

Special Condition C8C: NTS System Operator Revenue Restriction

1. Principal restriction

- (a) 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 ($SOMR_t$).
- (b) 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 charges in respect of services relating to the NTS SO activity unless either:
 - (i) 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
 - (ii) the Authority has, on the application of the licensee, consented to such an increase in charges.
- (c) If, in respect of any two successive formula 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 charges 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.

2. NTS system operation revenue (SOR_t)

(a) Principal formula

For the purposes of paragraph 1 of this condition, the revenues which the licensee derives from its NTS system operation activity in respect of any formula year t (SOR_t) shall be derived from the following formula:

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

where:

RCOM_t means the revenue derived by the licensee in respect of formula year t from charges levied on gas shippers and DN operators pursuant to Standard Special Condition A4 (Charging– General) in respect of NTS SO activities provided by the licensee and shall include revenue from 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_t;

(ii) SORCAP_t;

(iii) SOROC_t; and

(iv) revenues received by the licensee in respect of formula year t from the sale of gas that had been purchased by the licensee in respect of its use of constrained storage facilities in order to avoid transportation constraints;

SOExRF_t means the NTS SO revenue derived by the licensee in respect of sales of exit capacity and shall be derived in accordance with Special Condition C8E (NTS gas exit incentives, costs and revenues);

SORCAP_t means the NTS SO revenue derived by the licensee in respect of sales of entry capacity and shall be derived in accordance with Special Condition C8D (NTS gas entry incentives, costs and revenues); and

SOROC_t means the NTS SO revenue derived by the licensee in respect of other defined SO charges and shall be derived in accordance with paragraph 3(d)(i) of this condition.

3. Definition of maximum NTS system operation revenue (SOMR_t)

(a) Principal formula

For the purposes of paragraph 1 of this condition, the term maximum NTS system operation revenue in respect of formula year t (SOMR_t) shall be derived from the following formula:

$$\text{SOMR}_t = \text{SOEIRC}_t + \text{SOExIRC}_t + \text{SOOIRC}_t + \text{SOIntIRC}_t + \text{SORA}_t +$$

$$\text{BBIOCA}_t + \text{DELINC}_t - \text{SOK}_t$$

where:

SOEIRC_t means the NTS system operation entry incentive revenue and costs in respect of formula year t and shall be derived in accordance with Special Condition C8D (NTS gas entry incentives, costs and revenues);

SOExIRC_t means the NTS system operation exit incentive revenue and costs in respect of formula year t and shall be derived in accordance with Special Condition C8E (NTS gas exit incentives, costs and revenues);

SOOIRC_t means other NTS external cost system operation incentive revenue and costs in respect of formula year t and shall be derived in accordance with Special Condition C8F (Other NTS System Operator external incentives, costs and revenues);

SOIntICR_t means the NTS system operation internal cost incentive revenue and costs in respect of formula year t and shall be derived in accordance with Special Condition C8G (NTS System Operator internal incentives, costs and revenues);

SORA_t means approved allowance in respect of an 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 3(b) of this condition; and

BBIOCA_t means the buyback incentive overall collar adjustment for year t and shall be derived in accordance with the following formula:

(i) If $(EnCOBBIR_t + EnCIBBIR_t + ExCBBIIIR_t) < (BBIODC \times PIT_t)$, then:

$$BBIOCA_t = - (EnCOBBIR_t + EnCIBBIR_t + ExCBBIIIR_t - (BBIODC \times PIT_t))$$

(ii) If $(EnCOBBIR_t + EnCIBBIR_t + ExCBBIIIR_t) \geq (BBIODC * PIT_t)$, then:

$$BBIOCA_t = 0$$

where:

EnCOBBIR_t shall take the value for that term calculated in accordance with paragraph [[3(a)]] of Special Condition C8D of this licence;

EnCIBBIR_t shall take the value for that term calculated in accordance with paragraph [[5(a)]] of Special Condition C8D of this licence;

[ExCBBIIR_t] shall take the value for that term calculated in accordance with paragraph [[a(a)]] of Special Condition C8E of this licence;

BBIODC is the buyback incentives overall downside collar and shall take the value -£48,000,000; and

PIT_t is the price index adjustment term and shall have the same meaning paragraph 3(b)(i) of Special Condition C8B of this licence.

DELINC_t shall take the value 0 other than in formula year commencing 1 April 2012 when it shall take the value in £ million of $LTDVE_{end} * 0.005$

where:

LTDVE_{end} means the value of LTDVE_n where day n is 31 March 2012.

where:

LTDVE_n is defined as in paragraph [[3(h) of special condition C8D of this licence]

SOK_t means the NTS SO revenue adjustment term 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 3(c) of this condition.

