

**National Grid Gas Plc (NTS)**  
**Gas Transporter Licence**  
**Special Conditions**

# **Chapter 1: Definitions**

## Special Condition 1A. Definitions

### Introduction

- 1A.1 This condition sets out most of the defined words and expressions (most of which begin with capital letters) that are used in the Special Conditions, and gives their definitions next to them.
- 1A.2 But:
- (a) Some words and expressions which are only used in a particular Special Condition are defined in that condition; and
  - (b) Some words and expressions used in the Special Conditions are defined in Standard Special Condition A3 (Definitions and Interpretation).
- 1A.3 Where a word or expression is defined both in this condition and in Standard Special Condition A3 (Definitions and Interpretation), the definition in this condition shall prevail.

### Definitions in alphabetical order

- 1A.4 In the Special Conditions, unless the context otherwise requires:

<b>Agency Costs</b>	means costs incurred, or expected to be incurred by the Licensee for the purposes of meeting its obligations under Standard Special Condition A15 (Agency).
<b>Aggregate Overrun</b>	shall have the meaning given to the term “aggregate flat overrun” in the Network Code.
<b>Allocation</b>	means any process by which Entry Capacity or Exit Capacity may be allotted by or on behalf of the Licensee in accordance with the Network Code.
<b>Allowable NIA Expenditure</b>	has the meaning given to that term in Part B of Special Condition 2E (The Network Innovation Allowance).
<b>Annual Application Window</b>	has the meaning given to that term in the Network Code.
<b>Annual Iteration Process</b>	means, in relation to the GT1 Price Control Financial Model, the process set out in Special Condition 4B (Annual Iteration Process for the GT1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the GT1 Price Control Financial Handbook that may be applicable to it.
<b>Annual Invitation Period</b>	has the meaning given to that term in the Network Code.

<b>Average Specified Rate</b>	means the average value of the Bank of England’s Official Bank Rate during the period in respect of which the calculation in question falls to be made.
<b>Base NTS System Operation Revenue</b>	is derived from the formula set out in Part D of Special Condition 3A (Restriction of NTS System Operation Revenue).
<b>Base NTS Transportation Owner Revenue</b>	is derived from the formula set out in Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue).
<b>Capacity Methodology Statements</b>	means Entry Capacity and Exit Capacity methodology statements submitted to and approved by the Authority pursuant to Special Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements).
<b>Capex Rolling Incentive</b>	means the mechanism giving rise to the baseline capital expenditure incentive revenue adjustment term, $CxIncRA_t$ in Special Condition C8B (NTS transporter owner activity revenue restriction) of this licence in the form it was in on 31 March 2013.
<b>Carbon Benefits</b>	means a contribution to Government’s current strategy for reducing greenhouse gas emissions, as set out in the document entitled the “Carbon Plan” published by the Department of Energy and Climate Change.
<b>CDSP Costs</b>	means costs incurred, or expected to be incurred by the Licensee for the purposes of meeting its obligations under Standard Special Condition A15A (Central Data Services Provider)
<b>Clearing Allocation</b>	means in respect of an NTS Entry Point and period, an Allocation of Entry Capacity which either:  (a) results in all the Entry Capacity offered for sale being sold; or  (b) has a reserve price of zero.
<b>Constrained Storage Facility</b>	has the meaning given to that term in the Network Code.
<b>Contractual Delivery Date</b>	means the date at which the Licensee is contractually obliged to provide capacity which is set out in Part D or E of Special Conditions 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply) or Part D or E of Special Condition 5G (Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply).

**Customer** for the purposes of Special Condition 2C (Stakeholder Satisfaction Output) means any Stakeholder who pays the Licensee through network charges or fees.

**Day** has the meaning given to that term in the Network Code.

**Directly Attributable Costs** has the meaning given to that term in paragraph 2F.14 of Special Condition 2F (The Network Innovation Competition).

**Disallowed Expenditure** has the meaning given to that term in paragraph 2F.12 of Special Condition 2F (The Network Innovation Competition).

**Disapplication Request** means a request to disapply the Relevant SO Special Conditions and/ Relevant TO Special Conditions (in whole or in part) for the purposes of and in accordance with Special Condition 11A (Disapplication of Relevant Special Conditions).

**Distribution Network** means the relevant gas Distribution Network defined with reference to the aggregate of its constituent Local Distribution Zones (LDZs) (having the meaning given to that term in the Network Code) as set out in the table below:

<b>Distribution Network</b>	<b>Local Distribution Zone</b>
Scotland	Scotland
North of England	Northern, North East
North West	North West
East of England	East Midlands, Eastern
West Midlands	West Midlands
Wales & West	Wales North, Wales South, South West
London	North Thames
South of England	South East, Southern

**Distribution Network Transportation Activity** means the activities of the Licensee connected with the development, administration, maintenance and operation of the Distribution Network and with the Supply of Distribution Network Services.

**Eligible NIA Expenditure** means the amount of expenditure spent or accrued by the Licensee in respect of Eligible NIA Projects and Eligible NIC Bid Preparation Costs and forms part of Allowable NIA Expenditure as set out in Part B of Special Condition 2E (The Network Innovation Allowance).

<b>Eligible NIA Internal Expenditure</b>	means the amount of Eligible NIA Expenditure spent or accrued on the internal resources of the Licensee.
<b>Eligible NIA Projects</b>	means those projects undertaken by the Licensee that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of Special Condition 2E (The Network Innovation Allowance).
<b>Eligible NIC Bid Preparation Costs</b>	means the amount of expenditure spent or accrued by the Licensee when preparing submissions for the Network Innovation Competition as defined in 2F (The Network Innovation Competition) that satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of that condition.
<b>Eligible NIC Project</b>	means a project undertaken by the Licensee or any other gas transporter Licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
<b>Enhanced Physical Site Security Costs</b>	means costs incurred, or expected to be incurred, by the Licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites used in connection with the pipeline system to which this licence relates.
<b>Enhanced Security Costs</b>	means costs incurred, or expected to be incurred, by the Licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the security of any of the IT systems required to operate the pipeline system to which this licence relates.
<b>Entry Capacity</b>	at an NTS Entry Point is capacity in the NTS which a Relevant Shipper is treated as utilising in delivering gas to the NTS (and the total system) at that point.
<b>Entry Capacity Substitution</b>	means the process by which unsold Non-incremental Obligated Entry Capacity is moved from one or more NTS Entry Points to meet the demand for Incremental Obligated Entry Capacity at another NTS Entry Point in accordance with the obligations set out in Special Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements).
<b>Entry Capacity Trade</b>	means the process by which sold Firm Entry Capacity is moved from one or more NTS Entry Points to meet the demand for Firm Entry Capacity at another NTS Entry Point, in accordance with the obligations set out in Special Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements).

