

**REVIEW OF BRITISH GAS TRADING'S
DOMESTIC SUPPLY TARIFFS**

LICENCE MODIFICATION

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1. Introduction

In July 1998, Ofgas published the findings of its review of British Gas Trading's (BGT's) domestic supply tariffs.¹ In the July 1998 document, Ofgas:-

- proposed that BGT's existing tariff caps should be replaced with a new set of caps;
- consulted on two minor changes to the non-price terms of BGT's tariffs; and
- proposed to clarify the mechanisms which BGT can use to change the terms of its price controlled tariffs.

The proposals included statutory 28 day notice to amend Special Condition 3 of BGT's Gas Suppliers' Licence², which is required in order to give effect to the first and third of these changes.

Ofgas received seven responses to our proposals, including one from BGT. Non-confidential replies have been placed in Ofgas' library. Following consideration of the comments received, the Director General of Gas Supply (DGGS) has now made the necessary changes to BGT's licence, with the agreement of BGT.

Chapter 2 sets out the relevant background. Chapter 3 looks at the modifications to BGT's licence resulting from the rebalancing of BGT's tariff caps. BGT's proposed Accepted Variations, and clarificatory licence modification, are considered in chapter 4. The final version of the modification is set out in Appendix 1.

¹ 'Review of British Gas Trading's Domestic Supply Tariffs - A Decision Document', Ofgas, July 1998. Domestic customers are those consuming at or below 2,500 therms a year.

² 'Modification by agreement of the conditions of British Gas Trading Limited's Licence as a Gas Supplier', Ofgas, June 1997.

2. Background

2.1 Competition in the domestic gas supply market

The domestic gas supply market in Great Britain has been fully open to competition since May 1998. However, BGT retains a dominant position in the market. Its prices are therefore subject to regulation.

2.2 BGT's existing tariff caps

BGT's present price control came into effect on 1 April 1997. It takes the form of individual caps on the levels of the standing charge and commodity charge of BGT's four regulated tariffs – DirectPay, OptionPay, Standard Credit and Prepayment.³ The idea behind separate caps, as opposed to a typical average revenue control, is to prevent BGT from funding reductions in tariffs for some customers – in response to competition – by increasing tariffs where there is less competition.

Each tariff cap has two principal elements. There is an RPI-X element, which caps the charges levied by BGT relating to the costs of supply activities (such as billing and dealing with customer enquiries) and meter reading activities. The remaining costs of transportation including connections and systems extensions, metering, storage and gas are allowed to be passed through subject to a requirement on BGT to purchase economically. The RPI-X elements of the existing tariff caps are set out in table 1.

³ The DirectPay tariff is applied to customers using a regular payment scheme consisting of 12 equal monthly payments made by direct debit. The OptionPay tariff is a discounted tariff for prompt payment eg. quarterly credit customers paying their quarterly gas bills within 10 days of receipt. The Standard Credit tariff is applied in the main to customers paying by cash or cheque more than 10 days after the issue date of a quarterly bill. The Prepayment tariff applies to all customers paying by a Prepayment meter.

Table 1 – Supply Component of Existing 1998/99¹ Tariff Caps

Tariff category	Standing charge cap (£/customer)	Commodity charge cap(s) (p/therm)
DirectPay	23.66	0.06
OptionPay	17.56	1.62
Standard Credit	35.82	1.62
Prepayment	14.50	Higher rate on 156 therms a year: 12.91 ² Lower rate: 0.08

Notes:

1. In all cases the caps are given for 1998/99, after the application of RPI-4%. The caps set out in the licence condition itself give the position before the application of RPI-4%.
2. The cap on the higher rate Prepayment charge is the sum of two elements: the cap on the lower rate Prepayment charge; and the difference between the Standard Credit and Prepayment standing charge caps spread across 156 therms consumed in each year.