(b) Determination of any adjustment factor to be applied to maximum NTS system operator revenue (SORA_t)

- (i) An income adjusting event may arise from any of the following:
 - (A) an event or circumstance constituting force majeure under the network code;

- (B) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code);
- (C) where the revenues derived by the licensee from the sale of obligated entry capacity pursuant to paragraph [] of Special Condition C8D (NTS gas entry incentives, costs and revenues) 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 network code); and
- (D) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 3(b)(ix) of this condition,

where the event has, for relevant formula year t:

- (aa) increased or decreased value of “relevant system operation costs” (having the meaning given to that term in Special Condition C8A (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity)) by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraphs 3(b)(i)(B) or 3(b)(i)(C) above; or
- (bb) increased or decreased the value of IOC_t (having the meaning given to that term in paragraph 1(b) of special condition C8G) or ICE_t (having the meaning given to that term in paragraph 1(c) of special condition c8G) by more than £1,000,000 (the “internal

threshold amount”) and is demonstrably not included in $IOIT_t$ or $ICET_t$ respectively for formula year t . This internal threshold amount does not apply in respect of sub-paragraphs 3(b)(i)(B) or 3(b)(i)(C) above.

- (ii) Where the licensee considers, and can provide supporting evidence that, in respect of relevant formula year t , there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.
- (iii) Where any shipper considers, and can provide supporting evidence that, in respect of formula year t , there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then that shipper may give notice of this event to the Authority.
- (iv) A notice provided to the Authority under paragraphs 3(b)(ii) or 3(b)(iii) shall, in the case of the licensee, and should in so far as is practicable in the case of any shipper, give particulars of:
 - (A) the event to which the notice relates and the reason(s) why the person giving the notice considers this event to be an income adjusting event;
 - (B) the amount of any change in costs and/or expenses that can be demonstrated by the person giving the notice to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
 - (C) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (D) any other analysis or information which the person submitting the notice considers to be sufficient to enable the Authority and shippers to fully assess the event to which the notice relates.

- (v) If the Authority considers that the analysis or information provided in sub-paragraphs 3(b)(iv)(A) to 3(b)(iv)(D) above is insufficient to enable both the Authority and shippers to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional material that it considers appropriate.
- (vi) 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, in any event, not later than three months after the end of the relevant formula year t in which it occurs.
- (vii) The Authority will make public, excluding any confidential information, which it has received under paragraph 3(b)(ii) or 3(b)(iii) of this condition.
- (viii) Any notice submitted to the Authority under either paragraphs 3(b)(ii) or 3(b)(iii) above shall clearly identify whether any of the information contained in the notice is confidential information. The Authority shall make the final determination as to whether the information is confidential information for the purpose of paragraph 3(b)(vii) having regard to:
 - (A) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
 - (B) the extent to which the disclosure of the information mentioned in sub-paragraph 3(b)(viii)(A) is necessary for the purpose of enabling shippers to fully assess the event to which the notice relates.

- (ix) Following consultation with such parties as the Authority considers likely to be affected by its determination, including the licensee and shippers, the Authority shall determine:
 - (A) whether any or all of the costs and/or expenses referred to in a notice pursuant to paragraphs 3(b)(ii) or 3(b)(iii) of this condition were incurred or saved as a result of an income adjusting event;
 - (B) whether the event or circumstance has increased or decreased the value of relevant system operation costs by more than the threshold amount or IOC_t or ICE_t by more than the internal threshold amount, save in the case of sub-paragraphs 3(b)(i)(B) and 3(b)(i)(C) where the threshold amount and internal threshold amount shall not apply; and
 - (C) 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.

- (x) In relation to formula year t , the approved allowance in respect of an income adjustment ($SORA_t$) shall be:
 - (A) the value determined by the Authority under paragraph 3(b)(ix) of this condition; or
 - (B) if the Authority has not made a determination under paragraph 3(b)(ix) of this condition within three months of the date on which the notice of an income adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the notice given to the Authority under paragraph 3(b)(iv)(C); or

- (C) in all other cases zero, including situations where the Authority has not made a determination under paragraph 3(b)(ix) of this condition within three months of the date on which notice under paragraphs 3(b)(ii) or 3(b)(iii) was provided to the Authority and the Authority has, before the end of that three month period, informed the relevant parties that the Authority considers that the analysis or information provided in accordance with paragraphs 3(b)(iv) and/or 3(b)(v) is insufficient to enable the Authority and shippers to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.
- (xi) The Authority’s decision in relation to any notice given under paragraphs 3(b)(ii) or 3(b)(iii) shall be in writing, shall be copied to the licensee and shall be published.
- (xii) The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and shippers. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (c) NTS SO revenue adjustment factor (SOK_t)**

For the purposes of paragraph 3(a) of this condition, the NTS SO revenue adjustment factor in respect of formula year t (SOK_t) shall be derived in the following manner:

$$SOK_t = (SOR_{t-1} - SOMR_{t-1}) \times \left(1 + \frac{I_t + PI_t}{100} \right)$$

where:

SOR_{t-1} shall,

- (A) in respect of the formula year commencing 1 April 2007, take the value of SOR_t derived, in respect of the formula year commencing 1 April 2006, in accordance with paragraph 13(1) of part 2 of Special Condition C8B of this licence in the form in force as at 31 March 2007;
- (B) in respect of the formula year commencing 1 April 2008 and each subsequent formula year have the meaning given to that term in paragraph 2 of this condition where t is replaced by $t-1$;