<b>Entry Capacity Transfer</b>	means the process by which unsold Obligated Entry Capacity is moved from one or more NTS Entry Points to meet the demand for Firm Entry Capacity at another NTS Entry Point where all Obligated Entry Capacity has been sold, in accordance with the obligations set out in Special Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements).
<b>Entry Lead Time</b>	means the day which is 24 months from the first day of the next month following the date on which the allocation occurred.
<b>Examination</b>	means an evaluation of the processes, procedures and outputs used by the Licensee to enable it to meet its obligation to apply a methodology in a manner that is consistent with its duties under the Act and its obligations under this licence.
<b>Excluded Services</b>	has the meaning provided in Special Condition 11C (Services treated as Excluded Services).
<b>Exit Capacity</b>	is capacity in the NTS which a Relevant Shipper or DN operator is treated as utilising in offtaking gas from the NTS at an NTS Exit Point.
<b>Exit Capacity Revision</b>	means the process by which the level of Licence Baseline Exit Capacity is modified in accordance with the obligations set out in Special Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements).
<b>Exit Capacity Substitution</b>	means the process by which unsold Non-incremental Obligated Exit Capacity is moved from one or more NTS Exit Points to meet the demand for Incremental Obligated Exit Capacity at another NTS Exit Point in accordance with the obligations set out in Special Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements).
<b>Exit Lead Time</b>	means the day which is 24 months from the first day of the next month following the date on which the allocation occurred.
<b>Firm Entry Capacity</b>	means Entry Capacity that provides users with a contractual right to flow onto the NTS and has the meaning given to that term in the Network Code.
<b>Firm Exit Capacity</b>	means Exit Capacity that provides users with a contractual right to flow from the NTS and has the meaning given to that term in the Network Code.
<b>Formula Month</b>	means a period commencing at 05:00 in the first day of a calendar month and ending at 05:00 on the first day of the subsequent calendar month.
<b>Formula Year</b>	means a period of twelve months commencing on 1 April at 05:00 hours.- The first such formula year (t=1) commenced

	on 1 April 2002 at 06:00 hours; from 1 April 2016, formula years will commence at 05:00 hours.
<b>Formula Year t</b>	for the purposes of the Special Conditions in Chapters 4, 5 and 6, means the Formula Year in which the values for the terms MOD and SOMOD, calculated through a particular Annual Iteration Process, are used in the formulae set out in Special Condition 2A (Restriction of NTS Transportation Owner Revenue) and Special Condition 3A (Restriction of NTS System Operation Revenue) respectively and references to Formula Year t-1 and Formula Year t-2 are to be construed accordingly.
<b>Funded Incremental Obligated Entry Capacity</b>	means Incremental Obligated Entry Capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not been provided through Entry Capacity Substitution and for which the Licensee has not received an additional funding allowance through Legacy Incremental Entry Capacity, the Funded Incremental Obligated Entry Capacity will be added to Licence Baseline Entry Capacity five years after the contractual delivery date.
<b>Funded Incremental Obligated Exit Capacity</b>	means Incremental Obligated Exit Capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not been provided through Exit Capacity Substitution and for which the Licensee has not received an additional funding allowance through Legacy Incremental Exit Capacity, the Funded Incremental Obligated Exit Capacity will be added to Licence Baseline Exit Capacity five years after the contractual delivery date.
<b>Funding Return</b>	has the meaning given to that term in paragraph 2F.10 of Special Condition 2F (The Network Innovation Competition).
<b>Funding Return Mechanism</b>	has the meaning given to that term in paragraph 2F.9 of Special Condition 2F (The Network Innovation Competition).
<b>Gas Transmission Group</b>	means any group of NTS Operators in which the Licensee and every other NTS Operator within the group are Affiliates.
<b>Gas Year</b>	means a period of twelve months commencing on 1 October at 05:00 hours.
<b>Generic Revenue Driver Methodology</b>	means an approach to calculating revenue drivers for NTS Entry Points and NTS Exit Points, which will be approved by the Authority, published by the Licensee on its website and will be modified in accordance with the obligations set out in Special Condition 9C (Methodology to determine revenue drivers).



<b>Gigawatt Hour or GWh</b>	means one million kilowatt hours.
<b>GT1 Price Control Financial Handbook</b>	means the document of that name that was published by the Authority that: includes specific information and advice about the operation of the Annual Iteration Process and the GT1 Price Control Financial Model; and contains, in particular, the GT1 Price Control Financial Methodologies, as modified from time to time.
<b>GT1 Price Control Financial Instruments</b>	means the GT1 Price Control Financial Handbook and the GT1 Price Control Financial Model.
<b>GT1 Price Control Financial Methodologies</b>	means the methodologies that: <ul style="list-style-type: none"> <li>(a) are named as such in the GT1 Price Control Financial Handbook; and</li> <li>(b) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process; as modified from time to time, whether under this condition or otherwise.</li> </ul>
<b>GT1 Price Control Financial Model</b>	means the model of that name (with a suffix referring to the month of November in Formula Year t-1 as that term is defined for the purpose of Special Condition 4A (Governance of GT1 Price Control Financial Instruments)) that was first published by the Authority on 1 February 2013 and came into effect on 1 April 2013: <ul style="list-style-type: none"> <li>(a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with the suffix referred to above) on the Authority's Website; and</li> <li>(b) that the Authority will use to determine the value of the terms MOD<sub>t</sub> and SOMOD<sub>t</sub> through the application of the Annual Iteration Process, as modified from time to time in accordance with the provisions of Special Condition 4A.</li> </ul>
<b>GT1 Price Control Financial Model Working Group</b>	means the working group identified in and whose terms of reference are set out in Chapter 1 of the GT1 Price Control Financial Handbook.
<b>Halted Project Revenues</b>	has the meaning given to that term in paragraph 2F.11 of Special Condition 2F (The Network Innovation Competition).
<b>High Quality Outcomes</b>	for the purposes of determinations made by the Authority pursuant to the provisions of Part B of Special Condition 2C (Stakeholder Satisfaction Outputs), “high quality outcomes” will be defined in the Stakeholder Engagement Reward

	Guidance in relation to the key areas of assessment set out in the Guidance for the Formula Year.
<b>Incremental Entry Capacity</b>	means Firm Entry Capacity other than Non-incremental Obligated Entry Capacity.
<b>Incremental Entry Capacity Services</b>	means the undertaking of engagements relating to the provision of Entry Capacity other than Non-incremental Obligated Entry Capacity.
<b>Incremental Exit Capacity</b>	means Firm Exit Capacity other than Non-incremental Obligated Exit Capacity.
<b>Incremental Exit Capacity Services</b>	means the undertaking of engagements relating to the provision of Exit Capacity other than Non-incremental Obligated Exit Capacity.
<b>Incremental Obligated Entry Capacity</b>	means the volume of Firm Entry Capacity which the Licensee is required to offer for sale at an NTS Entry Point following implementation of a proposal made by the Licensee in accordance with Part A of Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply) that is above the Non-incremental Obligated Entry Capacity which is derived in accordance with the obligations set out in Special Condition 9B (Methodology to determine the release of Entry Capacity and Exit Capacity Obligations volumes).
<b>Incremental Obligated Exit Capacity</b>	means the volume of Firm Exit Capacity which the Licensee is required to offer for sale at an NTS Exit Point following implementation of a proposal made by the Licensee in accordance with Part A of Special Condition 5G (Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply) that is above the Non-incremental Obligated Exit Capacity which is derived in accordance with the obligations set out in Special Condition 9B (Methodology to determine the release of Entry Capacity and Exit Capacity Obligations volumes).
<b>Independent Examiner</b>	means a person or persons nominated by and independent of the Licensee with the skill and knowledge to undertake an examination.
<b>Independent System</b>	has the meaning given to the term “independent system” in Standard Special Condition A3 (Definitions and interpretation), except that, for the purposes of Special Condition 11F (Gas conveyed to Independent Systems) only, means those independent systems through which the gas conveyed to consumers consists wholly or mainly of LNG or LPG.
<b>Industrial Emissions Costs</b>	means costs incurred, or expected to be incurred, by the Licensee in relation to works triggered as a result of

emissions related legislation, such as Directive 2008/1/EC of the European Parliament and of the Council of 15 January 2008 concerning integrated pollution prevention and control, and Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control).

**Innovation**

means any or all of the following:

- (a) a specific piece of New Network equipment;
  - (b) a novel arrangement or application of new or existing Network Equipment;
  - (c) a novel operational practice; or
  - (d) a novel commercial arrangement,
- that is not, or is not within the scope of, an Ordinary Business Arrangement.

**Innovation Roll-out Costs**

means the proposed cost of Rolling-out a Proven Innovation.

**Interruptible Entry Capacity**

means Entry Capacity that may be subject to curtailment by the Licensee pursuant to the provisions relating to interruption under the Network Code.

**Kilowatt Hour or kWh**

means 3,600,000 Joules.

