

**TRANSCO PRICE CONTROL**

**&**

**NTS SO INCENTIVES**

**2002 - 07**

**PROPOSED LICENCE MODIFICATIONS**



**S23 PROPOSED LICENCE MODIFICATION  
TO TRANSCO GAS TRANSPORTERS LICENCE**

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**Amendments to existing provisions of Transco's Gas Transporter licence**

**PROPOSED AMENDMENT TO STANDARD CONDITION 6 BY THE PROPOSED  
ADDITION OF A NEW PARAGRAPH 23**

**Condition 6. Emergency Services and Enquiry Service Obligations**

- 23.     *Charges for the provision of services under this condition shall be set at a level which will allow the licensee to recover no more than its reasonable costs and a reasonable profit in providing this service.***

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**PROPOSED AMENDMENT TO AMENDED STANDARD CONDITION 4E BY THE  
PROPOSED ADDITION OF A NEW PARAGRAPH 5**

**Standard Condition 4E: Requirement to Enter into Transportation Arrangements in  
Conformity with Network Code (amendments are embolded and italicised)**

- 1. The licensee shall comply with any obligation in the Network Code to disclose  
information relating to:***
  - (i) the operation of the licensee's pipe-line system; or***
  - (ii) any market relating to the licensee's pipe-line system.***

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**PROPOSED AMENDMENTS TO AMENDED STANDARD CONDITION 9 TO AMEND  
PARAGRAPHS 5(b) AND 6(a) AND TO INSERT A NEW PARAGRAPH 16**

**Condition 9: Network Code**

5. The procedures referred to in paragraph 4 shall be such as provide for -

- (a) the reviewing of the Network Code;
- (b) the making of proposals for its modification either by the licensee, a relevant shipper ***or by a third party participant;***
- (c) the giving of adequate publicity to any such proposal including, in particular, drawing it to the attention of all relevant shippers and sending a copy of the proposal to any gas shipper or other person who asks for one;
- (d) the seeking of the views of the Authority on any matter connected with any such proposal;
- (e) the consideration of any representations relating to such a proposal made (and not withdrawn) by a relevant shipper or by any gas shipper or other person likely to be materially affected were the proposal to be implemented, and
- (f) where the Authority accepts that the Network Code may require modification as a matter of urgency, the exclusion, acceleration or other variation, subject to the Authority's approval, of any particular procedural steps which would otherwise be applicable.

6. The licensee shall -

- (a) prepare a document ("the code modification rules") setting out the procedures established in pursuance of paragraph 4, and shall furnish the Authority with a copy thereof. The ***code modification rules shall identify persons, either individually or by reference to a class of persons, who are not shippers but***

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*who may propose modifications to part or all of the Network Code (“third party participants”);*

**16. Any reference to “relevant shipper” in any of paragraphs 5(c), 5(e), 6(b)(i), or 9(a)(ii) shall where it relates to any proposed modification which could have been proposed by a third party participant under the code modification rules be treated as if it were also a reference to all such third party participants.**



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**NEW CONDITIONS BEING PROPOSED**

**Special Condition 26: Prohibited procurement activities**

1. The licensee shall not and shall procure that any affiliate of the licensee shall not, on the account of the licensee, purchase, enter into or otherwise acquire transportation commodities, gas or gas derivatives with the intention of subsequently selling, assigning or otherwise disposing of such assets to third parties.
2. The prohibition in paragraph 1 of this Special Condition shall not apply to the purchase, entering into or acquisition by the licensee or any affiliate on the account of the licensee of transportation commodities, gas or gas derivatives with the intention of selling, assigning or otherwise disposing of such transportation commodities, gas or gas derivatives for the purpose of facilitating balancing management and constraint management so long as such transactions:
  - (a) are conducted on economic and efficient terms; and
  - (b) facilitate the economic and efficient operation of the transportation system.
3. In this Special Condition:

balancing management means the balancing of the NTS through the management of inputs and off-takes of gas to and from the NTS. For the avoidance of doubt such management includes but is not necessarily limited to:

  - (i) the acquisition or disposal of gas to replace gas lost from the system in respect of NTS shrinkage (having the meaning given to that term in the licensee's Network Code);
  - (ii) the licensee's functions as Top-up Manager (having the meaning given to that term in the licensee's

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Network Code); and

(iii) the procurement of gas storage capacity for the purposes of meeting operating margins requirements (having the meaning given to that term in the licensee's Network Code);

balancing trade means an eligible balancing action (having the meaning given to that term in the licensee's Network Code);

capacity rights means rights allocated in accordance with the licensee's Network Code to input up to a given volume of gas to the NTS or off-take up to a given volume of gas from the NTS;

constraint management means the management of capacity rights;

derivative shall have the meaning given to it in the Glossary to the Handbook of Rules and Guidance issued by the Financial Services Authority pursuant to the Financial Services and Markets Act 2000 as at 1 April 2002;

LDZ network means the aggregate of the Local Distribution Zones (having the meaning given to that term in the licensee's Network Code);

NTS means the licensee's national transmission system (having the meaning given to that term in the licensee's Network Code); and

transportation commodities means (including derivatives of such commodities) balancing trades and capacity rights.

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**Special Condition 27: Licensee's procurement and use of system management services**

1. The licensee shall operate the NTS in an efficient, economic and co-ordinated manner.
2. The licensee shall neither unduly discriminate nor unduly prefer in its procurement or use of system management services as between any persons or classes of persons.
3. The licensee shall before 1 October 2002 or such later date as the Authority may direct and thereafter before 1 April in each subsequent formula year (or such longer period as the Authority may approve) prepare a statement in a form approved by the Authority setting out (consistently with the licensee's duty under paragraph 1 and 2 of this Special Condition and consistently with its other duties under the Act, and the standard, amended standard and Special Conditions) the kinds of system management services which it may be interested in purchasing in the period until the next statement is due, to be published pursuant to paragraph 11(a) in this Special Condition and the mechanisms by which it envisages purchasing, entering into or otherwise acquiring them, and the licensee shall revise such statement during any such period if its intentions change during that period.
4. Within one month after the date on which each statement, prepared pursuant to paragraph 3 of this Special Condition (other than the first one) is due to be published pursuant to paragraph 11(a) of this Special Condition ("the due date"), the licensee shall prepare a report in a form approved by the Authority in respect of the system management services which the licensee has bought or acquired in the period of 12 months (or such longer period as the Authority may approve or require) ending on the due date.
5. The licensee shall before 1 October 2002 or such later date as the Authority may direct prepare a statement in a form approved by the Authority setting out the principles and criteria (consistent with the licensee's duty under paragraph 1 and 2 of this Special Condition and consistent with its other duties under the Act, and the standard, amended standard and Special Conditions) by which the licensee will determine, at different times and in different circumstances, which system management services the licensee will use to assist it in the operation of the NTS, and for what purpose, and when the licensee

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would resort to measures not involving the use of system management services in the operation of the NTS.

6. (a) This paragraph applies where the licensee's Network Code provides that any charge is to be determined (in whole or in part) by reference to the costs and volumes of relevant system management services.
- (b) Where this paragraph applies the licensee shall:
- (i) prepare a statement of the prevailing system management services adjustment data methodology as approved by the Authority;
  - (ii) from time to time thereafter, when the licensee first buys, sells or acquires any relevant system management services of a kind or under a mechanism which is not covered by the prevailing system management services adjustment data methodology, promptly seek to establish a revised system management services adjustment data methodology approved by the Authority which covers those kinds of system management services mechanisms for buying, selling or acquiring them;
  - (iii) before 1 October 2002, or such later date as the Authority may direct establish a system management services adjustment data methodology approved by the Authority; and
  - (iv) at all times determine and provide (for use under the relevant provisions of the licensee's Network Code) the costs and volumes of relevant system management services in compliance with the prevailing system management services adjustment data methodology, which are to be taken into account in determining charges relating to system management services under the licensee's Network Code.
- (c) Except where the Authority directs otherwise, before revising the system management services adjustment data methodology the licensee shall:

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- (i) send a copy of the proposed revisions to the Authority and to any person who asks for one;
  - (ii) consult shippers and allow them a period of not less than 28 days in which to make representations;
  - (iii) within 7 days of the close of the consultation referred to in sub-paragraph 6(c)(ii) of this Special Condition submit to the Authority a report setting out:
    - the revisions originally proposed,
    - the representations (if any) made to the licensee,
    - any change to the revisions; and
  - (iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) of this paragraph or any of them shall not apply, comply with such other requirements as are specified in the direction.
- (d) The licensee shall not revise the system management services adjustment data methodology:
- (i) where sub-paragraph 6 (c)(iv) in Part 2 of this Special Condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph;
  - (ii) where there is no such direction, or no date is specified in such direction, until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph 6(c)(iii) in of this Special Condition; or
  - (iii) if within the period referred to in sub-paragraph 6(d)(ii) of this Special Condition the Authority directs the licensee not to make the revision.

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7. (a) The licensee shall as soon as practicable after the end of each formula year prepare a report on the manner in which and the extent to which the licensee has, during that formula year, complied with the statement prepared pursuant to paragraph 5 of this Special Condition and whether any modification should be made to that statement to reflect more closely the practice of the licensee.
- (b) The report shall be accompanied by a statement from appropriate auditors that they have carried out an investigation, the scope and objectives of which shall have been established by the licensee and approved by the Authority, and giving their opinion as to the extent to which the licensee has complied with the statement prepared pursuant to paragraph 5 of this Special Condition.
8. (a) The licensee shall if so directed by the Authority but in any event at least once a year review the statement prepared pursuant to paragraph 5 of this Special Condition in consultation with shippers and other interested persons likely to be affected thereby and allow them a period of not less than 28 days in which to make representations.
- (b) Within 7 days of the close of the consultation referred to in paragraph 8(a) of this Special Condition, the licensee shall send to the Authority:
- (i) a report on the outcome of the review;
- (ii) any revision to the statement proposed (having regard to the outcome of the review) by the licensee in order to ensure that the statement remains consistent with the licensee's duties under the Act and the standard conditions, amended standard conditions and Special Conditions; and
- (iii) any written representations or objections from shippers and other interested parties, including proposals for revision not accepted by the licensee, arising during the consultation and subsequently maintained.
- (c) The licensee may revise the statement only in accordance with any revision within sub-paragraph 8(b)(ii) of this Special Condition, and only if the Authority consents to such revision.

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9. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 5 of this Special Condition.
10. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 3, 4, 5, 6, 7 and 8 of this Special Condition and of all revisions to any such statements and reports.
11. The licensee shall:
- (a) publish by such date (and in such manner) as the Authority may approve the statements prepared pursuant to paragraphs 3, 5 and 6 of this Special Condition and each revision thereof; and
  - (b) send a copy of each statement and report prepared pursuant to paragraphs 3, 4, 5, 6, 7 and 8 of this Special Condition or the latest revision of any such statement and report to any person who requests the same, provided that the licensee shall exclude therefrom, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests,
- and, for the purposes of paragraph 11(b) of this Special Condition, the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).
12. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 11(b) of this Special Condition of an amount reasonably reflecting the licensee's reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purpose of this Special Condition.
13. The licensee shall, unless the Authority otherwise consents, maintain for a period of seven years:
- (a) particulars of all system management services offered to it;

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- (b) particulars of all contracts for system management services which it entered into;
- (c) records of all system management services called for and provided; and
- (d) records of quantities of gas transported through the NTS.

14. The licensee shall provide to the Authority such information as the Authority shall request concerning the procurement and use of system management services.

15. In this Special Condition:

appropriate auditors	Means any auditors for the time being holding office in accordance with the requirements of the Companies Act 1985;
balancing trade	Means an eligible balancing action (having the meaning given to that term in the licensee's Network Code);
capacity rights	Means rights allocated in accordance with the licensee's Network Code to input up to a given volume of gas to the NTS or off-take up to a given volume of gas from the NTS;
constraint management services	Means services in relation to the management of capacity rights;
derivative	shall have the meaning given to it in the Glossary to the Handbook of Rules and Guidance issued by the Financial Services Authority pursuant to the Financial Services and Markets Act 2000 as at 1 April 2002;
NTS	Means the licensee's national transmission system (having the meaning given to that term in the licensee's Network Code);



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relevant system management services	<p>Means system management services other than:</p> <p>(a) those which the licensee has acquired through a balancing trade, provided that such balancing trade was not made pursuant to any prior agreement;</p> <p>(b) those which the Authority directs the licensee not to treat as relevant system management services;</p>
system management services	<p>Means services in relation to the balancing of gas inputs to and gas off takes from the NTS and includes balancing trades and balancing trade derivatives and constraint management services; and</p>
system management services adjustment data methodology	<p>Means a methodology to be used by the licensee to determine what costs and volumes of relevant system management services are to be taken into account under the licensee's Network Code for the purposes of determining in whole or in part the charges in any period, which methodology shall cover each of the kinds of system management services which the licensee buys, sells or acquires, and the mechanisms by which the licensee buys, sells or acquires them, at the time at which the methodology is established.</p>

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**Special Condition 28A: Revenue restriction definitions**

1. In this Special Condition:

allocation	means any process by which entry capacity or NTS exit capacity may be allotted by or on behalf of the licensee in accordance with the licensee's Network Code;
annual obligated incremental entry capacity	means any obligated incremental entry capacity in respect of a given terminal which the licensee is required to offer for sale for a period of less than five years;
appropriate auditors	means any auditors for the time being holding office in accordance with the requirements of the Companies Act 1985;
audit	means an investigation by appropriate auditors, the scope and objectives of which shall be set by the licensee and approved by the Authority;
clearing allocation	means in respect of a terminal and period an allocation of entry capacity which either:  - results in all the capacity offered for sale being sold; or  - has a reserve price of zero;
commercial user quantity	means the aggregate quantity of gas in kilowatt hours, taken off the LDZ network in respect of the formula year by persons other than the licensee supplied with at least 5,860,000 kilowatt hours of gas but less than 1,465,355,000 kilowatt hours of gas in the formula year;
connected system exit point	has the meaning given to that term in the licensee's

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	Network Code;
constrained storage facility	has the meaning given to that term in the licensee's Network Code;
curtailment day	means any day in formula year t in respect of which rights to off-take gas at a given supply point, connected system exit point or storage connection point have been curtailed by the licensee;
day	has the meaning given to that term in the licensee's Network Code;
entry capacity	has the meaning given to the term system entry capacity in the licensee's Network Code;
entry capacity constraint management services	means the undertaking of engagements relating to the management of rights to input gas to the NTS;
exit capacity constraint management services	means the undertaking of engagements relating to the management of rights to off-take gas from the NTS including those relating to NExAs;
exit capacity curtailment rights	means rights held by the licensee to curtail rights to off-take gas from the transportation system, other than rights conferred on the licensee solely for the purpose of taking emergency steps or force majeure (having the meanings given to those terms in the licensee's Network Code);
firm entry capacity	means that entry capacity other than interruptible entry capacity;
formula year	means a period of twelve months commencing on 1 April at 06:00 hours, the first such formula year (t=1)

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	commencing 1 April 2002 at 06:00 hours;
gigawatt hour or GWh	means one million kilowatt hours;
incremental entry capacity	means obligated incremental entry capacity and non-obligated incremental entry capacity;
incremental entry capacity services	means the undertaking of engagements relating to the provision of entry capacity other than NTS SO baseline entry capacity;
incremental exit capacity services	means the undertaking of engagements relating to the provision of NTS incremental exit capacity;
initial NTS SO baseline entry capacity	means in respect of each terminal and period the NTS SO baseline entry capacity specified in table A2 of schedule A;
interruptible entry capacity	has the meaning given to the term interruptible system entry capacity in the licensee's Network Code;
kilowatt hour or kWh	means 3,600,000 Joules;
large user quantity	means the sum of the commercial user quantity and the small interruptible user quantity;
LDZ capacity	has the meaning given to that term in the licensee's Network Code;
LDZ capacity curtailment rights	means exit capacity curtailment rights held by the licensee in respect of LDZ capacity;
LDZ network or LDZs	means the aggregate of the local distribution zones (having the meaning given to that term in the licensee's Network Code);

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LDZ shrinkage	means the sum of LDZ own use gas and LDZ unaccounted for gas (both having the meanings given to those terms in the licensee's Network Code);
LDZ transportation activity	means the activities of the licensee connected with the development, administration, maintenance and operation of the LDZ network and with the supply of LDZ services;
LDZ transportation activity revenue	means the revenue derived by the licensee from the supply of LDZ services to shippers in respect of the LDZ transportation activity (such revenue to be measured on an accruals basis);
LDZ transportation quantity	means the aggregate quantity of gas in kilowatt hours introduced into the LDZ network as a result of arrangements with shippers in respect of formula year t less LDZ shrinkage calculated in accordance with the licensee's Network Code;
long-term NTS SO baseline entry capacity	means that proportion of the initial NTS SO baseline entry capacity in respect of each formula year that is available to be sold more than 548 days prior to the first day in respect of which such capacity relates;
NExA	means a network exit agreement (having the meaning given to that term in the licensee's Network Code);
non-obligated incremental entry capacity	means firm entry capacity other than obligated entry capacity;
NTS	means the licensee's national transmission system (having the meaning given to that term in the licensee's Network Code);

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NTS baseline firm exit capacity	means in respect of each period the NTS firm exit capacity specified in table A3 of schedule A;
NTS baseline interruptible exit capacity	means in respect of each period the NTS interruptible exit capacity specified in table A4 of schedule A;
NTS exit capacity	shall have the meaning given to that term in the licensee's Network Code;
NTS exit capacity curtailment rights	means exit capacity curtailment rights held by the licensee in respect of NTS exit capacity;
NTS firm exit capacity	means NTS exit capacity other than NTS interruptible exit capacity;
NTS incremental exit capacity	means that NTS exit capacity in excess of NTS baseline firm exit capacity and NTS baseline interruptible exit capacity;
NTS shrinkage	means the sum of NTS own use gas and NTS unaccounted for gas (both having the meanings given to those terms in the licensee's Network Code);
NTS interruptible exit capacity	means NTS exit capacity subject to exit capacity curtailment rights;
NTS SO baseline entry capacity	means in respect of each terminal and period that terminal's initial NTS SO baseline entry capacity and that terminal's permanent obligated incremental capacity for which the first day to which such capacity relates has occurred five or more years previously;
NTS system operation activity or NTS SO activity	means engagements undertaken by the licensee pursuant to the operation of the NTS, being the procuring and using of balancing services for the

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purpose of balancing the NTS and the arranging with the NTS TO activity for the delivery of incremental entry capacity and NTS incremental exit capacity, including:

- (i) incremental entry capacity services;
- (ii) incremental exit capacity services;
- (iii) residual gas balancing services;
- (iv) system balancing services, which include services pursuant to paragraphs 5 and 6 of standard condition 7 (Provision of Information Relating to Gas Illegally Taken);
- (v) entry capacity constraint management services;
- (vi) exit capacity constraint management services; and
- (vii) the provision of services in relation to gas quality;

NTS system operator revenue or NTS SO revenue

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;

NTS TO baseline entry capacity

means in respect of each terminal and period that terminal's TO baseline firm entry capacity as specified in table A1 of schedule A;

NTS transportation owner activity or NTS TO activity

means the activities of the licensee connected with the development, administration and maintenance of the NTS and with the supply of NTS services;

NTS transportation owner revenue or NTS TO revenue

means the revenue derived by the licensee from the supply of NTS services to shippers in respect of the NTS transportation owner activity (such revenue to be

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	measured on an accruals basis);
obligated entry capacity	means obligated incremental entry capacity and NTS SO baseline entry capacity;
obligated incremental entry capacity	means that firm entry capacity in excess of NTS SO baseline entry capacity which the licensee is required to offer for sale in accordance with paragraph 14(5)(b) of Part 2 of Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the the NTS system operation activity);
permanent obligated incremental entry capacity	means any obligated incremental entry capacity in respect of a given terminal, which the licensee is required to offer for sale for a period of five years or more;
plus 15 curtailment day	means any curtailment day in formula year t at a given supply point, connected system exit point or storage connection point after the first 15 curtailment days in that formula year for the given supply point, connected system exit point or storage connection point;
residual gas balancing services	means the undertaking of engagements relating to the acquisition or disposal of gas to ensure the safe and efficient operation of the transportation system;
shipper	means any gas shipper, or person benefiting from an exemption under section 6A of the Act from the prohibition under section 5(1)(c) of the Act, who has arranged with the licensee for gas to be introduced into, conveyed by means of, or taken out of the transportation system;



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short-term NTS SO baseline entry capacity	means initial NTS SO baseline entry capacity other than long term NTS SO baseline entry capacity;
small interruptible user quantity	means the aggregate quantity of gas in kilowatt hours, taken off the LDZ network in respect of formula year t by persons who are supplied through a supply point that is interruptible (in accordance with the licensee's Network Code) and who are supplied with less than 5,860,000 kilowatt hours of gas in that formula year;
small user quantity	means the LDZ transportation quantity less the sum of the very large user quantity and large user quantity;
specified rate	means the base rate of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made;
storage connection point	has the meaning given to that term in the licensee's Network Code;
subscript t	means the relevant formula year;
supply of LDZ services	<p>means the undertaking and performance for gain or reward of engagements:</p> <p>(a) in connection with the conveyance of gas through the LDZ network; and</p> <p>(b) for the prevention of the escape of gas which has been taken off the LDZ network,</p> <p>not being the supply of NTS services by the licensee for other persons except engagements relating to the acquisition or disposal of gas otherwise than for the efficient operation of the LDZ network or for replacing</p>

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gas lost from that system; and

supply of NTS services means the undertaking and performance for gain and reward of engagements:

(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

(b) for the prevention of the escape of gas, which has been taken off the NTS, other than to the LDZ network or any pipeline 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 LDZ network;

supply point has the meaning given to that term in the licensee's Network Code;

system balancing services means the undertaking of engagements by the licensee in relation to:

(i) the acquisition or disposal of gas to replace gas lost from the system in respect of NTS shrinkage;

(ii) its functions as Top-up Manager (having the meaning given to that term in the licensee's Network Code); and

(iii) the procurement of gas storage capacity for the purposes of meeting operating margins requirements (having the meaning given to that

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term in the licensee's Network Code);

terminal	means an aggregate system entry point (having the meaning given to that term in the licensee's Network Code);
transportation system	means the system (having the meaning given to that term in the licensee's Network Code);
universal firm registration	means that all NTS exit capacity is registered free from exit capacity curtailment rights; and
very large user quantity	means the aggregate quantity of gas in kilowatt hours, taken off the LDZ network in a formula year by persons other than the licensee supplied with at least 1,465,355,000 kilowatt hours of gas in the formula year.

16. Any values derived by reference to the value of revenues accrued, received or paid by or to the licensee shall be the actual sum accrued, received or paid by or to the licensee on the date of such accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.

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**Special Condition 28B: Restriction of revenue in respect of the NTS transportation owner activity, LDZ transportation activity and NTS system operation activity**

**Part 1 a The NTS transportation owner activity revenue restriction**

**1. The principal restriction**

- (1) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year the revenue which it derives from its NTS transportation owner activity ( $TOR_t$ ) shall not exceed the maximum NTS transportation owner revenue ( $TOMR_t$ ).
- (2)
  - (a) If in respect of any formula year the NTS transportation owner revenue exceeds the maximum NTS transportation owner revenue by more than 4 per cent of the latter, the licensee shall provide the Authority with a written explanation and, in the next following formula year, the licensee shall not effect any increase in prices for use of the NTS unless either:
    - (i) it has demonstrated to the reasonable satisfaction of the Authority that the NTS transportation owner revenue would not be likely to exceed the maximum NTS transportation owner revenue in that next following formula year; or
    - (ii) the Authority has, on the written application of the licensee, consented to such an increase in prices.
  - (b) If, in respect of any two successive formula years, the sums of the amounts by which the NTS transportation owner revenue has exceeded the maximum NTS transportation owner revenue are more than 6 per cent of the maximum NTS transportation owner revenue for the second of those formula years, then in the next following formula year the licensee shall if required by the Authority adjust its prices such that the NTS transportation owner revenue would not be likely in the judgement of the Authority to exceed maximum NTS transportation revenue in that next following formula year.

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**2. NTS transportation owner revenue ( $TOR_t$ )**

**(1) Principal formula**

For the purposes of paragraph 1 of Part 1 a of this Special Condition the NTS transportation owner revenue in respect of formula year  $t$  ( $TOR_t$ ) shall be derived from the following formula:

$$TOR_t = TOREVBEC_t + TOExR_t$$

where:

$TOREVBEC_t$  means the NTS TO revenue derived by the licensee in respect of formula year  $t$  from the sale of NTS SO baseline entry capacity and shall be derived from the following formula:

$$TOREVBEC_t = REVBEC_t - DREVBEC_t$$

where:

$REVBEC_t$  means the revenue derived by the licensee in respect of formula year  $t$  from the sale of NTS SO baseline entry capacity and shall be derived in accordance with paragraph 14(5)(k)(i) of Part 2 of this Special Condition;

$DREVBEC_t$  means the revenue derived by the licensee in respect of formula year  $t$  from the on the day sale of NTS SO baseline entry capacity and shall be derived in accordance with paragraph 14(5)(l)(i) of Part 2 of this Special Condition;

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TOExR<sub>t</sub> means the revenue derived by the licensee in respect of formula year t in respect of charges levied on shippers that is allocated to the NTS transportation owner activity and shall be derived in the following manner:

- (a) In respect of formula years 1 and 2 and, unless the Authority otherwise directs, in each subsequent relevant formula year until the first complete formula year in which the licensee achieves universal firm registration:

$$\text{TOExR}_t = \text{TOExRF}_t + \text{TOExNTSSIC}_t$$

TOExRF<sub>t</sub> means the revenue derived by the licensee in respect of formula year t in respect of charges levied on shippers in respect of its provision of NTS firm baseline exit capacity and shall be derived from the following formula:

$$\text{TOExRF}_t = \text{TOEx}_t \times \text{Min} \left[ \frac{\text{TOBFEx}_t}{\text{TOTFEx}_t}, 1 \right]$$

where:

TOEx<sub>t</sub> means the revenue derived by the licensee in respect of formula year t in respect of charges levied on shippers in respect of its provision of NTS firm exit capacity;

TOBFEx<sub>t</sub> means the NTS baseline firm exit capacity in respect of formula year t; and

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TOTFEx<sub>t</sub> means the total volume in GWh/day of NTS firm exit capacity registered by shippers on 15 January in respect of formula year t; and

TOExNTSSIC<sub>t</sub> means the accrued value in respect of charges foregone by the licensee as a result of NTS exit capacity curtailment rights and shall be derived from the following formula:

$$\text{TOExNTSSIC}_t = \text{ExNTSSIC}_t \times \text{Min} \left[ \frac{\text{SOBIEx}_t}{\text{SOTIEx}_t}, 1 \right]$$

where:

ExNTSSIC<sub>t</sub> has the meaning given to that term in paragraph 14(6)(h) of Part 2 of this Special Condition;

SOBIEx<sub>t</sub> means the NTS baseline interruptible exit capacity in respect of formula year t; and

SOTIEx<sub>t</sub> means the total volume in GWh/day of NTS capacity registered by shippers in respect of which the licensee has NTS exit capacity curtailment rights on 15 January of formula year t.