$SOMR_{t-1}$ shall,

- (A) in respect of the formula year commencing 1 April 2007, take the value of $SOMR_t$ derived, in respect of the formula year commencing 1 April 2006, in accordance with paragraph 14(1) of part 2 of Special Condition C8B of this licence in the form in force as at 31 March 2007;
- (B) in respect of the formula year commencing 1 April 2008 and each subsequent formula year have the meaning given to that term in paragraph 3(a) of this condition where t is replaced by $t-1$;

I_t means the percentage interest rate in respect of formula year t which is equal to the average specified rate; and

PI_t means the penalty interest rate in the formula year t which is equal to, where $(SOR_{t-1} - SOMR_{t-1})$ has

a positive value, three (3), otherwise it shall take the value zero (0).

(d) Associated SO charges (SOROC_t)

- (i) NTS SO revenue derived by the licensee through associated SO charges in respect of formula year t (SOROC_t) shall be derived from the following formula:

In formula year ($t \leq 2$):

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

In formula year ($t \geq 3$):

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

where:

RNC_t means the net revenue derived in respect of formula year t through balancing neutrality charges (having the meaning given to that term in the network code);

RCOR_t 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 network code);

FTI_t means revenue derived by the licensee in respect of formula year t from charges levied on gas shippers and DN operators in respect of any failure to interrupt (having the meaning given to that term in the network code); and

RLOC_t means the revenue derived by the licensee in respect of formula year t in respect of locational sell actions and

physical renomination incentive charges (having the meaning given to that term in the network code)

4. Disapplication of the NTS SO activity revenue restriction

- (a) The NTS system operation 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 4(b) to 4(g) of this condition.
- (b) The NTS system operation activity revenue restriction conditions (or any part or parts thereof) 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 4(c) of this condition or if notice is given to the Authority by the licensee in accordance with either paragraph 4(f) or paragraph 4(g) of this condition.
- (c) A disapplication request shall:
 - (i) be in writing addressed to the Authority;
 - (ii) specify the NTS system operation 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 4(e) of the condition) from which the licensee wishes the Authority to agree that the conditions (or part or parts thereof) shall cease to have effect.
- (d) No disapplication, following delivery of a disapplication request, shall have effect until a date (the “disapplication date”) being 31 March in the first formula year ending more than 18 months after the date of that disapplication request.

- (e) If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of the conditions or the part or parts thereof specified in the disapplication request before the beginning of the period of 6 months which will end on 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 such conditions (or any part or parts thereof) as are specified in the disapplication request with effect from 1 April in the formula year first commencing after the disapplication date.
- (f) If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that:
- (i) the cessation of those conditions, in whole or in part, operates or may be expected to operate against the public interest; or
 - (ii) that any adverse effects specified by the Competition Commission could be remedied or prevented by such modifications of the relevant conditions as are specified in the report,
- the licensee may within 30 days after the publication of the report on a reference made by the Authority in accordance with section 25 of the Act deliver to the Authority written notice terminating the application of those conditions or any part or parts thereof with effect from 1 April in the formula year first commencing after the disapplication date

Special Condition C8F: NTS System Operator external incentives, costs and revenues

(1) External cost incentive revenue (SOOIRC_t)

(a) Principal formula

For the purposes of paragraph 3(a) of Special Condition C8C of this condition, the maximum external cost incentive revenue allowed to the licensee in respect of formula year t (SOOIRC _{t}) shall be derived in the following manner:

$$\text{SOOIRC}_t = \text{SBIR}_t + \text{RBIR}_t + \text{QIIR}_t \text{ where}$$

SBIRC _{t} means the system balancing cost incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with Paragraph 2 of this condition; and

RBIR _{t} means the maximum residual gas balancing incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance paragraph 3 of this condition.

QIIR _{t} means the quality of information incentive revenue in respect of formula year t and shall be calculated in accordance with paragraph 4 of this condition.

(2) System balancing incentive revenue (SBIRC_t)

(a) Principal formula

For the purposes of paragraph 1 of this condition, the system balancing incentive revenue allowed to the licensee in respect of formula year $t=6$ ($SBIRC_t$) shall be derived in the following manner:

$SBIRC_t = SBIR_t + SBIC_t$ where:

$SBIR_t$ means the maximum total system balancing cost incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with paragraph 2(b) of this condition; and

$SBIC_t$ 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 2(f) of this condition.

(b) Maximum total system balancing cost incentive revenue

For the purposes of paragraph 2(a) of this condition, the maximum total system balancing incentive revenue allowed to the licensee in respect of formula year $t=6$ ($SBIR_t$) shall be derived in the following manner:

$SBIR_t = GCIR_t + SRIR_t$

where:

$GCIR_t$ means the maximum gas cost incentive revenue allowed to the licensee in respect of formula year $t=6$ and shall be calculated in accordance with paragraph 2(c) of this condition; and

$SRIR_t$ means the maximum system reserve incentive revenue allowed to the licensee in respect of formula year $t=6$ and shall be calculated in accordance with paragraph 2(d) of

this condition.

