of such managerial boards who is also a director of Transco plc shall fulfil their role in relation to the taking of such decisions as if he or she were a director of a legally incorporated company whose sole business is the business in respect of which the managerial board he or she is a member of has been established.~~

- 6. The licensee shall revise the statement prepared in accordance with paragraph 2 when circumstances change so that the statement prepared in accordance with paragraph 2 no longer secures compliance with paragraph 1. Such revision of the statement shall only become effective once the Authority has approved the revised statement in accordance with paragraphs 2 or 3.
- 7. The licensee shall use its best endeavours to ensure compliance with the terms of the statement as from time to time revised and approved by the Authority.
- 8. The licensee shall publish a copy of the approved statement prepared in accordance with paragraph 2 (or the latest approved revision) on its company website within five working days of its approval by the Authority.

9. In this condition “**associated gas transporter business**” means ~~an affiliate, related undertaking, or business unit of the licensee which is a~~ DN operator which has an ultimate controller which is also an ultimate controller of the licensee.

## Special Condition 10C. Appointment and duties of the business separation compliance officer

1. The licensee shall ensure, following consultation with the Authority that a competent person (who shall be known as the “business separation compliance officer”) shall be appointed for the purpose of facilitating compliance by the licensee with Standard Special Condition A6 (Conduct of Transportation Business), Special Condition 10B (Separation of NTS and Distribution Network Businesses), Special Condition 10A (Undertaking from ultimate controller concerning non-discrimination between the NTS transportation activity and the Distribution Network Transportation Activity) and Standard Special Condition A35 (Prohibition of Cross Subsidies) (together, the “**relevant duties**”). The business separation compliance officer may be the same person as is appointed as compliance officer under Standard Special Condition A34 (Appointment of Compliance Officer).
2. The licensee shall at all times ensure that the business separation compliance officer is engaged for the performance of such duties and tasks as are appropriate for the purpose specified in paragraph 1, which duties and tasks shall include those set out at paragraph 6.
3. The licensee shall establish a compliance committee (being a sub-committee of the board of directors of the licensee) for the purpose of overseeing and ensuring the performance of the duties and tasks of the business separation compliance officer set out in paragraph 2 and the compliance of the licensee with its relevant duties. Such compliance committee shall report to the audit committee of the ultimate controller and shall include among its members such person in the licensee’s business as is responsible for the management of regulatory issues relating to the licensee.
4. The licensee shall procure that the business separation compliance officer:
  - (a) is provided with such staff, premises, equipment, facilities and other resources; and
  - (b) has such access to the licensee’s premises, systems, information and documentationas, in each case, he might reasonably expect to require for the fulfilment of the duties and tasks assigned to him.
5. The licensee shall make available to the business separation compliance officer a copy of any complaint or representation received by it from any person in respect of a matter arising under or by virtue of the relevant duties.
6. The duties and tasks assigned to the compliance officer shall include:
  - (a) providing advice and information to the licensee (including individual directors of the licensee) and the compliance committee established under paragraph 3 of this condition for the purpose of ensuring the licensee’s compliance with the relevant duties;
  - (b) (monitoring the effectiveness of the practices, procedures and systems adopted by the licensee in accordance with the statement referred to at paragraph 2 of Special Condition 10B (Separation of NTS and Distribution Network Businesses);
  - (c) advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to admit the required co-operation;

- (d) investigating any complaint or representation made available to him in accordance with paragraph 5;
- (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;
- (f) providing relevant advice and information to the licensee (including individual directors of the licensee) and the compliance committee established under paragraph 3 of this condition, for the purpose of ensuring its implementation of;
  - (i) the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 2 of Special Condition 10B (Separation of NTS and Distribution Network Businesses); and
  - (ii) any remedial action recommended in accordance with sub-paragraph (e);

(g) Not used

~~(g) reporting to the compliance committee any instances which come to his attention, relating to a member of either of the management boards established under paragraph 5 of Special Condition 10B (Separation of NTS and Distribution Network Businesses), taking into account the interests of a business other than that in respect of which the managerial board of which he is a member of has been established. All such reports shall be copied to the members of the audit committee of the ultimate controller; and~~

(h) reporting annually to the compliance committee established under paragraph 3 of this condition, in respect of each year after this condition comes into force, as to his activities during the period covered by the report, including the fulfilment of the other duties and tasks assigned to him by the licensee.

7. As soon as is reasonably practicable following each annual report of the business separation compliance officer, the licensee shall produce a report:

~~(b)~~(a) as to its compliance during the relevant year with the relevant duties; and

~~(e)~~(b) as to its implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 2 of Special Condition 10B (Separation of NTS and Distribution Network Businesses).

8. The report produced in accordance with paragraph 7 shall in particular:

- (a) detail the activities of the business separation compliance officer during the relevant year;
- (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the statement at paragraph 2 of Special Condition 10B (Separation of NTS and Distribution Network Businesses); and
- (c) set out the details of any investigations conducted by the business separation compliance officer, including:
  - (i) the number, type and source of the complaints or representations on which such were based;
  - (ii) the outcome of such investigations; and
  - (iii) any remedial action taken by the licensee following such investigations.

9. The licensee shall, as soon as reasonably practicable, submit to the Authority a copy of the report produced in accordance with paragraph 7 of this condition, and shall publish the report on its website.