2.3 Change procedures

At the time the price control was set, BGT argued that its costs may fall at different speeds across the nine tariff cap categories (ie. the four regulated tariffs divided between standing and commodity charge and the additional commodity charge rate for Prepayment). To address this point, procedures for changing the relative levels of the tariff caps were built into BGT's price control. These are described below.

a) Full Rebalancing Request

A Full Rebalancing Request (referred to in the licence as a Full RPI Adjustment Request) is made when BGT in the light of changing cost conditions wishes to modify two or more of its regulated tariffs, for example, by raising one or more of its regulated tariff caps and lowering one or more. BGT cannot make more than one Full Rebalancing Request every 3 months, and a request must be submitted to Ofgas at least 8 months in advance of implementation.

b) Partial Rebalancing Request

A Partial Rebalancing Request (referred to in the licence as a Partial RPI Adjustment Request) is made when BGT wishes to modify any one of its regulated tariffs, for example by dividing it into two or more replacement tariffs. BGT cannot make more

than one Partial Rebalancing Request every 3 months, and a request must be submitted at least 4 months in advance of implementation.

c) *Accepted Variation*

Under the Accepted Variation procedure, BGT is allowed to make minor changes to the (price or non-price) terms of its regulated tariffs without making a full or partial rebalancing request. Proposed changes, together with appropriate supporting information, may be submitted by BGT to Ofgas at any time. If the DGGS consents or does not object to the proposal within two months, the variation is accepted.

3. British Gas Trading's Application to Rebalance its Tariff Caps

3.1 BGT's Rebalancing Request

On 28 July 1997 BGT applied to Ofgas to have its tariff caps rebalanced (ie. BGT issued Ofgas with a Full RPI Adjustment Request). BGT's proposals are set out in table 2.

Table 2 – Supply Component of BGT's Proposals for 1998/99¹ Tariff Caps

Tariff category	Standing charge cap (£/customer)	Commodity charge cap(s) (p/therm)
DirectPay	20.86	-0.41
OptionPay	13.58	1.89
Standard Credit	36.28	1.89
Prepayment	14.50	Higher rate on 156 therms a year: 32.35 ² Lower rate: 3.49

Notes:

1. In all cases the caps are given for 1998/99, after the application of RPI-4%. The caps set out in the licence condition itself give the position before the application of RPI-4%.
2. The cap on the higher rate Prepayment charge is the sum of two elements: the cap on the lower rate Prepayment charge; and the difference between the Standard Credit and Prepayment standing charge caps spread across 156 therms consumed in each year.

Broadly, BGT proposed that the RPI-X elements of the DirectPay and OptionPay tariff caps be reduced, and that the RPI-X elements of the Standard Credit and Prepayment tariffs be increased.

3.2 Ofgas' Proposals

On receiving BGT's application, Ofgas began a review of BGT's existing tariff caps in relation to BGT's costs. Ofgas' objective was to determine the extent to which BGT's proposed tariff caps reflected costs attributable to each of the tariff cap categories. If variations in BGT's proposed tariff caps could not be justified on the grounds of variations in attributable costs, BGT's application would be rejected.

Although BGT formally withdrew its application on 19 May 1998, Ofgas took the view that the existing tariff caps were no longer cost-reflective. To address this, in July 1998, Ofgas published proposals to replace the existing tariff caps for the tariff year 1998/99 with the caps set out in table 3.⁴

Table 3 – Supply Component of Ofgas’ Proposals for 1998/99¹ Tariff Caps

Tariff category	Standing charge cap (£/customer)	Commodity charge cap(s) (p/therm)
DirectPay	20.33	0.05
OptionPay	13.87	1.74
Standard Credit	39.42	1.74
Prepayment	14.50	Higher rate on 156 therms a year: 39.42 ² Lower rate: 1.74

Notes:

1. In all cases the caps are given for 1998/99, after the application of RPI-4%. The caps set out in the licence condition itself give the position before the application of RPI-4%.
2. The cap on the higher rate Prepayment charge is the sum of two elements: the cap on the lower rate Prepayment charge; and the difference between the Standard Credit and Prepayment standing charge caps spread across 156 therms consumed in each year.