**Legacy Incremental Entry Capacity**

means Incremental Obligated Entry Capacity for which the obligation to offer such capacity for sale commenced before 1 April 2013, for which the Licensee receives a revenue entitlement in accordance with Appendix 2 of Special Condition 3A (Restriction of NTS System Operation Revenue) for a specified period of time.

**Legacy Incremental Exit Capacity**

means Incremental Obligated Exit Capacity for which the obligation to offer such capacity for sale commenced before 1 April 2013, for which the Licensee receives a revenue entitlement in accordance with Appendix 2 of Special Condition 3A (Restriction of NTS System Operation Revenue).

**Legacy Period**

means Formula Years prior to the Formula Year commencing on 1 April 2013.

**Legacy Permit Arrangements**

means the Permit Arrangements in force in this licence at 31 March 2013.

**Legacy Revenue Drivers**

means revenue drivers derived for the release of Legacy Incremental Entry Capacity and Legacy Incremental Exit Capacity in accordance with the revenue restrictions forming part of this licence in periods prior to 1 April 2013.

<b>Legacy TO Entry Capacity</b>	means the volume of Entry Capacity that the Licensee must offer for sale as set out in Table 8 of Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply).
<b>Legacy TO Exit Capacity</b>	means the volume of Exit Capacity that the Licensee must offer for sale as set out in Table 10 of Special Condition 5G (Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply).
<b>Licence Baseline Entry Capacity</b>	means the volume of Entry Capacity that the Licensee must offer for sale as of 1 April 2013 as set out in Table 6 of Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply).
<b>Licence Baseline Exit Capacity</b>	means the volume of Exit Capacity that the Licensee must offer for sale as of 1 April 2013 as set out in Table 8 of Special Condition 5G (Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply).
<b>LNG</b>	means liquefied natural gas.
<b>LNG Storage Business</b>	has the meaning given in Special Condition 1B (Amendments to Standard Special Conditions relating to LNG) which amends Standard Special Condition A3 (Definitions and Interpretations).
<b>Locational Actions</b>	means any action taken by the Licensee where the action was taken in respect of a specific location and would therefore be coded with a locational reason code on the On-the-day Commodity Market. Locational buys will be treated as a cost to the Licensee and locational sells will be treated as a revenue.
<b>Logged Up Costs</b>	the total of the operating expenditure and the depreciation and return of the capital expenditure incurred by the Licensee in the period 1 April 2007 to 31 March 2013, and reported to the Authority in accordance with Standard Special Condition A40 (Price Control Review Information) in respect of Quarry and Loss of Development Claims and economic costs incurred by the Licensee for the purpose of implementing any recommendation or requirement to enhance the physical security of any of its sites.
<b>LPG</b>	means a mixture of hydrocarbon gases including propane and butane in accordance with BS EN 589:2004.
<b>Maximum NTS System Operation Revenue</b>	is derived in accordance with Part C of Special Condition 3A (Restriction of NTS System Operation Revenue).

<b>Maximum NTS Transportation Owner Revenue</b>	is derived in accordance with Part C of Special Condition 2A (Restriction of NTS Transportation Owner Revenue).
<b>Methodology for Network Output Measures</b>	means the methodology that was in place under this licence under the name of “Network Output Measures methodology” in the form in which this licence was in force at 31 March 2013 or as subsequently amended as provided for in this condition Special Condition 7D (Methodology for Network Output Measures).
<b>Network Assets</b>	means the assets that collectively form the pipeline system to which this licence relates, and includes the principal components of those assets.
<b>Network Equipment</b>	means any asset that for the time being forms part of the pipeline system to which this licence relates and any control centre for use in conjunction therewith.
<b>Network Flexibility Costs</b>	means costs incurred, or expected to be incurred, by the Licensee in relation to additional network investment required to continue to meet its 1 in 20 peak Day obligation in the safety case it has in place from time to time pursuant to the Gas Safety (Management) Regulations 1996.
<b>Network Innovation Allowance</b>	has the meaning given to that term in 2E.1 of Special Condition 2E (The Network Innovation Allowance).
<b>Network Output Measures (NOMs)</b>	has the meaning given to that term in paragraph 7D.4 of Special Condition 7D (Methodology for Network Output Measures).
<b>Network Replacement Outputs</b>	means the asset health and criticality profile that the Licensee is required to deliver in its transportation system during the Price Control Period that has been approved as part of the price control review and funded in its opening base revenues, as measured by the Network Output Measures.
<b>New Network Equipment</b>	means any new asset that does not yet form part of the pipeline system or control centre for use in conjunction therewith.
<b>NIA Governance Document</b>	means the document issued by the Authority under Part D and in accordance with the requirements of Part E Special Condition 2E (The Network Innovation Allowance).
<b>NIA Percentage</b>	means the percentage of allowed revenue Licensees may use for Eligible NIA projects set out in Appendix 1 of Special Condition 2E (The Network Innovation Allowance).

<b>NIC Funding</b>	has the meaning given to that term in paragraph 2F.8 of Special Condition 2F (The Network Innovation Competition).
<b>NIC Funding Mechanism</b>	has the meaning given to that term in paragraph 2F.7 of Special Condition 2F (The Network Innovation Competition).
<b>NIC Governance Document</b>	means the document issued by the Authority under Part E of Special Condition 2F (The Network Innovation Competition), subject to the requirements of Part F of Special Condition 2F (The Network Innovation Competition), relating generally to the NIC and including matters relating to the NIC Funding Mechanism.
<b>NOMs Methodology</b>	means the methodology for Network Output Measures.
<b>NOMs Methodology Objectives</b>	means the objectives set out in Part B of Special Condition 7D (Methodology for Network Output Measures).
<b>Non-incremental Obligated Entry Capacity</b>	is the sum of Licence Baseline Entry Capacity and Legacy TO Entry Capacity adjusted for Entry Capacity Substitution.
<b>Non-incremental Obligated Exit Capacity</b>	is the sum of Licence Baseline Exit Capacity and Legacy TO Exit Capacity adjusted for Exit Capacity Substitution.
<b>Non-obligated Entry Capacity</b>	means Firm Entry Capacity other than Obligated Entry Capacity.
<b>Non-obligated Exit Capacity</b>	means Firm Exit Capacity other than Obligated Exit Capacity.
<b>NTS Entry Point</b>	means an aggregate system entry point (having the meaning given to that term in the Network Code).
<b>NTS Exit Point</b>	has the meaning given to that term in the Network Code.
<b>NTS SO Activity</b>	shall have the meaning given to the term NTS System Operation Activity.
<b>NTS SO Revenue</b>	shall have the meaning given to the term NTS System Operation Revenue.
<b>NTS System Operation Activity</b>	means engagements undertaken by the Licensee pursuant to the operation of the NTS, being the procuring and using of balancing services for the purpose of balancing the NTS and the arranging with the NTS TO Activity for the delivery of Incremental Entry Capacity and Incremental Exit Capacity, including: <ul style="list-style-type: none"> <li>(a) Incremental Entry Capacity Services;</li> <li>(b) Incremental Exit Capacity Services;</li> <li>(c) residual gas balancing services;</li> <li>(d) balancing management;</li> </ul>