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(b) Otherwise:

$$\text{TOExR}_t = \text{TOExRF}_t$$

**3. Maximum NTS transportation owner revenue (TOMR<sub>t</sub>)**

**(1) Principal formula**

For the purposes of paragraph 1 of Part 1 a of this Special Condition the maximum NTS transportation owner revenue in respect of formula year  $t$  (TOMR <sub>$t$</sub> ) shall be derived from the following formula:

$$\text{TOMR}_t = \text{TOZ}_t + \text{TOF}_t - \text{TOK}_t$$

where:

TOZ <sub>$t$</sub>  shall be derived in the following manner:

(i) In respect of the formula year commencing on 1 April 2002:

$$\text{TOZ}_t = £336,560,000 \times \left[ 1 + \left( \frac{\text{RPI}_0}{100} \right) \right]$$

(ii) Otherwise:

$$\text{TOZ}_t = \text{TOZ}_{t-1} \times \left[ 1 + \left( \frac{\text{RPI}_t - X}{100} \right) \right]$$

where:

RPI<sub>0</sub> means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or



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determined with respect to each of the six months from April to September (both inclusive) in the year 1999 and the arithmetic average of the retail price index numbers published or determined with respect to the six months from July to December in the year 2001;

$RPI_t$  means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year  $t-1$  and the arithmetic average of the retail price index numbers published or determined with respect to the same months in formula year  $t-2$ ; and

$X$  has the value of two (2); and

$TOF_t$  means the NTS prescribed rates plus the NTS licence fees in respect of formula year  $t$ ;

where:

NTS prescribed rates	Means 17% of the charges incurred in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of its NTS transportation
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owner activity and its LDZ transportation activity in respect of formula year t; and

NTS licence fees means payments made by the licensee in respect of the NTS transportation owner activity under standard condition 3 (Payments by the Licensee to the Authority) in respect of formula year t determined in accordance with the principles determined by the Authority for the purposes of that condition; and

$TOK_t$  means the NTS TO revenue adjustment equal to the NTS TO over or under recovery in respect of formula year t-1 and shall be derived in accordance with paragraph 3(2) of Part 1 a of this Special Condition.

**(2) NTS transportation owner revenue adjustment ( $TOK_t$ )**

(a) For the purposes of paragraph 3(1) of Part 1 a of this Special Condition, the NTS TO revenue adjustment factor in respect of formula year t ( $TOK_t$ ) shall be derived in the following manner:

(i) In respect of the formula year commencing on 1 April 2002:

$TOK_t =$

$$(0.17 \times ([KT_t \times Q_t] \times [KM_t \times L_t] + [KR_t \times H_t])) - \left( S \times 0.17 \times \left[ 1 + \frac{I_t}{100} \right] \right)$$

where:

$KT_t$ ,  $KM_t$   
and  $KR_t$  mean the revenue adjustment factors in respect of the formula year commencing on 1 April 2002 and shall be calculated in accordance with the

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definitions of these terms set out in Special Condition 9C (Restriction of prices for transportation, metering and meter reading services) in the form that the same appeared in the licensee's gas transporter licence as at 31 March 2002 notwithstanding any subsequent modifications;

$Q_t$  means the deemed transportation quantity in respect of the formula year commencing on 1 April 2002 shall be calculated in accordance with the definitions of these terms set out in Special Condition 9C (Restriction of prices for transportation, metering and meter reading services) in the form that the same appeared in the licensee's gas transporter licence as at 31 March 2002 notwithstanding any subsequent modifications;

$L_t$  means the number of meter units in respect of the formula year commencing on 1 April 2002 shall be calculated in accordance with the definitions of these terms set out in Special Condition 9C (Restriction of prices for transportation, metering and meter reading services) in the form that the same appeared in the licensee's gas transporter licence as at 31 March 2002 notwithstanding any subsequent modifications;

$H_t$  means total number of meter reading units in respect of the formula year commencing on 1 April 2002 shall be calculated in accordance with the definitions of these terms set out in Special Condition 9C (Restriction of prices for transportation, metering and meter reading

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services) in the form that the same appeared in the licensee's gas transporter licence as at 31 March 2002 notwithstanding any subsequent modifications;

S is an amount equal to £26,500,000, being an adjustment in respect of licence fees payable by the licensee pursuant to standard condition 3 (Payments by the Licensee to the Authority) in respect of the formula year t-1; and

$I_t$  means the percentage interest rate in respect of formula year t which is equal to, where  $TOK_t$  (taking no account of  $I_t$  for this purpose) has a positive value, the average specified rate plus 3 or, where  $TOK_t$  (taking no account of  $I_t$  for this purpose) has a negative value, the average specified rate.

(ii) Otherwise:

$$TOK_t = (TOR_{t-1} - TOMR_{t-1}) \times \left(1 + \frac{I_t}{100}\right)$$

where

$TOR_{t-1}$  shall have the meaning given to that term in paragraph 2 of Part 1 a of this Special Condition where t equals t-1;

$TOMR_{t-1}$  shall have the meaning given to that term in paragraph 3(1) of Part 1 a of this Special Condition where t equals t-1; and

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$I_t$  shall have the meaning given to that term in paragraph 3(2)(a)(i) of Part 1 a of this Special Condition.

**4. Reporting obligations**

- (1) Where the licensee publishes any statement or revised or amended statement as to its transportation charges under amended standard condition 4 (Charging Gas Shippers - General), the licensee shall not later than twenty-eight days prior to the time of such publication provide the Authority with:-
  - (a) a written forecast of maximum NTS transportation owner revenue, together with its components, in respect of the formula year in which the change in such charges is to take effect and also in respect of the next following formula year; and
  - (b) a written estimate of the maximum NTS transportation owner revenue, together with its components, in respect of the formula year immediately preceding the formula year in which the change in such charges is to take effect unless a statement complying with paragraph 4 below in respect of that first mentioned formula year has been furnished to the Authority before the publication of the proposed change in such charges.
- (2) If, within three months of the commencement of any formula year, the licensee has not published or effected any such change in its transportation charges, the licensee shall provide the Authority with a written forecast of the maximum NTS transportation owner revenue, together with its components, in respect of that formula year.
- (3) Any forecasts as aforesaid shall be accompanied by such information as may be necessary to enable the Authority to be reasonably satisfied that the forecasts have been properly prepared on a consistent basis.
- (4) Not later than six weeks after the commencement of a formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion,

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paragraphs 4(1) to 4(2) of Part 1 a of this Special Condition apply in respect of that formula year and its best estimate of what  $TOK_t$  (as defined in paragraph 3(2) of Part 1 a of this Special Condition) is likely to be in that formula year.

- (5) The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement showing the NTS transportation owner revenue in respect of that formula year that shall be certified by a Director of the licensee on behalf of the licensee stating that the information is correct to the best of his knowledge and belief having made all reasonable enquiries.
- (6) The statement referred to in sub-paragraph (5) above shall be accompanied by a report from appropriate auditors that, in their opinion, that statement fairly presents the NTS transportation owner revenue in accordance with the requirements of this Special Condition.

**5. Disapplication of the NTS transportation owner activity revenue restriction**

- (1) The NTS transportation owner activity revenue restriction conditions shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 5(2) to 5(6) of Part 1 a of this Special Condition.
- (2) The NTS transportation owner activity revenue restriction conditions shall cease to have effect (in whole or in part as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 5(3) of Part 1 a of this Special Condition or notice is given to the Authority by the licensee in accordance with either paragraph 5(5) or paragraph 5(6) of Part 1 a of this Special Condition.
- (3) A disapplication request shall:
  - (i) be in writing addressed to the Authority;
  - (ii) specify the NTS transportation owner activity revenue restriction conditions (or any part or parts thereof) to which the request relates; and

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- (iii) state the date (being not earlier than the date referred to in paragraph 5(5) of Part 1 a of this Special Condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect.
- (4) The licensee may withdraw a disapplication request at any time.
- (5) Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to paragraph 5 of Part 1 a of this Special Condition shall have effect until a date being the earlier of:
  - (a) not less than 18 months after delivery of the disapplication request; and
  - (b) 31st March 2007.
- (6) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of Part 1 a of this Special Condition or the part or parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date and the licensee has not withdrawn the disapplication request, the licensee may deliver written notice to the Authority terminating the application of Part 1 a of this Special Condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.
- (7) If the Competition Commission makes a report on a reference made by the Authority relating to the modification of Part 1 a of this Special Condition or the part or parts thereof specified in the disapplication request and such report does not include a conclusion that the cessation of such revenue restrictions in Special Condition 28B Part 1 a , in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of Part 1 a of this Special Condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or later.

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**Part 1 b The LDZ transportation activity revenue restriction**

**6. The principal restriction**

- (1) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year  $t$  the LDZ transportation activity revenue ( $LDZR_t$ ) shall not exceed the maximum LDZ transportation activity revenue for that year ( $LDZMR_t$ ).
  
- (2) (a) If in respect of any formula year the LDZ transportation activity revenue exceeds the maximum LDZ transportation activity revenue by more than 4 per cent of the latter, the licensee shall provide the Authority with a written explanation and, in the next following formula year, the licensee shall not effect any increase in prices for use of the LDZs unless either:
  - (i) it has demonstrated to the reasonable satisfaction of the Authority that the LDZ transportation activity revenue would not be likely to exceed the maximum LDZ transportation activity revenue in that next following formula year; or
  - (ii) the Authority has, on the written application of the licensee, consented to such an increase in prices.
  
- (b) If, in respect of any two successive formula years, the sums of the amounts by which the LDZ transportation activity revenue has exceeded the maximum LDZ transportation activity revenue is more than 6 per cent of the maximum LDZ transportation activity revenue for the second of those formula years, then in the next following formula year the licensee shall if required by the Authority adjust its prices such that the LDZ transportation activity revenue would not be likely in the judgement of the Authority to exceed maximum LDZ transportation activity revenue in that next following formula year.



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**7. LDZ transportation activity revenue (LDZR<sub>t</sub>)**

For the purposes of paragraph 6 of Part 1 b of this Special Condition, the LDZ transportation activity revenue in respect of formula year t (LDZR<sub>t</sub>) shall have the meaning given to that term in Special Condition 28A (Revenue restriction definitions) and for the avoidance of doubt shall exclude any revenues derived from excluded services.

**8. Maximum LDZ transportation activity revenue (LDZMR<sub>t</sub>)**

**(1) Principal formula**

For the purposes of paragraph 6 of Part 1 b of this Special Condition the maximum LDZ transportation activity revenue in respect of formula year t (LDZMR<sub>t</sub>) shall be derived from the following formula:

$$\text{LDZMR}_t = \text{LDZZ}_t + \text{LDZF}_t - \text{LDZMRA}_t - \text{LDZK}_t$$

where:

LDZZ<sub>t</sub> shall be derived in the following manner:

- (i) In respect of the formula year commencing on 1 April 2002:

$$\text{LDZZ}_t = £1,805,675,000 \times \left(1 + \frac{\text{RPI}_0}{100}\right)$$

- (ii) Otherwise:

$$\text{LDZZ}_t = \text{LDZZ}_{t-1} \times \left[1 + \left(\frac{\text{RPI}_t - X}{100}\right)\right] \times Q_t$$

where:

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$RPI_0$  means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from April to September (both inclusive) in the year 1999 and the arithmetic average of the retail price index numbers published or determined with respect to each of the six months from July to December (both inclusive) in the year 2001;

$RPI_t$  means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1 and the arithmetic average of the retail price index numbers published or determined with respect to the same months in relevant year t-2;

X has the value of two (2); and

$Q_t$  shall be derived from the following formula:

$$Q_t = \left( 0.65 + 0.35 \times \frac{W_t}{W_{t-1}} \right)$$

where:

$W_t$  means the composite user quantity in respect of formula year t and shall be derived from the following formula:

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$$W_t = B_t + (0.15 \times D_t) + (0.05 \times V_t)$$

where

$B_t$  is the small user quantity in respect of formula year t;

$D_t$  is the large user quantity in respect of formula year t; and

$V_t$  is the very large user quantity in respect of formula year t; and

$LDZF_t$  means the LDZ prescribed rates plus the LDZ licence fees in respect of formula year t;

where:

LDZ prescribed rates means 83% of the charges incurred in respect of the prescribed rates or equivalent tax or duty replacing them levied on the licensee in respect of its LDZ transportation activity and its NTS transportation owner activity in respect of formula year t; and

LDZ licence fees means payments made by the licensee in respect of the LDZ transportation activity under standard condition 3 (Payments by the Licensee to the Authority) in respect of formula year t determined in accordance with the principles determined by the Authority for the

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purposes of that condition.

LDZMRA<sub>t</sub> means the mains replacement expenditure adjustment (whether of a positive or negative value) and shall be derived in accordance with paragraph 8(2) of Part 1 b of this Special Condition; and

LDZK<sub>t</sub> means the LDZ transportation activity revenue adjustment factor to the LDZ transportation activity revenue over or under recovery in respect of formula year t-1 and shall be derived in accordance with paragraph 8(4) of Part 1 b of this Special Condition.

**(2) Mains replacement expenditure adjustment (LDZMRA<sub>t</sub>)**

For the purposes of paragraph 8(1) of Part 1 b of this Special Condition the mains replacement expenditure adjustment in respect of formula year t (LDZMRA<sub>t</sub>) shall be derived from the following manner:

If  $E_t > AM_t$ , then:

$$LDZMRA_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.5 \times E_t) - (0.5 \times AM_t)$$

Otherwise:

$$LDZMRA_t = \left(1 + \frac{A_t}{100}\right) \times J_t \times 1,000,000 - (0.67 \times E_t) - (0.33 \times AM_t)$$

where:

A<sub>t</sub> means the mains RPI in respect of formula year t;

J<sub>t</sub> means the price control initial projection allowance in respect of formula year t and shall have the values set out in the following table:

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	Formula years				
	t=1	t=2	t=3	t=4	t=5
<b>Price control mains allowance</b>	342	263	288	304	314

$E_t$  means the outturn mains costs in respect of formula year t; and

$AM_t$  means the matrix mains cost in respect of formula year t and shall be derived in accordance with paragraph 8(3) of Part 1 b of this Special Condition.

where:

included mains means all mains which prior to decommissioning formed mains which operated at low, medium or intermediate distribution pressures;

mains RPI means the percentage change (whether of a positive or negative value) in the arithmetic average of the retail price Index numbers published or determined with respect to each of the twelve months April to March (both inclusive) in formula year t and the arithmetic average of the retail price index numbers published or determined with respect to the period from January to December (both inclusive) 2000;

outturn mains cost means the costs reasonably attributable to the replacement and decommissioning of included mains composed of non- standard mains materials in respect of formula year t excluding costs reasonably attributable to rechargeable diversions; and

non standard mains mains which are not composed of polyethylene or a similar polymer based material (other than polyvinyl

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materials chloride (PVC)) or of steel provided with cathodic protection.

**(3) Matrix mains cost (  $AM_t$  )**

- (a) For the purposes of paragraph 8(2) of Part 1 b of this Special Condition the matrix mains cost in respect of formula year t ( $AM_t$ ) shall be derived in the following manner:

$$AM_t = \left(1 + \frac{A_t}{100}\right) \times \left[ \sum_{n=1}^6 (L_{n,t} \times U_{n,t}) \right] \times 1,000$$

where:

$A_t$  shall have the meaning given to that term in paragraph 8(2) of Part 1 b of this Special Condition;

$L_{n,t}$  means the length of mains in kilometres decommissioned in respect of diameter band n and formula year t where the diameter bands shall be defined as set out in the following table, save that in respect of any diameter of mains not covered by the table or mains measured in metric measurement shall be reported in the diameter band corresponding to the nearest imperial equivalent; and

Diameter band n	Nominal internal diameter of mains decommissioned (inches)
1	2 – 3
2	4 – 5
3	6 – 7
4	8 – 9
5	10 – 12
6	Greater than 12

$U_{n,t}$  means the specific matrix costs in respect of diameter band n and formula year t as set out in the following table; and

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	<b>Specific matrix costs (£ per metre)</b>				
<b>Diameter band n</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t=5</b>
1	45.7	46.1	45.2	44.2	42.3
2	47.4	47.3	45.5	44.3	43.3
3	115.3	117.9	113.5	111.0	106.9
4	179.8	190.9	184.3	180.2	174.3
5	211.7	225.1	217.0	212.1	204.9
6	306.8	316.8	307.0	298.2	288.0

$\sum_{n=1}^6$  means the sum over the diameter bands n of  $L_{n,t} \times U_{n,t}$ .

- (b) By 31 July 2003 and by 31 July in each subsequent formula year t the licensee shall prepare and provide to the Authority a report providing details of:
- (i) the mains replacement work completed in respect of the previous formula year in kilometres of the lengths of mains decommissioned (excluding rechargeable diversions) by diameter band; and
  - (ii) detailing the outturn mains costs in respect of formula year t-1.
- (c) For the purposes of paragraph 8(3)(b) of Part 1 b of this Special Condition, 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.
- (d) The licensee shall allow the Authority or a duly authorised nominated representative of the Authority on the provision of reasonable prior written notice access to its staff, records and facilities as the Authority may reasonably require or as may be necessary for the purpose of enabling the Authority to establish to its reasonable satisfaction that the information to be provided by the licensee under sub-paragraph 3(4)(b) of Part 1 b of this

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Special Condition above fairly presents the outturn mains costs and lengths and diameters decommissioned in formula year t.

**(4) LDZ transportation activity revenue adjustment (LDZK<sub>t</sub>)**

- (a) For the purposes of paragraph 8(1) of Part 1 b of this Special Condition the LDZ transportation activity revenue adjustment in respect of formula year t (LDZK<sub>t</sub>) shall be derived from the following manner:

- (i) In respect of the formula year commencing on 1 April 2002:

$$\text{LDZK}_t = (0.83 \times ([KT_t \times Q_t] + [KM_t \times L_t] + [KR_t \times H_t])) - \left( S_t \times 0.83 \times \left[ 1 + \frac{I_t}{100} \right] \right)$$

where:

KT<sub>t</sub>,  
KM<sub>t</sub> and  
KR<sub>t</sub> means the revenue adjustment factors in respect of the formula year commencing on 1 April 2002 and shall be calculated in accordance with the definitions of these terms set out in Special Condition 9C (Restriction of prices for transportation, metering and meter reading services) in the form that the same appeared in the licensee's gas transporter licence as at 31 March 2002 notwithstanding any subsequent modifications;

Q<sub>t</sub> means the deemed transportation quantity in respect of the formula year commencing on 1 April 2002 shall be calculated in accordance with the definitions of these terms set out in special connection 9C (Restriction of prices for transportation, metering and meter reading services) in the form that the same appeared in the licensee's gas transporter licence as at 31 March 2002 notwithstanding any subsequent modifications;

L<sub>t</sub> the number of meter units in respect of the formula year



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commencing on 1 April 2002 shall be calculated in accordance with the definitions of these terms set out in the Special Condition 9C (Restriction of prices for transportation, metering and meter reading services) in the form that the same appeared in the licensee's gas transporter licence as at 31 March 2002 notwithstanding any subsequent modifications;

$H_t$  total number of meter reading units in respect of the formula year commencing on 1 April 2002 shall be calculated in accordance with the definitions of these terms set out in Special Condition 9C (Restriction of prices for transportation, metering and meter reading services) in the form that the same appeared in the licensee's gas transporter licence as at 31 March 2002 notwithstanding any subsequent modifications;

$S_t$  is an amount equal to £26,500,000 being an adjustment in respect of licence fees payable by the licensee pursuant to standard condition 3 (Payments by the licensee to the Authority) in respect of the formula year  $t-1$ ; and

$I_t$  shall have the meaning given to that term in paragraph 3(2) of Part 1 a of this Special Condition.

(ii) Otherwise:

$$LDZK_t = (LDZR_{t-1} - LDZMR_{t-1}) \times \left(1 + \frac{I_t}{100}\right)$$

**9. Calculation of quantities**

- (1) In Part 1 b of this Special Condition in respect of the definitions of commercial user quantity, very large user quantity and small interruptible user quantity, the

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licensee shall determine loads attributable to the small interruptible user quantity, commercial user quantity and very large user quantity on the basis of volumes reasonably expected to have been off-taken during the formula year having regard to daily meter reads or if these are not available the licensee shall use reasonable estimates of the volumes likely to be off-taken in accordance with the process for determination of such volumes pursuant to the licensee's Network Code.

**10. Reporting obligations**

- (1) Where the licensee publishes any statement or revised or amended statement as to its LDZ transportation charges under amended standard condition 4 (Charging Gas Shippers – General), the Licensee shall not later than twenty eight days prior to the time of such publication provide the Authority with:
  - (a) a written forecast of maximum LDZ transportation activity revenue together with its components, in respect of the formula year in which the change in such charges is to take effect and also in respect of the next following formula year; and
  - (b) a written estimate of the maximum LDZ transportation activity revenue together with its components, in respect of the formula year immediately preceding the formula year in which the change in such charges is to take effect unless a statement complying with paragraph 10(4) of Part 1 b of this Special Condition in respect of the first mentioned formula year has been furnished to the Authority before publication of the proposed change to such charges.
- (2) If, within three months of the commencement of any formula year, the licensee has not published or effected any such change in its LDZ transportation charges under amended standard condition 4 (Charging Gas Shippers – General) the licensee shall provide the Authority with a written forecast of the maximum LDZ transportation activity revenue together with its components, in respect of that formula year.

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- (3) Any forecasts as aforesaid shall be accompanied by such information as may be necessary to enable the Authority to be reasonably satisfied that the forecasts have been properly prepared on a consistent basis.
- (4) Not later than six weeks after the commencement of the formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion, paragraphs 10(1) or (2) of Part I b of this Special Condition above apply in respect of that formula year and its best estimate of what LDZK<sub>t</sub> (as defined in paragraph 8(4) of Part 1 b this Special Condition) is likely to be in that formula year.
- (5) The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement showing the LDZ transportation activity revenue, the LDZ transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity in respect of that formula year which shall be certified by a Director of the licensee on behalf of the licensee stating that the information is correct to the best of his knowledge and belief having made all reasonable enquiries.
- (6) The statement referred to in sub-paragraph (5) above shall be accompanied by a report from an appropriate auditor that, in its opinion, that statement fairly presents the LDZ transportation activity revenue, the LDZ transportation quantity and the commercial user quantity, the very large user quantity and the small interruptible user quantity in accordance with the requirements of this Special Condition.

**11. Disapplication of the LDZ transportation activity revenue restriction**

- (1) The LDZ transportation activity revenue restriction conditions shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 11(2) to 11(7) of Part 1 b of this Special Condition.
- (2) The LDZ transportation activity revenue restriction conditions shall cease to have effect (in whole or in part as the case may be) if the licensee delivers to the

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Authority a disapplication request made in accordance with paragraph 11(3) of Part 1 b of this Special Condition or notice is given to the Authority by the licensee in accordance with either paragraph 11(5) or paragraph 11(6) of Part 1 b of this Special Condition.

- (3) A disapplication request shall:
- (i) be in writing addressed to the Authority;
  - (ii) specify the LDZ transportation activity revenue restriction conditions (or any part or parts thereof) to which the request relates; and
  - (iii) state the date (being not earlier than the date referred to in paragraph 11(5) of Part 1 b of this Special Condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect, (the disapplication date).
- (4) The licensee may withdraw a disapplication request at any time.
- (5) Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to paragraph 6 of Part 1 b of this Special Condition shall have effect until a date being the earlier of:
- (a) not less than 18 months after delivery of the disapplication request; and
  - (b) 31st March 2007.
- (6) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of Part 1 b of this Special Condition or the part or parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date and the licensee has not withdrawn this disapplication request, the licensee may deliver written notice to the Authority terminating the application of Part 1 b of this Special Condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.

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- (7) If the Competition Commission makes a report on a reference made by the Authority relating to the modification of Part 1 b of this Special Condition or the part or parts thereof specified in the disapplication request and such report does not include a conclusion that the cessation of such revenue restrictions in Special Condition 28B Part 1 b, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of Part 1 b of this Special Condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or such a later date.

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**Part 2 The NTS system operation activity revenue restrictions**

**12. Principal Restriction**

- (1) The licensee shall use its best endeavours in setting its charges to ensure that in respect of any formula year the revenue which it derives from its NTS system operation activity ( $SOR_t$ ) shall not exceed the maximum NTS system operation revenue ( $SOMR_t$ ).
- (2) If in respect of any formula year the NTS system operation revenue ( $SOR_t$ ) exceeds the maximum NTS system operation revenue ( $SOMR_t$ ) by more than 4 per cent of the latter, the licensee shall furnish an explanation to the Authority and, in the next following formula year, the licensee shall not effect any increase in prices in respect of services relating to the NTS SO activity unless either:
  - (a) it has demonstrated to the reasonable satisfaction of the Authority that the NTS system operation revenue would not be likely to exceed the maximum NTS system operation revenue in that next following formula year; or
  - (b) the Authority has, on the application of the licensee, consented to such an increase in prices.
- (3) If, in respect of any two successive financial years, the sums of the amounts by which the NTS system operation revenue ( $SOR_t$ ) has exceeded the maximum NTS system operation revenue is more than 6 per cent of the maximum NTS system operation revenue ( $SOMR_t$ ) for the second of those years, then in the next following formula year the licensee shall if required by the Authority adjust its prices such that the NTS system operation revenue would not be likely in the judgement of the Authority to exceed maximum NTS system operation revenue in that next following formula year.

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**13. NTS system operation revenue (SOR<sub>t</sub>)**

**(1) Principal formula**

For the purposes of paragraph 12 of Part 2 of this Special Condition the revenues which the licensee derives from its NTS system operation activity in respect of any formula year  $t$  (SOR <sub>$t$</sub> ) shall be derived from the following formula:

$$\text{SOR}_t = \text{RCOM}_t + \text{SOExRF}_t + \text{SORCAP}_t + \text{SOROC}_t$$

where:

RCOM <sub>$t$</sub>  means the revenue derived by the licensee in respect of formula year  $t$  from charges levied on shippers pursuant to amended standard condition 4 (Charging Gas Shippers – General) in respect of NTS SO activities provided by the licensee and shall include charges to recover both costs incurred by the licensee and net payments made to or by the licensee in respect of reducing the costs arising from system operation activities other than revenue earned by the licensee through (i) SOExRF <sub>$t$</sub>  (ii) SORCAP <sub>$t$</sub>  and (iii) SOROC <sub>$t$</sub> .

SOExRF <sub>$t$</sub>  means the revenue derived by the licensee in respect of formula year  $t$  from sales of incremental exit capacity and shall be derived in accordance with the following formula:

$$\text{SOExRF}_t = \text{TOEx}_t - \text{TOExRF}_t$$

where:

TOEx <sub>$t$</sub>  shall be derived in accordance with paragraph 2 of Part 1 a of this Special Condition;

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TOExRF<sub>t</sub> shall be derived in accordance with  
paragraph 2 of Part 1 a of this Special  
Condition;

SORCAP<sub>t</sub> means the NTS SO revenue derived by the licensee in respect of  
sales of entry capacity and shall be derived in accordance with  
paragraph 13(2) of Part 2 of this Special Condition; and

SOROC<sub>t</sub> means the NTS SO revenue derived by the licensee in respect  
other defined SO charges and shall be derived in accordance with  
paragraph 13(3) of Part 2 of this Special Condition.