There were three principal changes. First, Ofgas reduced the DirectPay tariff caps from £23.66 to £20.33 and from 0.06p/th to 0.05p/th respectively. Second, Ofgas reduced the standing charge element of the OptionPay tariff cap from £17.56 to £13.87, whilst raising the cap on the commodity charge from 1.62p/th to 1.74p/th. Third, Ofgas proposed unifying the Standard Credit and Prepayment tariff categories into a single tariff category.⁵ The idea behind this proposal was to remove an artificial incentive on BGT to use Prepayment meters rather than alternative and less costly ways of providing budgeting assistance, or means of debt prevention or recovery.

⁴ ‘Review of British Gas Trading’s Domestic Supply Tariffs – A Decision Document’, Ofgas, July 1998.

⁵ Under the proposed modification, the Standard Credit and Prepayment tariff caps become a single tariff cap, except that for Prepayment customers below 156 therms a year a reduced level of charges would continue to apply.

3.3 Respondents' Views

The responses to the consultation were supportive of Ofgas' proposed modification on the grounds that it introduced a greater degree of cost reflectivity in BGT's tariffs. Generally, respondents welcomed the merging of the Standard Credit and Prepayment tariff because this would give the necessary incentives for BGT to manage its debt in the most efficient manner. Concern was expressed however, that by doing so Ofgas should be careful not to lose the ability to identify clearly the costs of serving Prepayment customers.

One supplier commented that whilst the costs of serving Standard Credit and Prepayment appeared close at present, it was possible that they might diverge in the future.

3.4 BGT's View

BGT accepted that the proposed modification represented a more cost-reflective position than that introduced on 1 April 1997, and gave its formal acceptance to the modification to the tariff caps from 1 April 1998.

BGT, however, took the view that the equalisation of the Prepayment and Standard Credit tariff caps was based on an incorrect allocation of the costs of financing the indebtedness of Prepayment customers.

BGT also commented that in assessing discrimination between customers on different tariffs, Ofgas should compare the actual mark-up across the different tariffs at the average level of consumption for each of the tariffs.

In addition, BGT identified a minor error in the formula included in paragraph 4c(ix) of the proposed modification. This is the formula which calculates the adjustment made to the Standard/Prepayment tariff cap to reflect the fact that some of BGT's Prepayment customers use less than 156 therms a year.

3.5 Ofgas' Conclusions

Ofgas has considered the views of respondents to the formal consultation. Subject to amending the definition of the formula to reflect the point raised by BGT, Ofgas proposes to implement the modification.

4. Accepted Variations to British Gas Trading's Price Schedules

4.1 BGT's Proposals

a) Accepted Variation

On 17 November 1997, BGT formally asked Ofgas for an Accepted Variation which changed its Schedule of Gas Charges. BGT's Schedule of Gas Charges sets out the non-price terms of its regulated tariffs. This requested:-

- that the names of its tariffs were changed⁶; and
- that the scope of BGT's Standard Credit tariff be extended to include customers paying by direct debit whilst in debt (ie. with all or part of their account outstanding for 28 days or more)⁷, and
- other structural changes to the Schedule of Gas Charges and minor changes to the terms of BGT's Regular Payment Scheme.⁸

b) Licence Modification

BGT also requested that Ofgas give consideration to a proposal to introduce a separate charge or charges in addition to standing and commodity charges, eg. for lost or damaged Gascards. BGT sought clarification as to whether such a proposal would require a Partial Rebalancing Request or, alternatively, whether it could be treated as an Accepted Variation.

⁶ The precise changes are shown in table 8, page 51, "Review of British Gas Trading's Supply Tariffs – A Decision Document", Ofgas, July 1998.

⁷ This payment option was originally referred to as "Debt Repayment". However, on introducing the new payment option, BGT named it "Monthly Repayment".

⁸ This covers payment by monthly direct debit, monthly standing order and regular payments using magnetic cards.

4.2 Ofgas' Proposals

a) Accepted Variation

Ofgas consulted upon BGT's proposed Accepted Variation at the same time as its rebalancing proposals in July 1998.

b) Licence Modification

Ofgas acknowledged that a simple change of the type proposed by BGT (eg. the introduction of an additional charge for lost or damaged Gascards) could be accommodated as an Accepted Variation, but that it was not clear in what circumstances a change was an Accepted Variation and in what circumstances a change would require a Partial Rebalancing Request to be made. Ofgas therefore proposed a licence modification.