	(e) Constraint Management services; and
	(f) the provision of services in relation to gas quality.
<b>NTS System Operation Charges</b>	means charges made or levied, or to be made or levied, by the Licensee for the provision of services as part of its NTS System Operation Activity, to any person, for the purpose of recovering its Maximum NTS System Operation Revenue.
<b>NTS System Operator</b>	means the Licensee when carrying out an NTS System Operation Activity
<b>NTS System Operation Revenue</b>	means the revenue derived by the Licensee from the carrying on of the NTS SO Activity, such revenues to be measured on an accruals basis.
<b>NTS TO Activity</b>	shall have the meaning given to the term NTS Transportation Owner Activity.
<b>NTS TO Revenue</b>	shall have the meaning given to the term NTS Transportation Owner Revenue.
<b>NTS Transportation Owner Activity</b>	means the activities of the Licensee connected with the development, administration and maintenance of the NTS and with the Supply of NTS Services.
<b>NTS Transportation Owner Charges</b>	means charges made or levied, or to be made or levied, by the Licensee for the provision of services as part of its NTS Transportation Owner Activity, to any person, for the purpose of recovering its Maximum NTS Transportation Owner Revenue.
<b>NTS Transportation Owner Revenue</b>	means the revenue derived by the Licensee from the Supply of NTS Services to Relevant Shippers and DN Operators in respect of the NTS Transportation Owner Activity (such revenue to be measured on an accruals basis).
<b>NTS Transportation Support Services</b>	means services rendered from either long run contracts at specific exit sites or from the Constrained Storage Facility at Avonmouth that are used as a substitute for capacity during periods of high demand to avoid constraints on the pipeline system to which this licence relates and allow the Licensee to meet its 1 in 20 peak Day obligation in the Safety case it has in place from time to time pursuant to the Gas Safety (Management) Regulations 1996.
<b>Obligated Entry Capacity</b>	is the sum of Non-incremental Obligated Entry Capacity, Funded Incremental Obligated Entry Capacity and Legacy Incremental Entry Capacity.
<b>Obligated Exit Capacity</b>	is the sum of Non-incremental Obligated Exit Capacity, Funded Incremental Obligated Exit Capacity and Legacy Incremental Exit Capacity.

<b>Off-peak Exit Capacity</b>	shall have the meaning given to the term Off-peak Daily NTS Exit (Flat) Capacity in the Network Code unless at an NTS Exit Point of type Interconnection Point, where it shall have the meaning given to the term Interruptible NTS Interconnection Point Capacity in the Network Code.
<b>On-the-day Commodity Market</b>	means the On-the-day Commodity Market in which Relevant Shippers and System Operator can buy and sell gas.
<b>One-off Asset Health Costs</b>	means costs incurred, or expected to be incurred, by the Licensee in relation to any single low probability high impact event (or series of low probability high impact events with a common trigger) not explicitly included within the allowances provided for under the Special Conditions.
<b>Opening Base Revenue Allowance</b>	means the value of the base revenue determined by the Authority and as set out in Appendix 1 of Special Condition 2A (Restriction of NTS Transportation Owner Revenue).
<b>Ordinary Business Arrangement</b>	means any or all of the following: <ul style="list-style-type: none"> <li>(a) a specific piece of Network Equipment;</li> <li>(b) an arrangement or application of Network Equipment;</li> <li>(c) an operational practice; or</li> <li>(d) a commercial arrangement,</li> </ul> that is being used or is capable of being used, without modification, by the Licensee or another gas transporter at the start of the Price Control Period.
<b>PARCA</b>	means any (i) “PARCA” as that expression is defined in the Uniform Network Code and (ii) agreement between the Licensee and a PARCA Applicant relating to the reservation and allocation of Entry Capacity or Exit Capacity under the Uniform Network Code, European Interconnection Document, Section E.
<b>PARCA Applicant</b>	means any (i) “PARCA Applicant” as that expression is defined in the Uniform Network Code and (ii) person applying to reserve and then be allocated Entry Capacity or Exit Capacity under the Uniform Network Code, European Interconnection Document, Section E.
<b>PARCA Termination Amount</b>	<u>means the amount of money the Licensee is entitled to recover from a PARCA Applicant under the PARCA in the event a PARCA is terminated</u> <del>has the meaning given to that term in the Network Code.</del>
<b><u>PARCA Termination Costs</u></b>	<u>means the costs incurred by the Licensee in respect of a PARCA that is terminated prior to the allocation of Funded</u>



	<u>Incremental Obligated Entry Capacity or Funded Incremental Obligated Exit Capacity.</u>
<b>PARCA Termination Value</b>	means <del>the</del> <u>an amount equal to the PARCA Termination Costs incurred less PARCA Termination Amounts received from PARCA Applicants</u> <del>of money the Licensee is entitled to recover from a PARCA Applicant under the PARCA in the event a PARCA is terminated.</del>
<b>PCFM Variable Values</b>	A value held in a PCFM Variable Values Table for the Licensee, contained in the GT1 Price Control Financial Model: <ul style="list-style-type: none"> <li>(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and</li> <li>(b) whose revision does not constitute a modification to the GTA Price Control Financial model for the purposes of Special Condition 4A (Governance of GT1 Price Control Financial Instruments).</li> </ul>
<b>PCFM Variable Values Table</b>	means the table on the input sheet of the GT1 Price Control Financial Model for the Licensee which has: <ul style="list-style-type: none"> <li>(a) column headings for: <ul style="list-style-type: none"> <li>(i) PCFM Variable Value names;</li> <li>(ii) Special Condition numbers;</li> <li>(iii) unit designations; and</li> <li>(iv) Formula Years;</li> </ul> </li> <li>(b) a row relating to each PCFM variable Value specified in this licence; and</li> <li>(c) a range of blue coloured cells containing the PCFM Variable Values specified in this licence.</li> </ul>
<b>Pension Scheme Administration</b>	has the meaning given in the Glossary of the GT1 Price Control Financial Handbook.
<b>Pension Scheme Established Deficit</b>	has the meaning given in the Glossary of the GT1 Price Control Financial Handbook.
<b>Pension Protection Fund</b>	has the meaning given in the Glossary of the GT1 Price Control Financial Handbook.
<b>Permit Arrangements</b>	means the arrangements set out in Special Condition 2D (Permit Arrangements for the provision of Incremental Capacity).
<b>Phase 1 PARCA Works Report</b>	has the meaning given to that term in the Network Code.
<b>Physically Delivered</b>	means that date when the Licensee is first able to accept gas properly tendered for delivery by any Relevant Shipper at

an NTS Entry Point or an NTS Exit Point; or the Authority has deemed (in response to a request made by a Relevant Shipper or the Licensee) that the capacity has been delivered.

**Pipeline Diversion Costs**

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

(a) those arising as a result of existing obligations/liabilities taken on by the Gas Council/ British Gas for which the Licensee is now responsible; and

(b) where the Licensee can demonstrate it has done everything in its powers to recover costs from the relevant party requesting the pipeline diversion.

**Price Control Period**

means the period of eight Formula Years beginning on 1 April 2013 and ending on 31 March 2021 during which, subject to Special Condition 11A (Disapplication), the Special Conditions will have effect in this licence.

**Project Direction**

means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.

**Proven Innovation**

means an Innovation which the Licensee can demonstrate has been successfully trialled or demonstrated either on the pipeline system to which this licence relates or elsewhere.

**Quarry and Loss Development Claims**

means costs incurred, or expected to be incurred, by the Licensee in relation to settling any claims which have been demonstrably challenged by the Licensee as far as is reasonable regarding both the basis of the claim and the quantum of the compensation sought. For avoidance of doubt the following claims under the terms of the Deed of Easement or Deed of Servitude are included:

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

**Rechargeable Diversions**

means mains decommissioned or replaced at the request of a party other than the Licensee and where the cost of the work is recovered or is expected to be recovered from that party (or another) by the Licensee.