(c) The maximum gas cost incentive revenue (GCIR_t)

For the purposes of paragraph 2(b) of this 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 2)(e) of this 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 2)(h) of this condition;

MIN (x,y) is the value which is the lesser of x and y;

GCUSF_t means the gas cost upside sharing factor in respect of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2

GCUSF _t	25%	25%
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GCCAP_t means the maximum gas cost incentive revenue in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
GCCAP _t £million	4	4

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

GCDSF_t means the gas cost downside sharing factor in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
GCDSF _t	20%	20%

GCCOL_t means the minimum gas cost incentive revenue in respect of formula year t as set out in the following table:

Variable	Formula year	
	t=1	t≥2
GCCOL _t £million	-3	-3

(d) The maximum system reserve incentive revenue (SRIR_t)

For the purposes of paragraph 2(a) of this condition, the maximum system reserve incentive revenue allowed to the licensee in respect of formula year t (SRIR_t) 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:

$SRIT_t$ means the system reserve incentive target in respect of formula year t (in £m), which shall be derived in the following manner:

$$SRIT_t = ((RPAV_t \times 213) + (RPDY_t \times 116) + (RPGL_t \times 135) + (RPPA_t \times 266)) / 100 + 11$$

where:

$RPAV_t$ means the applicable price for reserved space, in formula year t (in pence per kWh per annum), with respect to the Avonmouth LNG storage facility, as determined by Special Condition C3;

$RPDY_t$ means the applicable price for reserved space, in formula year t (in pence per kWh per annum), with respect to the Dynevor Arms LNG storage facility, as determined by Special Condition C3;

$RPGL_t$ means the applicable price for reserved space, in formula year t (in pence per kWh per annum), with respect to the Glenmavis LNG storage facility, as determined by Special Condition C3;

$RPPA_t$ means the applicable price for reserved space, in formula year t (in pence per kWh per annum), with respect to the Partington LNG storage facility, as determined by Special

Condition C3;

$SRCP_t$ 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 or LNG Importation capacity that has been paid for or gas delivery service fee that has been paid for the purposes of satisfying operating margins requirements (having the meaning given to that term in the network code);

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

Variable	Formula year	
	$t=1$	$t \geq 2$
$SRUSF_t$	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:

Variable	Formula year	
	$t=1$	$t \geq 2$
$SRDSF_t$	100%	100%

(e) The NTS SO gas cost incentive target ($GCIT_t$)

For the purposes of paragraph 2(c) of this 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 2(f) of this condition;

GVTP_t means the NTS SO gas target volumes in respect of formula year t, as set out in the table below. The value of GVTP_t is dependant upon the level of SFAF_t, where SFAF_t means the average daily gas flows through the St. Fergus terminal in mcm/day in the formula year commencing on 1 April 2007, calculated as:

$$\frac{\text{(Total annual volumetric flow through St Fergus terminal)}}{366}$$

SFAF_t (mcm/day)	GVTP_t (GWh)
SFAF _t > 100	8,312
85 ≤ SFAF _t ≤ 100	7,129
SFAF _t < 85	6,393 ³⁷

ECT_t 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_t £million	0.5	0.5	0.5	0.5	0.5

(f) The NTS SO gas cost reference price (GCRP_t)

For the purposes of paragraph 2(e) of Part 2 of this condition, the NTS SO gas cost reference price in respect of formula year t ($GCRP_t$) shall be derived in the following manner:

- (i) In respect of formula years 1 and 2, $GCRP_t$ shall have the values set out in the following table:

Variable	Formula year	
	t=1	t=2
$GCRP_t$ pence per kWh	0.702	0.712

In respect of all subsequent formula years, $GCRP_t$ shall be derived from the following formula:

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

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;

$\sum_{\text{all } q}$ means the sum across all quarters q in formula year t;

$\sum_{\text{all } d}$ means the sum of across all days d in quarter q;

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

$$NTST_{t-2,q,d} =$$

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

where

$UDQI_{t-2,q,d}$ means the sum of gas shippers' user daily quantity inputs (having the meaning given to that term in the network code) at the terminals at each of Bacton, Barrow, Easington, St Fergus, Teesside, Theddlethorpe, Isle of Grain and Milford Haven on day d of quarter q of formula year t-2;

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

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

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:

$$\text{FQRP}_{t,q} = \frac{\sum_{d=a}^b \text{FP}_{t,q,d}}{n}$$

where:

a In respect of formula years (t ≤ 3) means 1 March in formula year (t - 1) and in respect of formula years (t ≥ 4) 1 April in formula year (t - 1);

b In respect of formula years (t ≤ 3) means 20 March in formula year (t - 1) and in respect of formula years (t ≥ 4) 31 March in formula year (t - 1);

$\sum_{d=a}^b$

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.

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.