The effect of this proposed licence modification was to allow the introduction of any additional charges and all changes to non-price terms of regulated tariffs to be submitted as Accepted Variations except changes to prices affecting all customers within a particular tariff cap category, ie. the standing and commodity charges of a regulated tariff. These latter changes would need to be submitted as Partial or Full Rebalancing Requests.

The modification provided that in circumstances in which BGT proposed to introduce an additional charge, eg. a new charge for lost or damaged Gascards, Ofgas might deduct from the tariff caps the revenue collected from this charge. In addition, the modification made provision for the tariff caps to be reduced to reflect any cost savings (net of any additional costs) resulting from the move to more cost-reflective tariffs. This corresponded to the arrangements put in place for Partial and Full RPI Adjustment Requests.

4.3 Respondents' Views

a) Accepted Variation

The Consumers' Association welcomed the move to allow BGT to clarify tariff names accurately to reflect the payment method, as this would assist in raising the profile of the various payment options available. In addition, this would aid customers in making informed decisions on the most appropriate options for their particular circumstances.

One supplier took the view that renaming BGT's tariffs would not be helpful to the development of competition as 'like-for-like' price comparisons would become more complex and difficult for customers.

b) Licence Modification

One respondent commented that allowing BGT to levy separate charges, eg. for lost or damaged Gascards would enhance the principle of cost reflectivity in pricing.

4.4 BGT's View

a) Accepted Variation

BGT supported the changes to its Schedule of Gas Charges.

b) Licence Modification

BGT also welcomed clarification of the mechanism to allow BGT to propose separate charges for certain specific activities. It believed that this would help to facilitate competition by allowing more cost-reflective charging.

4.5 Ofgas' Conclusions

a) Accepted Variation

Taking these comments into account, Ofgas has agreed to the Accepted Variation which introduces changes to BGT's Schedule of Gas Charges. Specifically, we agree to the tariff name changes proposed by BGT, and the scope of BGT's Standard Credit tariff to include customers paying by direct debit whilst in debt (ie. with all or part of their account outstanding for 28 days or more).

b) Licence Modification

We have considered the responses to the licence modification proposal to clarify when the Accepted Variation procedure applies. On the basis of the responses, we have decided to make the proposed licence modification to the Accepted Variations procedure.

Appendix 1

**Modification to Special Condition 3 of British Gas
Trading's Gas Supplier Licence**

**Modification under section 23 of the Gas Act 1986 of the Special Conditions of the
Supplier Licence treated as granted under Section 7A(1) (a) and (b) of the Gas Act
1986 to British Gas Trading Limited**

The Director General of Gas Supply pursuant to section 23 (1) (a) of the Gas Act 1986 (c. 44) ("the Act"), and with the consent of British Gas Trading Limited ("BGT"), hereby modifies the conditions of the licence treated as granted under section 7A (1) (a) and (b) of the Act to BGT in the manner set out in the schedule hereto.

The Official Seal of the Director
General of Gas Supply hereunto
affixed is authenticated by:-

.....

Authorised in that behalf by the
Director General of Gas Supply

Dated 9 March 1999

**SCHEDULE
PROPOSED MODIFICATIONS**

1. In the definition of "Retail Price Index" in paragraph 1 of Condition 1 of the Special Conditions of the Licence treated as granted under section 7A(1)(a) and (b) of the Act to British Gas Trading Limited, for the words "Central Statistical Office" there shall be substituted the words "Office for National Statistics".

2. (a) In paragraph 1 of Condition 3 of the said Special Conditions, in subparagraph (1) -
 - (i) in the definition of "Accepted Variation", after the words "making it" there shall be inserted the words "and, where the variation relates to the imposition of an Additional Charge, a forecast of costs that would not be incurred by the Licensee if the variation were made after deducting any additional costs that would be so incurred,";

 - (ii) after the definition of "Accepted Variation" there shall be inserted the following definition -

"Additional Charge" means a charge for the provision of goods or services to a particular domestic customer or a class of domestic customers making payment for gas supplied under any of the Regulated Terms in addition to a standing charge or a commodity charge";