<b>Regulatory Asset Value (RAV)</b>	has the meaning given to that term in the Glossary of the GT1 Price Control Financial Handbook.
<b>Relevant SO Special Conditions</b>	means Special Condition 3A (Restriction of NTS System Operation Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 3A to which a Disapplication Request under Special Condition 11A (Disapplication of Relevant Special Conditions) relates.
<b>Relevant TO Special Conditions</b>	means Special Condition 2A (Restriction of NTS Transportation Owner Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 2A to a Disapplication Request under Special Condition 11A (Disapplication of Relevant Special Conditions) relates.
<b>Replacement Priority</b>	means the category assigned to an asset to prioritise the requirement for intervention (replacement, refurbishment or reconditioning) based on a measure of its asset health and criticality in terms of consequences of failure.
<b>Residual Gas Balancing Services</b>	means the undertaking of engagements relating to the acquisition or disposal of gas to ensure the safe and efficient operation of the transportation system.
<b>Retail Prices Index</b>	means: <ul style="list-style-type: none"> <li>(a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or</li> <li>(b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with the Licensee, determine to be appropriate in the circumstances; or</li> <li>(c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the Licensee, determine to be appropriate in the circumstances.</li> </ul>
<b>Retail Prices Index Forecast Growth Rate</b>	means: <ul style="list-style-type: none"> <li>(a) the growth rate (for the avoidance of doubt the growth rate is presented as a percentage) as defined as the “New forecasts (marked *)” in the HM Treasury “Forecasts for the UK Economy” publication, published in the November of each year; or</li> <li>(b) if that index in respect of any year has not been published, such index as the Authority may, after consultation with the Licensees, determine to be appropriate in the circumstances; or</li> </ul>

	(c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the Licensees, determine to be appropriate in the circumstances.
<b>Returned Project Revenues</b>	has the meaning given to that term in Part C of Special Condition 2F (The Network Innovation Competition).
<b>Returned Royalty Income</b>	has the meaning given to that term in paragraph 2F.13 of Special Condition 2F (The Network Innovation Competition).
<b>RIIO Principles</b>	means the principles for the assessment of business plans set out in the document entitled “Decision on strategy for the next transmission price control” (Ref 47/11) published on 31 March 2011.
<b>Roll-out</b>	means the incorporation of a Proven Innovation into an Ordinary Business Arrangement.
<b>SO Opening Base Revenue Allowance</b>	means the value of the base revenue determined by the Authority and as set out in Appendix 1 of Special Condition 3A (Restriction of NTS System Operation Revenue).
<b>Special Conditions</b>	means the Special Conditions in Part C of Part IV of this licence.
<b>Specified Information</b>	has the meaning given in Standard Special Condition A40 (The Regulatory Instructions and Guidance).
<b>Stakeholder</b>	for the purposes of Special Condition 2C (Stakeholder Satisfaction Outputs) refers to the general body of persons (including but not limited to Customers or other actual users of the Licensee’s network) who are affected by or have an interest in the Licensee’s operations.
<b>Stakeholder Engagement Reward</b>	means the reward provided for in Part B of Special Condition 2C (Stakeholder Satisfaction Output).
<b>Statutory Network Security Standard</b>	has the meaning given to the term “Gas Security Standard” as defined in Standard Special Condition A9 (Pipe-line System Security Standards).
<b>Subscript d</b>	means the relevant Day. d=1 refers to the Day commencing at 06:00 on 1 April 2013; from 1 October 2015 Days will commence at 05:00.
<b>Subscript m</b>	means the relevant Formula Month. m=1 refers to the Formula Month commencing at 06:00 on 1 April 2013; from 1 October 2015 Formula Months will commence at 05:00
<b>Subscript n</b>	means the day relevant for the purposes of determining the Licensee’s Permit Arrangements. n=1 refers to the day commencing at 06:00 on 1st April 2013; from 1 October 2015 days will commence at 05:00.

<b>Subscript t</b>	subject to the definition for “Formula Year t” above, means the relevant Formula Year. t=1 refers to the Formula Year commencing at 06:00 on 1st April 2013; from 1 October 2015 Formula Years will commence at 05:00.
<b>Supply of Distribution Network Services</b>	<p>means the undertaking and performance for gain or reward of engagements:</p> <p>(a) in connection with the conveyance of gas through the Distribution Network;</p> <p>(b) for the prevention of the escape of gas which has been taken off the Distribution Network; and</p> <p>(c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:</p> <p>(d) the balancing of the Distribution Network through the acquisition or disposal of gas to replace gas lost from the Distribution Network; and</p> <p>(e) facilitating Constraint Management.</p>
<b>Supply of LNG Storage Services</b>	has the meaning given in Special Condition 1B (Amendments to Standard Special Conditions relating to LNG) which amends Standard Special Condition A3 (Definitions and Interpretations).
<b>Supply of NTS Services</b>	<p>means the undertaking and performance for gain and reward of engagements:</p> <p>(a) in connection with the conveyance of gas through the NTS other than engagements in connection with activities within the definition of the NTS SO activity; and</p> <p>(b) for the prevention of the escape of gas, which has been taken off the NTS, other than to the Distribution Network or any pipe-line system operated by a person holding a gas transporter's licence or who is exempted from holding such a licence which but for such pipeline not being operated by the Licensee, would fall within the definition of the Distribution Network; and</p> <p>(c) for the provision of Funded Incremental Obligated Entry Capacity and Funded Incremental Obligated Exit Capacity.</p>
<b>Time Value of Money Adjustment</b>	has the meaning given to that term in the Glossary of the GT1 Price Control Financial Handbook.
<b>TO Totex Incentive Mechanism</b>	has the meaning given to those terms in the methodology in chapter 6 of the GT1 Price Control Financial Handbook
<b>Totex</b>	has the meaning given to that term in the methodology in chapter 6 of the GT1 Price Control Financial Handbook.

<b>Totex and SO Totex</b>	have the meanings given to those terms in the methodology in chapter 6 of the GT1 Price Control Financial Handbook.
<b>Totex and TO Totex</b>	have the meanings given to those terms in the methodology in chapter 6 of the GT1 Price Control Financial Handbook.
<b>Totex Capitalisation Rate</b>	has the meaning given in the glossary of the GT1 Price Control Financial Handbook.
<b>Totex Incentive Mechanism</b>	has the meaning given to that term in the methodology in chapter 6 of the GT1 Price Control Financial Handbook.
<b>Totex Incentive Mechanism Adjustment</b>	has the meaning given to that term in the methodology in chapter 6 of the GT1 Price Control Financial Handbook.
<b>Totex Incentive Strength Rate</b>	means the incentive rate for the Licensee set out in Appendix 1 to Special Condition 5B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – NTS Transportation Owner and Special Condition 6B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – NTS System Operator).
<b>Transportation System</b>	means the system (having the meaning given to that term in the Network Code) to which this licence relates.
<b>Unrecoverable Expenditure</b>	means expenditure on a NIA project which the Authority has determined does not satisfy the requirements of the NIA Governance Document.
<b>User</b>	has the meaning given to that term in the Network Code.
<b>Vanilla Weighted Average Cost of Capital</b>	has the meaning given to that term in the methodology in chapter 6 of the GT1 Price Control Financial Handbook.

## **Chapter 2: NTS Transportation Owner – Revenue restriction**

## Special Condition 2A. Restriction of NTS Transportation Owner Revenue

### Introduction

2A.1 The purpose of this condition is as follows:

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

### Part A: Licensee's obligation

2A.2 The Licensee, in setting NTS Transportation Owner Charges, must use its best endeavours to ensure that, in Formula Year  $t$ , NTS Transportation Owner Revenue ( $TOR_t$ ) does not exceed Maximum NTS Transportation Owner Revenue ( $MR_t$ ).

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

2A.3 For the purposes of Part A of this condition, the NTS Transportation Owner Revenue in respect of Formula Year  $t$  is derived in accordance with the following formula:

$$TOR_t = TOREntC_t + TORExC_t + TORCOM_t$$

2A.4 In the above formula for  $TOR_t$ :

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

- (a) Non-incremental Obligated Entry Capacity (ahead of the gas Day); and
- (b) Funded Incremental Obligated Entry Capacity (ahead of the gas Day).

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

- (a) Non-incremental Obligated Exit Capacity (ahead of the gas Day); and
- (b) Funded Incremental Obligated Exit Capacity (ahead of the gas Day).

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

- (a) charges levied by the Licensee on Gas Shippers and DN Operators pursuant to Standard Special Condition A4 (Charging – General); or



- (b) payments made by the Licensee to Gas Shippers and DN Operators,

other than revenue earned by the Licensee through TOREnt<sub>Ct</sub> and TOREx<sub>Ct</sub>.