**(2) NTS SO revenue derived from the sales of entry capacity (SORCAP<sub>t</sub>)**

For the purposes of paragraph 13(1) of Part 2 of this Special Condition NTS SO  
revenue derived by the licensee in respect of sales of entry capacity in respect of  
formula year t (SORCAP<sub>t</sub>) shall be derived from the following formula:

$$\text{SORCAP}_t = \text{DREVBEC}_t + \text{REVOIEC}_t + \text{REVIEC}_t + \text{REVIC}_t + \text{REVIBEC}_t$$

where:

DREVBEC<sub>t</sub> means the revenue derived by the licensee in respect of formula  
year t from on the day sales of NTS SO baseline entry capacity  
and shall be derived in accordance with paragraph 14(5)(l)(i) of  
Part 2 of this Special Condition;

REVOIEC<sub>t</sub> means the revenue derived by the licensee in respect of formula  
year t from sales of obligated incremental entry capacity and shall  
be derived in accordance with paragraph 14(5)(k)(ii) of Part 2 of  
this Special Condition;

REVIEC<sub>t</sub> means the revenue derived by the licensee in respect of formula  
year t from sales of non-obligated incremental entry capacity and



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shall be derived in accordance with paragraph 14(5)(k)(iii) of Part 2 of this Special Condition;

REVIC<sub>t</sub> means the revenue derived by the licensee in respect of formula year t from sales of interruptible entry capacity; and

REVIBEC<sub>t</sub> means the revenues earned by the licensee in respect of formula year t from sales of permanent obligated incremental entry capacity relating to periods more than 5 years after the first day to which such capacity is related and shall be derived in accordance with paragraph 14(5)(k)(iv) of Part 2 of this Special Condition.

**(3) Associated SO charges (SOROC<sub>t</sub>)**

For the purposes of paragraph 13(1) of Part 2 of this Special Condition NTS SO revenue derived by the licensee through associated SO charges in respect of formula year t (SOROC<sub>t</sub>) shall be derived from the following formula:

$$\text{SOROC}_t = \text{RNC}_t + \text{RCOR}_t + \text{FTI}_t$$

where:

RNC<sub>t</sub> means the net revenue derived in respect of formula year t through balancing neutrality charges (having the meaning given to that term in the licensee's Network Code);

RCOR<sub>t</sub> means revenue derived by the licensee in formula year t in respect of system entry overrun charges (having the meaning given to that term in the licensee's Network Code); and

FTI<sub>t</sub> means revenue derived by the licensee in respect of formula year t from charges levied on shippers in respect of any failure to interrupt (having the meaning given to that term in the licensee's

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Network Code).

**14. Definition of maximum NTS system operation revenue (SOMR<sub>t</sub>)**

**(1) Principal formula**

For the purposes of paragraph 12 of Part 2 of this Special Condition, the term maximum NTS system operation revenue in respect of formula year  $t$  (SOMR <sub>$t$</sub> ) shall be derived from the following formula:

$$\text{SOMR}_t = \text{SOIR}_t + \text{SOIC}_t + \text{SORA}_t$$

where:

SOIR <sub>$t$</sub>  means the NTS system operation incentive revenue in respect of formula year  $t$  and shall be derived in accordance with paragraph 14(2) of Part 2 of this Special Condition;

SOIC <sub>$t$</sub>  means the NTS system operation revenue equal to the costs incurred by the licensee in respect of formula year  $t$  and shall be derived in accordance with paragraph 14(3) of Part 2 of this Special Condition; and

SORA <sub>$t$</sub>  means any allowance in respect of an approved income adjusting event (whether of a positive or negative value) to be made in respect of formula year  $t$  and shall be derived in accordance with paragraph 14(11) of Part 2 of this Special Condition.

**(2) NTS system operator incentive revenue (SOIR <sub>$t$</sub> )**

For the purposes of paragraph 14(1) of Part 2 of this Special Condition, the NTS system operator incentive revenue in respect of formula year  $t$  (SOIR <sub>$t$</sub> ) shall be derived from the following formula:

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$$SOIR_t = ECIIR_t + ExCIIR_t + BBIR_t + SBIR_t + RBIR_t + ICIR_t$$

where:

$ECIIR_t$  means the entry capacity investment incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(5)(a) of Part 2 of this Special Condition;

$ExCIIR_t$  means the exit capacity investment incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(6)(a) of Part 2 of this Special Condition;

$BBIR_t$  means the buy back incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(7)(a) of Part 2 of this Special Condition;

$SBIR_t$  means the NTS system balancing incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(8)(a) of Part 2 of this Special Condition;

$RBIR_t$  means the residual gas balancing incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(9)(a) of Part 2 of this Special Condition; and

$ICIR_t$  means the internal costs incentive revenue in respect of formula year t and shall be derived in accordance with paragraph 14(10)(a) of Part 2 of this Special Condition.

**(3) NTS system operation costs (  $SOIC_t$  )**

For the purposes of paragraph 14(1) of Part 2 of this Special Condition, the term NTS system operation costs in respect of formula year t (  $SOIC_t$  ) shall be derived from the following formula:

$$SOIC_t = ExCP_t + IECCC_t + CNIC_t + SBIC_t + RBIC_t + ICCP_t - SOK_t$$

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where:

- $ExCP_t$  means the revenue equivalent to the exit capacity costs incurred by the licensee in respect of formula year  $t$  and shall be derived in accordance with paragraph 14(6)(h) of Part 2 of this Special Condition;
- $IECCC_t$  means the revenue equivalent to the total entry capacity constraint costs incurred in respect of formula year  $t$  and shall be derived in accordance with paragraph 14(7)(b) of Part 2 of this Special Condition;
- $CNIC_t$  means the revenue equivalent to the total second capacity adjustment neutrality amount (having the meaning given to that term in the licensee's Network Code) incurred in respect of formula year  $t$ ;
- $SBIC_t$  means the revenue equivalent to the system balancing costs incurred by the licensee in respect of formula year  $t$  and shall be derived in accordance with paragraph 14(8)(f) of Part 2 of this Special Condition;
- $RBIC_t$  means an amount equal to the revenue equivalent to the net residual balancing costs incurred by the licensee in respect of formula year  $t$  and shall be equal to the sum of the basic net neutrality amount and the adjustment neutrality amount (both having the meanings given to those terms in the licensee's Network Code) across all days in formula year  $t$ ;
- $ICCP_t$  means the revenue equivalent to the internal costs incurred by the licensee in respect of formula year  $t$  and shall be derived in accordance with paragraph 14(10)(b) of Part 2 of this Special Condition; and

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$SOK_t$  means the NTS SO revenue adjustment factor equal to NTS system operation maximum revenue under or over recovery in respect of formula year t-1 and shall be derived in accordance with paragraph 14(4) of Part 2 of this Special Condition.

**(4) NTS SO revenue adjustment factor ( $SOK_t$ )**

For the purposes of paragraph 14(3) of Part 2 of this Special Condition, the NTS system operation revenue adjustment factor (whether of a positive or negative value) in respect of formula year t ( $SOK_t$ ) shall be derived in the following manner:

In respect of the formula year commencing on 1 April 2002,

$$SOK_t = 0$$

Otherwise:

$$SOK_t = (SOR_{t-1} - SOMR_{t-1}) \times (1 + I_t/100)$$

where:

$SOR_{t-1}$  shall have the meaning given to the term  $SOR_t$  in paragraph 13(1) of Part 2 of this Special Condition where t equals t-1;

$SOMR_{t-1}$  shall have the meaning given to the term  $SOMR_t$  in paragraph 14(1) of Part 2 of this Special Condition where t equals t-1; and

$I_t$  shall have the meaning given to that term in paragraph 3(2) of Part 1 a of this Special Condition.

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**(5) Entry capacity investment incentive revenue (ECIIR<sub>t</sub>)**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this Special Condition the maximum entry capacity investment incentive revenue allowed to the licensee in respect of formula year  $t$  (ECIIR<sub>t</sub>) shall be derived in the following manner:

If  $t \leq 5$  then:

$$ECIIR_t = \sum_{\text{all } j} \text{SOREVOIEC}_t^j$$

Otherwise:

$$ECIIR_t = \sum_{\text{all } j} \text{SOREVOIEC}_t^j + \frac{RI_t}{RI_0} \sum_{\text{all } j, m=12t-11}^{12t} \text{SOREVIBEC}_m^j$$

where:

$\text{SOREVOIEC}_t^j$  means the maximum NTS system operation incentive revenue from the sale of obligated incremental entry capacity in respect of formula year  $t$  at terminal  $j$  and shall be derived in accordance with paragraph 14(5)(d) of Part 2 of this Special Condition;

$\sum_{\text{all } j} \text{SOREVOIEC}_t^j$  means the sum across all terminals  $j$  of  $\text{SOREVOIEC}_t^j$ ;

$RI_t$  means the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year  $t-1$ ;

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$RI_0$  means the arithmetic average of the retail price index published or determined with respect to each of the six months from April to September (both inclusive) in the year 1999;

$SOREVIBEC_m^j$  means the NTS system operator incentive revenue from the sales of permanent obligated incremental entry capacity in respect of periods where month  $m$  is more than 5 years after the first month to which capacity relates and in respect of terminal  $j$  that is included in the calculation of NTS SO baseline entry capacity pursuant to paragraph 14(5)(g) of Part 2 of this Special Condition and shall be derived from the following formula:

$$SOREVIBEC_m^j =$$

$$\sum_{p=60}^{(m-1)} \left[ \left( \sum_{w=0}^{Q^1} IPOEC_{(m-p),w}^j \right) \times \frac{UCAG^j}{12} \times \left( OPEX + \frac{1}{UEL} + \frac{ARR}{2UEL} \left[ 2 \left[ UEL - \beta - RND \left( \frac{p}{12} \right) \right] - 1 \right] \right) \right]$$

where:

$Q^1$  means the number of days between 1 April 2002 and the first day of month  $m$  (and for the avoidance of doubt when month  $m$  is April 2002  $Q^1$  shall have the value zero (0));

$IPOEC_{(m-p),w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;

$\sum_{p=60}^{(m-1)} \gamma_p$  means the sum calculated in the following manner:

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$$\sum_{p=60}^{(m-1)} \gamma_p = \gamma_{60} + \gamma_{61} + \dots + \gamma_{m-1}$$

where

$$\gamma_p =$$

$$\left( \sum_{w=0}^{Q^1} \text{IPOEC}_{(m-p),w}^j \right) \times \frac{\text{UCAG}^j}{12} \times \left( \text{OPEX} + \frac{1}{\text{UEL}} + \frac{\text{ARR}}{2\text{UEL}} \left[ 2 \left[ \text{UEL} - \beta - \text{RND} \left( \frac{p}{12} \right) \right] - 1 \right] \right)$$

where:

$\sum_{w=0}^{Q^1} (\text{IPOEC}_{(m-p),w}^j)$  means the sum calculated in the following manner:

$$\sum_{w=0}^{Q^1} (\text{IPOEC}_{(m-p),w}^j) = \text{IPOEC}_{(m-p),0}^j + \text{IPOEC}_{(m-p),1}^j + \dots + \text{IPOEC}_{(m-p),Q^1}^j$$

$\text{UCAG}^j$  means the unit cost allowance in pounds per kilowatt hour in respect of terminal  $j$  and has the value set out in the following table:



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Terminal j	UCAG <sup>j</sup> (£/kWh)
Bacton	0.182
Barrow	0.014
Easington	0.034
St. Fergus	0.639
Teesside	0.059
Theddlethorpe	0.031
Glenmavis	0.532
Partington	0.009
Avonmouth	0.064
Isle of Grain	0.186
Dynevor Arms	0.000
Hornsea	0.153
Hatfield Moor (storage)	0.042
Hatfield Moor (onshore)	0.042
Aldborough	0.057
Cheshire	0.003
Hole House Farm	0.002
Wych Farm	0.000
Burton Point	0.002

OPEX has a value equal to 0.015;

UEL has a value equal to 45;

ARR has a value equal to 0.0625;

$\beta$  has a value equal to 0.2; and

RND(x) means the value of x rounded down to

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the next integer value; and

$\sum_{\text{all } j} \sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m,j}^j$  means the sum across all terminals  $j$  of  $\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m,j}^j$ ; and

$\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m,j}^j$  means the sum across all months  $m$  in formula year  $t$  at terminal  $j$  of  $\text{SOREVIBEC}_{m,j}^j$  calculated in the following manner:

$$\sum_{m=12t-11}^{12t} \text{SOREVIBEC}_{m,j}^j = \text{SOREVIBEC}_{(12t-11),j}^j + \text{SOREVIBEC}_{(12t-10),j}^j + \dots + \text{SOREVIBEC}_{12t,j}^j$$

**(b) Determination of obligated incremental entry capacity**

(i) In this paragraph 14(5)(b) of Part 2 of this Special Condition:

**proposal** means a proposal by the licensee to undertake to sell or to offer for sale entry capacity additional to the then current level of obligated entry capacity and for such entry capacity to be treated as obligated incremental entry capacity for the purposes of Part 2 of this Special Condition.

(ii) Where the licensee reasonably believes that there is or will be demand for firm entry capacity additional to the then current level of obligated entry capacity as a result of calculations carried out in accordance with its prevailing incremental entry capacity release methodology, established pursuant to Special Condition 34, (Licensee's methodology for determining incremental entry capacity volumes), it may apply for that additional firm entry capacity to be treated as obligated incremental entry capacity for the purposes of Part 2 of this Special Condition in accordance with the following paragraphs.

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- (iii) The licensee shall make a written application to the Authority in respect of each specific proposal to make available obligated incremental entry capacity for sale which shall include, in sufficient detail to enable the Authority to decide whether to make the direction referred to in sub-paragraph 14(5)(b)(vii) of Part 2 of this Special Condition, the following:
  - (aa) The inputs that have been applied to the incremental entry capacity release methodology;
  - (bb) The results of applying the incremental entry capacity release methodology and the rationale for why the licensee believes implementation of the proposal is justified;
  - (cc) The terminal to which the proposal relates;
  - (dd) The volume of firm entry capacity subject to the proposal;
  - (ee) The duration for which the licensee will be obliged to offer for sale the firm entry capacity subject to the proposal (for the avoidance of doubt this must be at least one year);
  - (ff) The first month in respect of which the firm entry capacity subject to the proposal would relate (for the avoidance of doubt, the capacity will be deemed to be available from the first day of this month);
  - (gg) The amount of capital expenditure which the licensee reasonably expects to incur in implementing the proposal;
  - (hh) A technical description of the manner in which the licensee proposes to provide the firm entry capacity subject to the proposal;

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- (ii) The day on which the obligation to offer for sale such capacity would commence; and
- (jj) A statement from appropriate auditors that they have carried out an investigation, the scope and objectives of which shall have been established by the licensee and approved by the Authority, giving their opinion as to the extent to which the licensee has complied with its incremental entry capacity release methodology specified and the reasonableness of the inputs used.
- (iv) The licensee shall keep a record of each application made pursuant to paragraph 14(5)(b)(iii) of Part 2 of this Special Condition.
- (v) The licensee shall provide the Authority with such additional information as the Authority requests for the purposes of ascertaining whether it is reasonable to conclude that there is sufficient demand to justify implementation of the proposal.
- (vi) Where the licensee's calculations pursuant to its incremental entry capacity release methodology demonstrate that all the relevant criteria as specified in its incremental entry capacity release methodology for releasing incremental entry capacity have been met, the licensee shall implement the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition in accordance with the timetable set out in that proposal commencing 5 business days from receipt by the Authority of written application under paragraph 14(5)(b)(iii) in Part 2 of this Special Condition, unless the Authority notifies the licensee in writing before that date to suspend implementation of the proposal because in its opinion the application made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition contained insufficient information for it to determine whether all of the relevant criteria as specified in its incremental entry capacity release methodology have been met.

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- (vii) Where the Authority has notified the licensee under paragraph 14(5)(b)(vi) in Part 2 of this Special Condition to suspend implementation of the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition the licensee shall implement the proposal, subject to any amendments which may have been agreed between the licensee and the Authority, in accordance with the timetable set out in that proposal commencing 28 days from receipt by the Authority of written application under paragraph 14(5)(b)(iii) in Part 2 of this Special Condition, unless the Authority directs the licensee in writing before that date not to implement the proposal or prior to the end of the 28 days the Authority directs the licensee in writing to implement the proposal (subject to any amendments as may have been agreed with the Authority) at an earlier date.
- (viii) Pursuant to a proposal made by the licensee under paragraph 14(5)(b)(iii) in Part 2 of this Special Condition, and implemented in accordance with paragraph 14(5)(b)(vi) or (vii) in Part 2 of this Special Condition, as the case may be, the licensee shall treat as:
- (aa) permanent obligated incremental entry capacity that capacity which it has proposed to offer for sale in respect of every day of a period of five years or more; and
  - (bb) annual obligated incremental capacity, that capacity which it has proposed to offer for sale in respect of every day of a period of less than five years

and shall be obliged to offer such capacity for sale from the date specified in such proposal (as may have been amended in accordance with paragraph 14(5)(b)(vii) in Part 2 of this Special Condition) in accordance with paragraphs 14(5)(c) and 14(5)(f) in Part 2 of this Special Condition;

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- (ix) The licensee may withdraw a proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition within 5 business days from receipt by the Authority of that proposal. Where the Authority has notified the licensee under paragraph 14(5)(b)(vi) in Part 2 of this Special Condition to suspend implementation of the proposal made pursuant to paragraph 14(5)(b)(iii) in Part 2 of this Special Condition, the licensee may withdraw such a proposal within 28 days from receipt by the Authority of that proposal unless the Authority has otherwise directed the licensee to implement the proposal; and
- (x) For the avoidance of doubt where the Authority has made a direction not to implement the proposal under paragraph 14(5)(b)(vii) in Part 2 of this Special Condition the licensee shall remain entitled to make available firm entry capacity additional to the then current level of obligated entry capacity and any such additional firm entry capacity sold by the licensee shall be treated as non-obligated incremental entry capacity.

**(c) The allocation of firm entry capacity**

- (i) The licensee shall use all reasonable endeavours to ensure that by 1 November 2002 it has offered for sale all long-term NTS SO baseline entry capacity available in respect of at least formula years 1 to 5 inclusive in one or more allocations, such allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this Special Condition.
- (ii) The licensee shall use all reasonable endeavours to offer for sale all obligated entry capacity in at least one clearing allocation such allocation or allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this Special Condition, for the avoidance of doubt where a clearing allocation would contravene the provisions of amended standard condition 4 (Charging Gas Shippers - General) the licensee shall allocate such capacity in accordance

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with provisions of amended standard condition 4A(5)(aa)(ii) (Charging Gas Shippers - General).

(iii) Where the licensee serves a termination notice (having the meaning given to that term in the licensee's Network Code) on a shipper (the terminated shipper), the licensee shall:

(aa) use all reasonable endeavours to offer for sale, in at least one clearing allocation (for the avoidance of doubt where a clearing allocation would contravene the provisions of amended standard condition 4 (Charging Gas Shippers - General) the licensee shall allocate such capacity in accordance with provisions of amended standard condition 4A(5)(aa)(ii) (Charging Gas Shippers - General)), any such obligated entry capacity relating to any day that has not commenced that was held by the terminated shipper and which obligated capacity has not been registered to another shipper pursuant to section B (System use and capacity) of the licensee's Network Code, such clearing allocations having been duly notified in accordance with paragraph 14(5)(c)(iv) in Part 2 of this Special Condition; and

(bb) at the earliest possible opportunity, submit a written proposal to the Authority, for approval by the Authority, in relation to the allocation of revenues derived from the sale of capacity pursuant to sub-paragraph (aa) of this paragraph, between  $REVBEC_{m,d,w}^j$  and  $REVOIEC_{m,d,w}^j$  (as the same are defined in paragraph 14(5)(i) of Part 2 of this Special Condition) for each day d of month m to which the capacity relates, for each of the allocations occurring w days prior to day d of month m which proposal shall be reviewed, revised (if necessary in the Authority's opinion) and, if approved by the Authority, implemented.

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- (iv) An allocation has been duly notified for the purposes of paragraphs 14(5)(c)(i), (ii) and (iii) of Part 2 of this Special Condition if the licensee has in accordance with the licensee's Network Code notified shippers of the allocations forthcoming occurrence.
- (v) Revenue derived by the licensee from the sale of obligated incremental entry capacity may only be taken into account, except where the Authority otherwise accepts, in the calculation of  $ECIR_t$  to the extent that the capacity to which it relates has been offered for sale by the licensee in accordance with paragraphs 14(5)(c) (ii) and where applicable (iii) above and paragraph 14(5)(f)(ii) in Part 2 of this Special Condition.
- (vi) To the extent that any revenue derived by the licensee from the sale of obligated incremental entry capacity is not taken into account in the calculation of  $REVOIEC_t$  or  $SOREVOIEC_t$  pursuant to paragraph 14(5)(c)(v) above, in respect of formula year  $t$ , it shall be taken into account in the calculation of  $REVBEC_t$ .

**(d) NTS system operation incentive revenue in respect of obligated incremental entry capacity ( $SOREVOIEC_t^j$ )**

For the purposes of paragraph 14(5)(a) of Part 2 of this Special Condition, the maximum NTS system operation incentive revenue from the sale of obligated incremental entry capacity in respect of formula year  $t$  at terminal  $j$  ( $SOREVOIEC_t^j$ ) shall be derived from the following formula:

$$SOREVOIEC_t^j =$$

$$\text{MIN} \left[ \text{CAPOIEC}_t^j, \text{MAX} \left( \text{COLOIEC}_t^j, \sum_{m=12t-11}^{12t} \left( \sum_{\text{All } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j \right) - \text{DQREV}_t^j \right) \right]$$

where:



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$\text{MIN}(x,y)$	means the value equal to the lesser of x and y;
$\text{CAPOIEC}_t^j$	means the maximum entry capacity investment incentive revenue allowed to the licensee in respect of sales of obligated incremental entry capacity in respect of formula year t at terminal j, and shall be derived in accordance with paragraph 14(5)(e) in Part 2 of this Special Condition;
$\text{MAX}(x,y)$	means the value equal to the greater of x and y;
$\text{COLOIEC}_t^j$	means the minimum entry capacity investment incentive revenue allowed to the licensee in respect of sales of obligated incremental entry capacity in respect of formula year t at terminal j, and shall be derived in accordance with paragraph 14(5)(h) in Part 2 of this Special Condition;
$Q^d$	means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002 $Q^d$ shall have the value zero (0));
$\text{REVOIEC}_{m,d,w}^j$	means the entry capacity incentive revenue derived by the licensee in respect of sales of obligated incremental entry capacity in respect of day d of month m for terminal j made w days in advance of day d and shall be derived in accordance with paragraph 14(5)(i) of Part 2 of this Special Condition; and

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$\sum_{m=12t-11}^{12t} \left( \sum_{\text{All } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j \right)$  means the sum across all months m in formula year t of  $\sum_{\text{All } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j$  and shall be calculated in the following manner:

$$\sum_{m=12t-11}^{12t} \left( \sum_{\text{All } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j \right) =$$

$$\sum_{\text{all } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{(12t-11),d,w}^j + \sum_{\text{all } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{(12t-10),d,w}^j + \dots + \sum_{\text{all } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{12t,d,w}^j$$

where:

$\sum_{\text{all } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j$  means the sum across all days d in month m of  $\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j$  for each terminal j and shall be calculated in the following manner:

$$\sum_{\text{all } d} \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j =$$

$$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,1,w}^j + \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,2,w}^j + \dots + \sum_{w=1}^{Q^d} \text{REVOIEC}_{m,D,w}^j$$

where:

D means the number of days in month m; and

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$$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j$$

means the sum across all days w between day d of month m and 1 April 2002 of  $\text{REVOIEC}_{m,d,w}^j$  and shall be calculated in the following manner:

$$\sum_{w=1}^{Q^d} \text{REVOIEC}_{m,d,w}^j =$$

$$\text{REVOIEC}_{m,d,1}^j + \text{REVOIEC}_{m,d,2}^j + \dots + \text{REVOIEC}_{m,d,Q^d}^j$$

$$\text{DQREV}_t^j$$

means the sum of all revenue derived by the licensee in formula year t from the sale of obligated incremental entry capacity in respect of terminal j that has not been taken into account in the calculation of  $\text{REVOIEC}_t$  pursuant to paragraph 14(5)(c)(vi) of Part 2 of this Special Condition.

**(e) The maximum entry capacity investment incentive revenue ( $\text{CAPOIEC}_t^j$ )**

For the purposes of paragraph 14(5)(d) of Part 2 of this Special Condition, the maximum entry capacity investment incentive revenue allowed to the licensee in respect of obligated incremental entry capacity in respect of formula year t at terminal j ( $\text{CAPOIEC}_t^j$ ) shall be derived from the following formula:

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$$\text{CAPOIEC}_t^j =$$

$$\frac{RI_t}{RI_0} \times \left( \sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0)) \right) \right) \times \text{UCACAP}_t^j$$

where:

$RI_t$  shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this Special Condition;

$RI_0$  shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this Special Condition;

$\text{MAX}(x,y)$  means the value equal to the greater of x and y;

$\text{CIOEC}_{m,0}^j$  means the total obligated incremental entry capacity in respect of month m at terminal j and shall be derived in accordance with paragraph 14(5)(g) of Part 2 of this Special Condition where w is equal to zero;

$\text{OSELL}_{m,d,0}^j$  means that obligated entry capacity in respect of day d of month m at terminal j which the licensee on day d continues to have an obligation to offer for sale and shall be derived in accordance with paragraph 14(5)(f) of Part 2 of this Special Condition where w is equal to zero; and

$\text{UCACAP}_t^j$  means the entry capacity unit cost multiplier relating to the maximum allowed entry capacity investment incentive revenue in respect of each day of formula year t and terminal j and shall be derived from the following formula:

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$$UCACAP_t^j = UCAG^j \times \frac{UCACAPCONV}{y_t}$$

where:

$UCAG^j$  means the entry capacity unit cost allowance in respect of terminal j and has the value set out in paragraph 14(5)(a) in Part 2 of this Special Condition;

$UCACAPCONV$  has a value equal to 0.17438; and

$y_t$  means the number of days in formula year t.

$\sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0) \right) \right)$  means the sum across all months m in formula year t of  $\sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0) \right)$  and shall be calculated in the following manner:

$$\begin{aligned} \sum_{m=12t-11}^{12t} \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0) \right) \right) = & \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{(12t-11),0}^j - \text{OSELL}_{(12t-11),d,0}^j, 0) \right) \right) \\ & + \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{(12t-10),0}^j - \text{OSELL}_{(12t-10),d,0}^j, 0) \right) \right) \\ & + \dots + \left( \sum_{\text{all } d} \left( \text{MAX}(\text{CIOEC}_{12t,0}^j - \text{OSELL}_{12t,d,0}^j, 0) \right) \right) \end{aligned}$$

where:

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$\sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0))$  means the sum across all days d in month m of  $(\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0))$  and shall be calculated in the following manner:

$$\sum_{\text{all } d} (\text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,d,0}^j, 0)) = \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,1,0}^j, 0) + \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,2,0}^j, 0) + \dots + \text{MAX}(\text{CIOEC}_{m,0}^j - \text{OSELL}_{m,D,0}^j, 0)$$

where:

D means the number of days in month m.