 - (iii) in the definition of "Allowable Customer Related Transportation Cost", there shall be inserted after the words "in relation to a Formula Year" the words "and the Appropriate Formula for any particular Regulated Term", and after the words "properly be treated" there shall be inserted the following words; -

" -

 - (a) as attributable to the cost of supplying gas for which charges are payable by a domestic customer of the licensee under that Regulated Term; and

 - (b) ";

 - (iv) in the definition of "Allowable Transportation Cost per premises" there shall be inserted at the end the words "under the Regulated Term in question";

 - (v) for the definition of "Allowable Volume Related Transportation Cost" there shall be substituted the following definition -

"Allowable Volume Related Transportation Cost", in relation to a Formula Year and the Appropriate Formula for any particular Regulated Term, means such part of the Allowable Total Transportation Cost for that year as can be properly treated as

attributable to the cost of supplying gas for which charges are payable by a domestic customer of the licensee under that Regulated Term less the Allowable Customer Related Transportation Cost for that year in relation to that Regulated Term”;

(vi) in the definition of “Applicable Revenue” after the words “the case may be” there shall be inserted the words “and derived from any goods or services by way of an Additional Charge which (subject to any direction under sub-paragraph (5)(a) below) is properly attributable to the standing charge or the commodity charge, as the case may be,”;

(vii) after the definition of “Capacity Charges” there shall be inserted the following definition -

““Category C Premises” means any premises in respect of which the payment of charges for gas supplied is in accordance with the provisions referred to in Regulated Term (Category C)”;

(viii) after the definition of “Economic Objective” there shall be inserted the following definition -

““Effective Average Daily Standing Charge per premises”, in relation to any Prepayment Premises, means the sum of the Average Daily Standing Charge per premises relating to those premises and the difference in pence between the higher rate commodity charge in pence per therm and the lower rate commodity charge in pence per therm for the time being multiplied by 156/365.25 (or, in relation to any time after 31st December 1999, the difference in pence per kilowatt hour multiplied by 4572/365.25)”;

(ix) after the definition of “Gas Commodity Cost per therm” there shall be inserted the following definition -

““Gas Payment Provisions”, in relation to the terms or terms and conditions referred to in paragraph 2(a) below, means the provisions relating to payment of charges for gas supplied (other than the amounts to be charged) therein described;”;

(x) after the definition of “Net Flexibility Volume” there shall be inserted the following definition -

““Prepayment Premises” means any premises in respect of which the payment of charges for gas supplied is in accordance with the provisions referred to in Regulated Term (Category C) as Using a prepayment meter”;

(xi) for the definition of “The Regulated Terms” there shall be substituted the following definition -

““Regulated Term” means any of the following categories of Gas Payment Provisions -

- (a) the provisions described as Monthly direct debit payment ("Category A");
- (b) the provisions described as Prompt payment by cash or cheque, Quarterly direct debit payment and Standing order payment (Category B");
- (c) the provisions described as Late payment by cash or cheque (later than 10 days), Payment with magnetic card, Payment by Benefit Agency, Monthly repayment and Using a prepayment meter ("Category C"),

being the provisions in force immediately before the day on which this definition is included in the Licence";

- (b) in sub-paragraph (4) –
 - (i) in paragraph (c), for the words "paragraph 4(3)(b)" there shall be substituted the words "paragraph 4 (3)(i)", and for the Table there shall be substituted the following Table -

TABLE

Regulated Terms	Standing Charge (pence per day)	Commodity Charge (pence per kilowatt hour)
Category A	5.623	0.00156
Category B	3.837	0.05998
Category C	10.902 (all methods of payment) and 4.010 (Using a prepayment meter)	0.05998

and

- (ii) after paragraph (c), there shall be added the following paragraph –

“(d) paragraph 3(l) below shall have effect as if for the expression

$$\frac{Q(PH)_t \times 365.25}{156 \times C(P)_t} \quad \text{there were substituted the expression}$$