(g) The NTS SO system balancing costs (SBIC_t)

For the purposes of paragraph 2(a) of this condition, the NTS SO system balancing costs in respect of formula year t (SBIC_t) shall be derived from the following formula:

$$SBIC_t = GCCP_t + SRCP_t$$

where:

GCCP_t means the NTS SO gas cost performance measure and shall be calculated in accordance with paragraph 2(h) of this condition; and

SRCP_t shall have the meaning given to that term in paragraph 2(d) of this condition.

(h) The NTS SO gas cost performance measure (GCCP_t)

For the purposes of paragraph 2(c) of this condition, the NTS SO gas cost performance measure in respect of formula year t (GCCP_t) shall be derived from the following formula:

$$\text{GCCP}_t = \text{GC}_t + \text{ECC}_t$$

where:

GC_t means the payments made by the licensee in respect of the total costs incurred by the licensee (less any revenues received from DN operators) in respect of formula year t in the provision of NTS Shrinkage 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.

(3) Residual gas balancing incentive revenue (RBIR_t)

(a) Principal formula

For the purposes of paragraph 1(a) of this condition, the maximum residual gas balancing incentive revenue allowed to the licensee in respect of formula year t (RBIR_t) shall be derived from the following formula:

$$\text{RBIR}_t = \text{MIN}[\text{RBCAP}_t, \text{MAX}[\text{STIP}_t, \text{RBCOL}]]$$

where:

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:

Variable	Formula year	
	t=1	t≥2
RBCAP _t £million	3.5	3.5

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 3(b) of this 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:

Variable	Formula year	
	t=1	t≥2
RBCOL _t £million	-3.5	-3.5

(b) The sum of the total daily incentive payments under the residual gas balancing incentive (STIP_t)

For the purposes of paragraph 3(a) of this condition, the sum of the total daily incentive payments under the residual gas balancing incentive in respect of formula year t (STIP_t) shall be derived from the following formula:

$$STIP_t = SDPIP_t + SDLIP_t$$

where:

$SDPIP_t$ means the sum of daily price incentive payments and shall be calculated in accordance with paragraph 3(c) of this condition; and

$SDLIP_t$ means the sum of daily linepack incentive payments and shall be calculated in accordance with paragraph 3(d) of this condition.

(c) The sum of daily price incentive payments ($SDPIP_t$)

For the purposes of paragraph 3(b) of this condition, the sum of the daily price incentive payments in respect of formula year t ($SDPIP_t$) shall be derived from the following formula:

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

where:

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

$DPIP_{d,t}$ means the daily price incentive payment and shall be calculated in accordance with paragraph 3(e) of this condition.

(d) The sum of daily linepack incentive payments ($SDLIP_t$)

For the purposes of paragraph 3(b) of this condition, the sum of daily linepack incentive payments in respect of formula year t ($SDLIP_t$) shall be derived from the following formula:

$$SDLIP_t = \sum_{\text{all } d} DLIP_{d,t}$$

where:

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

$DLIP_{d,t}$ means the sum of daily linepack incentive payment and shall be calculated in accordance with paragraph 14(9)(g) of Part 2 of this condition.

(e) The daily price incentive payment ($DPIP_{d,t}$)

For the purposes of paragraph 3(c) of this condition, the daily price incentive payment in respect of day d of formula year t ($DPIP_{d,t}$) shall be derived in the following manner:

If $PPM_{d,t} < PIR_t$, then:

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

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 3(f) of this condition;

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

	Formula years
--	----------------------

Variable	t=1	t≥2
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:

	Formula years	
Variable	t=1	t≥2
DPMCAP _t £	5,000	5,000

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:

	Formula years	
Variable	t=1	t≥2
PIMUL _t	0%	0%

DPMCOL_t means the daily price measure incentive collar in respect of formula year t as set out in the following table:

	Formula years	
Variable	t=1	t≥2
DPMCOL _t £	-30,000	-30,000

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

PIMLL_t means the price incentive measure lower limit in respect of formula year t as set out in the following table:

	Formula years	
Variable	t=1	t≥2
PIMLL _t	85%	85%

(f) **The daily residual balancing price performance measure (PPM_{d,t})**

For the purposes of paragraph 3(e) of this condition, the licensee's daily residual balancing price performance measure in respect of day d in formula year t (PPM_{d,t}) shall be derived from the following formula:

In formula year $t \leq 2$

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

In formula year $t \geq 3$

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

where:

TMIBP_{d,t} means in formula year ($t \leq 2$) 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 network code) in relation to a eligible balancing action (having the meaning given to that term in the 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_{d,t} will equal SAP_{d,t}; and

means in formula year ($t \geq 3$) 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 network code) in relation to a eligible balancing action (having the meaning given to that term in the network code) excluding any locational actions taken in respect of day d of formula

year t unless the licensee took no such eligible balancing action in which case $TMIBP_{d,t}$ will equal $SAP_{d,t}$;