- (f) **Obligated entry capacity for which the licensee still has an obligation to offer for sale**
- (i) **Calculation of obligated entry capacity for which the licensee still has an obligation to offer for sale ( $\text{OSELL}_{m,d,w}^j$ )**

For the purposes of paragraph 14(5)(e) of Part 2 of this Special Condition, the obligated entry capacity which the licensee continues to have an obligation to offer for sale in respect of day d of month m at terminal j during the day that is w days in advance of day d ( $\text{OSELL}_{m,d,w}^j$ ) shall be derived from the following formula:

$$\text{OSELL}_{m,d,w}^j = \text{TOEC}_{m,w}^j - \sum_{W=w}^{Q^d} \text{OMET}_{m,d,W}^j - \text{Min}(\text{PRIORSELL}_{m,d}^j, \text{TOEC}_{m,w}^j)$$

where:

$\text{TOEC}_{m,w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special

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Condition;

$Q^d$  means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002  $Q^d$  shall have the value zero (0))

$OMET_{m,d,W}^j$  means the obligated entry capacity in respect of day d of month m at terminal j in respect of which the licensee has fulfilled its obligation to sell or offer for sale that obligated entry capacity in any allocations occurring W days in advance of day d of month m and shall be derived in the following manner:

On 1 April 2002:

$$OMET_{m,d,W}^j = \min \left( \left[ CAPOFFER_{m,d,W}^j + CAPSALE_{m,d,W}^j \right], \left[ TOEC_{m,W}^j - \min(PRIORSELL_{m,d}^j, TOEC_{m,W}^j) \right] \right)$$

Otherwise:

$$OMET_{m,d,W}^j = \min \left( \left[ CAPOFFER_{m,d,W}^j + CAPSALE_{m,d,W}^j \right], \left[ TOEC_{m,W}^j - \sum_{\varnothing=W+1}^{Q^d} OMET_{m,d,\varnothing}^j - \min(PRIORSELL_{m,d}^j, TOEC_{m,W}^j) \right] \right)$$

where:

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$CAPOFFER_{m,d,W}^j$  means that entry capacity in respect of day d of month m and terminal j offered for sale in clearing allocations occurring W days in advance of day d of month m;

$CAPSALE_{m,d,W}^j$  means that entry capacity in respect of day d of month m and terminal j sold in allocations other than clearing allocations occurring W days in advance of day d of month m;

$\sum_{\varpi=W+1}^{Q^d} OMET_{m,d,\varpi}^j$  means the sum across all days  $\varpi$  between W+1 and  $Q^d$  of  $OMET_{m,d,W}^j$  and shall be calculated in the following manner:

$$\sum_{\varpi=W+1}^{Q^d} OMET_{m,d,\varpi}^j = OMET_{m,d,(W+1)}^j + OMET_{m,d,(W+2)}^j + \dots + OMET_{m,d,Q^d}^j$$

$MIN(x,y)$  means the value equal to the lesser of x and y;  
and

$PRIORSELL_{m,d}^j$  means that entry capacity, measured in kWh, in respect of day d of month m and terminal j allocated in any allocation occurring prior to 1



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**(ii) Obligation to offer for sale obligated entry capacity**

- (a) In respect of any terminal  $j$  the licensee has an obligation to offer for sale obligated entry capacity at the commencement of the day to which it relates (that is,  $OSELL_{m,d,0}^j > 0$  at 06:00 on day  $d$ ) the licensee shall use all reasonable endeavours to offer for sale all such capacity to shippers such that  $OSELL_{m,d,0}^j = 0$  at the end of day  $d$  of month  $m$ , for the avoidance of doubt, where such an allocation would contravene the provisions of amended standard condition 4 (Charging Gas Shippers – General) the licensee shall allocate such capacity in accordance with the provisions of amended standard condition 4A(5)(aa)(ii) (Charging Gas Shippers – General);
- (b) Where the licensee has complied with its obligations pursuant to paragraph 14(5)(f)(ii)(a) of Part 2 of this Special Condition then at the end of day  $d$  of month  $m$   $OSELL_{m,d,0}^j$  shall have a value equal to zero.

**(g) Calculation of obligated entry capacity ( $TOEC_{m,w}^j$ )**

For the purposes of paragraph 14(5)(f) of Part 2 of this Special Condition, the obligated entry capacity in respect of month  $m$  at terminal  $j$  as at  $w$  days in advance of the first day of month  $m$  ( $TOEC_{m,w}^j$ ) shall be derived from the following formula:

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$$TOEC_{m,w}^j = MOEC_{m,w}^j + CIOEC_{m,w}^j$$

where:

$MOEC_{m,w}^j$  means the NTS SO baseline entry capacity in respect of month m at terminal j as at w days in advance of the first day of month m (for the avoidance of doubt m=1 is April 2002) and shall be derived in the following manner:

If  $m > 60$ :

$$MOEC_{m,w}^j = LBEC_m^j + \alpha(SBEC_m^j) + \left( \sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^j} IPOEC_{(m-p),W}^j \right)$$

Otherwise:

$$MOEC_{m,w}^j = LBEC_m^j + \alpha(SBEC_m^j)$$

where:

$LBEC_m^j$  means the long-term NTS SO baseline entry capacity measured in kWh in respect of month m at terminal j and shall be derived from the following formula:

$$LBEC_m^j = (1 - STR_m^j) \times IBEC_m^j \times 1,000,000$$

where:

$STR_m^j$  has the value 0.2; and

$IBEC_m^j$  means the initial NTS SO baseline entry capacity in respect of month m at terminal j

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and shall have the value set out  
in table A2 of schedule A;

$\alpha$  equals one (1) if  $w < 548$ , otherwise it equals zero (0);

$SBEC_m^j$  means the short-term NTS SO baseline entry capacity measured in kWh in respect of month  $m$  at terminal  $j$  and shall be derived from the following formula:

$$SBEC_m^j = STR_m^j \times IBEC_m^j \times 1,000,000$$

where:

$STR_m^j$  has the meaning given above;  
and

$IBEC_m^j$  has the meaning given above;

$Q^1$  means the number of days between 1 April 2002 and the first day of month  $m$  (and for the avoidance of doubt when month  $m$  is April 2002  $Q^1$  shall have the value zero (0));

$IPOEC_{(m-p),W}^j$  means that permanent obligated incremental entry capacity, measured in kWh, in respect of terminal  $j$  which is first delivered in month  $(m-p)$  and in respect of which the obligation to offer such capacity for sale commenced as at  $W$  days in advance of the first day of the first

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month to which such capacity relates; and

$$\sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j)$$

means the sum across all permanent incremental obligated entry capacity in respect of terminal j, for which the first month to which it relates is month (m-p), that the licensee has undertaken to offer for sale or sell as at W days prior to the first day of month m (provided that month (m-p) is not prior to April 2002) and shall be calculated in the following manner:

$$\sum_{p=60}^{(m-1)} \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j) =$$

$$\sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-60),W}^j) + \sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-61),W}^j) + \dots + \sum_{W=0}^{Q^1} (\text{IPOEC}_{1,W}^j)$$

where:

$$\sum_{W=0}^{Q^1} (\text{IPOEC}_{(m-p),W}^j)$$

means the sum across all days W between the first day of the first month to which such capacity relates and 1 April 2002 of  $\text{IPOEC}_{(m-p),W}^j$  and shall be calculated in the following manner:

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$$\sum_{W=0}^{Q^1} (IPOEC_{(m-p),W}^j) =$$

$$IPOEC_{(m-p),0}^j + IPOEC_{(m-p),1}^j + \dots + IPOEC_{(m-p),Q^1}^j$$

$CIOEC_{m,w}^j$  means the cumulative obligated incremental entry capacity in respect of every day in month m at terminal j as at w days in advance of the first day of month m and is derived from the following formula:

$$CIOEC_{m,w}^j =$$

$$\sum_{p=0}^{MIN((m-1),59)} \sum_{W=w}^{Q^1} (IPOEC_{(m-p),W}^j) + \sum_{p=0}^{MIN((m-1),11)} \sum_{W=w}^{Q^1} (IAOEC_{(m-p),W}^j)$$

where:

$MIN(x,y)$  means the value equal to the lesser of x and y;

$IPOEC_{(m-p),W}^j$  has the meaning given above

$IAOEC_{(m-p),W}^j$  means that annual obligated incremental entry capacity, measured in kWh in respect of terminal j which is first delivered in month (m-p) and in respect of which the obligation to offer such capacity for sale commenced as at W days in advance of the first day of the first month to which such capacity relates.

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$$\sum_{p=0}^{\text{MIN}((m-1), \lambda)} \sum_{W=w}^{Q-1} (\lambda_{(m-p), W}^j)$$

means the sum across all incremental obligated entry capacity  $\lambda_{(m-p), W}^j$  (where  $\lambda$  equals IPOEC or IAOEC as the case may be) for which the first month to which it relates is month (m-p), that the licensee has undertaken to offer for sale or sell as at W days prior to the first day of month m (provided that month (m-p) is not prior to April 2002) and shall be calculated in the following manner:

$$\begin{aligned} \sum_{p=0}^{\text{MIN}((m-1), \varphi)} \sum_{W=w}^{Q-1} (\lambda_{(m-p), W}^j) = \\ \sum_{W=w}^{Q-1} (\lambda_{m, W}^j) + \sum_{W=w}^{Q-1} (\lambda_{(m-1), W}^j) \\ + \dots + \sum_{W=w}^{Q-1} (\lambda_{(m-\text{MIN}((m-1), \varphi)), W}^j) \end{aligned}$$

where:

$\varphi$  takes a value of 59 where  $\lambda$  equals IPOEC and a value of 11 where  $\lambda$  equals IAOEC;

$$\sum_{W=w}^{Q-1} (\lambda_{(m-p), W}^j)$$

means the sum across all days W between w and 1 April 2002 of  $\lambda_{(m-p), W}^j$  and shall be calculated in the

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following manner:

$$\sum_{W=w}^{Q^1} (\lambda_{(m-p), W}^j) =$$

$$\lambda_{(m-p), w}^j + \lambda_{(m-p), (w+1)}^j + \dots + \lambda_{(m-p), Q^1}^j$$

**(h) The minimum entry capacity investment incentive revenue (COLOIEC<sub>t</sub><sup>j</sup>)**

For the purposes of paragraph 14(5)(d) of Part 2 of this Special Condition, the minimum entry capacity investment incentive revenue allowed to the licensee in respect of formula year t at terminal j (COLOIEC<sub>t</sub><sup>j</sup>) shall be derived from the following formula:

$$COLOIEC_t^j = \frac{RI_t}{RI_0} \times \left( \sum_{m=12t-11}^{12t} \left( \sum_{all\ d} (MAX(CIOEC_{m,0}^j - OSELL_{m,d,0}^j, 0)) \right) \right) \times UCACOL_t^j$$

where:

$RI_t$  shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this Special Condition;

$RI_0$  shall have the meaning given to that term in paragraph 14(5)(a) of Part 2 of this Special Condition;

$MAX(x,y)$  means the value equal to the greater of x and y;

$CIOEC_{m,0}^j$  shall have the meaning given to the term  $CIOEC_{m,w}^j$  in paragraph 14(5)(g) of Part 2 of

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this Special Condition where w is equal to zero;

$OSELL_{m,d,0}^j$

shall have the meaning given to the term  $OSELL_{m,d,w}^j$  in paragraph 14(5)(f) of Part 2 of this Special Condition where w is equal to zero;

$\sum_{m=12t-11}^{12t} \left( \sum_{all\ d} (MAX(CIOEC_{m,0}^j - OSELL_{m,d,0}^j, 0)) \right)$

shall have the meaning given to that term in paragraph 14(5)(e) of Part 2 of this Special Condition; and

$UCACOL_t^j$

means the entry capacity unit cost multiplier relating to the entry capacity investment incentive revenue collar in respect of each day of formula year t and terminal j and shall be derived from the following formula:

$$UCACOL_t^j = UCAG^j \times \frac{UCACOLCONV}{y_t}$$

where:

$UCAG^j$  means the entry capacity unit cost allowance in respect of terminal j and has the value set out in paragraph 14(5)(a) in Part 2 of this Special Condition;

$y_t$  means the number of days in formula year t; and

$UCACOLCONV$  has a value equal to 0.09661.



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**(i) Calculation of entry capacity incentive revenue ( $REVOIEC_{m,d,w}^j$ )**

(i) Except where paragraph 14(5)(c)(vi) of Part 2 of this Special Condition or sub-paragraph (aa) below applies, the entry capacity incentive revenue in respect of sales of obligated incremental entry capacity in respect of day d of month m and terminal j made w days in advance of day d ( $REVOIEC_{m,d,w}^j$ ) shall be derived in the manner set out in sub-paragraphs (ii), (iii) and (iv);

(aa) In the case of revenues from the sales of obligated incremental entry capacity which have been sold pursuant to paragraph 14(5)(c)(iii)(aa) of Part 2 of this Special Condition, then, for the purposes of this paragraph only, such revenues shall only be included in the calculation of entry capacity incentive revenue where the Authority has so agreed, pursuant to paragraph 14(5)(c)(iii)(bb) of Part 2 of this Special Condition.

(ii) Firm entry capacity in respect of day d of month m at terminal j allocated w days in advance of day d shall be defined as either  $SOLDBEC_{m,d,w}^j$ ,  $SOLDOIEC_{m,d,w}^j$  or  $SOLDIEC_{m,d,w}^j$  in accordance with the following sub-paragraphs of this paragraph 14(5)(i)(ii) of Part 2 of this Special Condition;

(aa) Allocated volumes of NTS SO baseline entry capacity ( $SOLDBEC_{m,d,w}^j$ )

The NTS SO baseline entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

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$$\text{SOLDBEC}_{m,d,w}^j =$$

$$\text{MIN} \left( \text{CAPSALE}_{m,d,w}^j, \left( \text{MOEC}_{m,w}^j - \sum_{W=w+1}^{Q^d} \text{SOLDBEC}_{m,d,W}^j \right) \right)$$

where:

$\text{MIN}(x, y)$  means the value equal to the lesser of x and y;

$\text{CAPSALE}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(f)(i) of Part 2 of this Special Condition;

$\text{MOEC}_{m,w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;

$Q^d$  means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002  $Q^d$  shall have the value zero (0)); and

$\sum_{W=w+1}^{Q^d} \text{SOLDBEC}_{m,d,W}^j$  means the sum across days W between (w+1) and 1 April 2002 of  $\text{SOLDBEC}_{m,d,W}^j$  and shall be calculated in the following manner:

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$$\sum_{W=W+1}^{Q^d} \text{SOLDBEC}_{m,d,W}^j =$$

$$\text{SOLDBEC}_{m,d,(w+1)}^j + \text{SOLDBEC}_{m,d,(w+2)}^j$$

$$+ \dots + \text{SOLDBEC}_{m,d,Q^d}^j$$

Where more than one allocation occurs on day w, values for  $\text{SOLDBEC}_{m,d,W}^j$ , shall be separately calculated in chronological order of the allocations, for each allocation.

- (bb) Allocated volumes of obligated incremental entry capacity ( $\text{SOLDOIEC}_{m,d,w}^j$ )

The obligated incremental entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

$$\text{SOLDOIEC}_{m,d,w}^j =$$

$$\text{MIN} \left( \text{CAPSALE}_{m,d,w}^j - \text{SOLDBEC}_{m,d,w}^j, \left( \text{CIOEC}_{m,w}^j - \sum_{W=W+1}^{Q^d} \text{SOLDOIEC}_{m,d,W}^j \right) \right)$$

where:

$\text{MIN}(x,y)$  means the value equal to the lesser of x and y;

$\text{CAPSALE}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(f)(i) of Part 2 of this Special Condition;

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$SOLDBEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition;

$CIOEC_{m,w}^j$  shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;

$Q^d$  means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002  $Q^d$  shall have the value zero (0)); and

$\sum_{W=w+1}^{Q^d} SOLDOIEC_{m,d,W}^j$  means the sum across days W between (w+1) and 1 April 2002 of  $SOLDOIEC_{m,d,W}^j$  and shall be calculated in the following manner:

$$\sum_{W=w+1}^{Q^d} SOLDOIEC_{m,d,W}^j =$$

$$SOLDOIEC_{m,d,(w+1)}^j + SOLDOIEC_{m,d,(w+2)}^j$$

$$+ ..... + SOLDOIEC_{m,d,Q^d}^j$$

Where more than one allocation occurs on day w, values for  $SOLDOIEC_{m,d,W}^j$ , shall be separately calculated in chronological order of the allocations, for each allocation.

- (cc) Allocated volumes of non-obligated incremental entry capacity  
 $(SOLDOIEC_{m,d,w}^j)$

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The non-obligated incremental entry capacity in kilowatt hours per day in respect of day d of month m at terminal j allocated w days in advance of day d shall be derived from the following formula:

$$\text{SOLDIEC}_{m,d,w}^j =$$

$$\left( \text{CAPSALE}_{m,d,w}^j - \text{SOLDBEC}_{m,d,w}^j - \text{SOLDOIEC}_{m,d,w}^j \right)$$

where:

$\text{CAPSALE}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(f)(i) of Part 2 of this Special Condition;

$\text{SOLDBEC}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition; and

$\text{SOLDOIEC}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this Special Condition.

Where more than one allocation occurs on day w, values for  $\text{SOLDIEC}_{m,d,w}^j$ , shall be separately calculated in chronological order of the allocations, for each allocation.

- (iii) The NTS SO baseline entry capacity revenue in respect of sales of NTS SO baseline entry capacity in respect of day d of month m and terminal j as at w days in advance of day d  $\left( \text{REVBEC}_{m,d,w}^j \right)$  shall be the revenue allocated in respect of  $\text{SOLDBEC}_{m,d,w}^j$  where it is assumed that firm entry capacity allocated on day d of month m was allocated to shippers in descending order of price accepted to be

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paid in respect of each allocation of firm entry capacity in chronological order throughout day d of month m starting with the highest paid in the amount applied for allocating first up to total volume of  $SOLDBEC_{m,d,w}^j$  then up to total volume of  $SOLDOIEC_{m,d,w}^j$  then up to total volume of  $SOLDIEC_{m,d,w}^j$  ;

where:

$SOLDBEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition;

$SOLDOIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this Special Condition; and

$SOLDIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(cc) of Part 2 of this Special Condition.

- (iv) The obligated incremental entry capacity revenue derived by the licensee in respect of sales of obligated incremental entry capacity in respect of day d ( $REVOIEC_{m,d,w}^j$ ) of month m and terminal j, as at w days in advance of d shall be the revenue allocated in respect of  $SOLDOIEC_{m,d,w}^j$  where it is assumed that firm entry capacity allocated on day d of month m was allocated to shippers in descending order of price accepted to be paid in respect of each allocation of firm entry capacity in chronological order throughout day d of month m starting with the highest paid in the amount applied for, allocating first up to the total volume of  $SOLDBEC_{m,d,w}^j$  then up to the total volume of  $SOLDOIEC_{m,d,w}^j$  then up to the total volume of  $SOLDIEC_{m,d,w}^j$  ;

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where:

$SOLDBEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(aa) of Part 2 of this Special Condition;

$SOLDOIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(bb) of Part 2 of this Special Condition; and

$SOLDIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(ii)(cc) of Part 2 of this Special Condition.

**(j) Non-obligated incremental entry capacity revenue ( $REVIEC_{m,d,w}^j$ )**

The revenue in respect of non-obligated incremental entry capacity in respect of day d of month m and terminal j as at w days in advance of day d ( $REVIEC_{m,d,w}^j$ ) shall be the revenue derived by the licensee from sales of firm entry capacity other than  $REVOIEC_{m,d,w}^j$  and  $REVBEC_{m,d,w}^j$ .

where:

$REVOIEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(iv) of Part 2 of this Special Condition; and

$REVBEC_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(i)(iii) of Part 2 of this Special Condition;

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**(k) Annual revenues from entry capacity sales**

- (i) For the purposes of paragraph 2(1) of Part I a of this Special Condition, the total revenues derived by the licensee from sales of baseline entry capacity in respect of formula year t shall be derived from the following formula:

$$\text{REVBEC}_t =$$

$$\sum_{\text{all } j} \left\{ \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \left( \text{REVBEC}_{m,d,w}^j \times \frac{\text{IBEC}_m^j \times 1,000,000}{\text{MOEC}_{m,0}^j} \right) \right] + \text{DQREV}_t^j \right\} + \text{PRIORREV}_t$$

where:

$$\sum_{\text{all } j}$$

is the sum across all terminals j;

$$Q^d$$

means the number of days between 1 April 2002 and day d of month m (and for the avoidance of doubt when day d of month m is 1 April 2002  $Q^d$  shall have the value zero (0));

$$\text{REVBEC}_{m,d,w}^j$$

shall have the meaning given to that term in paragraph 14(5)(i)(iii) of Part 2 of this Special Condition;

$$\text{IBEC}_m^j$$

shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;



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$MOEC_{m,0}^j$  shall have the meaning given to the term  $MOEC_{m,w}^j$  in paragraph 14(5)(g) of Part 2 of this Special Condition where w is equal to zero;

$DQREV_t^j$  shall have the meaning given to that term in paragraph 14(5)(d) of Part 2 of this Special Condition; and

$PRIORREV_t$  means the sum of all revenue derived by the licensee from the sale of NTS SO baseline entry capacity in respect of formula year t occurring in any allocations taking place prior to 1 April 2002; and

$\sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right]$  is the sum across all months m in formula year t of  $\sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j$  where

$$\gamma_{m,d,w}^j = REV_{BEC}^j_{m,d,w} \times \frac{IBEC_m^j \times 1,000,000}{MOEC_{m,0}^j}$$

and shall be calculated in the following manner:

$$\begin{aligned} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right] = \\ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{(12t-11),d,w}^j + \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{(12t-10),d,w}^j \\ + \dots + \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{12t,d,w}^j \end{aligned}$$

where:

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$$\sum_{\text{all } d} \sum_{w=0}^{Q_d} \gamma_{m,d,w}^j \quad \text{is the sum across all all days } d \text{ in month } m \text{ of}$$

$$\sum_{w=0}^{Q_d} \gamma_{m,d,w}^j$$

where:

$$\sum_{w=0}^{Q_d} \gamma_{m,d,w}^j \quad \text{shall be calculated in the following manner:}$$

$$\sum_{w=0}^{Q_d} \gamma_{m,d,w}^j = \gamma_{m,d,0}^j + \gamma_{m,d,1}^j + \dots + \gamma_{m,d,Q_d}^j$$

- (ii) For the purposes of paragraph 13(2) of Part 2 of this Special Condition, the total revenues derived by the licensee from sales of obligated incremental entry capacity in respect of formula year t shall be derived from the following formula:

$$\text{REVOIEC}_t = \sum_{\text{all } j} \left\{ \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q_d} \text{REVOIEC}_{m,d,w}^j \right] - \text{DQREV}_t^j \right\}$$

where:

$$\sum_{\text{all } j}$$

is the sum across all terminals j;

$$\text{REVOIEC}_{m,d,w}^j$$

shall have the meaning given to that term in paragraph 14(5)(i)(iv) of Part 2 of this Special Condition;

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$\sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right]$  shall have the meaning given to that term in paragraph 14(5)(k)(i) of Part 2 of this Special Condition where  $\gamma_{m,d,w}^j = \text{REVOIEC}_{m,d,w}^j$ ; and

$\text{DQREV}_t^j$  shall have the meaning given to that term in paragraph 14(5)(d) of Part 2 of this Special Condition.

- (iii) For the purposes of paragraph 13(2) and 14(7)(b) of Part 2 of this Special Condition, the total revenues derived by the licensee from sales of non-obligated incremental entry capacity in respect of formula year t shall be derived from the following formula:

$$\text{REVIEC}_t = \sum_{\text{all } j} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \text{REVIEC}_{m,d,w}^j \right]$$

where:

$\sum_{\text{all } j}$  is the sum across all terminals j;

$\text{REVIEC}_{m,d,w}^j$  shall have the meaning given to that term in paragraph 14(5)(j) of Part 2 of this Special Condition; and

$\sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right]$  shall have the meaning given to that term in paragraph 14(5)(k)(i) of Part 2 of this Special Condition where  $\gamma_{m,d,w}^j = \text{REVIEC}_{m,d,w}^j$ .

- (iv) For the purposes of paragraph 13(2) of Part 2 of this Special Condition, the total revenues derived by the licensee in respect of formula year t from sales of permanent obligated incremental entry

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capacity in respect of periods more than 5 years after the first day to which such capacity relates shall be derived from the following formula:

REVIBEC<sub>t</sub> =

$$\sum_{\text{all } j} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \left( \text{REVBEC}_{m,d,w}^j \times \left( 1 - \frac{\text{IBEC}_m^j \times 1,000,000}{\text{MOEC}_{m,0}^j} \right) \right) \right]$$

where:

$$\sum_{\text{all } j}$$

is the sum across all terminals j;

$$\text{REVBEC}_{m,d,w}^j$$

shall have the meaning given to that term in paragraph 14(5)(i)(iii) of Part 2 of this Special Condition;

$$\text{IBEC}_m^j$$

shall have the meaning given to that term in paragraph 14(5)(g) of Part 2 of this Special Condition;

$$\text{MOEC}_{m,0}^j$$

shall have the meaning given to the term MOEC<sub>m,w</sub><sup>j</sup> in paragraph 14(5)(g) of Part 2 of this Special Condition where w is equal to zero;

$$\sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \sum_{w=0}^{Q^d} \gamma_{m,d,w}^j \right]$$

shall have the meaning given to that term in paragraph 14(5)(k)(i) of Part 2 of this Special Condition where

$$\gamma_{m,d,w}^j = \text{REVBEC}_{m,d,w}^j \times \left( 1 - \frac{\text{IBEC}_m^j \times 1,000,000}{\text{MOEC}_{m,0}^j} \right).$$

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**(I) Revenues from on the day sales of entry capacity**

- (i) For the purposes of paragraph 13(2) and 14(7)(b) of Part 2 of this Special Condition, the revenues derived by the licensee from sales of daily baseline entry capacity in respect of formula year t shall be derived from the following formula:

$$DREVBEC_t = \sum_{\text{all } j} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} REVBEC_{m,d,0}^j \right]$$

where:

$REVBEC_{m,d,0}^j$  shall have the meaning given to the term  $REVBEC_{m,d,w}^j$  in paragraph 14(5)(i)(iii) of Part 2 of this Special Condition where  $w=0$ ;

$\sum_{\text{all } j} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \gamma_{m,d,0}^j \right]$  is the sum across all terminals j of  $\sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \gamma_{m,d,0}^j \right]$  where  $\gamma_{m,d,0}^j = REVBEC_{m,d,0}^j$  and shall be calculated in the following manner:

$$\begin{aligned} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \gamma_{m,d,0}^j \right] = \\ \sum_{\text{all } d} \gamma_{(12t-11),d,0}^j + \sum_{\text{all } d} \gamma_{(12t-10),d,0}^j \\ + \dots + \sum_{\text{all } d} \gamma_{12t,d,0}^j \end{aligned}$$

where:

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$\sum_{\text{all } d} \gamma_{m,d,0}^j$  is the sum across all all days d in month m of  $\gamma_{m,d,0}^j$ .