$$\frac{Q(PH)_t \times 365.25}{4572 \times C(P)_t} \quad \text{“}$$

(c) after sub-paragraph (4) there shall be added the following sub-paragraph -

- "(5) Where an Accepted Variation entitles the Licensee to impose an Additional Charge, the Director may, after consulting the Licensee and taking into account any representations made by it, not later than three months after the giving of the notice by the Director to the Licensee in respect of that variation under paragraph (b)(i) of the definition of "Accepted Variation" in paragraph 1(i) above, direct that -
- (a) the turnover derived from the provision of goods or services by way of the Additional Charge be treated as Applicable Revenue in relation to such standing charge or commodity charge and in such proportions as the Director may determine; and
 - (b) the entry in each of the Tables in sub-paragraph (4)(c) above and paragraph 4(3)(i) below relating to any such standing charge or commodity charge shall be treated as varied in such manner as the Director may determine for the purpose of taking into account any costs that would not be incurred by the Licensee in consequence of the making of the Accepted Variation after deducting any additional costs that would be so incurred."

2. In paragraph 2 of that condition -

- (a) in sub-paragraph (a) –
 - (i) the words ", subject to any Accepted Variation," shall be inserted after the word "supplied"; and
 - (ii) the words "Gas Payment Provisions comprised in the" shall be inserted after the words "any of the";
- (b) for sub paragraph (b) there shall be substituted the following sub-paragraphs -
 - "(b) ensure that the terms or terms and conditions referred to in sub-paragraph (a) above, other than the amounts to be charged, which applied where payment of charges for gas supplied was to be made in accordance with any of these Gas Payment Provisions immediately before the day on which this provision is included in the Licence with any Accepted Variation, where any such payment is to be so made after that day;";
 - (c) where different Gas Payment Provisions are comprised in a Regulated Term, ensure that any amount for a standing charge, (or, in the case of Regulated Term (Category C) Using a prepayment meter, the Effective Average Daily Standing

Charge per premises) or an Additional Charge for the provision of particular goods or services or any amount per therm for a commodity charge (or, in the case of Regulated Term (Category C) Using a prepayment meter, a lower rate commodity charge) in each of those Gas Payment Provisions is the same."

3. In paragraph 3 of that Condition -
 - (a) in sub-paragraph (1)(c), the words " the Gas Payment Provisions comprised in" shall be inserted after the words "any of the", in the first place where they occur, and the words "those provisions" shall be substituted for the words "the Regulated Terms" in the second place where they occur; and
 - (b) in sub-paragraph 2(a), the words "Gas Payment Provisions comprised in" shall be inserted after the word "all".

4. In paragraph 4 of that Condition -
 - (a) in sub-paragraph (1) -
 - (i) for the words "1997" there shall be substituted the words "1998";
 - (ii) the words "under each of the Regulated Terms" shall be omitted; and
 - (iii) for the words from "neither" to the end there shall be substituted the following words -

" -

 - (a) under each of the Regulated Terms -
 - (i) the Average Daily Standing Charge per premises, in respect of the daily standing charge ("standing charge") included in such charges in addition to any charge for the actual gas supplied ("commodity charge") does not exceed the maximum average daily standing charge per premises; and
 - (ii) the Average Commodity Charge per therm in respect of the commodity charge (or, in the case of Regulated Term (Category C) Using a prepayment meter, in respect of the lower rate commodity charge), does not exceed the maximum average commodity charge per therm; and
 - (b) in relation to all methods of payment under Regulated Term (Category C), the Effective Average Daily

Standing Charge per premises does not exceed the maximum average daily standing charge per premises,

calculated in accordance with the Appropriate Formula”.

- (b) in sub-paragraph (2)(b), there shall be added at the end the following words -

“ + B_t + D_t

except that in relation to Prepayment Premises, “the Appropriate Formula”, in respect of the Average Daily Standing Charge per premises, means the following formula, namely -

$$M_t = \left(1 + \frac{RPI_t - 4}{100} \right) x P_{t-1} - K'_t$$

”

- (c) in sub-paragraph (3) -

(i) in paragraph (b), after the words “Regulated Terms”, in the first place where they occur, there shall be substituted the words “(within the meaning given to that expression in this Condition as it was included in this Licence on 17th June 1997)”;

(ii) in paragraph (d), after the word “premises” and after the word “therm” there shall be inserted the words “relating to the Regulated Term in question”;