$TMISP_{d,t}$ means in formula year ($t \leq 2$) 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 network code) in relation to a eligible balancing action (having the meaning given to that term in the network code) taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case $TMISP_{d,t}$ will equal $SAP_{d,t}$; and

means in formula year ($t \geq 3$) 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 network code) in relation to a eligible balancing action (having the meaning given to that term in the network code) excluding any locational actions taken in respect of day d of formula year t unless the licensee took no such eligible balancing action in which case $TMISP_{d,t}$ will equal $SAP_{d,t}$;

$SAP_{d,t}$ means the system average price (having the meaning given to that term in the network code) in respect of day d of formula year t

(g) The daily linepack incentive payment ($DLIP_{d,t}$)

For the purposes of paragraph 3(d) of this condition, the daily linepack incentive payment in respect of day d of formula year t ($DLIP_{d,t}$) shall be derived from the following formula:

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

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

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

	Formula year	
Variable	t=1	t≥2
LIMUL _t	0 mcm	0 mcm

DLMCOL_t means the daily linepack measure incentive collar, in respect of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
DLMCOL _t £	-30,000	-30,000

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

LIMLL_t means the linepack incentive measure lower limit in respect of formula year t as set out in the following table:

	Formula year	
Variable	t=1	t≥2
LIMLL _t	20.4 mcm	20.4 mcm

(h) The linepack performance measure (LPM_{d,t})

For the purposes of paragraph 3(g) of this condition, the linepack performance measure, in respect of day d of formula year t (LPM_{d,t}) shall be derived from the following formula:

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

where:

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

OLP_{d,t} means the total NTS linepack in respect of day d of formula year t as at 06:00 hours on day d;

CLP_{d,t} 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.

(4) Quality of information incentive (QIIR_t)

(a) Principal formula

For the purposes of paragraph 1(a) of this condition, the quality of information incentive revenue allowed to the licensee in respect of formula year t (QIIR_t) shall be derived in the following manner:

$$QIIR_t = QDIIR_t + QWIIR_t$$

where:

QDIIR_t means the quality of demand information incentive revenue, and shall be derived in accordance with Table (A) below.

QWIIR_t means the quality of website information incentive revenue, and shall be derived in accordance with Table (B) below.

The value of QDIIR_t is dependant upon the level of QDIP_t, where QDIP_t means the quality of demand information performance measure as defined in paragraph 4(b)

Table (A)

QDIP_t	QDIIR_t
$QDIP_t \leq -0.05$	-£1.6m
$-0.05 < QDIP_t < 0$	$(QDIP_t \times 100) \times \text{£}0.32\text{m}$
Q DIP _t = 0	0
$0 < QDIP_t < 0.05$	$(QDIP_t \times 100) \times \text{£}0.32\text{m}$
$QDIP_t = 0.05$	£1.6m
$0.05 < QDIP_t < 1$	$[((QDIP_t - 0.05) \times 100) \times \text{£}0.08\text{m}] + \text{£}1.6\text{m}$
$QDIP_t \geq 1$	£9.2m

The value of QWIIR_t is dependant upon the level of QWIP_t, where QWIP_t means the quality of website information performance measure as defined in paragraph 4(c).

Table (B)

QWIP_t	QWIIR_t
$QWIP_t \leq 0$	0
$0 < QWIP_t < 0.27$	$(QWIP_t \times 100) \times \text{£}0.037\text{m}$
$QWIP_t = 0.27$	£1m
$0.27 < QWIP_t < 0.67$	$[((QWIP_t - 0.27) \times 100) \times \text{£}0.01261\text{m}] + \text{£}1\text{m}$
$QWIP_t \geq 0.67$	£1.5m

(b) Quality of demand information performance measure

For the purposes of paragraph 4(a) of this condition the quality of demand information performance measure (QDI_{Pt}) shall be derived from the following formula

$$QDI_{P_t} = \frac{\left(0.040 - \frac{\sum_d^D |DADF_d - AD_d|}{\sum_d^D AD_d} \right)}{0.040}$$

Where d is the first day of formula year t, and D is the final day of formula year t and where,

DADF_d means the day-ahead forecast NTS throughput value (in mcm) published by the licensee (in accordance with the Network Code) on its website not later than 14:00 hours at day ahead (d-1) in respect of each day of formula year t. Where the day ahead 14:00 forecast NTS throughput value is not published by 14:00 hours at day ahead (d-1), the next forecast published on the licensee's website for the gas day concerned shall be used

AD_d means Actual NTS Throughput (in mcm) on a given day (d), calculated five days following the day (d+5), on each day of formula year t

where,

Actual NTS Throughput means the total offtake of gas from the NTS on each day (measured in mcm), including gas offtakes by DN Operators, Storage Facilities, interconnectors and Very Large Daily Metered Consumers (VLDMC) connected to the NTS, plus the physical elements of NTS Shrinkage;

and

DN Operators, Shrinkage, Storage Facilities and VLDMC have the meaning given to those terms in the Network Code.