### **Part C: Calculation of Maximum NTS Transportation Owner Revenue (MR<sub>t</sub>)**

2A.5 Maximum NTS Transportation Owner Revenue, in Formula Year t, is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$MR_t = BR_t + PT_t + OIR_t + NIA_t + NICF_t + PTV_t - K_t$$

2A.6 In the Principal Formula:

- MR<sub>t</sub> means the amount of Maximum NTS Transportation Owner Revenue in Formula Year t.
- BR<sub>t</sub> means the amount of Base NTS Transportation Owner Revenue in Formula Year t as derived in accordance with the formula set out in Part D of this condition.
- PT<sub>t</sub> means the allowed pass-through items revenue adjustment made in Formula Year t as derived in accordance with Special Condition 2B (Calculation of allowed pass-through items).
- OIR<sub>t</sub> means the output incentive revenue adjustment made in Formula Year t as derived in accordance with the formula set out in Part E of this condition.
- NIA<sub>t</sub> means the revenue adjustment made in Formula Year t in respect of the Network Innovation Allowance as derived in accordance with Special Condition 2E (The Network Innovation Allowance).
- NICF<sub>t</sub> means the revenue adjustment made in Formula Year t in respect of the allowance given under the Network Innovation Competition as derived in accordance with Special Condition 2F (The Network Innovation Competition).
- ~~PTV<sub>t</sub> means the revenue adjustment made in Formula Year t where a PARCA has been terminated prior to the allocation of Funded Incremental Obligated Entry Capacity or Funded Incremental Obligated Exit Capacity in accordance with the formula set out in Part F of this condition.~~
- K<sub>t</sub> means the correction term revenue adjustment in Formula Year t as derived in accordance with the formula set out in Part FG of this condition.

### **Part D: Calculation of Base NTS Transportation Owner Revenue (BR<sub>t</sub>)**

2A.7 For the purposes of the Principal Formula, BR<sub>t</sub> is derived in accordance with the following formula:

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

2A.8 In the above formula for BR<sub>t</sub>:

- $PU_t$  means the amount set out against the Licensee's name in Appendix 1 of this condition and represents the Opening Base Revenue Allowance in Formula Year  $t$  determined by the Authority in relation to the NTS Transportation Owner Activity.
- $MOD_t$  has the value zero in Formula Year 2013/14 and in each subsequent Formula Year is the value of the incremental change for Formula Year  $t$  from the Licensee's Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 4B (Annual Iteration Process for the GT1 Price Control Financial Model).
- $TRU_t$  has the value zero in Formula Year 2013/14 and in each subsequent Formula Year means the NTS Transportation Owner Revenue adjustment made in Formula Year  $t$  in respect of the actual value of the Retail Prices Index in Formula Year  $t-2$  minus the assumed value of the Retail Prices Index in Formula Year  $t-2$ , as derived in accordance with paragraph 2A.10 of this condition.
- $RPIF_t$  is the price index adjustment factor in Formula Year  $t$  as derived in accordance with paragraph 2A.9 of this condition.

2A.9 For the purposes of paragraph 2A.7 of this condition,  $RPIF_t$  is derived in accordance with the following formula:

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

where:

- $RPIA_t$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Formula Year  $t$  divided by the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2009 to 31 March 2010 as derived in accordance with the following formula:

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

where:

- $RPI_t$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Formula Year  $t$ .
- $RPI_{2009/10}$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2009 to 31 March 2010.

and:

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

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

where:

GRPIF<sub>c</sub> means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Formula Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case, the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication “Forecasts for the UK Economy”, in Formula Year t-1, subject to the Authority’s power to determine otherwise.

2A.10 For the purposes of paragraph 2A.7 of this condition, TRU<sub>t</sub> is derived in accordance with the following formula:

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

2A.11 In the above formula for TRU<sub>t</sub>:

REV<sub>t-2</sub> means the amount (in 2009/10 prices), for Formula Year t-2, of the combined value of all Special Condition revenue adjustments that are indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 2A.12 or 2A.13 of this condition.

PVF<sub>t</sub> means the present value adjustment term for Formula Year t and will be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority in accordance with the Annual Iteration Process, and the expressions PVF<sub>t-1</sub> and PVF<sub>t-2</sub> will be interpreted accordingly.

2A.12 For the purposes of paragraph 2A.10 of this condition, subject to paragraph 2A.13, REV<sub>t-2</sub> is derived in accordance with the following formula:

$$REV_{t-2} = \frac{BR_{t-2} + RB_{t-2} + LF_{t-2} + OPTC_{t-2} + \cancel{PTV_{t-2}} + PA_{t-2}}{RPIF_{t-2}} - ISE_{t-2}$$

where:

BR<sub>t-2</sub> means the amount of Base NTS Transportation Owner Revenue in Formula Year t-2 as derived in accordance with the formula set out in paragraph 2A.7 of this condition.

RB<sub>t-2</sub> means the amount of the business rates adjustment in Formula Year t-2 as derived in accordance with Part B of Special Condition 2B.

LF<sub>t-2</sub> means the amount of the licence fee adjustment in Formula Year t-2 as derived in accordance with Part C of Special Condition 2B.

OPTC<sub>t-2</sub> means the amount of the policing cost adjustment in Formula Year t-2 as derived in accordance with Part D of Special Condition 2B.

ISE<sub>t-2</sub> means the amount of the Independent Systems allowance in Formula Year t-2 as set out in Appendix 3 of Special Condition 2B.

PA<sub>t-2</sub> means the permits revenue adjustment made in Formula Year t-2 as derived in accordance with Special Condition 2D (Permit Arrangements for the provision of incremental capacity).

~~PTV<sub>t-2</sub> means the revenue adjustment made in Formula Year t-2 where a PARCA has been terminated prior to the allocation of Funded Incremental Obligated Entry Capacity or Funded Incremental Obligated Exit Capacity in accordance with the formula set out in Part F of this condition.~~

2A.13 For the purposes of paragraph 2A.10 of this condition, in Formula Year 2014/15 REV<sub>t-2</sub> is derived in accordance with the following formula:

$$REV_{t-2} = \frac{TOZ_{t-2} - TOZA_{t-2}}{RPIF_{t-2}} + CxIncRA_{t-2} - TORB_{t-2} - TOLA_{t-2}$$

where:

TOZ<sub>t-2</sub> means, in respect of the Formula Year commencing 1 April 2012, the base NTS TO revenue as derived in accordance with paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence in the form in which it was in force at 31 March 2013.

TOZA<sub>t-2</sub> means, in respect of the Formula Year commencing 1 April 2012, the base NTS TO revenue adjustment term in respect of the Milford Haven pipe-line project as derived in accordance with paragraph 3(a) of Special Condition C8B of this licence in the form in which it was in force at 31 March 2013.

CxIncRA<sub>t-2</sub> means, in respect of the Formula Year commencing 1 April 2012, the baseline capital expenditure incentive revenue as derived in accordance with paragraph 3(c) of Special Condition C8B of this licence in the form in which it was in force at 31 March 2013.

TORB<sub>t-2</sub> means, in respect of the Formula Year commencing 1 April 2012, the NTS prescribed rates allowance as represented by the amount set out in paragraph 3(b) of Special Condition C8B of this licence in the form in which it was in force at 31 March 2013.

TOLA<sub>t-2</sub> means, in respect of the Formula Year commencing 1 April 2012, the licence fee payments allowance as represented by the amount set out in paragraph 3(b) of Special Condition C8B of this licence in the form in which it was in force at 31 March 2013.

### **Part E: Calculation of the outputs incentive revenue adjustment (OIR<sub>t</sub>)**

2A.14 For the purposes of the Principal Formula, OIR<sub>t</sub> is derived in accordance with the following formula:

$$OIR_t = SSO_t + PA_t$$

2A.15 In the above formula for OIR<sub>t</sub>:

SSO<sub>t</sub> means the revenue adjustment made in Formula Year t reflecting the Licensee's performance in relation to its stakeholder satisfaction as

derived in accordance with Special Condition 2C (Stakeholder Satisfaction Output).