(iii) in paragraph (f) (ii) -

the words “(or in the case of Prepayment, the lower rate commodity charge)” shall be omitted, after the expression Q_t, in the first place where it occurs, there shall be added the words “or, in the case of Regulated Term (Category C), Q(SC)_t + Q(PH)_t + Q(PL)_t” and after the expression Q_t, in the second place where it occurs, there shall be inserted the words, “Q(SC)_t, Q(PH)_t and Q(PL)_t”;

(iv) in paragraph (i), for the expression “P₀” there shall be substituted the following words -

“the number of pence given by the Table below in respect of the standing charge, or as the case may be, any commodity charge applicable to the Regulated Term in question,

TABLE

Regulated Terms	Standing Charge (pence per day)	Commodity Charge (pence per therm)
Category A	5.623	0.046
Category B	3.837	1.758
Category C	10.902 (all methods of payment) and 4.010 (Using a prepayment meter)	1.758

- (v) in paragraph (j)(i), for the words “if the formula relates to a standing charge” there shall be substituted the following words -

“if the formula relates to the standing charge under Regulated Term (Category C), the correction per premises (whether of a positive or negative value) to be made for the Formula Year commencing on 1st April 1998 given by the following formula, namely -

where -

$$\frac{(K(SCS)_t \times C(SC)_t) + (K(PS)_t \times C(P)_t) + (Q(PH)_t \times (K(PH)_t - K(PL)_t))}{C(SC)_t + C(P)_t}$$

$K(SCS)_t$ = the correction per premises relating to the standing charge for Standard Credit (within the meaning given to that expression in this Condition as it was included in this Licence on 17 June 1997) for the Formula Year;

$C(SC)_t$ = aggregate number of all Category C premises excluding Prepayment Premises on each day in the Formula Year;

- $K(PS)_t$ = the correction per premises relating to the standing charge for Prepayment (within the meaning given to that expression in this Condition as it was included in this Licence on 17 June 1997) for the Formula Year;
- $C(P)_t$ = aggregate number of all Prepayment Premises on each day in the Formula Year,
- $Q(PH)_t$ = aggregate quantity of gas in therms supplied by the Licensee to customers chargeable at the higher rate commodity charge for Regulated Term (Category C) using a prepayment meter in the Formula Year;
- $K(PH)_t$ = the correction in pence per therm relating to the higher rate commodity charge for Prepayment (within the meaning given to that expression in this Condition as it was included in this Licence on 17 June 1997) for the Formula Year;
- $K(PL)_t$ = the correction in pence per therm relating to the lower rate commodity charge for Prepayment (within the meaning given to that expression in this Condition as it was included in this Licence on 17 June 1997) for the Formula Year;

and if the formula relates to any other standing charge or any other Formula Year,";

- (vi) in paragraph (j)(i), after the words " $A_{t-1} =$ " there shall be inserted the following words -

"if the formula relates to the standing charge under Regulated Term (Category C), the sum of the amounts given by the following formula, namely -

$$A(NP) + A(PS) + A(PH) \times \left(1 - \frac{L}{H} \right)$$

where -

A(NP) = the turnover derived from any standing charge for the time being payable under Regulated Term (Category C) excluding Using a prepayment meter on each day in Formula Year t-1;

A(PS) = the turnover derived from any standing charge for the time being payable under Regulated Term (Category C) Using a prepayment meter on that day;

A(PH) = the turnover derived from the supply of gas to domestic customers of the licensee chargeable under any higher rate for the time being payable under Regulated Term (Category C) Using a prepayment meter on that day;

L = the lower rate under Regulated Term (Category C) Using a prepayment meter on that day;

H = the higher rate under Regulated Term (Category C) Using a prepayment meter on that day;

and, if the formula relates to any other standing charge,";

(vii) in paragraph (j)(ii), for the words "if the formula relates to a commodity charge" substitute the following words -