(c) Quality of website information performance measure

For the purposes of paragraph 4((a) of this condition the quality of website information performance measure (QWIP_t) shall be derived from the following formula:

$$QWIP_t = \frac{\left\{ \sum_{\text{each quarter } q \text{ int}} \left\{ \frac{\text{MAX} \left[\left(\frac{180 - WPM_q}{180} \right), 0 \right]}{4} \right\} + \text{MAX} \left[\left(\frac{WTP_t - 0.75}{0.75} \right), 0 \right] \right\}}{2}$$

where,

WPM_q means website availability performance measure, calculated as follows:

$$WPM_q = \frac{(WAPL_q + WAPNN_q + WAPNA_q + WAPDF_q)}{4},$$

“q” means each quarter year;

“quarter year” means the first, second, third and fourth three calendar months of formula year t;

“calendar month” has the meaning given to that term in the Network Code;

and,

WTP_t means the website timeliness performance measure calculated as follows:

$$WTP_t = \frac{(WTPL_t + WTPNN_t + WTPNA_t + WTPDF_t)}{4}$$

where,

$WAPL_q$ means the website availability performance measure for the licensee's Predicted Closing Linepack Data Item or Report expressed as the number of minutes of downtime of the Predicted Closing Linepack Report published on the licensee's website in each quarter year;

$WAPNN_q$ means the website availability performance measure for the licensee's National Forecast Flow Data Item or Report expressed as the number of minutes of downtime of the National Forecast Flow Report published on the licensee's website in each quarter year;

$WAPNA_q$ means the website availability performance measure for the licensee's National Physical Flow Data Item or Report expressed as the number of minutes of downtime of the National Physical Flow Report published on the licensee's website in each quarter year;

$WAPDF_q$ means the website availability performance measure for the licensee's NTS Throughput Data Item or Report expressed as the number of minutes of downtime of the NTS Throughput Report published on the licensee's website in each quarter year;

WTPL_t means the website timeliness performance measure for the licensee's Predicted Closing Linepack Data Item or Report, and has a value between 0 and 1, representing the proportion of occasions during formula year t that hourly data updates were posted within 10 minutes of the start of the hour (i.e. the 12:00 update published by 12:10 at the latest), expressed as a proportion of all publication occasions;

WTPNN_t means the website timeliness performance measure for the licensee's National Forecast Flow Data Item or Report, and has a value between 0 and 1, representing the proportion of occasions during formula year t that hourly data updates were posted within 10 minutes of the start of the hour (i.e. the 12:00 update published by 12:10 at the latest), expressed as a proportion of all publication occasions;

WTPNA_t means the website timeliness performance measure for the licensee's National Physical Flow Data Item or Report, and has a value between 0 and 1, representing the proportion of occasions during formula year t that hourly data updates were posted within 10 minutes of the start of the hour (i.e. the 12:00 update published by 12:10 at the latest), expressed as a proportion of all publication occasions;

WTPDF_t means the website timeliness performance measure for the licensee's NTS Throughput Data Item or Report, and has a value between 0 and 1, representing the proportion of occasions during formula year t that the 14:00 hours (day ahead), 02:00 hours (day ahead), 12:00 hours (within day), 15:00 hours (within day), 18:00 hours (within day) and 21:30 (within day) publication deadlines are met;

NTS Throughput Data Item or Report means a data item or report published by the licensee showing, amongst other data, the forecast level of Actual NTS Throughput;

Predicted Closing Linepack Data Item or Report means an hourly data item or report published by the licensee showing, for each day, the opening NTS Linepack, two projected closing NTS Linepack figures, and Forecast Total System Demand (measured in mcm). NTS Linepack and Forecast Total System Demand have the meaning given to those terms in the Network Code;

National Forecast Flow Data Item or Report means an hourly data item or report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on delivery flow nominations (measured in mcm);

National Physical Flow Data Item or Report means an hourly data item or report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on actual (aggregate) physical flows into the NTS (measured in mcm).

(d) Exceptional events

(i) Where:

(aa) the licensee has notified the Authority of an event (the “notified event”) which it considers to be an exceptional event within 14 days of its occurrence; and

(bb) the Authority is satisfied that the notified event is an exceptional event,

the Authority may issue a direction excluding from the quality of demand information performance measure ($QDIP_t$) and/or the quality of website information performance measure ($QWIP_t$) a specified period within formula year t during which the exceptional event has occurred.

(ii) A notice provided to the Authority by the licensee under paragraph 14(13)(d)(i) of Part 2 of this condition must give particulars of the notified event and the reasons why the licensee considers it to be an exceptional event.

(iii) A direction made by the Authority under paragraph 14(13)(d)(i) of Part 2 of this condition may be made subject to such terms and conditions as may be specified in the direction.

(iv) A direction issued by the Authority under paragraph 14(13)(d)(i) of Part 2 of this condition shall not have effect unless, before it is made, the Authority has given notice to the licensee:

(aa) setting out the terms of the proposed direction;

(bb) stating the reasons why it proposes to make the direction;
and

(cc) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections,

and the Authority has considered such representations or objections and given reasons for its decision.