- (ii) For the purposes of paragraph 14(7)(b) of Part 2 of this Special Condition, the revenues derived by the licensee from sales of daily obligated incremental entry capacity in respect of formula year t shall be derived from the following formula:

$$\text{DREVOIEC}_t = \sum_{\text{all } j} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \text{REVOIEC}_{m,d,0}^j \right]$$

where:

$\text{REVOIEC}_{m,d,0}^j$  shall have the meaning given to the term  $\text{REVOIEC}_{m,d,w}^j$  in paragraph 14(5)(i)(iv) of Part 2 of this Special Condition where w=0;

$\sum_{\text{all } j} \sum_{m=12t-11}^{12t} \left[ \sum_{\text{all } d} \gamma_{m,d,0}^j \right]$  shall have the meaning given to that term in paragraph 14(5)(l)(i) of Part 2 of this Special Condition where  $\gamma_{m,d,0}^j = \text{REVOIEC}_{m,d,0}^j$ .

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**(6) Exit capacity investment incentive revenue**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum exit capacity investment incentive revenue allowed to the licensee in respect of formula year  $t$  ( $ExCIIR_t$ ) shall be derived from the following formula:

If  $ExIT_t - ExCIT_t \geq ExCP_t - ExCC_t$ , then:

$$ExCIIR_t = \text{MIN}((ExUSF_t \times ((ExIT_t - ExCP_t) - (ExCIT_t - ExCC_t))), ExCAP_t) + (ExCIT_t - ExCC_t)$$

Otherwise:

$$ExCIIR_t = \text{MAX}((ExDSF_t \times ((ExIT_t - ExCP_t) - (ExCIT_t - ExCC_t))), ExCOL_t) + (ExCIT_t - ExCC_t)$$

where:

$ExIT_t$  means the exit incentive target in respect of formula year  $t$  and shall be derived in accordance with paragraph 14(6)(d) of Part 2 of this Special Condition;

$ExCIT_t$  means the incentive target for costs incurred by the licensee in respect of formula year  $t$  in respect of its use of constrained storage facilities to avoid transportation constraints (all having the meanings given to those terms in the licensee's Network Code) as set out in the following table:

	<b>Formula year</b>				
<b>Variable</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t≥5</b>
$ExCIT_t$ £million	5.9	6.2	6.6	6.6	6.6

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$ExCP_t$  means the exit performance measure in respect of formula year  $t$ , and shall be derived in accordance with paragraph 14(6)(h) of Part 2 of this Special Condition;

$ExCC_t$  means the payments made by the licensee in respect of costs incurred by the licensee in respect of formula year  $t$  in respect of its use of constrained storage facilities to avoid transportation constraints (all having the meanings given to those terms in the licensee's Network Code);

$MIN(x,y)$  means the value equal to the lesser of  $x$  and  $y$ ;

$ExUSF_t$  means the exit upside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$ExUSF_t$	50%	50%

$ExDSF_t$  means the exit downside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$ExDSF_t$	25%	25%

$ExCAP_t$  means the maximum exit capacity investment revenue in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$ExCAP_t$ £million	10	10



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MAX(x,y) means the value equal to the greater of x and y; and

ExCOL<sub>t</sub> means the minimum exit capacity investment revenue in respect of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
ExCOL <sub>t</sub> £million	-2.5	-2.5

**(b) Statement of NTS incremental firm exit capacity**

- (i) By 1 June 2003, and by 1 June in each subsequent formula year, (or in each case, such other date as the Authority may direct in writing), the licensee shall provide the Authority with a written statement of any NTS incremental firm exit capacity or any proposed NTS incremental firm exit capacity in respect of which the licensee has incurred depreciation or capital expenditure or financing costs during the previous formula year;
- (ii) The statement referred to in sub-paragraph 14(6)(b)(i) of Part 2 of this Special Condition shall include the following:
  - (aa) The NTS exit point(s) (having the meaning given to that term in the licensee's Network Code) to which the NTS incremental firm exit capacity relates or will relate;
  - (bb) The volume of such NTS incremental firm exit capacity in GWh per day by NTS exit point;
  - (cc) The date from which such NTS incremental firm exit capacity was capable or is reasonably expected to be capable of being registered pursuant to the licensee's Network Code;

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- (dd) The amount of capital expenditure incurred by the licensee in respect of such NTS incremental firm exit capacity and the depreciation and financing costs deemed to be incurred in respect of formula year t-1 in respect of such capital expenditure incurred since 1 April 2002. For the purpose of this sub-paragraph, depreciation shall be calculated on a straight line basis using an asset life of forty-five (45) years and financing costs shall be calculated using a rate of return of 6.25% on the average asset value (which shall be calculated in accordance with regulatory accounting principles agreed with the Authority);
  - (ee) The basis upon which the licensee has reached the view that there is or will be demand sufficient to justify the provision of such NTS incremental firm exit capacity; and
  - (ff) As far as it is reasonably possible to ascertain, whether such NTS incremental firm exit capacity has or is to be provided as a result of (i) demand for additional NTS exit capacity or (ii) as a substitute for NTS exit capacity curtailment rights or (iii) as a substitute for storage rights.
- (iii) The licensee shall keep a record of the statement made pursuant to paragraph 14(6)(b)(i) of Part 2 of this Special Condition for seven (7) years;
- (iv) The licensee shall provide the Authority with such additional information as the Authority requests for the purposes of ascertaining the reason or reasons why the licensee considered that there was or would be sufficient demand of the type specified pursuant to sub-paragraph 14(6)(b)(ii)(ff) of Part 2 of this Special Condition to justify incurring the costs referred to in sub-paragraph 14(6)(b)(ii)(dd) of Part 2 this Special Condition;

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- (v) The licensee shall publish the statement within twenty-eight (28) days of making it available to the Authority unless the Authority otherwise directs the licensee in writing provided that the licensee shall exclude therefrom, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests.
- (vi) For the purposes of this paragraph 14(6)(b) of Part 2 of this Special Condition:

NTS incremental firm exit capacity	means NTS firm exit capacity additional to the NTS baseline firm exit capacity set out in table A3 of schedule A.
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**(c) The registration of firm exit capacity**

- (i) The licensee shall use all reasonable endeavours to ensure universal firm registration of NTS exit capacity with effect from 1 April 2004;
- (ii) If after 1 April 2004 for whatever reason the licensee is unable to ensure universal firm registration of NTS exit capacity the licensee shall use all reasonable endeavours to ensure that universal firm registration is achieved as soon as is reasonably practicable thereafter; and
- (iii) For the avoidance of doubt, the obligation contained in paragraph 14(6)(c)(i) of Part 2 of this Special Condition shall not prohibit the licensee from purchasing exit capacity curtailment rights.

**(d) The exit incentive target ( $ExIT_t$ )**

- (i) For the purpose of paragraph 14(6)(a) of Part 2 of this Special Condition the exit incentive target in respect of formula year  $t$  ( $ExIT_t$ ) shall be derived from the following formula:

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$$ExIT_t = ExNTSIT_t + ExLDZIIT_t + ExCIT_t + IExR_t$$

where:

$ExNTSIT_t$  means the incentive target in respect of formula year  $t$  for payments made by the licensee or charges foregone by the licensee in respect of NTS exit capacity curtailment rights and shall be derived in the following manner:

- (a) In respect of formula years 1 and 2 and in each subsequent relevant formula year until the first complete formula year in which the licensee achieves universal firm registration,  $ExNTSIT_t$  shall be derived from the following formula:

$$ExNTSIT_t = ExNTSSIT_t + ExNTSIIT_t$$

- (b) Otherwise  $ExNTSIT_t$  shall have the value set out in the following table:

Variable	Formula year		
	t=3	t=4	t≥5
$ExNTSIT_t$ £million	36.6	37.2	37.9

where:

$ExNTSSIT_t$  means the incentive target in respect of formula year  $t$  for charges foregone by the licensee in respect of NTS exit capacity curtailment rights, as set out in the following table:

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	<b>Formula year</b>				
<b>Variable</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t≥5</b>
ExNTSSIT <sub>t</sub> £million	33.5	35.9	36.6	37.2	37.9

ExNTSIIT<sub>t</sub> means the incentive target in respect of formula year t for payments made by the licensee in accordance with sub-paragraph 14(6)(d)(iii)(a) of Part 2 of this Special Condition in respect of the curtailment of rights to off-take gas from the NTS on plus 15 curtailment days subject to sub-paragraph 14(6)(d)(ii) of Part 2 of this Special Condition as set out in the following table:

	<b>Formula year</b>				
<b>Variable</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t≥5</b>
ExNTSIIT <sub>t</sub> £million	1.42	1.47	1.51	1.59	1.68

ExLDZIIT<sub>t</sub> means the incentive target in respect of formula year t for payments made by the licensee in accordance with paragraph 14(6)(d)(iii)(b) of Part 2 of this Special Condition in respect of the curtailment of rights to off-take gas from LDZs on plus 15 curtailment days and, subject to sub-paragraph 14(6)(d)(ii) of Part 2 of this Special Condition, as set out in the following table:

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	Formula year				
Variable	t=1	t=2	t=3	t=4	t≥5
ExLDZIIT <sub>t</sub> £million	1.42	1.47	1.51	1.59	1.68

ExCIT<sub>t</sub> shall have the meaning given to that term in paragraph 14(6)(a) of Part 2 of this Special Condition; and

IExR<sub>t</sub> means the incremental exit capacity revenue to be applied in formula year t and shall be derived in accordance with paragraph 14(6)(e) of Part 2 of this Special Condition.

- (ii) Unless the Authority otherwise directs in writing, in any formula year t ExNTSIIT<sub>t</sub> and ExLDZIIT<sub>t</sub> shall each be equal to zero if:
- (a) the weighted average charge payable by the licensee to shippers in respect of the curtailment of rights to off-take gas from the NTS on plus 15 curtailment days does not conform with sub-paragraph 14(6)(d)(iii)(a) below; or
  - (b) the weighted average charge payable by the licensee to shippers in respect of the curtailment of rights to off-take gas from any LDZ(s) on plus 15 curtailment days does not conform with sub-paragraph 14(6)(d)(iii)(b) below; or
  - (c) no charge is payable by the licensee to shippers in respect of the curtailment of rights to off-take gas from the NTS on plus 15 curtailment days in respect of formula year t; or

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- (d) no charge is payable by the licensee to shippers in respect of the curtailment of rights to off-take gas from any LDZ(s) on plus 15 curtailment days in respect of formula year t.
- (iii) (a) In respect of formula years 1 and 2 and in each subsequent formula year until the first full formula year in which the licensee achieves universal firm registration the licensee shall use all reasonable endeavours to ensure that the weighted average charge payable by the licensee in respect of the curtailment of rights to off-take gas from NTS on plus 15 curtailment days in respect of formula year t ( $AExNTSIIC_t$ ) shall be equal to the value derived from the following formula:

$$AExNTSIIC_t = \frac{ExNTSSIC_t}{\left( \sum_{\text{all } z} ExNTSC_z^{Jan15th} \times 15 \right)}$$

where:

$ExNTSSIC_t$  means the total value accrued in respect of formula year t of charges foregone by the licensee as a result of NTS exit capacity curtailment rights and shall be derived in accordance with paragraph 14(6)(h) of Part 2 of this Special Condition;

$ExNTSC_z^{Jan15th}$  means the volume of NTS exit capacity registered in respect of supply point, connected system exit point or storage connection point z in respect of which the licensee has NTS exit capacity curtailment rights on 15 January of formula year t; and

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$\sum_{\text{all } z}$  means the sum across all supply points, connected system exit points and storage connection points of  $\text{ExNTSC}_z^{\text{Jan15th}}$ .

- (b) The licensee shall use all reasonable endeavours to ensure that the weighted average unit charge payable by the licensee in respect of the curtailment of rights to off-take gas from the LDZs on plus 15 curtailment days in respect of formula year t ( $\text{AExLDZIIC}_t$ ) shall be equal to the value derived from the following formula:

$$\text{AExLDZIIC}_t = \frac{\text{LDZSIC}_t}{\left( \sum_{\text{all } z} \text{ExLDZC}_z^{\text{Jan15th}} \times 15 \right)}$$

where:

$\text{LDZSIC}_t$  means the total value accrued in respect of formula year t of charges foregone and payments made by the licensee in respect of LDZ capacity curtailment rights;

$\text{ExLDZC}_z^{\text{Jan15th}}$  means the volume of LDZ capacity registered in respect of supply point, connected system exit point or storage connection point z in respect of which the licensee has LDZ capacity curtailment rights on 15 January in respect of formula year t; and

$\sum_{\text{all } z}$  means the sum across all supply points, connected system exit points and storage connection points of  $\text{ExLDZC}_z^{\text{Jan15th}}$ .



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**(e) NTS incremental exit capacity revenue (IExR<sub>t</sub>)**

For the purposes of paragraph 14(6)(d) of Part 2 of this Special Condition, the maximum NTS incremental exit capacity revenue in respect of formula year t (IExR<sub>t</sub>) shall be derived in the following manner:

If

TExC<sub>t</sub> ≥ TExCO<sub>t</sub>, then:

$$\text{IExR}_t = \frac{\text{RI}_t}{\text{RI}_0} * \text{ExUCA} * (\text{TExC}_t - \text{TExCO}_t)$$

Otherwise:

$$\text{IExR}_t = 0$$

where:

TExC<sub>t</sub> means the actual NTS exit capacity in GWh/day in respect of formula year t and shall be derived from the following formula:

$$\text{TExC}_t = \text{DMExC}_t + \text{NDMExC}_t;$$

where:

DMExC<sub>t</sub> Means the NTS exit capacity in GWh/day for DM supply meter points, DM connected system exit points and storage connection points (having the meanings given to those terms

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in the licensee's Network Code) in respect of formula year t and shall be calculated in accordance with paragraph 14(6)(f) of Part 2 of this Special Condition; and

$NDMExC_t$  means the NTS exit capacity in GWh/day for NDM supply meter points and NDM connected system exit points (having the meanings given to those terms in the licensee's Network Code) in respect of formula year t and shall be calculated in accordance with paragraph 14(6)(g) of Part 2 of this Special Condition.

$TExCO_t$  means the NTS exit capacity output measure in respect of formula year t as set out in the following table:

	Formula year				
	t=1	t=2	t=3	t=4	t≥5
$TExCO_t$ GWh/day	7,715	7,930	8,091	8,239	8,355

$RI_t$  means the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1;

$RI_o$  means the arithmetic average of the retail price index published or determined with respect to

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each of the six months from April to September (both inclusive) in the year 1999; and

ExUCA means the exit unit cost multiplier and is derived from the following formula:

$$\text{ExUCA} = \text{ExUCAG} \times \text{ExUCACONV}$$

where:

ExUCAG means the exit capacity unit cost allowance and shall have the value 0.322 £m/GWh day; and

ExUCACONV means the exit capacity adjustment factor and shall be equal to 0.10772.

**(f) NTS exit capacity for DM supply meter points, DM connected system exit points and storage connection points (DMExC<sub>t</sub>)**

For the purposes of paragraph 14(6)(e) of Part 2 of this Special Condition the NTS exit capacity for DM supply meter points, DM connected system exit points and storage connection points in respect of formula year  $t$  (DMExC <sub>$t$</sub> ) shall be derived from the following formula:

$$\text{DMExC}_t = \sum_{\text{all } s} \text{DMExC}_{s,t}$$

where:

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$DMExC_{s,t}$  means the NTS exit capacity registered for supply meter point  $s$  in accordance with the licensee's Network Code or calculated in accordance with a methodology approved by the Authority for connected system exit point or storage connection point  $s$  as at 15 January in formula year  $t$  where the off-take of gas at that supply meter point, connected system exit point or storage connection point is daily metered; and

$\sum_{all\ s}$  means the sum across all DM supply meter points, DM connected system exit points and storage connection points  $s$  of  $DMExC_{s,t}$ .

**(g) NTS exit capacity for NDM supply meter points and NDM connected system exit points ( $NDMExC_t$ )**

For the purposes of paragraph 14(6)(e) of Part 2 of this Special Condition, the NTS exit capacity for NDM supply meter points and NDM connected system exit points in respect of formula year  $t$  ( $NDMExC_t$ ) shall be derived from the following formula:

$$NDMExC_t = \frac{TNDMT_t}{LF}$$

where:

$TNDMT_t$  means the total volume of gas deemed to be transported from the NTS to NDM supply meter points and NDM connected system exit points in respect of formula year  $t$  in accordance with a methodology proposed by the licensee and approved by the Authority; and

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LF has a value equal to 128.71.

**(h) The exit performance measure ( $ExCP_t$ )**

For the purposes of paragraphs 14(3) and 14(6)(a) of Part 2 of this Special Condition, the exit performance measure in respect of formula year  $t$  ( $ExCP_t$ ) shall be derived from the following formula:

$$ExCP_t = ExNTSIC_t + ExLDZIIC_t + ExCC_t + RExCP_t$$

where:

$ExNTSIC_t$  means the total accrued value in respect of formula year  $t$  of payments made by the licensee or charges foregone by the licensee in respect of NTS exit capacity curtailment rights and shall be derived in the following manner:

- (i) In respect of formula years 1 and 2 and in each subsequent formula year until the first full formula year in which the licensee achieves universal firm registration  $ExNTSIC_t$  shall be derived from the following formula:

$$ExNTSIC_t = ExNTSSIC_t + ExNTSIIC_t$$

- (ii) Otherwise  $ExNTSIC_t$  shall be the total accrued value of the charges foregone by the licensee or payments made by the licensee in respect of NTS exit capacity curtailment rights.

where:

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ExNTSSIC<sub>t</sub> means the total accrued value in respect of formula year t of charges foregone by the licensee as a result of NTS exit capacity curtailment rights and shall be derived from the following formula:

$$\text{ExNTSSIC}_t = \sum_{\text{all } d} \left( \sum_{\text{all } z} \text{ExC}_{z,d} \times \text{ExIPK}_{z,d} \right)$$

where:

$\sum_{\text{all } d}$  means the sum across all days d in formula year t of  $\text{ExC}_{z,d} \times \text{ExIPK}_{z,d}$ ;

$\sum_{\text{all } z}$  means the sum across all supply points, connected system exit points and storage connection points z of  $\text{ExC}_{z,d} \times \text{ExIPK}_{z,d}$ ; and

$\text{ExC}_{z,d}$  means the volume of NTS exit capacity in respect of day d and supply point, connected system exit point or storage

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connection point z  
for which the  
licensee has NTS  
exit capacity  
curtailment rights;  
and

$ExIPK_{z,d}$  means the notional  
unpaid NTS exit  
capacity charge in  
respect of day d and  
supply point,  
connected system  
exit point or storage  
connection point z  
for a volume of NTS  
exit capacity equal  
to  $ExC_{z,d}$  and shall  
be derived from the  
following formula:

$$ExIPK_{z,d} = ExUCC_{z,d} - ExFC_{z,d}$$

where:

$ExUCC_{z,d}$  means the NTS  
exit capacity  
charge per unit of  
capacity that  
would be payable  
in respect of day  
d and supply

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point, connected  
system exit point  
or storage  
connection point  
z for a volume of  
NTS exit capacity  
equal to  $ExC_{z,d}$   
that was not  
subject to NTS  
exit capacity  
curtailment rights;  
and

$ExFC_{z,d}$  means the NTS  
exit capacity  
charge per unit of  
capacity that is  
otherwise  
payable in  
respect of day d  
and supply point,  
connected  
system exit point  
or storage  
connection point  
z in respect of  
 $ExC_{z,d}$ .

$ExNTSIIC_t$  means in respect of formula  
year t the total payments made  
by the licensee in accordance  
with paragraph 14(6)(d)(iii)(a)  
of Part 2 of this Special  
Condition in respect of the



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curtailment of rights to off-take gas from the NTS on plus 15 curtailment days and shall be derived from the following formula::

$$ExNTSIIC_t = \sum_{all\ d} \left( \sum_{all\ z} ExNTSIIC_{z,d} \right)$$

$$ExNTSIIC_t = \sum_{all\ d} \left( \sum_{all\ z} ExNTSIIC_{z,d} \right)$$

where:

$\sum_{all\ d}$  means the sum across all days d in formula year t of  $ExNTSIIC_{z,d}$ ;

$\sum_{all\ z}$  means the sum across all supply points, connected system exit points and storage connection points z of  $ExNTSIIC_{z,d}$ ; and

$ExNTSIIC_{z,d}$  means the amount paid by the licensee in respect of the curtailment of rights to off-take gas from the NTS at supply

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point, connected system exit point or storage connection point z on day d in respect of formula year t to the extent that such amount relates to a plus 15 curtailment day.

$ExLDZIIC_t$  means in respect of formula year t the total payments made by the licensee in accordance with paragraph 14(6)(d)(iii)(b) of Part 2 of this Special Condition in respect of the curtailment of rights to off-take gas from the LDZs on plus 15 curtailment days and shall be derived from the following formula:

$$ExLDZIIC_t = \sum_{\text{all } d} \sum_{\text{all } z} ExLDZIIC_{z,d}$$

where:

$$\sum_{\text{all } d}$$

means the sum across all days d in formula year t of  $ExLDZIIC_{z,d}$ ;

$$\sum_{\text{all } z}$$

means the sum across all supply points, connected system exit points and storage connection points z of  $ExLDZIIC_{z,d}$ ; and

$ExLDZIIC_{z,d}$  means the amount paid by the licensee in respect of the curtailment of rights to off-take gas from an LDZ at supply point, connected system exit point or storage connection point z on

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day d in respect of formula year t to the extent that such amount relates to a plus 15 curtailment day;

$ExCC_t$  shall have the meaning given to that term in paragraph 14(6)(a) of Part 2 of this Special Condition; and

$RExCP_t$  means in respect of formula year t depreciation and financing costs in respect of NTS incremental firm exit capacity as calculated in accordance with sub-paragraph 14(6)(b)(dd) of Part 2 of this Special Condition.

**(i) Statement of actual interruption**

- (i) The licensee shall publish by 12:00 hours each day a statement setting out in respect of the NTS and for each LDZ by each exit zone (having the meaning given to that term in the licensee's Network Code):
  - (aa) the volumes of NTS exit capacity and LDZ capacity which were curtailed on the previous day; and
  - (bb) in respect of sub-paragraph (aa) above it initiated such use of exit capacity curtailment rights for which of the following reasons: (i) for the purposes of managing capacity rights within the NTS, (ii) for the purposes of managing capacity rights within an LDZ, (iii) for the purposes of balancing the inputs of gas to and the off-takes of gas from the NTS, (iv) for a specified combination of the reasons (i) to (iii), or (v) for such other reason as the licensee shall specify.

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- (ii) The licensee shall retain copies of each statement published pursuant to sub-paragraph 14(6)(i)(i) of Part 2 of this Special Condition for at least seven (7) years.

**(7) Entry capacity buy-back incentive**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum buy-back incentive revenue allowed to the licensee in respect of formula year  $t$  ( $BBIR_t$ ) shall be derived in the following manner:

If  $BBIT_t^L > BBCP_t$ , then:

$$BBIR_t = \text{MIN} \left[ BBUSF_t \times (BBIT_t^L - BBCP_t), BBCAP_t \right]$$

If  $BBIT_t^U < BBCP_t$ , then:

$$BBIR_t = \text{MAX} \left[ BBDSF_t \times (BBIT_t^U - BBCP_t), BBCOL_t \right]$$

Otherwise:

$$BBIR_t = 0$$

where:

$BBIT_t^L$  means the lower buy-back incentive target in respect of formula year  $t$  as set out in the following table:

Variable	Formula year	
	$t=1$	$t \geq 2$
$BBIT_t^L$ £million	35	10

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$BBCP_t$  means the entry capacity buy-back performance measure in respect of formula year  $t$  and shall be calculated in accordance with paragraph 14(7)(b) of Part 2 of this Special Condition;

$MIN(x,y)$  means the value equal to the lesser of  $x$  and  $y$ ;

$BBUSF_t$  is the buy-back upside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$BBUSF_t$	50%	50%

$BBCAP_t$  means the maximum buy-back incentive revenue in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$BBCAP_t$ £million	30	30

$BBIT_t^U$  means the upper buy-back incentive target in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$BBIT_t^U$ £million	35	20

$MAX(x,y)$  means the value equal to the greater of  $x$  and  $y$ ;

$BBDSF_t$  is the buy-back downside sharing factor in respect of

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formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
BBDSF <sub>t</sub>	35%	35%

BBCOL<sub>t</sub> means the minimum buy-back incentive revenue in respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
BBCOL <sub>t</sub> £million	-12.5	-12.5

**(b) The entry capacity buy-back performance measure (BBCP<sub>t</sub>)**

For the purposes of paragraph 14(7)(a) of Part 2 of this Special Condition, the entry capacity buy-back performance measure in respect of formula year t (BBCP<sub>t</sub>) shall be derived from the following formula:

$$\text{BBCP}_t = \text{IECCC}_t - \text{DDCR}_t - \text{REVIC}_t - \text{REVIEC}_t - \text{RCOR}_t$$

where:

IECCC<sub>t</sub> means an amount equal to the costs incurred by the licensee in respect of formula year t in respect of entry capacity constraint management and shall be derived from the following formula:

$$\text{IECCC}_t = \sum_{\text{all } d} \text{BBC}_{d,t} + \sum_{\text{all } d} \text{ECCC}_{d,t}$$

where:

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$d$  means a day in formula year  $t$ ;

$\sum_{\text{all } d}$  means the sum across all days  $d$  in formula year  $t$  of  $BBC_{d,t}$  or  $ECCC_{d,t}$ ;

$BBC_{d,t}$  means the costs incurred by the licensee in the curtailment of capacity rights to put gas into the transportation system in respect of day  $d$  of formula year  $t$  (including costs incurred in respect of any acquisitions from shippers of capacity rights); and

$ECCC_{d,t}$  means the costs incurred by the licensee in respect of any payments made by the licensee to shippers in exchange for agreeing to off-take gas from the NTS at the licensee's request on day  $d$  in respect of formula year  $t$  and in respect of any costs incurred by the licensee undertaking any other commercial or physical action to manage entry capacity excluding those covered by  $BBC_{d,t}$ .

$DDCR_t$  means the revenue derived by the licensee in respect of on-the-day sales of obligated entry capacity in respect of formula year  $t$  and shall be derived from the following formula:

$$DDCR_t = DREVBEC_t + DREVOIEC_t$$

where:

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DREVBEC<sub>t</sub> shall have the meaning given to that term in paragraph 14(5)(l)(i) of Part 2 of this Special Condition; and

DREVOIEC<sub>t</sub> shall have the meaning given to that term in paragraph 14(5)(l)(ii) of Part 2 of this Special Condition;

REVIC<sub>t</sub> shall have the meaning given to that term in paragraph 13(2) of Part 2 of this Special Condition;

REVIEC<sub>t</sub> shall have the meaning given to that term in paragraph 14(5)(k)(iii) of Part 2 of this Special Condition; and

RCOR<sub>t</sub> shall have the meaning given to that term in paragraph 13(3) of Part 2 of this Special Condition.

**(8) System balancing incentive**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum total system balancing incentive revenue allowed to the licensee in respect of formula year  $t$  (SBIR <sub>$t$</sub> ) shall be derived in the following manner:

$$\text{SBIR}_t = \text{GCIR}_t + \text{SRIR}_t$$

where:

GCIR <sub>$t$</sub>  means the maximum gas cost incentive revenue allowed to the licensee in respect of formula year  $t$  and shall be calculated in accordance with paragraph 14(8)(b) of Part 2



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of this Special Condition; and

$SRIR_t$  means the maximum system reserve incentive revenue allowed to the licensee in respect of formula year  $t$  and shall be calculated in accordance with paragraph 14(8)(c) of Part 2 of this Special Condition.