"if the formula relates to the commodity charge for Regulated Term (Category C), the correction per therm (whether of a positive or negative value) to be made in the Formula Year commencing given on 1st April 1998 given by the following formula, namely -

$$\frac{(K(SCC)_t \times Q(SC)_t) + K(PL)_t \times (Q(PL)_t + Q(PH)_t)}{Q(SC)_t + Q(PL)_t + Q(PH)_t}$$

where -

K(SCC)_t = the correction relating to the commodity charge for Standard Credit (within the meaning given to that expression in this Condition as it was included in this Licence on 17 June 1997) for the Formula Year;

$Q(SC)_t$ = aggregate quantity of gas in therms supplied by the Licensee to customers liable for the commodity charge for Regulated Term (Category C) excluding using a prepayment meter in the Formula Year;

$Q(PL)_t$ = aggregate quantity of gas in therms supplied by the Licensee to customers chargeable at the lower rate commodity charge for Regulated Term (Category C) Using a prepayment meter in the Formula Year;

and $K(PL)_t$ and $Q(PH)_t$ have the same meanings as in subparagraph (i) above,

and if the formula relates to any other commodity charge or any other Formula Year, “;

(viii) in paragraph (j) (ii) after the words “ $A_{t-1} =$ “ there shall be inserted the following words -

“if the formula relates to the commodity charge for Regulated Term (Category C), the sum of the amounts given by the following formula, namely -

$$A(NP) + \left(A(PH) \times \frac{L}{H} \right) + A(PL)$$

where -

$A(PL)$ = the turnover derived from the supply of gas to domestic customers of the Licensee under any lower rate for the time being payable under Regulated Term (Category C) Using a prepayment meter on each day in Formula Year t-1;

and $A(NP)$, $A(PH)$, L and H have the same meanings as in sub paragraph (i) above and, if the formula relates to any other commodity charge, “;

(ix) after paragraph (j) there shall be inserted the following paragraphs -

“(k) K'_t = K_t to the extent that it relates to the standing charge in respect of Prepayment Premises;

(l) D_t =

(i) if the formula relates to the commodity charge for Regulated Term (Category C), the number of pence given by the following formula, namely -

$$\left(\frac{C(P)_t}{(Q(SC)_t + Q(PH)_t + Q(PL)_t) \times 365.25} \right) \times (M'_t - MP_t) \times \left(1 - \frac{Q(PH)_t \times 365.25}{156 \times C(P)_t} \right)$$

Where -

M'_t = M_t calculated in accordance with sub-paragraph (2)(b) above in respect of the Standing Charge (all methods of payment) for Category C premises;

MP_t = M_t calculated in accordance with sub-paragraph (2)(b) above in respect of the Standing Charge for Category C (Using a prepayment meter); and $C(P)_t$, $C(SC)_t$, $Q(PH)_t$, $Q(PL)_t$ have the same meanings as in paragraph (j) above;

(ii) in any other case, nil”;

(m) B_t = (i) if the formula relates to the standing charge payable under Regulated Term (Category B) and if the average commodity charge per therm for Regulated Terms (Categories B and C) is the same, the correction per premises to be made in Formula year t being the negative value of the amount given by the following formula, namely -

$$\frac{Q_t \times BCD_t}{C_t}$$

if BCD_t is an increase, or the positive value of that amount if BCD_t is a decrease.

where -

Q_t = aggregate quantity of gas in therms supplied by the licensee to customers liable for the commodity charge under Regulated Term (Category B) in Formula Year t ;

C_t = aggregate number of all premises of customers liable for that commodity charge on each day in Formula Year t ;

BCD_t = the alteration (not exceeding 2 pence per therm or such greater amount per therm as may be approved by the Director and whether of a positive or negative value) in the Average Commodity Charge per therm for Regulated Term (Category B) which resulted in the equating of that Average Commodity Charge per therm with the Average Commodity Charge per therm for Regulated Term (Category C);

(ii) if the formula relates to the commodity charge payable under Regulated Term (Category B) and if the Average Commodity Charge per therm for Regulated Terms (Categories B and C) is the same, the positive value of the expression " BCD_t " (within the meaning of sub paragraph (i) above) (if it is an increase) or the negative value of that expression (if it is a decrease);

(iii) if the formula relates to any other case, nil."

5. In paragraph 2 of Condition 4 of the said Special Conditions, there shall be added at the end the following words "except any Additional Charge within the meaning of Condition 3 above".