$PA_t$  means the permits revenue adjustment made in Formula Year  $t$  in respect of the Licensee's Permit Arrangements as derived in accordance with Special Condition 2D (Permit Arrangements for the provision of incremental capacity).

**Part F: Calculation of the PARCA Termination Amount Term ( $PTV_t$ )**

2A.16 For the purposes of the Principal Formula,  $PTV_t$  is derived in accordance with the following formula:

$$PTV_t = \frac{\left( \sum_{s=2014/15}^{t-2} \sum_{vj} (FICC_{j,s} \times \prod_{f=s}^{t-2} PVF_f \div PVF_{t-2}) \times TIS_{t-2} \div (1 - TR_{t-2}) - TERM_{t-2} \right)}{RPIA_{t-2}} \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

where:

$\sum_{s=2014/15}^{t-2}$  means the sum over all Formula Years 2014/15 to  $t-2$  inclusive.

$\sum_{vj}$  means the sum for all PARCAs  $j$  in the population.

$FICC_{j,s}$  means the total expenditure efficiently incurred by the Licensee in each Formula Year in respect of release of Funded Incremental Obligated Entry Capacity or Funded Incremental Obligated Exit Capacity, for PARCA  $j$  which is terminated during Formula Year  $t-2$  prior to the allocation of that capacity.

$\prod_{f=s}^{t-2} PVF_f$  means the product of all PVF terms from the Formula Year that costs were incurred (s) to  $t-2$  inclusive.

$TIS_{t-2}$  means the Totex Incentive Strength Rate for the Licensee applicable to Formula Year  $t-2$  set out in Appendix 1 to Special Condition 5B (Determination of PCFM Variable Values for totex Incentive Mechanism Adjustments – NTS Transportation Owner).

$TERM_{t-2}$  means any PARCA Termination Amounts recovered by the Licensee from PARCA Applicants in Formula Year  $t-2$ .

$TR_t$  means the corporation tax rate that is applicable to Formula Year  $t$ .

$RPIA_t$  has the value given to it by Part D of this condition.

~~PVF<sub>t</sub> has the value given to it by Part D of this condition.~~

~~RPIF<sub>t</sub> has the value given to it by Part D of this condition.~~

~~2A.17 If the Licensee is not entitled to recover the PARCA Termination Amount PTV<sub>t</sub> will have the value zero.~~

~~2A.18 In the Formula Years 2014/15 and 2015/16 PTV<sub>t</sub> will have the value zero.~~

### **Part EG: Calculation of the correction term (K<sub>t</sub>)**

~~2A.19~~2A.16 For the purposes of the Principal Formula, subject to paragraphs ~~2A.17~~2A.17 and ~~2A.18~~2A.18, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = (TOR_{t-2} - MR_{t-2}) \times \left(1 + \frac{I_{t-2} + PR_t}{100}\right) \times \left(1 + \frac{I_{t-1} + 1.5}{100}\right)$$

where:

TOR<sub>t-2</sub> means the NTS Transportation Owner Revenue as derived in accordance with Part B of this condition in respect of Formula Year t-2.

MR<sub>t-2</sub> means the Maximum NTS Transportation Owner Revenue as derived in accordance with Part C of this condition in respect of Formula Year t-2.

I<sub>t</sub> means Average Specified Rate in respect of Formula Year t.

PR<sub>t</sub> means the interest rate adjustment in Formula Year t as derived in accordance with the formula set out in Part GH of this condition.

~~2A.20~~2A.17 For the Formula Year 2013/14, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = (TOR_{t-1} - MR_{t-1}) \times \left(1 + \frac{I_{t-1} + PRO_t}{100}\right)$$

where:

TOR<sub>t-1</sub> means the NTS Transportation Owner Revenue in respect of the Formula Year commencing 1 April 2012 as derived in accordance with Special Condition C8B of this licence in the form in which it was in force at 31 March 2013.

MR<sub>t-1</sub> means the Maximum NTS Transportation Owner Revenue in respect of the Formula Year commencing 1 April 2012 represented by the term TOMR<sub>t</sub> derived in accordance with Special Condition C8B of this licence in the form in which it was in force at 31 March 2013.

I<sub>t</sub> means Average Specified Rate in respect of Formula Year t.

PRO<sub>t</sub> means the interest rate adjustment in Formula Year t as derived in accordance with the formula set out in Part H of this condition.

~~2A.21~~2A.18 In the Formula Year 2014/15  $K_t$  will have the value zero.

### **Part GH: Interest adjustment for over and under recoveries of revenue**

~~2A.22~~2A.19 For the purposes of Part FG of this condition, the value of the interest rate adjustment  $PR_t$  is to be treated as follows:

- (a) if, in respect of Formula Year t-2, NTS Transportation Owner Revenue exceeds 104 per cent of Maximum NTS Transportation Owner Revenue,  $PR_t$  will have the value of 3;
- (b) if, in respect of Formula Year t-2, NTS Transportation Owner Revenue is less than 96 per cent of Maximum NTS Transportation Owner Revenue,  $PR_t$  will have the value zero; and
- (c) in all other cases  $PR_t$  will have the value 1.5.

~~2A.23~~2A.20 For the purposes of Part FG of this condition, for Formula Year 2013/14 only, the value of the interest rate adjustment  $PRO_t$  is to be treated as follows:

- (a) if, in respect of Formula Year t-1, NTS Transportation Owner Revenue exceeds Maximum NTS Transportation Owner Revenue,  $PRO_t$  will have the value of 3; and
- (b) in all other cases  $PRO_t$  will have the value zero.

### **Part HI: Treatment of charges in the event of over recovery**

~~2A.24~~2A.21 Paragraph 2A.252 applies from 1 April 2016.

~~2A.25~~2A.22 If, in respect of two successive Formula Years t-2 and t-3, the Licensee's NTS Transportation Owner Revenue in each of those Formula Years exceeds 106 per cent of Maximum NTS Transportation Owner Revenue for those Formula Years, the Licensee:

- (a) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Formula Year t-1; and
- (b) must not increase its NTS Transportation Owner Charges for Formula Year t except and to the extent that the Authority has consented to such an increase.

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

~~2A.26~~2A.23 Paragraph 2A.247 applies from 1 April 2016.

~~2A.27~~2A.24 If, in respect of two successive Formula Years t-2 and t-3, the Licensee's NTS Transportation Owner Revenue in each of those Formula Years is less than 94 per cent of the Maximum NTS Transportation Owner Revenue for those Formula Years, the Licensee:

- (a) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Formula Year t-1; and
- (b) must use best endeavours in setting NTS Transportation Owner Charges to recover Maximum NTS Transportation Owner Revenue in Formula Year t.

## Appendix 1

Values for the  $PU_t$  term (2009/10 prices)

(see paragraph 2A.7 of this condition)

	PU (£m)							
Formula Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Gas plc	538.686	542.927	547.965	580.570	658.619	626.870	621.724	620.338



## **Chapter 5: Annual Iteration Process – Adjustments to the NTS Transportation Owner Revenue Restriction**

## Special Condition 5E. Arrangements for the recovery of uncertain costs

### Introduction

5E.1 The purpose of this condition is as follows:

- (a) to allow the Licensee or the Authority to propose, and the Authority to determine, adjustments to the Licensee's levels of allowed expenditure ("relevant adjustments") in relation to the categories of costs set out in paragraph 5E.3 of this condition (each "an uncertain cost category"); and
- (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Formula Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the GT1 Price Control Financial Model, as described in Special Condition 4B (Annual Iteration Process for the GT1 Price Control Financial Model).

5E.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term  $MOD_t$  as calculated for Formula Year  $t$  for the purposes of Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) will result in an appropriate adjustment to the Licensee's Base NTS Transportation Owner Revenue in a manner that takes account of the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph 5E.3 of this condition, determined under Part A of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapters 6 and 7 of the GT1 Price Control Financial Handbook.