**(b) The maximum gas cost incentive revenue ( $GCIR_t$ )**

For the purposes of paragraph 14(8)(a) of Part 2 of this Special Condition, the maximum gas cost incentive revenue allowed to the licensee in respect of formula year  $t$  ( $GCIR_t$ ) shall be derived in the following manner:

If  $GCIT_t \geq GCCP_t$ , then:

$$GCIR_t = \text{MIN}[GCUSF_t \times (GCIT_t - GCCP_t), GCCAP_t]$$

Otherwise:

$$GCIR_t = \text{MAX}[GCDSF_t \times (GCIT_t - GCCP_t), GCCOL_t]$$

where:

$GCIT_t$  means the NTS SO gas cost incentive target in respect of formula year  $t$  and shall be calculated in accordance with paragraph 14(8)(d) of Part 2 of this Special Condition;

$GCCP_t$  means the NTS SO gas cost incentive performance measure in respect of formula year  $t$  and shall be calculated in accordance with paragraph 14(8)(g) of Part 2 of this Special Condition;

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$\text{MIN}(x,y)$  is the value which is the lesser of  $x$  and  $y$ ;

$\text{GCUSF}_t$  means the gas cost upside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$\text{GCUSF}_t$	25%	25%

$\text{GCCAP}_t$  means the maximum gas cost incentive revenue in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$\text{GCCAP}_t$ £million	4	4

$\text{MAX}(x,y)$  is the value which is the greater of  $x$  and  $y$ ;

$\text{GCDSF}_t$  means the gas cost downside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$\text{GCDSF}_t$	20%	20%

$\text{GCCOL}_t$  means the minimum gas cost incentive revenue in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$\text{GCCOL}_t$ £million	-3	-3

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**(c) The maximum system reserve incentive revenue (SRIR<sub>t</sub>)**

For the purposes of paragraph 14(8)(a) of Part 2 of this Special Condition, the maximum system reserve incentive revenue allowed to the licensee in respect of formula year t (SRIR<sub>t</sub>) shall be derived in the following manner:

If  $SRIT_t \geq SRCP_t$ , then:

$$SRIR_t = SRUSF_t \times (SRIT_t - SRCP_t)$$

Otherwise:

$$SRIR_t = SRDSF_t \times (SRIT_t - SRCP_t)$$

where:

SRIT<sub>t</sub> means the system reserve incentive target in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
SRIT <sub>t</sub> £million	16.8	16.6

SRCP<sub>t</sub> means the system reserve performance measure in respect of formula year t and shall be the total payments made by the licensee in respect of costs incurred by the licensee in respect of storage capacity that has been booked for the purposes of satisfying operating margins requirements (having the meaning given to that term in the licensee's Network Code);

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$SRUSF_t$  means the system reserve upside sharing factor in respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$SRUSF_t$	100%	100%

$SRDSF_t$  means the system reserve downside sharing factor in respect of formula year t as set out in the following the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$SRDSF_t$	100%	100%

**(d) The NTS SO gas cost incentive target ( $GCIT_t$ )**

For the purposes of paragraph 14(8)(b) of Part 2 of this Special Condition, the NTS SO gas cost incentive target in respect of formula year t ( $GCIT_t$ ) shall be derived from the following formula:

$$GCIT_t = (GCRP_t \times GVTP_t \times 10,000) + ECT_t$$

where:

$GCRP_t$  means the NTS SO gas cost reference price in respect of formula year t and shall be calculated in accordance with paragraph 14(8)(e) of Part 2 of this Special Condition;

$GVTP_t$  means the NTS SO gas target volumes in respect of formula year t as set out in the following table:

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	Formula Year				
	t=1	t=2	t=3	t=4	t≥5
GVTP <sub>t</sub> GWh/year	8,265	8,618	8,929	8,976	9,161

ECT<sub>t</sub> means the target electric compression costs in respect of formula year t as set out in the following table:

	Formula Year				
	t=1	t=2	t=3	t=4	t≥5
ECT <sub>t</sub> £million	0.5	0.5	0.5	0.5	0.5

**(e) The NTS SO gas cost reference price (GCRP<sub>t</sub>)**

For the purposes of paragraph 14(8)(d) of Part 2 of this Special Condition, the NTS SO gas cost reference price in respect of formula year t (GCRP<sub>t</sub>) shall be derived in the following manner:

- (i) In respect of formula years 1 and 2, GCRP<sub>t</sub> shall have the values set out in the following table:

	Formula year	
Variable	t=1	t=2
GCRP <sub>t</sub> pence per kWh	0.702	0.712

- (ii) In respect of all subsequent formula years, GCRP<sub>t</sub> shall be derived from the following formula:

$$GCRP_t = \frac{\sum_{all\ q} \sum_{all\ d} [NTST_{t-2,q,d} \times FQRP_{t,q}]}{\sum_{all\ q} \sum_{all\ d} NTST_{t-2,q,d}} + 0.055\text{ p/kWh}$$

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where:

$q$  Means each quarter in formula year  $t$  where a quarter is a continuous period of three calendar months and where  $q=1$  covers the days between 1 April and 30 June inclusive;

$\sum_{all\ q}$  means the sum across all quarters  $q$  in formula year  $t$  of  $\sum_{all\ d} (NTST_{t-2,q,d} \times FQRP_{t,q})$  or  $\sum_{all\ d} NTST_{t-2,q,d}$  as the case may be;

$\sum_{all\ d}$  means the sum of across all days in quarter  $q$  of  $(NTST_{t-2,q,d} \times FQRP_{t,q})$  or  $NTST_{t-2,q,d}$  as the case may be;

$NTST_{t-2,q,d}$  shall be calculated from the following formula:

$$NTST_{t-2,q,d} = UDQI_{t-2,q,d} + \sum_{all\ S} \text{Max}[UDQI_{t-2,q,d}^S - UDQO_{t-2,q,d}^S, 0]$$

where

$UDQI_{t-2,q,d}$  means the sum of shippers' user daily quantity inputs (having the meaning given to that term in the licensee's Network Code) at the terminals at each of Bacton, Barrow, Easington, St Fergus, Teeside and Theddlethorpe on day  $d$  of quarter  $q$  of formula year  $t-2$ ;

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$UDQI_{t-2,q,d}^S$  means the sum of shippers' user daily quantity input (having the meaning given to that term in the licensee's Network Code) in respect of storage connection point S on day d of quarter q of formula year t-2;

$UDQO_{t-2,q,d}^S$  means the sum of shippers' user daily quantity outputs (having the meaning given to that term in the licensee's Network Code) in respect of storage connection point S on day d of quarter q of formula year t-2; and

$\sum_{all\ S}$  means the sum over all storage connection points.

$FQRP_{t,q}$  means the forward quarterly reference price in respect of quarter q of formula year t and shall be derived from the following formula:

$$FQRP_{t,q} = \frac{\sum_{d=a}^b FP_{t,q,d}}{n}$$

where:

a means 1 March in formula year (t-1);

b means 20 March in formula year (t-1);

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

$FP_{t,q,d}$  means the forward price quoted in an approved published price reporting service on day d for a gas contract for delivery at the national balancing point (having the meaning given to that term in the published price reporting service approved in accordance with sub-paragraph (iii) below) in respect of quarter q of formula year t, measured in p/kWh; and

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

- (iii) For the purposes of this paragraph, a published price reporting service will be proposed by the licensee prior to 1 March in each formula year t. If after 30 days from the receipt of such a proposal the Authority has not disallowed the proposal, the proposed published price reporting service will be deemed to be approved.

**(f) The NTS SO system balancing costs (SBIC<sub>t</sub>)**

For the purposes of paragraph 14(3) of Part 2 of this Special Condition, the NTS SO system balancing costs in respect of formula year t (SBIC<sub>t</sub>) shall be derived from the following formula:

$$SBIC_t = GCCP_t + SRCP_t$$

where:



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$GCCP_t$  means the NTS SO gas cost performance measure and shall be calculated in accordance with paragraph 14(8)(g) of Part 2 of this Special Condition; and

$SRCP_t$  shall have the meaning given to that term in paragraph 14(8)(c) of Part 2 of this Special Condition.

**(g) The NTS SO gas cost performance measure ( $GCCP_t$ )**

For the purposes of paragraph 14(8)(b) of Part 2 of this Special Condition, the NTS SO gas cost performance measure in respect of formula year  $t$  ( $GCCP_t$ ) shall be derived from the following formula:

$$GCCP_t = GC_t + ECC_t$$

where:

$GC_t$  means the payments made by the licensee in respect of the total costs incurred by the licensee in respect of formula year  $t$  in the provision of gas to be consumed by it in the operation of the NTS other than  $ECC_t$ ; and

$ECC_t$  means the payments made by the licensee in respect of the total costs incurred by the licensee in respect of formula year  $t$  in procuring and purchasing fuel for the purposes of operating electric compressors on the NTS.

**(9) Residual gas balancing incentive**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum residual gas balancing incentive revenue allowed to the licensee

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in respect of formula year  $t$  ( $RBIR_t$ ) shall be derived from the following formula:

$$RBIR_t = \text{MIN}[RBCAP_t, \text{MAX}[STIP_t, RBCOL_t]]$$

where:

$\text{MIN}(x, y)$  means the value equal to the lesser of  $x$  and  $y$ ;

$RBCAP_t$  means the maximum residual gas balancing incentive revenue in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$RBCAP_t$ £million	3.5	3.5

$\text{MAX}(x, y)$  means the value equal to the greater of  $x$  and  $y$ ;

$STIP_t$  means the sum of the total daily incentive payments under the residual gas balancing incentive in respect of formula year  $t$  and shall be calculated in accordance with paragraph 14(9)(b) of Part 2 of this Special Condition; and

$RBCOL_t$  means the minimum residual gas balancing incentive revenue in respect of formula year  $t$  as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b><math>t=1</math></b>	<b><math>t \geq 2</math></b>
$RBCOL_t$ £million	-3.5	-3.5

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**(b) The sum of the total daily incentive payments under the residual gas balancing incentive (STIP<sub>t</sub>)**

For the purposes of paragraph 14(9)(a) of Part 2 of this Special Condition, the sum of the total daily incentive payments under the residual gas balancing incentive in respect of formula year t (STIP<sub>t</sub>) shall be derived from the following formula:

$$STIP_t = SDPIP_t + SDLIP_t$$

where:

SDPIP<sub>t</sub> means the sum of daily price incentive payments and shall be calculated in accordance with paragraph 14(9)(c) of Part 2 of this Special Condition; and

SDLIP<sub>t</sub> means the sum of daily linepack incentive payments and shall be calculated in accordance with paragraph 14(9)(d) of Part 2 of this Special Condition.

**(c) The sum of daily price incentive payments (SDPIP<sub>t</sub>)**

For the purposes of paragraph 14(9)(b) of Part 2 of this Special Condition, the sum of the daily price incentive payments in respect of formula year t (SDPIP<sub>t</sub>) shall be derived from the following formula:

$$SDPIP_t = \sum_{\text{all } d} DPIP_{d,t}$$

where:

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$\sum_{\text{all } d}$  means the sum across all days  $d$  in formula year  $t$  of  $\text{DPIP}_{d,t}$ ; and

$\text{DPIP}_{d,t}$  means the daily price incentive payment and shall be calculated in accordance with paragraph 14(9)(e) of Part 2 of this Special Condition.

**(d) The sum of daily linepack incentive payments ( $\text{SDLIP}_t$ )**

For the purposes of paragraph 14(9)(b) of Part 2 of this Special Condition, the sum of daily linepack incentive payments in respect of formula year  $t$  ( $\text{SDLIP}_t$ ) shall be derived from the following formula:

$$\text{SDLIP}_t = \sum_{\text{all } d} \text{DLIP}_{d,t}$$

where:

$\sum_{\text{all } d}$  means the sum across all days  $d$  in formula year  $t$  of  $\text{DLIP}_{d,t}$ ; and

$\text{DLIP}_{d,t}$  means the sum of daily linepack incentive payment and shall be calculated in accordance with paragraph 14(9)(g) of Part 2 of this Special Condition.

**(e) The daily price incentive payment ( $\text{DPIP}_{d,t}$ )**

For the purposes of paragraph 14(9)(c) of Part 2 of this Special Condition, the daily price incentive payment in respect of day  $d$  of formula year  $t$  ( $\text{DPIP}_{d,t}$ ) shall be derived in the following manner:

If  $\text{PPM}_{d,t} < \text{PIR}_t$ , then:

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$$DPIP_{d,t} = DPMCAP_t \times \frac{(PIR_t - \text{MAX}(PPM_{d,t}, PIMUL_t))}{(PIR_t - PIMUL_t)}$$

Otherwise:

$$DPIP_{d,t} = DPMCOL_t \times \frac{(PIR_t - \text{MIN}(PPM_{d,t}, PIMLL_t))}{(PIR_t - PIMLL_t)}$$

where:

$PPM_{d,t}$  means the daily residual balancing price performance measure and shall be calculated in accordance with paragraph 14(9)(f) of Part 2 of this Special Condition;

$PIR_t$  means the price incentive reference measure in respect of formula year t as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$PIR_t$	10%	10%

$DPMCAP_t$  means the daily price incentive cap in respect of formula year t as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$DPMCAP_t$ £	5,000	5,000

$\text{MAX}(x,y)$  is the value equal to the greater of x and y;

$PIMUL_t$  means the price incentive measure upper limit in respect of formula year t as set out in the following table:

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	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
PIMUL <sub>t</sub>	0%	0%

DPMCOL<sub>t</sub> means the daily price measure incentive collar in respect of formula year t as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
DPMCOL <sub>t</sub> £	-30,000	-30,000

MIN (x,y) is the value equal to the greater of x and y; and

PIMLL<sub>t</sub> means the price incentive measure lower limit in respect of formula year t as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
PIMLL <sub>t</sub>	85%	85%

**(f) The daily residual balancing price performance measure (PPM<sub>d,t</sub>)**

For the purposes of paragraph 14(9)(e) of Part 2 of this Special Condition, the licensees daily residual balancing price performance measure in respect of day d in formula year t (PPM<sub>d,t</sub>) shall be derived from the following formula:

$$PPM_{d,t} = \frac{1}{2} \times \left( \frac{(TMIBP_{d,t} - TMISP_{d,t})}{SAP_{d,t}} \right) \times 100$$

where:

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TMIBP<sub>d,t</sub> means the price in pence per kilowatt hour which is equal to the highest market offer price (having the meaning given to that term in the licensee's Network Code) in relation to a eligible balancing action (having the meaning given to that term in the licensee's Network Code) taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case TMIBP<sub>d,t</sub> will equal SAP<sub>d,t</sub>;

TMISP<sub>d,t</sub> means the price in pence per kilowatt hour which is equal to the lowest market offer price (having the meaning given to that term in the licensee's Network Code) in relation to a eligible balancing action (having the meaning given to that term in the licensee's Network Code) taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case TMISP<sub>d,t</sub> will equal SAP<sub>d,t</sub>; and

SAP<sub>d,t</sub> means the system average price (having the meaning given to that term in the licensee's Network Code) in respect of day d of formula year t

**(g) The daily linepack incentive payment (DLIP<sub>d,t</sub>)**

For the purposes of paragraph 14(9)(d) of Part 2 of this Special Condition, the daily linepack incentive payment in respect of day d of formula year t (DLIP<sub>d,t</sub>) shall be derived from the following formula:

If  $LPM_{d,t} < LIR_t$ , then:

$$DLIP_{d,t} = DLMCAP_t \times \frac{(LIR_t - \text{MAX}[LPM_{d,t}, LIMUL_t])}{(LIR_t - LIMUL_t)}$$

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Otherwise:

$$DLIP_{d,t} = DLMCOL_t \times \frac{(LIR_t - \text{MIN}[LPM_{d,t}, LIMLL_t])}{(LIR_t - LIMLL_t)}$$

where:

$LPM_{d,t}$  means the linepack performance measure in respect of day d of formula year t and shall be calculated in accordance with paragraph 14(9)(h) of Part 2 of this Special Condition;

$LIR_t$  means the linepack incentive reference measure in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
$LIR_t$	2.4 mcm	2.4 mcm

$DLMCAP_t$  means the daily linepack maximum incentive cap in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
$DLMCAP_t$ £	5,000	5,000

$\text{MAX}(x,y)$  is the value equal to the greater of x and y;

$LIMUL_t$  means the linepack incentive measure upper limit, in



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respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
LIMUL <sub>t</sub>	0 mcm	0 mcm

DLMCOL<sub>t</sub> means the daily linepack measure incentive collar, in respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
DLMCOL <sub>t</sub> £	-30,000	-30,000

MIN (x,y) is the value equal to the greater of x and y; and

LIMLL<sub>t</sub> means the linepack incentive measure lower limit in respect of formula year t as set out in the following table:

	<b>Formula year</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
LIMLL <sub>t</sub>	20.4 mcm	20.4 mcm

**(h) The linepack performance measure (LPM<sub>d,t</sub>)**

For the purposes of paragraph 14(9)(g) of Part 2 of this Special Condition, the linepack performance measure, in respect of day d of formula year t (LPM<sub>d,t</sub>) shall be derived from the following formula:

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

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where:

MAX (x,y) is the value equal to the greater of x and y;

OLP<sub>d,t</sub> means the total NTS linepack in respect of day d of formula year t as at 06:00 hours on day d;

CLP<sub>d,t</sub> means the NTS linepack in respect of day d of formula year t as at 06:00 hours on day d+1; and

NTS linepack means the volume of gas within the NTS as calculated by the licensee in accordance with the methodology proposed by the licensee for that purpose from time to time and approved by the Authority.

**(10) Internal cost incentive scheme**

**(a) Principal formula**

For the purposes of paragraph 14(2) of Part 2 of this Special Condition, the maximum internal costs incentive revenue allowed to the licensee in respect of formula year t (ICIR<sub>t</sub>) shall be derived in the following manner:

If  $ICIT_t \geq ICCP_t$ , then:

$$ICIR_t = ICUSF_t \times \left( \frac{RI_t}{RI_0} \times ICIT_t - ICCP_t \right)$$

Otherwise:

$$ICIR_t = ICDSF_t \times \left( \frac{RI_t}{RI_0} \times ICIT_t - ICCP_t \right);$$

where:

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$ICIT_t$  means the internal cost incentive target in respect of formula year  $t$  as set out in the following table:

	<b>Formula years</b>				
<b>Variable</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=4</b>	<b>t≥5</b>
$ICIT_t$ £ million	29.9	28.2	28.1	28.0	26.6

$ICCP_t$  means the internal cost performance measure in respect of formula year  $t$  and shall be calculated in accordance with paragraph 14(10)(b) of Part 2 of this Special Condition;

$ICUSF_t$  means the internal cost upside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$ICUSF_t$	40%	40%

$RI_t$  shall have the meaning given to that term in paragraph 14(5)(a) in Part 2 of this Special Condition;

$RI_0$  shall have the meaning given to that term in paragraph 14(5)(a) in Part 2 of this Special Condition; and

$ICDSF_t$  means the internal cost downside sharing factor in respect of formula year  $t$  as set out in the following table:

	<b>Formula years</b>	
<b>Variable</b>	<b>t=1</b>	<b>t≥2</b>
$ICDSF_t$	35%	35%

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**(b) The internal cost performance measure ( $ICCP_t$ )**

For the purposes of paragraph 14(10)(a) of Part 2 of this Special Condition, the internal cost performance measure in respect of formula year  $t$  ( $ICCP_t$ ) shall be derived from the following formula:

$$ICCP_t = SOOC_t + SODCP_t + SORCP_t$$

where:

- |                              |  |
|------------------------------|--|
| $SOOC_t$                     | means the operating costs incurred in respect of formula year $t$ attributable to the provision of NTS SO activity in accordance with Special Condition 29 (Allocation of revenues and costs for calculations under the price control);            |
| $SODCP_t$                    | means the depreciation on the NTS SO regulatory asset base in respect of formula year $t$ calculated on a straight-line basis in accordance with Special Condition 29 (Allocation of revenues and costs for calculations under the price control); |
| $SORCP_t$                    | means the return on the NTS SO regulatory asset base in respect of formula year $t$ at a rate of 6.25%; and  |
| NTS SO regulatory asset base | means the allocation of assets to the NTS SO activity in accordance with Special Condition 29 (Allocation of revenues and costs for calculations under the price control).   |

**(11) Determination of any adjustment factor to be applied to  $SOMR_t$  ( $SORA_t$ )**

- (a) An income adjusting event is any event or circumstance:
- (i) constituting force majeure under the licensee's Network Code;

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- (ii) resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the licensee's Network Code);
  - (iii) where the revenues derived by the licensee from the sale of obligated entry capacity pursuant to paragraph 14(5)(c)(iii) are less than the revenues that would have been derived from the original sale of that capacity had the original purchaser of the capacity not been served with a termination notice (having the meaning given to that term in the licensee's Network Code) and in respect of this subparagraph only, the threshold specified in paragraphs 14(11)(c)(ii), (d)(ii) and (g)(ii) shall not apply; and
  - (iv) that is, in the opinion of the Authority, an income adjusting event and approved by it as such.
- (b) The Authority's approval of an income adjusting event shall be in writing and shall be in the public domain and the Authority may revoke this approval with the consent of the licensee.
- (c) Where it appears to the licensee that there have been in respect of formula year t costs and/or expenses which:
  - (i) have been caused or saved by an income adjusting event; and
  - (ii) have, in respect of formula year t, increased or decreased by more than £2,000,000 the value of  $SOIC_t$  (having the meaning given to that term in paragraph 14(3) of Part 2 of this Special Condition) (for the avoidance of doubt, in the case of paragraph 14(11)(a)(iii) only the threshold of £2,000,000 shall not apply),then the licensee shall give notice thereof to the Authority.
- (d) Where it appears to any shipper that there have been in respect of formula year t costs and/or expenses which:

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- (i) have been caused or saved by an income adjusting event; and
- (ii) have, in respect of formula year  $t$ , increased or decreased by more than £2,000,000 the value of  $SOIC_t$  (having the meaning given to that term in paragraph 14(3) of Part 2 of this Special Condition) (for the avoidance of doubt, in the case of paragraph 14(11)(a)(iii) only the threshold of £2,000,000 shall not apply),

then that shipper may give notice thereof to the Authority.

- (e) The notice provided for in paragraphs 14(11)(a) and 14(11)(b) of Part 2 of this Special Condition shall give particulars of:
  - (i) the income adjusting event to which the notice relates;
  - (ii) the amount of any change in costs and/or expenses which appear to the person giving the notice to have been caused or saved by the event and the method of calculating such costs and/or expenses; and
  - (iii) the amount of any allowed income adjustment proposed as a consequence of that income adjusting event.
- (f) A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and may not be given more than 3 months after the end of the relevant formula year in which it occurs.
- (g) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):
  - (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 14(11)(c) or 14(11)(d) of Part 2 of this Special Condition are caused or saved by an income adjusting event;

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- (ii) whether the amount specified for the purpose of paragraph 14(11)(e)(iii) of Part 2 of this Special Condition has increased or decreased the value of  $SOIC_t$  by more than £2,000,000 (for the avoidance of doubt, in the case of paragraph 14(11)(a)(iii) only the threshold of £2,000,000 shall not apply); and
  - (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.
- (h) In respect of formula year  $t$ , the approved allowance in respect of an income adjustment ( $SORA_t$ ) shall be:
- (i) the value determined by the Authority under paragraph 14(11)(g) of Part 2 of this Special Condition;
  - (ii) if the Authority has not made a determination in accordance with paragraph 14(11)(a) of Part 2 of this Special Condition within 3 months of the date of the notice under paragraph 14(11)(c) or 14(11)(d) of Part 2 of this Special Condition, the respective values given to them in that notice; or
  - (iii) in any other case, zero.

**15. Reporting obligations**

- (1) Where the licensee publishes any statement or revised or amended statement as to its transportation charges under amended standard condition 4 (Charging Gas Shippers - General), the licensee shall not later than twenty-eight days prior to the time of such publication provide the Authority with:-
  - (a) a written forecast of maximum NTS system operation revenue, together with its components, in respect of the formula year in which the change in such

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charges is to take effect and also in respect of the next following formula year; and

- (b) a written estimate of the maximum NTS system operation revenue, together with its components, in respect of the formula year immediately preceding the formula year in which the change in such charges is to take effect unless a statement complying with paragraph 15(4) of Part 2 of this Special Condition in respect of that first mentioned formula year has been furnished to the Authority before the publication of the proposed change in such charges.
- (2) If, within three months of the commencement of any formula year, the licensee has not published or effected any such change in its transportation charges, the licensee shall provide the Authority with a written forecast of the maximum NTS system operation revenue, together with its components, in respect of that formula year.
- (3) Any forecasts as aforesaid shall be accompanied by such information as may be necessary to enable the Authority to be reasonably satisfied that the forecasts have been properly prepared on a consistent basis.
- (4) Not later than six weeks after the commencement of a formula year, the licensee shall send to the Authority a statement as to whether or not, in its opinion, paragraphs 15(1) or 15(2) of Part 2 of this Special Condition above apply in respect of that formula year and its best estimate of what  $SOK_t$  (as defined in paragraph 14(4) of Part 2 of this Special Condition) is likely to be in that formula year.
- (5) The licensee shall send to the Authority, not later than three months after the end of each formula year, a statement showing the NTS system operation revenue in respect of that formula year that shall be certified by a Director of the licensee on behalf of the licensee stating that the information is correct to the best of his knowledge and belief having made all reasonable enquiries.
- (6) The statement referred to in sub-paragraph (5) above shall be accompanied by a report from the appropriate auditors that, in their opinion, that statement fairly



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presents the NTS system operation revenue in accordance with the requirements of this Special Condition.

**16. Disapplication of the NTS SO activity revenue restriction**

- (1) The NTS SO activity revenue restriction conditions shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 16(2) to 16(7) of Part 2 of this Special Condition.
- (2) The NTS SO revenue restrictions conditions shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 16(3) of Part 2 of this Special Condition or notice is given to the Authority by the licensee in accordance with either paragraph 16(6) or paragraph 16(7) of Part 2 of this Special Condition.
- (3) A disapplication request shall
  - (i) be in writing addressed to the Authority;
  - (ii) specify NTS SO revenue restriction conditions (or any part or parts thereof) to which the request relates; and
  - (iii) state the date (being not earlier than the date referred to in paragraph 16(5) of Part 2 of this Special Condition) from which the licensee wishes the Authority to agree that those conditions shall cease to have effect.
- (4) The licensee may withdraw a disapplication request at any time.
- (5) No disapplication following delivery of a disapplication request pursuant to paragraph 16 of Part 2 of this Special Condition shall have effect until a date being the earlier of:
  - (i) not less than 18 months after delivery of the disapplication request; and

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- (ii) 31 March 2004 in the case of a disapplication request which relates to the following parts of the NTS SO revenue restriction set out in Part 2 of Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the the NTS system operation activity):
    - (aa)  $STR_m^j$  having the meaning given to that term in paragraph 14(5)(g);
    - (bb)  $ExUSF_t, ExDSF_t, EXCAP, ExCOL_t$  having the meanings given to those terms in paragraph 14(6)(a);
    - (cc) paragraph 14(7);
    - (dd) paragraph 14(9); and
    - (ee)  $ICUSF_t$  and  $ICDSF_t$  having the meanings given to those terms in paragraph 14(10)(a); and
  - (iii) 31 March 2007 in the case of a disapplication request relating to any other Part of the NTS SO revenue restriction.
- (6) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of Part 2 of this Special Condition or the part of parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date, and the licensee has not withdrawn the disapplication request the licensee may deliver written notice to the Authority terminating the application of Part 2 of this Special Condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or a later date.
- (7) If the Competition Commission makes a report on a reference made by the Authority relating to the modification of Part 2 of this Special Condition or the part or parts thereof specified in the disapplication request and such report does not include a conclusion that the cessation of such charge restrictions, in whole or in part, operates or may be expected to operate against the public interest, the

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licensee may within 30 days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to him written notice terminating the application of Part 2 of this Special Condition or the part or parts thereof with effect from the disapplication date or later.

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**Special Condition 29: Allocation of revenues and costs for calculations under the price control**

1. Unless the Authority otherwise directs any allocation or attribution of revenues, costs, assets and liabilities performed by the licensee in order to calculate any of the values referred to in Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the NTS system operation activity) shall conform to the following principles:
  - (a) The licensee shall in so far as is reasonably practicable allocate or attribute revenues, costs, assets and liabilities in accordance with the activities which cause the revenues to be earned, costs to be incurred, the assets to be acquired or the liabilities to be incurred.
  - (b) The licensee shall perform allocations and attributions:
    - (i) on an objective basis; and
    - (ii) in a manner calculated not to benefit unduly the licensee or any other company or organisation.
  - (c) The licensee shall perform, wherever practicable, all allocations and attributions on a consistent basis from one formula year to the next.
2. The licensee will allocate or attribute all revenue earned and costs incurred by the transportation business to the following activities:
  - (a) the NTS transportation owner activity;
  - (b) the NTS system operation activity;
  - (c) the LDZ transportation activity;
  - (d) the metering activities; or

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- (e) excluded services in accordance with the principles set out in Special Condition 30 (Supplementary provisions of the revenue restrictions).
3. The licensee shall on or before 1 October 2002 or such later date as the Authority may direct and thereafter before 1 July in each subsequent formula year (or such longer period as the Authority may approve) prepare and submit to the Authority a statement in a form approved by the Authority setting out (consistently with the licensee's duty under paragraph 1 and 2 of this Special Condition and consistently with its other duties under the Act, and the standard, amended standard and Special Conditions) the methods it intends to use in the allocation and attribution of revenues and costs. As a minimum, the statement shall distinguish from each other the allocation or attribution of, revenues, costs, assets and liabilities to each of the activities listed in paragraph 2 of this Special Condition and where such allocations and attributions have changed from one year to the next, the licensee shall indicate how and why such basis has been changed.
4. The licensee shall re-allocate or re-attributed revenues earned by the licensee and costs incurred by the licensee to the activities undertaken by the licensee listed in paragraph 2 of this Special Condition in accordance with any direction made in writing by the Authority within three months of receipt of the statement prepared pursuant to paragraph 3 of this Special Condition so as to bring such re-allocation or attribution into compliance with paragraph 1 of this Special Condition.
5. (a) The licensee shall no later than three months after the end of each formula year prepare and submit to the Authority a report on the manner in which and the extent to which the licensee has, during that formula year, complied with the statement prepared pursuant to paragraph 3 of this Special Condition as modified pursuant to paragraph 4 of this Special Condition and whether any modification should be made to that statement to reflect more closely the practice of the licensee.
- (b) The report shall be accompanied by a statement from appropriate auditors that they have carried out an investigation, the scope and objectives of which shall have been established by the licensee and approved by the Authority, and giving their opinion as to the extent to which the licensee has properly prepared the

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report submitted pursuant to paragraph 5(a) in accordance with paragraphs 3 and 4 of this Special Condition.

6. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraphs 3 and 4 of this Special Condition.
7. To the extent the licensee earns revenues or incurs costs in the provision of de minimis activities in accordance with standard condition 43 (Restriction on Activity and Financial Ring-fencing), the licensee shall report on these revenues and costs in accordance with this Special Condition.
8. In this Special Condition:

appropriate auditors	shall have the meaning given to that term in Special Condition 28A (Revenue restriction definitions);
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transportation business	means any activity or engagement undertaken by the licensee or any affiliate or related undertaking of the licensee related to the operation, planning, expansion and maintenance of Transco's transportation system and shall include the NTS transportation owner activity, the NTS system operation activity, the LDZ transportation activity, the metering and meter reading activity and excluded services;
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NTS transportation owner activity	shall have the meaning given to that term in Special (Revenue restriction definitions) 28A;
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LDZ transportation activity	shall have the meaning given to that term in Special Condition 28A (Revenue restriction definitions);
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metering activity	shall have the meaning given to that term in Special Condition 32 (Non-discrimination in the provision of metering activities);
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excluded services	means any activity or engagement undertaken by the licensee or any affiliate or related undertaking of the licensee that has been determined by the Authority to be an excluded service in line with the principles outlined in Special Condition 30 (Supplementary provisions of the revenue restrictions).
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**Special Condition 30: Supplementary provisions of the revenue restrictions**

1. There may be treated as excluded services services provided by the licensee in the provision of its NTS TO activity, its NTS SO activity or its LDZ transportation activity in respect of which charges are made which:
  - (a) do not fall within Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the NTS system operation activity); and
  - (b) may be determined by the licensee as falling under one of the principles set out in paragraphs 2 to 4 of this Special Condition.
2. No service provided by the licensee as part of its NTS TO activity, NTS SO activity, or LDZ transportation activity shall be treated as an excluded service in so far as it relates to the provision of services remunerated through charges levied pursuant to:
  - (a) paragraph 2 of Part 1 a of Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the the NTS system operation activity);
  - (b) paragraph 7 of Part 1 b of Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the the NTS system operation activity); and
  - (c) paragraph 13 of Part 2 of Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the the NTS system operation activity).
3. The whole or an appropriate proportion of the charges received for the following may be treated as excluded services:
  - (a) subject in each case to paragraphs 11 and 12 of standard condition 48 (Last Resort Supply: Payment Claims), are of an amount equal to the increases in its charges pursuant to paragraph 5 of said standard condition 48; or



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- (b) derive from supplemental charges within the meaning of amended standard condition 4C (Charging Gas Shippers – Supplemental Connection Charges); or
  - (c) derive from charges in respect of the provision of emergency services under contracts entered into pursuant to Special Condition 19 (Emergency services to or on behalf of another gas transporter); or
  - (d) represent revenue equal to any allowance made or charges (in respect of gas treated as not having been taken out of its pipeline system) required to be foregone for the purpose of paragraphs 5 and 6 of standard condition 7 (Provision of Information Relating to Gas Illegally Taken); or
  - (e) derive from the execution of works in connection with the provision of, or the carrying out of modifications to, points at which gas may be introduced into or taken off the transportation system.
4. There may, with the approval of the Authority be treated as an excluded service any service of a type not referred to which:
- (a) consists in the provision of services for the specific benefit of a third party requesting the same; and
  - (b) is not made available by the licensee as a normal part of its NTS TO activity, NTS SO activity or LDZ transportation activity.
5. Where the Authority is satisfied that in light of the principles set out in paragraphs 2 to 4 inclusive of this Special Condition any service treated by the licensee as an excluded service should not be so treated, the Authority shall issue directions to that effect and such service shall cease to be treated as an excluded service with effect from the date of issue of such directions or such earlier date as specified in the directions being not earlier than the commencement of the relevant year to which the statement last furnished to the Authority pursuant to paragraph 3 of Special Condition 29 (Allocation of Revenues and Costs of Calculations under the Price Control) prior to issue of such directions related, unless such statement or the accompanying report or certificate

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referred to in paragraph 5 of that Special Condition or any earlier such statement, report or certificate was incorrect or misleading in any material aspect.

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**Special Condition 31: Restriction of prices in respect of tariff capped metering activities**

**1. Principal restriction**

The licensee in setting its charges for each of its tariff-capped metering activities in any formula year shall not exceed the maximum tariff cap in respect of that metering activity in respect of that formula year  $t$  ( $M_t^A$ ).

**2. Maximum tariff caps ( $M_t^A$ )**

For the purposes of paragraph 1 of this Special Condition the maximum tariff cap for each tariff-capped metering activity in respect of formula year  $t$  ( $M_t^A$ ) shall be derived in the following manner:

- (1) In respect of the formula year commencing on 1 April 2002 ( $t=1$ ), the maximum tariff caps shall have the values set out in the following table:

Activity	Description	Maximum tariff caps ( $M_1^A$ )
1	Annual charge for providing and maintaining the assets that form a domestic credit meter installation, per meter per annum	£12.29 $\times (1 + RPI_0)$
2	Annual charge for providing and maintaining the assets that form a prepayment meter installation, per meter per annum	£27.29 $\times (1 + RPI_0)$
3	Annual charge for providing a daily meter reading for daily metered supply meter points, per supply meter point per annum	£340.00 $\times (1 + RPI_0)$

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4	Carrying out the work to replace a domestic credit meter with a prepayment meter, per job undertaken	£46.00 $\times (1 + RPI_0)$
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(2) Otherwise:

$$M_t^A = M_{t-1}^A + (M_{t-1}^A \times RPI_t) \text{ (rounded up or down to the nearest penny).}$$

where:

$RPI_0$  means the percentage change (whether of a positive or negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from April to September (both inclusive) in the year 1999 and of the arithmetic average of the retail price index numbers published or determined in each of the six months from July to December (both inclusive) in the year 2001; and

$RPI_t$  means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index published or determined with respect to each of the six months from June to November (both inclusive) in formula year t-1 and the arithmetic average of retail price index numbers published or determined with respect to the same months in formula year t-2.

### 3. Definitions

In this Special Condition:

daily metered supply meter points	means a supply meter point which is read on a daily basis in accordance with section M paragraph 1.3.1 or section G
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1.5.1(b) or section G paragraph 1.5.3 of the licensee's Network Code having effect as such on 1 April 2002;

domestic credit meter installation	means a domestic sized meter and associated equipment and installations (excluding housing) within the definition of a supply meter installation (having the meaning given to that term in the licensee's Network Code) that is not a prepayment meter installation;
domestic sized	means designed for a maximum rate of gas flow which does not exceed six (6) cubic metres per hour;
tariff capped metering activities	means those activities provided by the licensee listed in paragraph 2 of this Special Condition; and
prepayment meter installation	means a domestic sized meter and associated equipment and installations (excluding housing) within the definition of a supply meter installation (having the meaning given to that term in the licensee's Network Code) through which gas, which is charged for as it is used, is supplied.

**4. Departures from published statements of charges in respect of tariff-capped metering activities**

- (1) Where the licensee wishes to depart from its published statement of charges prepared in accordance with Special Condition 23 (Provision of Metering and Metering Reading Services) in respect of the provision of tariff capped metering activities by increasing its charges to a shipper to a level which would result in any given formula year in a breach of its obligations under paragraph 1 of this Special Condition in consequence of that shipper having unbundled part of its shipper's metering portfolio, the licensee shall make a written application to the Authority specifying why the change is requested, providing specification of the metering activities to be provided to that shipper, the proposed level of charge broken down between the different types of metering activities to be provided to

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that shipper together with such other information to support its application as the Authority may reasonably specify in writing.

- (2) The licensee may, with effect from the date of the application, levy the charges specified in that application in respect of that shipper if:
- (a) the Authority confirms in writing that it consents to such charges with or without amendment and to such extent and on the basis of such terms and conditions as the Authority may specify; or
  - (b) if the Authority has not issued a direction to the licensee requiring the licensee not to exceed the maximum tariff cap within 90 days after receipt of the application.

**5. Disapplication of the maximum tariff caps**

- (1) The maximum tariff caps shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 5(2) to 5(7) of this Special Condition.
- (2) The maximum tariff caps shall cease to have effect (in whole or in part as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 5(3) of this Special Condition and notice is given to the Authority by the licensee in accordance with either paragraph 5(5) or paragraph 5(6) of this Special Condition.
- (3) A disapplication request shall:
- (i) be in writing addressed to the Authority;
  - (ii) specify the maximum tariff cap or caps to which the request relates; and
  - (iii) state the date (being not earlier than the date referred to in paragraph 5(5) of this Special Condition) from which the licensee wishes the Authority to agree that the maximum tariff cap or caps shall cease to have effect.

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- (4) The licensee may withdraw a disapplication request at any time.
- (5) Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to paragraph 5(3) of this Special Condition shall have effect until a date being not less than 18 months after delivery of the disapplication request ("the disapplication date").
- (6) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of the maximum tariff cap or caps specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date and the licensee has not withdrawn the disapplication request, the licensee may deliver written notice to the Authority terminating the application of the maximum tariff cap or caps as specified in the disapplication request with effect from the disapplication date or a later date.
- (7) If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the maximum tariff cap or caps specified in the disapplication request and such report does not include a conclusion that the cessation of such maximum tariff caps, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of the maximum tariff cap or caps specified in the disapplication request with effect from the disapplication date or later.
- (8) A disapplication request or notice served under this Special Condition may be served in respect of a specified geographic area.

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**Special Condition 32: Non-discrimination in the provision of metering activities**

1. The licensee shall avoid undue discrimination and undue preference between any persons or class or classes of persons in the provision of metering activities.
2. Without prejudice to paragraph 1 and subject to paragraph 4 of this Special Condition, the licensee shall not make charges for the provision of metering activities to any shipper or class or classes of shipper which differ in respect of any item separately identified in the statements referred to in paragraph 5 of Special Condition 23 (Provision of metering and meter reading services) from those for the provision of metering activities to any other gas shipper or class or classes of shipper except insofar as such differences reasonably reflect differences in the costs associated with such provision.
3. Notwithstanding paragraph 2 of this Special Condition, the licensee shall not make any charges in respect of metering activities in respect of any item of charge separately identified in the statements referred to in paragraph 5 of Special Condition 23 (Provision of metering and meter reading services) on any shipper whose contract does not provide for him to receive the activity to which such item of charge refers.
4. The licensee shall not in setting charges in respect of metering activities restrict, distort or prevent competition in the supply or conveyance of gas.
5. For the purposes of this Special Condition:

metering activities	means tariff capped metering activities and non-tariff capped metering activities.
non-tariff capped metering activities	means all metering activities (including for the avoidance of doubt meter reading) provided by the licensee other than tariff-capped metering activities;
tariff capped metering activities	shall have the meaning given to that term in Special Condition 31 (Restriction of prices in respect of tariff capped metering activities).



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**Special condition 33: Information to be provided to the Authority in connection with the transportation system revenue restriction**

1. The licensee shall provide statements to the Authority of the information specified in the following table for the periods identified in that table and by the dates specified in that table. Where information is derived from a formula defined in the licence, the component parameters of that formula shall also be reported. Where information is requested in respect of periods of less than a full formula year, the licensee shall provide such information on a reasonable endeavours basis. All revenue and information provided shall comply with Special Condition 29 (Allocation of revenue and costs for calculations under the price control).

Description	Licence definition	Period	Reporting deadline
<b>NTS transportation owner activity</b>			
$TOR_t$	NTS transportation owner revenue	Formula years	By 30 June in formula year t+1
$TOREVBEC_t$	Revenue derived from the sale of NTS SO baseline entry capacity	Formula years	By 30 June in formula year t +1
$TOExRF_t$	Revenue derived in respect of the provision of NTS firm baseline exit capacity	Formula years	By 30 June in formula year t+1
$TOEx_t$	Revenue derived in respect of the provision of NTS firm exit capacity	Formula years	By 30 June in formula year t+1
$TOTFEx_t$	Volume of NTS firm exit capacity	Formula years	By 30 June in formula year t+1
$TOK_t$	NTS TO revenue adjustment	Formula years	By 30 June in formula year t+1

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<b>LDZ transportation activity</b>			
$LDZR_t$	LDZ transportation activity revenue	Formula years	By 30 June in formula year t+1
$E_t$	Out-turn mains costs	Formula years	By 31 July in formula year t+1
$L_{n,t}$	Lengths of included mains decommissioned by diameter band	Formula years	By 31 July in formula year t+1
$LDZK_t$	LDZ transportation activity revenue adjustment factor	Formula years	By 30 June in formula year t+1
	LDZ transportation quantity	Formula years	By 30 June in formula year t+1
	Commercial user quantity	Formula years	By 30 June in formula year t+1
$V_t$	Very large user quantity	Formula years	By 30 June in formula year t+1
	Small interruptible user quantity	Formula years	By 30 June in formula year t+1

<b>Emergency Services</b>			
	Revenues earned and costs incurred in the provision of emergency services to other gas transporters, by gas transporter, including a description of the services provided.	Formula years	By 30 June in formula year t+1

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<b>NTS system operation revenue information</b>			
$SOMR_t$	Maximum NTS system operation revenue	Formula years	By 30 June in formula year t+1
$SOIR_t$	NTS system operation incentive revenue	Formula years	By 30 June in formula year t+1
$SOIC_t$	NTS system operation costs	Formula years	By 30 June in formula year t+1
$SORA_t$	Any allowance in respect of approved income adjusting events (whether of a positive or negative volume)	Formula years	By 30 June in formula year t+1
$SOK_t$	NTS SO revenue adjustment factor	Formula years	By 30 June in formula year t+1

<b>Exit capacity investment incentive information</b>			
$ExCIIR_t$	Exit capacity investment incentive revenue	Formula years	By 30 June in formula year t+1
$ExCP_t$	Exit performance measure	Formula years	By 30 June in formula year t+1
$ExCC_t$	Costs incurred in use of constrained storage facilities to avoid transportation constraints	Formula years	By 30 June in formula year t+1
	Volumes, prices paid and charges forgone in respect of NTS exit capacity curtailment rights for all NTS connected sites, aggregated by exit zone	Formula years	By 30 June in formula year t+1
	Volumes, prices paid and charges	Formula	By 30 June in formula

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	forgone in respect of LDZ capacity curtailment rights, aggregated by LDZ	years	year t+1
	Volumes and payments made in respect of the curtailment of rights to off-take gas from the NTS on plus 15 curtailment days, for all NTS connected sites, aggregated by exit zone	Formula years	By 30 June in formula year t+1
	Volumes and payments made in respect of the curtailment of rights to off-take gas from the LDZs on plus 15 curtailment days, aggregated by LDZ	Formula years	By 30 June in formula year t+1
	Volume and price of capacity bookings in constrained storage facilities	Monthly	2 weeks after month end
$IExR_t$	Incremental exit capacity revenue	Formula years	By 30 June in formula year t+1
$TExC_t$	Actual NTS exit capacity	Formula years	By 30 June in formula year t+1
$AExNTSIIC_t$	Weighted average charge payable in respect of the curtailment of rights to off-take gas from the NTS on plus 15 curtailment days	Formula years	By 30 June in formula year t+1
$AExLDZIIC_t$	Weighted average charge payable in respect of the curtailment of rights to off-take gas from the LDZs on plus 15 curtailment days	Formula years	By 30 June in formula year t+1

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<b>Entry capacity buy-back incentive information</b>			
$IECCC_t$	Total entry capacity constraint management costs	Formula year	By 30 June in formula year t+1
$IECCC_t$	Total entry capacity constraint management costs	Year to date	Monthly 2 weeks after month end
$BBIR_t$	Entry capacity buy-back incentive revenue	Formula year	By 30 June in formula year t+1
$BBIR_t$	Estimated entry capacity buy-back incentive revenue	Year to date	Monthly 4 weeks after month end
$BBCP_t$	Entry capacity buy-back performance measure	Formula year	By 30 June in formula year t+1
$BBCP_t$	Entry capacity buy-back performance measure	Year to date	Monthly 4 weeks after month end
$BBC_{d,t}$	Entry capacity buy back costs	day	D+1
	Volume and prices of entry capacity buy-backs by terminal	day	D+1
$ECCC_{d,t}$	Entry capacity constraint payments	day	D+1
$DDCR_{d,t}$	Revenue from daily sales of obligated entry capacity	day	D+1
	Volumes and prices of obligated entry capacity sold daily by terminal	day	D+1
$REVIC_{d,t}$	Revenue from sales of interruptible entry capacity	day	D+1
	Volumes and prices of sales of	day	D+1

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	interruptible entry capacity identifying volumes of use it or lose it entry capacity by terminal		
REVIEC <sub>d,t</sub>	Revenue from sales of non- obligated incremental system entry capacity	Monthly	2 weeks after month end
	Volumes and prices of non- obligated incremental system entry capacity by terminal	Monthly	2 weeks after month end
RCOR <sub>t</sub>	Revenue from system entry overrun charges	Monthly	4 weeks after month end
	Volume and prices of system entry capacity overruns by terminal	Monthly	4 weeks after month end
	Volume of system entry capacity terminal flow advice issued by Transco and any associated costs	Monthly	4 weeks after month end

<b>Residual balancing incentive information</b>			
STIP <sub>t</sub>	Sum of total daily residual balancing incentive payments	Formula years	By 30 June in formula year t+1
STIP <sub>t</sub>	Sum of total daily residual balancing incentive payments	Year to date	Monthly 2 weeks after month end
RBIR <sub>t</sub>	Residual gas balancing incentive revenue	Formula years	By 30 June in formula year t+1
RBIR <sub>t</sub>	Estimated residual gas balancing incentive revenue	Year to date	Monthly 2 weeks after month end
SDPIP <sub>t</sub>	Sum of daily price incentive	Formula years	By 30 June in formula

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	payments		year t+1
$SDIP_t$	Sum of daily price incentive payments	Year to date	Monthly 2 weeks after month end
$SDLIP_t$	Sum of daily linepack incentive payments	Formula years	By 30 June in formula year t+1
$SDLIP_t$	Sum of daily linepack incentive payments	Year to date	Monthly 2 weeks after month end
$DPIP_{d,t}$	Daily price incentive payment	For each day in the month in question	2 weeks after month end
$DLIP_{d,t}$	Daily linepack incentive payment	For each day in the month in question	2 weeks after month end
$PPM_{d,t}$	Daily residual balancing price performance measure	For each day in the month in question	2 weeks after month end
$LPM_{d,t}$	Linepack performance measure	For each day in the month in question	2 weeks after month end
$OLP_{d,t}$	Opening linepack levels  NTS linepack at 06:00 hours on day D	For each day in the month in question	2 weeks after month end
$CLP_{d,t}$	Closing linepack levels  NTS linepack at 06:00 hours on day D+1	For each day in the month in question	2 weeks after month end
$SAP_{d,t}$	System average price	Daily	D+1
$TMIBP_{d,t}$	Highest market offer price in relation to an eligible market balancing action	Daily	D+1

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TMISP <sub>d,t</sub>	Lowest market offer price in relation to an eligible market balancing action	Daily	D+1
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System balancing incentive information			
SBIR <sub>t</sub>	System balancing incentive revenue	Formula years	By 30 June in formula year t+1
SBIR <sub>t</sub>	Estimated system balancing incentive revenue	Year to date	Monthly 4 weeks after month end
GCIR <sub>t</sub>	Gas cost incentive revenue	Formula years	By 30 June in formula year t+1
GCIR <sub>t</sub>	Estimated gas cost incentive revenue	Year to date	Monthly 4 weeks after month end
	Daily system gas balancing volumes	For each day in the month in question	2 weeks after month end
SRIR <sub>t</sub>	System reserve incentive revenue	Formula years	By 30 June in formula year t+1
SRIR <sub>t</sub>	Estimated system reserve incentive revenue	Year to date	Monthly 4 weeks after month end
GCCP <sub>t</sub>	Gas cost incentive performance measure	Formula years	By 30 June in formula year t+1
GCCP <sub>t</sub>	Gas cost incentive performance measure	Year to date	Monthly 4 weeks after month end
SRCP <sub>t</sub>	System reserve performance measure	Formula years	By 30 June in formula year t+1
SRCP <sub>t</sub>	System reserve performance	Year to date	Monthly 4 weeks after



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	measure		month end
	Volume and price of Transco's storage bookings by storage facility	For each day in the month in question	2 weeks after month end

<b>Internal cost incentive information</b>			
$ICIR_t$	Internal cost incentive revenue	Formula year	By 30 June in formula year t+1
$ICCP_t$	Internal costs performance measure	Formula year	By 30 June in formula year t+1
$SOOC_t$	NTS SO operating cost	Formula year	By 30 June in formula year t+1
$SODCP_t$	Depreciation on the NTS SO regulatory asset base	Formula year	By 30 June in formula year t+1
$SORCP_t$	Deemed return on the NTS SO regulatory asset base	Formula year	By 30 June in formula year t+1

<b>Other information required for general market monitoring</b>			
	Daily system demand	Daily	D+1
	Daily interconnector flows at Bacton and at Moffat	For each day in the month in question	Two weeks after month end
	Daily system allocations by entry terminal by shipper	For each day in the month in question	Four weeks after month end
	Daily shipper imbalances	For each day in the month in question	Four weeks after month end
	Shipper system entry capacity	For each day in the week in	One week after week

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	holdings excluding daily sales by shipper by terminal by day	question	end
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2. If, prior to the fulfilment of its obligations under paragraph 3 of this Special Condition, the licensee becomes aware of any inaccuracies in respect of information it has provided to the Authority in pursuance of its obligations under paragraph 1 of this Special Condition it shall notify such inaccuracies to the Authority together with details of why such information is inaccurate and of the correct information.
3. As soon as reasonably practical after the end of each formula year and in any event no later than three months after the end of the formula year the licensee shall send to the Authority a reconciliation of the information provided in accordance with paragraph 1 of this Special Condition for periods of less than the formula year with that provided for the full formula year together with a written explanation of any discrepancies.
4. The reconciliations provided by the licensee under paragraph 3 of this Special Condition shall be accompanied by a report prepared by appropriate auditors addressed to the Authority which indicates whether, in their opinion:
  - that statement fairly presents so far as it reasonably possible to do so the licensee's performance against each of the performance measures provided for in Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the the NTS system operation activity) in respect of the formula year to which the statement relates; and
  - that statement used data compiled in accordance with Special Condition 29 (Allocation of revenues and costs for calculations under the price control) and is consistent with the licensee's accounting records; and
  - any explanations given by the licensee under paragraphs 2 and 3 of this Special Condition in respect of the formula year in question were reasonable and consistent with the information supplied.

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5. The licensee shall provide a statement of the following information to the Authority and publish that statement not later than seven (7) days prior to the start of any allocation of entry capacity rights in respect of capacity rights offered for sale for a consecutive period of more than one (1) day:
- (a) the terminal to which such allocation relates;
  - (b) the amount of unallocated NTS SO baseline entry capacity and unallocated obligated incremental entry capacity at the terminal (both as defined in Special Condition 28A (Revenue restriction definitions)) that is available on the day that the statement is published which the licensee will offer for sale in the allocation and the period to which such capacity relates;
  - (c) the reserve price if any to be applied to such allocations;
  - (d) the licensee's opinion as to future levels of entry capacity at the terminal to which the allocation relates accompanied by background information (if any) in support of such opinion including the licensee's opinion as to future aggregate volumes of gas to be transported through the NTS;
  - (e) the commencement time and date of the allocation; and
  - (f) when the shippers shall be informed of the outcome of the allocation;
6. The licensee shall provide a statement of the following information, by terminal and by the month to which it relates, to the Authority and publish that statement not later than fourteen (14) days after the close of any allocation of entry capacity rights in respect of capacity rights offered for sale for a consecutive period of more than one (1) day:
- (a) the volume of NTS SO baseline entry capacity, obligated incremental entry capacity and non-obligated incremental entry capacity allocated;
  - (b) the total amount of the revenue derived and to be derived by the licensee in respect of the NTS SO baseline entry capacity, obligated incremental entry capacity and non-obligated incremental entry capacity allocated;

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- (c) the highest price accepted by the licensee for a unit of entry capacity allocated;
- (d) the lowest price accepted by the licensee for a unit of entry capacity allocated;  
and
- (e) the weighted average price accepted by the licensee for a unit of entry capacity allocated.