5E.3 The uncertain cost categories referred to in paragraph 5E.1 of this condition are:

- (a) Enhanced Physical Site Security Costs;
- (b) Industrial Emissions Costs;
- (c) Pipeline Diversion Costs;
- (d) Quarry and Loss Development Claim Costs;
- (e) One-off Asset Health Costs; ~~and~~
- (f) Network Flexibility Costs; and-
- (g) PARCA Termination Value.

5E.4 This condition should be read and construed in conjunction with Special Condition 4A (Governance of GT1 Price Control Financial Instruments) and Special Condition 4B.

### Part A: Proposal and determination of relevant adjustments

5E.5 This Part provides for:

- (a) the proposal of relevant adjustments by the Licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and

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

### **Proposal of relevant adjustments**

- 5E.6 Subject to paragraph 5E.9 of this condition, the Licensee may, by notice to the Authority, and the Authority may by notice to the Licensee, propose a relevant adjustment in relation to any uncertain cost category for any Formula Year or Formula Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:
- (a) is based on information about actual or forecast levels of efficient expenditure requirements for an uncertain cost category that was not available when the Licensee's Opening Base Revenue Allowance was derived;
  - (b) takes account of any relevant adjustments previously determined under this condition;
  - (c) with the exception of PARCA Termination Value in aggregate constitutes a material amount within the meaning of paragraph 5E.7 of this condition;
  - (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
  - (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.
- 5E.7 A material amount is an amount of change to allowed expenditure which, when multiplied by the Licensee's Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed:
- (a) in the case of uncertain cost categories set out in paragraph 5E.3 sub-paragraphs (a) to (d) of this condition, one per cent of the Licensee's materiality threshold amount set out in Appendix 2 of this condition; and
  - (b) in the case of uncertain cost categories set out in paragraph 5E.3 sub-paragraphs (e) and (f) of this condition, two per cent of the Licensee's materiality threshold amount set out in Appendix 2 of this condition.
- 5E.8 A proposal made under paragraph 5E.6 of this condition must include statements setting out:
- (a) the uncertain cost category to which the proposal relates;
  - (b) the changes to the Licensee's allowed expenditure levels that are proposed and the Formula Years to which those changes relate; and
  - (c) the basis of calculation for the changes to the Licensee's allowed expenditure levels referred to in sub-paragraph (b) of this paragraph.

### **Application windows for relevant adjustment proposals**

- 5E.9 In relation to the uncertain cost categories set out in paragraph 5E.3 sub-paragraphs (a) to (e) of this condition, the Licensee and the Authority may only propose relevant adjustments during the following application windows:
- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and

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

5E.10 Relevant adjustments relating to an uncertain cost category set out in paragraph 5E.3 sub-paragraphs (a) to (e) of this condition may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 5E.6 to 5E.8 of this condition.

5E.11 Relevant adjustment proposals, in relation to an uncertain cost category set out in paragraph 5E.3 sub-paragraphs (a) to (e) of this condition, made outside the application windows set out in paragraph 5E.9 of this condition will not be determined by the Authority under the provisions of this condition.

5E.12 Relevant adjustment proposals, in relation to an uncertain cost category set out in paragraph 5E.3 sub-paragraphs (f) and (g) of this condition~~Network Flexibility Costs~~ may be proposed, by the Licensee or the Authority, at any time.

### **Authority's power to determine relevant adjustments**

5E.13 Where a proposal has been duly made under paragraph 5E.6 of this condition, the Authority may, within four months after the close of the relevant application window (or in relation to an uncertain cost category set out in paragraph 5E.3 sub-paragraphs (f) and (g) of this condition~~Network Flexibility Costs~~ within four months of the receipt of a relevant adjustment proposal), determine any relevant adjustments that are to be made to the Licensee's allowed expenditure levels and the Formula Years to which those changes relate, in such manner as it considers appropriate.

5E.14 In determining any relevant adjustment under paragraph 5E.13 of this condition, the Authority will:

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

5E.15 A determination under paragraph 5E.13 of this condition may confirm, reject, or amend the proposed relevant adjustment.

5E.16 Without limiting the general effect of paragraph 5E.15 of this condition, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the Licensee in relation to an uncertain cost category for any Formula Year from 2013/14 to 2020/21.

5E.17 The Authority will notify the Licensee of any determination made under paragraph 5E.13 of this condition within 14 days of making the determination concerned.

5E.18 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the Licensee under paragraph 5E.6 of this condition within four months after the close of the relevant application window (or in relation to an uncertain cost category set out in paragraph 5E.3 sub-paragraphs (f) and (g) of this condition~~Network Flexibility Costs~~ within four months of the receipt of a relevant adjustment proposal), and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the Licensee for the Formula Years specified in the proposal, will be deemed to have been made.

## Part B: Determination of revisions to PCFM Variable Values

5E.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

- (a) Enhanced Physical Site Security Costs (IAEEPS values);
- (b) Industrial Emissions Costs (IAEIE values);
- (c) Pipeline Diversion Costs (IAEPD values);
- (d) Quarry and Loss Development Claim Costs (IAEQL values);
- (e) One-off Asset Health Costs (IAEAH values); ~~and~~
- (f) Network Flexibility Costs (IAENF values); and-
- (g) PARCA Termination Values (PTV).

5E.20 The Authority will determine whether any PCFM Variable Values should be revised for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.

5E.21 Determinations under paragraph 5E.20 of this condition are to be made in accordance with the methodology contained in chapter 7 of the GT1 Price Control Financial Handbook.

5E.22 Where the Authority directs any revised PCFM Variable Values for Formula Years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GT1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD<sub>t</sub> for Formula Year t and, for the avoidance of doubt, will not have any retrospective effect on a previously directed value of the term MOD<sub>t</sub>.

## Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs

5E.23 Subject to paragraph 5E.27 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition in relation to PCFM Variable Values set out in paragraph 5E.19 sub-paragraphs (a) to (e) of this condition will be directed by the Authority by:

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

5E.24 Subject to paragraph 5E.27 of this condition, a revised PCFM Variable Value determined by the Authority in accordance with the provisions of Part B of this condition in relation to PCFM Variable Values set out in paragraph 5E.19 sub-paragraphs (f) and (g) of this condition ~~Network Flexibility Costs~~ will be directed by the Authority by 30 November following the end of the four month assessment period.

5E.25 Before issuing any directions under paragraphs 5E.23 or 5E.24 of this condition, the Authority will give notice to the Licensee of all of the revised values that it proposes to direct.

- 5E.26 The notice referred to in paragraph 5E.25 of this condition will:
- (a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which will not be less than 14 days from the date of the notice) within which the Licensee may make any representations concerning the determination of any revised PCFM Variable Values.
- 5E.27 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 5E.26 of this condition, and give reasons for its decisions in relation to them.
- 5E.28 If, for any reason, the Authority does not make a direction required under paragraphs 5E.23 and 5E.24 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of Part B of Special Condition 4B and, in any case, before directing a value for  $MOD_t$  under those paragraphs.

**Part D: Consequential changes to the Constraint Management Target**

5E.29 For the following uncertain cost categories specified in this condition:

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

the Authority may direct modifications to the Licensee’s Constraint Management target  $CMOpDT_t$  in accordance with the process set out in Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management).

**Part E: Interpretation**

5E.30 Defined terms in this condition and in Special Condition 1A (Definitions) are to be read and given effect subject to any further clarification that might be set out in the relevant Regulatory Instructions and Guidance issued by the Authority under Standard Special Condition A40 (Regulatory Instructions and Guidance) in relation to such terms.

**APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE**

(see paragraph 5E.7 of this condition)

<b>Licensee</b>	<b>Totex Incentive Strength Rate</b>
National Grid Gas plc	44.36%

**APPENDIX 2: MATERIALITY THRESHOLD AMOUNT**

(see paragraph 5E.7 of this condition)

<b>Licensee</b>	<b>£m</b>
National Grid Gas plc	641.290