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**Special Condition 34: Licensee's methodology for determining incremental entry capacity volumes**

1. In this Special Condition:

incremental entry capacity	means capacity that is in excess of the obligated entry capacity current at that time as determined in line with paragraph 14(5)(g) of Part 2 of Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the the NTS system operation activity).
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2. The licensee shall before 1 October 2002 or such later date as the Authority may direct and thereafter before 1 July in each subsequent formula year (or such longer period as the Authority may approve) prepare and submit an incremental entry capacity release methodology statement in a form approved by the Authority setting out (consistently with the licensee's duty under the Act, and the standard, amended standard and Special Conditions) the methodology by which it will determine whether to make incremental entry capacity available for sale to shippers.
3. The statement shall be accompanied by a statement from the licensee's auditors confirming that they have carried out an investigation, the scope and objectives of which shall have been established by the licensee and approved by the Authority, and giving their opinion as to the extent to which the licensee has developed a methodology that is in line with the licensee's duty under the Act, and the standard, amended standard and Special Conditions.
4. Unless the Authority otherwise directs within 2 months, the licensee shall take all reasonable steps to apply the methodology set out in the statement produced pursuant to paragraph 1 of this Special Condition in making any decisions on whether to release incremental entry capacity for sale to shippers.
5. Except where the Authority directs otherwise, before revising the incremental entry capacity release methodology statement the licensee shall:

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- (i) send a copy of the proposed revisions to the Authority and to any person who asks for one;
  - (ii) consult shippers and allow them a period of not less than 28 days in which to make representations;
  - (iii) within 7 days of the close of the consultation referred to in sub-paragraph 4(ii) of this Special Condition submit to the Authority a report setting out:
    - the revisions originally proposed,
    - the representations (if any) made to the licensee,
    - any change to the revisions; and
  - (iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) of this paragraph or any of them shall not apply, comply with such other requirements as are specified in the direction.
6. The licensee shall not revise the incremental entry capacity release methodology statement:
- (i) where paragraph 4(iv) in this Special Condition applies, before the day (if any) specified in the direction made pursuant to that sub-paragraph;
  - (ii) where there is no such direction, or no date is specified in such direction, until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph 4(iii) in this Special Condition; or
  - (iii) if within the period referred to in paragraph 4(ii) of this Special Condition the Authority directs the licensee not to make the revision.
7. (a) The licensee shall if so directed by the Authority but in any event at least once a year review the statement prepared pursuant to paragraph 1 of this Special Condition in

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consultation with shippers and other interested persons likely to be affected thereby and allow them a period of not less than 28 days in which to make representations.

- (b) Within 7 days of the close of the consultation referred to in paragraph 6(a) of this Special Condition, the licensee shall send to the Authority:
    - (i) a report on the outcome of the review;
    - (ii) any revision to the statement proposed (having regard to the outcome of the review) by the licensee in order to ensure that the statement remains consistent with the licensee's duties under the Act and the standard conditions, amended standard conditions and Special Conditions; and
    - (iii) any written representations or objections from shippers and other interested parties, including proposals for revision not accepted by the licensee, arising during the consultation and subsequently maintained.
  - (c) The licensee may revise the statement only in accordance with any revision within paragraph 6(b)(ii) of this Special Condition and only if the Authority consents to such revision.
8. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 1 of this Special Condition.
9. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 1, 2, 3, 4, 5 and 6 of this Special Condition and of all revisions to any such statements and reports.
10. The licensee shall:
- (a) publish (in such manner as the Authority may approve) the statements prepared pursuant to paragraph 1 of this Special Condition and each revision thereof, and
  - (b) send a copy of each statement and report prepared pursuant to paragraphs 1,2, 3, 4, 5 and 6 of this Special Condition or the latest revision of any such statement

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and report to any person who requests the same, provided that the licensee shall exclude therefrom, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests,

and, for the purposes of paragraph 8(b) of this Special Condition, the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).

11. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 9(b) of this Special Condition of an amount reasonably reflecting the licensee's reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purpose of this Special Condition.



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**Special Condition 35: NTS performance reporting**

1. The principal purpose of this Special Condition is to secure the collection of information to an appropriate degree of accuracy, by the licensee so as:
  - (a) to monitor the environmental performance of the NTS; and
  - (b) to facilitate the development of an expenditure monitoring framework.
2. The licensee shall establish appropriate systems, processes and procedures to measure and record specified information from the dates specified in paragraph 4 of this Special Condition and in accordance with regulatory instructions and guidance (including any associated information specified therein).
3. For the purposes of this Special Condition:

revenue restriction	means the NTS TO activity revenue restriction in Special Condition 28B Part 1 a (The NTS transportation owner activity, the LDZ transportation activity revenue restriction);
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charging review date	means any date from which modifications to Special Condition 28B Part 1 a (The NTS transportation owner activity revenue restriction) relating to the NTS have effect.
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(a)	whether before or after the date upon which the modifications are made; and
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(b)	where such modifications have been proposed by the Authority following a review by the Authority of the revenue restrictions in Special Condition 28B Part 1 a (The NTS transportation owner activity revenue restriction) (or that Part to which the modifications relate) in relation to the licensee;
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NTS	mean the licensee's national transmission system (having the meaning given to that term in the licensee's Network Code);
regulatory instructions and guidance	<p>means any instructions and guidance issued by the Authority for the purposes of this Special Condition as modified from time to time by notice under paragraph 9 and may include:</p> <ul style="list-style-type: none"><li>(a) instructions and guidance as to the establishment of different systems, processes, procedures and manners for providing and recording information and of standards for different classes of information;</li><li>(b) a timetable for the development of the systems, processes and procedures required to achieve the appropriate standards of accuracy and reliability with which specified information shall be recorded;</li><li>(c) the meaning of words and phrases used in defining specified information;</li><li>(d) requirements for the recording of information associated with specified information which is reasonably necessary to enable an examiner to determine the accuracy and reliability of specified information;</li><li>(e) requirements as to the form and manner in which specified information shall be provided to the Authority; and</li><li>(f) requirements as to the manner in which specified information shall be recorded and as to the</li></ul>

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standards of accuracy and reliability with which it shall be recorded;

specified information

means:

- (a) information regarding environmental measures including;
  - (i) methane emissions from the NTS in each formula year measured in kilograms per gigawatt hour; and
  - (ii) carbon dioxide emissions from gas powered compressor stations in each formula year measured in kilograms per gigawatt hour; and
  - (iii) nitrogen oxide emissions from gas powered compressor stations in each formula year in the formal manner specified in the regulatory instructions and guidance.
- (b) an analysis of trends observable from the NTS environment measures;
- (c) supporting information including
  - (i) information regarding all new connections from the NTS to premises or pipeline systems operated by an authorised gas transporter to the NTS;
  - (ii) information regarding all rechargeable diversions from the NTS;

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- (iii) information regarding the accuracy of one and three-year ahead annual demand forecasts; and,
  - (d) such other information as may from time to time be specified by the Authority, by notice to the licensee in accordance with paragraph 9
- 4. The licensee shall collect specified information in respect of:
  - (a) the matters specified in sub-paragraphs (a) – (c) of the definition of specified information from and including 1 April 2002; and
  - (b) any matter specified under sub-paragraph (d) of that definition from the date specified in a notice given in accordance with paragraph 9.
- 5.
  - (a) The licensee shall provide to the Authority the information referred to in sub-paragraphs (a) – (c) of the definition of specified information on or before 31 July 2003 and 31 July in each succeeding year (or such later date as the Authority may by notice specify) in respect of the period of 12 months ending on the preceding 31 March; and
  - (b) the information referred to in sub-paragraph (d) of the definition of specified information in respect of such period and by such date as shall be specified in the relevant notice in accordance with that sub-paragraph.
- 6. The licensee shall permit a person or persons nominated by the Authority (in each case “an examiner”) to examine the systems, processes and procedures referred to in paragraph 2 and their operation, the specified information and the extent to which each complies, and is in accordance, with regulatory instructions and guidance.
- 7. The licensee shall (and shall procure, insofar as it is able to do so, that any affiliate of the licensee, any person by whom it procures the performance of the obligation in paragraph 2 and any auditor of such person or of the licensee shall) cooperate fully with an examiner so as to enable him to carry out, complete and report to the Authority on any examination carried out in accordance with paragraph 6.

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8. The licensee's obligation under paragraph 7 to cooperate or procure cooperation with an examiner shall include, without limitation and insofar as necessary or expedient for such purpose, in each case subject to reasonable prior notice to the licensee:
- (a) providing access to management, employees, agents or independent contractors of the licensee sufficient to enable the examiner to make any enquiries and to discuss any matters which he reasonably considers to be relevant to the carrying out of the examination;
  - (b) giving to the examiner access at reasonable hours to any premises occupied by the licensee or any other person in performing the obligations set out in this Special Condition; and
  - (c) allowing the examiner at reasonable hours:
    - (i) to inspect and make copies of, and take extracts from, any documents and records of the licensee maintained in relation to specified information (other than information which is subject to legal privilege);
    - (ii) to carry out inspections, measurements and tests on or in relation to any systems maintained and operated for or in relation to the requirements of this Special Condition; and
    - (iii) to take onto such premises or onto or into any assets used for the purpose of the NTS such other persons and such equipment as may be necessary or expedient for the purpose of carrying out the examination.
9. A notice published by the Authority which adds to the categories of specified information or which modifies regulatory instructions and guidance (in each case, an "amendment") shall have effect where the Authority has:
- (a) given prior notice to the licensee:
    - (i) stating that it proposes to make the amendment and setting out its effect, and the date it is proposed it should take effect;

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- (ii) stating the reasons why it proposes to make the amendment; and
    - (iii) specifying the time (not being less than 28 days from the date of publication of the notice) within which representations or objections with respect to the proposed amendment may be made; and
  - (b) considered any representations or objections which are duly made and not withdrawn.
10. A notice under paragraph 9 may not, where the amendment relates to a requirement in the regulatory instructions and guidance to provide any specified information to a greater level of accuracy or the introduction of an additional category of specified information, specify a date for the purpose of paragraph 9(a)(i) other than the charging review date nor be given less than 12 months prior to that date unless the licensee has agreed an alternative date or period of notice.
11. The reasons for proposing an amendment which relates to any change in regulatory instructions and guidance (other than that referred to in paragraph 10) in respect of specified information may have regard in particular to the desirability of:
- (a) improving the presentation or style of the regulatory instructions and guidance or of the form and manner in which the specified information is to be provided;
  - (b) summarising the terms of reference and instructions from time to time given to an examiner; or
  - (c) setting out any of the matters referred to in paragraphs (a) to (f) of the definition of regulatory instructions and guidance in respect of any additional category of specified information,
- so as more effectively to achieve the purposes of this Special Condition.
12. Nothing in this Special Condition shall require the licensee to produce any documents or give information which it could not be compelled to produce or give in evidence in civil proceedings before a court.

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**Special Condition 36: LDZ incentive scheme and performance reporting**

1. The principal purpose of this Special Condition is to secure the collection of information to an appropriate degree of accuracy, by the licensee so as:
  - (a) to facilitate the establishment and operation of an incentive scheme ("the scheme") to improve the operation of, and delivery of appropriate output from the licensee's LDZ network;
  - (b) to monitor the operation of, and delivery of appropriate output from, the licensee's LDZ network; and
  - (c) facilitate the development of an expenditure monitoring framework.
2. The licensee shall establish appropriate systems, processes and procedures to measure and record specified information from the dates specified in paragraph 4 of this Special Condition and in accordance with regulatory instructions and guidance (including any associated information specified therein).
3. For the purposes of this Special Condition:

revenue restriction	means the LDZ activity revenue restriction in Special Condition 28B Part 1 b (The LDZ transportation activity revenue restriction);
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charging review date	means any date from which modifications to Special Condition 28B Part 1 b (The LDZ transportation activity revenue restriction) relating to the licensee's LDZ network have effect:
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- (a) whether before or after the date upon which the modifications are made;
- (b) where such modifications have been proposed by the Authority following a review by the Authority of

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the revenue restrictions in Special Condition 28B Part 1 b (The LDZ transportation activity revenue restriction) (or that part to which the modifications relate) in relation to the licensee;

formula year	has the meaning given to that term in Special Condition 28A (Revenue restriction definitions);
LDZ network	means the licensee's LDZ transportation system management units or such other network management units as the licensee may from time to time establish;
LDZ	means any individual LDZ transportation system management unit or such other network management unit as the licensee may from time to time establish;
LDZ peak demand	has the meaning given in standard condition 16 (pipe-line system security standards);
M number database	means the licensee's database which allocates a unique number to identify particular supply meter points as defined in the licensee's Network Code;
supply year	for the purposes of this Special Condition only, means any continuous period of twelve months commencing 1 October in each year and ending on 30 September in the immediately following year;
regulatory instructions and guidance	<p>means any instructions and guidance issued by the Authority for the purposes of this Special Condition as modified from time to time by notice under paragraph 9 and may include:</p> <p>(a) instructions and guidance as to the establishment of different systems, processes, procedures and manners for providing and recording information</p>



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and of standards for different classes of information;

- (b) a timetable for the development of the systems, processes and procedures required to achieve the appropriate standards of accuracy and reliability with which specified information shall be recorded;
- (c) the meaning of words and phrases used in defining specified information;
- (d) requirements for the recording of information associated with specified information which is reasonably necessary to enable an examiner to determine the accuracy and reliability of specified information;
- (e) requirements as to the form and manner in which specified information shall be provided to the Authority;
- (f) requirements as to the manner in which specified information shall be recorded and as to the standards of accuracy and reliability with which it shall be recorded; and
- (g) a statement as to whether and to what extent each category of specified information is required for the purposes of the scheme;

specified information means

- (a) information regarding interruptions comprising:

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- (i) the number of interruptions to supply, not caused pursuant to contract, per year in aggregate and disaggregate form in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance; and
  - (ii) the duration of interruptions to supply, not caused pursuant to contract, per year in aggregate and disaggregate form in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance.
- (b) information regarding queries from shippers, comprising:
  - (i) the percentage of Shipper queries resolved within 10 business days in aggregate and disaggregate form in respect of the LDZ network in the form and manner specified in the regulatory instructions and guidance;
  - (ii) the percentage of shipper queries resolved within 20 business days in aggregate and disaggregate form in respect of the LDZ network in the form and manner specified in the regulatory instructions and guidance; and,
  - (iii) the mean time taken to resolve outstanding shipper queries in both aggregate form and disaggregate form in respect of the LDZ network in the form and manner specified in the regulatory instructions and guidance.

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- (c) information regarding the M-number CD-ROM comprising:
  - (i) an assessment of the reliability of the M-number CD-ROM service in respect of the LDZ network in the form and manner specified in the regulatory instructions and guidance; and
  - (ii) a report of invalid or out of date information on the M-number CD-ROM service in respect of the LDZ network in the form and manner specified in the regulatory instructions and guidance;
- (d) information regarding the replacement of mains and services (as the same are defined in the regulatory instructions and guidance) comprising:
  - (i) the amount of mains decommissioned per year by the licensee, measured in kilometres and in aggregate and in disaggregate form in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance;
  - (ii) the amount of replacement mains per year installed by the licensee, measured in kilometres in aggregate and in disaggregate form in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance;
  - (iii) the number of services decommissioned per year by the licensee in aggregate and disaggregate form in respect of the LDZ

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network and each LDZ in the form and manner specified in the regulatory instructions and guidance;

- (iv) the number of replacement services installed per year by the licensee in aggregate and disaggregate form in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance; and,
  - (v) the number of services transferred per year by the licensee in aggregate and disaggregate form in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance.
- (e) information regarding LDZ peak demand measured in aggregate and disaggregate form in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance including:
  - (i) the estimated 1-in-20 LDZ peak demand for the current supply year; and
  - (ii) the licensee's forecast 1-in-20 LDZ peak demand for the next 10 supply years.
- (f) information regarding environmental performance measures including:
  - (i) methane emissions in each formula year measured in estimated tonnes in respect of the LDZ network and each LDZ in the form and

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manner specified in the regulatory instructions and guidance; and

- (ii) loss of containment of gas reportable to the Health and Safety Executive in accordance with the Control of Major Accident Hazards Regulations 1999 in the formula year in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance.
- (g) an analysis of trends observable from the LDZ environmental measures.
- (h) supporting information including:
  - (i) information regarding annual demand in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance;
  - (ii) information regarding all new connections from the LDZ network to premises or to pipeline systems operated by an authorised gas transporter in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance;
  - (iii) information regarding all rechargeable diversions as defined in Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the NTS system operation activity) in respect of the LDZ network and each LDZ in the form and manner

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specified in the regulatory instructions and guidance

- (iv) information regarding escapes of gas which have been reported by members of the public in aggregate and disaggregate form in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance;
  - (v) information regarding the accuracy of one and three-year ahead annual and peak demand forecasts in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance;
  - (vi) information regarding gas in buildings as the same is defined in the licensee's engineering instructions as the same may be updated from time to time in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance; and
  - (vii) information regarding cast iron mains fractures in respect of the LDZ network and each LDZ in the form and manner specified in the regulatory instructions and guidance; and
- (i) such other information as may from time to time be specified by the Authority, by notice to the licensee in accordance with paragraph 9.

4. The licensee shall collect specified information in respect of:

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- (a) the matters specified in sub-paragraph (a) of the definition of specified information from and including 1 April 2003;
- (b) the matters specified in sub-paragraph (b)-(h) of the definition of specified information from and including 1 April 2002; and
- (c) any matter specified under sub-paragraph (i) of that definition from the date specified in a notice given in accordance with paragraph 9.

5. The licensee shall provide to the Authority:

- (a) the information referred to in sub-paragraph (a) of the definition of specified information, with respect to the formula years commencing on 1 April 2003 and 1 April 2004, on or before 31 July (information regarding the previous quarter), 31 October (information regarding the previous quarter), 31 January (information regarding the previous quarter) and 30 April (information regarding the previous quarter and the previous formula year) in each respective year (or on such later dates as the Authority may by notice specify);
- (b) the information referred to in sub-paragraph (a) of the definition of specified information, on 30 April 2006 and then annually on that date (information regarding the previous formula year) (or on such later dates as the Authority may by notice specify);
- (c) the information referred to in sub-paragraphs (b) - (h) of the definition of specified information on 31 July 2003 and then annually on that date (information regarding the previous formula year) (or on such later dates as the Authority may by notice specify); and
- (d) the information referred to in sub-paragraph (i) of the definition of specified information in respect of such period and by such date as shall be specified in the relevant notice in accordance with that sub-paragraph.

6. The licensee shall permit a person or persons nominated by the Authority (in each case "an examiner") to examine the systems, processes and procedures referred to in

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paragraph 2 and their operation, the specified information and the extent to which each complies, and is in accordance, with this Special Condition and the regulatory instructions and guidance.

7. The licensee shall (and shall procure, insofar as it is able to do so, that any affiliate of the licensee, any person by whom it procures the performance of the obligation in paragraph 2 and any auditor of such person or of the licensee shall) co-operate fully with an examiner so as to enable him to carry out, complete and report to the Authority on any examination carried out in accordance with paragraph 6.
8. The licensee's obligation under paragraph 7 to cooperate or procure cooperation with an examiner shall include, without limitation and insofar as necessary or expedient for such purpose, in each case subject to reasonable prior notice to the licensee:
  - (a) providing access to management, employees, agents or independent contractors of the licensee sufficient to enable the examiner to make any enquiries and to discuss any matters which he reasonably considers to be relevant to the carrying out of the examination;
  - (b) giving to the examiner access at reasonable hours to any premises occupied by the licensee or any other person in performing the obligations set out in this Special Condition; and
  - (c) allowing the examiner at reasonable hours:
    - (i) to inspect and make copies of, and take extracts from, any documents and records of the licensee maintained in relation to specified information;
    - (ii) to carry out inspections, measurements and tests on or in relation to any systems maintained and operated for or in relation to the requirements of this Special Condition; and
    - (iii) to take onto such premises or onto or into any assets used for the purpose of the licensee's LDZ network such other persons and such equipment as may be necessary or expedient for the purpose of carrying out the examination.



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9. A notice published by the Authority which adds to the categories of specified information or which modifies regulatory instructions and guidance (in each case, an “amendment”) shall have effect where the Authority has:
- (a) given prior notice to the licensee:
    - (i) stating that it proposes to make the amendment and setting out its effect, the date it is proposed it should take effect and (where relevant) whether the additional category of specified information is required for the purposes of the scheme;
    - (ii) stating the reasons why it proposes to make the amendment;
    - (iii) specifying the time (not being less than 28 days from the date of publication of the notice) within which representations or objections with respect to the proposed amendment may be made; and
  - (b) considered any representations or objections which are duly made and not withdrawn.
10. A notice under paragraph 9 may not, where the amendment relates to a requirement in regulatory instructions and guidance to provide any specified information to a greater level of accuracy or the introduction of an additional category of specified information, specify a date for the purpose of paragraph 9(a)(i) other than a charging review date nor be given less than 12 months prior to that date unless the licensee has agreed an alternative date or period of notice.
- (a) In relation to the information referred to in sub-paragraph (a) of the definition of specified information, where the amendment relates to the specification of required levels of accuracy in the regulatory instructions and guidance prior to 1 April 2004, the period of 12 months referred to in paragraph 10 above shall be substituted with 3 months and the amendment may take place other than at a charging review date.

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11. The reasons for proposing an amendment which relates to any change in regulatory instructions and guidance (other than that referred to in paragraph 10) in respect of specified information which is or is intended to be required for the purposes of the scheme may have regard in particular to the desirability of:-

- (a) improving the presentation or style of the regulatory instructions and guidance or of the form and manner in which the specified information is to be provided;
- (b) summarising the terms of reference and instructions from time to time given to an examiner; or
- (c) setting out any of the matters referred to in paragraphs (a) to (f) of the definition of regulatory instructions and guidance in respect of any additional category of specified information

so as more effectively to achieve the purposes of this Special Condition.

12. Nothing in this Special Condition shall require the licensee to produce any documents which it could not be compelled to produce or give in evidence in civil proceedings before a court.

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**Special Condition 37: Exit code statement**

1. By 30 June 2003 and by 30 June in each subsequent formula year (or such other date as the Authority may direct in writing), the licensee shall prepare and submit to the Authority an exit code statement ("the exit code statement").
2. Except to the extent the Authority shall otherwise specify, the exit code statement referred to in paragraph 1 shall include:
  - (i) a description of the services which have been provided to (1) the NTS TO activity and/or the NTS SO activity by the LDZ activity; and (2) the LDZ transportation activity by the NTS TO activity and/or the NTS SO activity in the previous formula year; and
  - (ii) provide details of any revenue received or charges made by (1) by the LDZ activity from the NTS TO activity and/or NTS SO activity ; and (2) by the NTS SO activity and/or the NTS TO activity from the LDZ transportation activity in respect of each of the services referred to in (i) above in the previous formula year.

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**Schedule A: NTS output measures for the price control**

1. With regard to the maximum revenue allowances provide to Transco pursuant to Part I a and Part 2 of Special Condition 28B (Restriction of revenue in respect of the NTS transportation owner activity, the LDZ transportation activity and the NTS system operation activity), the following baseline output measures shall apply.

**Table A1: NTS TO baseline entry capacity (GWh/day)**

<b>Terminal</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
Bacton	1527	1646	1839	1939	1939
Barrow	812	790	790	791	791
Easington	1105	985	1141	1180	1180
St. Fergus	1689	1721	1809	1831	1863
Teesside	910	823	834	845	845
Theddlethorpe	758	628	879	942	942
Glenmavis	110	110	110	110	110
Partington	239	239	239	239	239
Avonmouth	165	165	165	165	165
Isle of Grain	243	243	243	243	243
Dynevor Arms	55	55	55	55	55
Hornsea	195	195	195	195	195
Hatfield Moor (storage)	60	60	60	60	60
Hatfield Moor (onshore)	1.1	1.1	1.1	1.1	1.1
Aldborough	0	259	259	259	259
Cheshire	0	0	119	179	238
Hole House Farm	29	29	29	29	29
Wych Farm	3.6	3.6	3.6	3.6	3.6
Burton Point	61.3	61.3	61.3	61.3	61.3

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**Table A2: Initial NTS SO baseline entry capacity (GWh/day)**

	MONTH				
	1≤m≤12	13≤m≤24	25≤m≤36	37≤m≤48	m≥49
<b>Terminal</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
Bacton	1374	1481	1655	1745	1745
Barrow	731	711	711	712	712
Easington	995	887	1027	1062	1062
St. Fergus	1520	1549	1628	1648	1677
Teesside	819	741	751	761	761
Theddlethorpe	682	565	791	848	848
Glenmavis	99	99	99	99	99
Partington	215	215	215	215	215
Avonmouth	149	149	149	149	149
Isle of Grain	218	218	218	218	218
Dynevor Arms	50	50	50	50	50
Hornsea	175	175	175	175	175
Hatfield Moor (storage)	54	54	54	54	54
Hatfield Moor (onshore)	1	1	1	1	1
Aldborough	0	233	233	233	233
Cheshire	0	0	107	161	214
Hole House Farm	26	26	26	26	26
Wych Farm	3.2	3.2	3.2	3.2	3.2
Burton Point	55	55	55	55	55

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**Table A3: NTS baseline firm exit capacity (GWh/day)**

	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
<b>Firm exit capacity by LDZs</b>					
Scotland	343	348	355	362	367
Northern	265	271	278	283	287
North West	538	550	557	563	568
North East	279	283	287	290	293
East Midlands	464	470	477	483	488
West Midlands	454	459	464	470	475
Wales North	51	52	54	55	57
Wales South	198	201	204	208	211
Eastern	359	366	372	377	382
North Thames	508	512	516	520	525
South East	516	523	526	529	532
Southern	380	394	402	409	414
South West	279	284	290	295	299
Total firm exit capacity for LDZ loads	4633	4713	4782	4844	4897
Firm exit capacity for NTS loads	1488	1529	1592	1653	1691
<b>Total firm baseline NTS exit capacity</b>	<b>6121</b>	<b>6241</b>	<b>6374</b>	<b>6497</b>	<b>6588</b>

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**Table A4: NTS baseline interruptible exit capacity (GWh/day)**

	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
<b>Interruptible exit capacity by LDZs</b>					
Scotland	47	54	56	58	60
Northern	33	34	37	38	39
North West	72	75	77	78	78
North East	38	40	41	42	43
East Midlands	75	77	89	93	99
West Midlands	35	36	37	37	37
Wales North	7	7	8	8	9
Wales South	28	29	31	32	32
Eastern	36	36	37	37	37
North Thames	40	45	47	48	49
South East	40	44	44	51	61
Southern	36	37	38	38	40
South West	32	33	34	34	34
Total interruptible exit capacity for LDZ loads	521	548	576	595	619
Interruptible exit capacity for NTS loads	1073	1141	1142	1147	1148
<b>Total interruptible NTS baseline exit capacity</b>	<b>1594</b>	<b>1689</b>	<b>1718</b>	<b>1742</b>	<b>1767</b>