(v) For the purposes of this paragraph, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and shall include, but not be limited to, catastrophic loss of power, sabotage, act of vandalism, flood, fire and any third party product or service failure having an industry wide impact.

Special Condition C8G: NTS System Operator internal incentives, costs and revenues

(1) Internal cost incentive revenue (SOIntICR_t)

(a) Principal formula

For the purposes of paragraph 3 of special condition C8C condition, the maximum internal costs incentive revenue allowed to the licensee in respect of formula year t (SOIntICR_t) shall be derived in the following manner:

$$\text{SOIntICR}_t = \text{IOIRC}_t + \text{ICEIRC}_t + \text{NC}_t$$

Where:

- IOIRC_t means the maximum internal operating cost incentive revenue allowed in respect of formula year t and shall be calculated in accordance with paragraph 1(b) of this condition
- ICEIRC_t means the maximum internal capital expenditure incentive revenue allowed in respect of formula year t and shall be calculated in accordance with paragraph 1(c) of this condition;
- NC_t means the non incentivised costs allowed in respect of formula year t and shall be determined in accordance with paragraph 1(d) of this condition.

(b) Internal operating cost incentive revenue (IOICR_t)

The maximum internal operating costs incentive revenue allowed to the licensee in respect of formula year t (IOICR_t) shall be derived in the following manner

If $\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \geq \text{IOC}_t$, then:

$$\text{IOIRC}_t = \left(\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \left(\left(\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \text{IOC}_t \right) \times (1 - \text{ICUSF}_t)$$

Otherwise:

$$\text{IOIRC}_t = \left(\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \left(\left(\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \text{IOC}_t \right) \times (1 - \text{ICDSF}_t)$$

where:

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

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5
IOIT _t (£ million, 04/05 prices)	24.2	23.2	25.4	24.6	24.2

IOC_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 C9 (Allocation of revenues and costs for calculations under the price control

in respect of the NTS transportation owner activity and NTS system operation activity) other than $ExCP_t$, $IECCC_t$, $CNIC_t$, $SBIC_t$, $RBIC_t$, Pension Costs and charges levied on the licensee by the agency (as defined in Standard Special Condition A15).

where:

Pension Costs means the actual cash contributions made to the scheme in respect of both ongoing contributions and deficit payments attributable to the transportation system as well as scheme administration costs and payments made to the Pension Protection Fund (as defined under the Pensions Act 2004)

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

	Formula years				
Variable	t=1	t=2	t=3	t=4	t=5
$ICUSF_t$	0.4	0.4	0.4	0.4	0.4

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

	Formula years				
Variable	t=1	t=2	t=3	t=4	t≥5
$ICDSF_t$	0.4	0.4	0.4	0.4	0.4

IRPI_t in respect of formula year t, means the percentage change (whether of a positive or a negative value) between (a) 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 (b) 182.37 (being the value for t-1 in 2004/05).

(c) Internal capital expenditure incentive revenue (ICEICR_t)

The maximum internal capital expenditure incentive revenue allowed to the licensee in respect of formula year t (ICEICR_t) shall be derived in the following manner:

$$\text{ICEIRC}_t = \text{ICED}_t + \text{ICER}_t$$

where:

ICED_t means the depreciation on the NTS SO regulatory asset base in respect of formula year t and is calculated on a straight-line basis using a life of seven years for assets;

ICER_t means the return on the average NTS SO regulatory asset value in respect of formula year t at a rate of 5.05%;

NTS SO regulatory asset value means the allocation of assets to the NTS SO activity in accordance with Special Condition C9 (Allocation of revenues and costs for calculations under the price control in respect of

the NTS transportation owner activity and NTS system operation activity); and has the value £40.3m (in 2004/05 prices) on 1 April 2007. Allowed internal capital expenditure (AICE_t) shall be added to the NTS SO regulatory asset value in respect of any relevant year t;

AICE_t means the allowed internal capital expenditure that shall be added to the NTS SO regulatory asset base in respect of any formula year t and is derived in the following manner:

$$AICE_t = \left(\left[1 + \left(\frac{IRPI_t}{100} \right) \right] \times ICET_t \right) - \left(\left(\left[1 + \left(\frac{IRPI_t}{100} \right) \right] \times ICET_t \right) - ICE_t \right) \times 0.75$$

where:

ICEIT_t means the internal capital expenditure target in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5
ICEIT _t (£ million 2004/05 prices)	12.8	8.3	6.5	10.8	10.3

ICE_t means the internal capital expenditure allocated to the NTS SO activity in accordance with Special Condition C9 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) in respect of

formula year t.

$IRPI_t$ shall have the meaning given to that term in paragraph b of this condition.

(d) Non-incentivised costs (NC_t)

The non-incentivised costs allowed to the licensee in respect of formula year t (NC_t) shall be derived in the following manner:

$$NC_t = (IT_t + IP_t + IX_t) \times \left[1 + \left(\frac{IRPI_t}{100} \right) \right]$$

where:

IT_t means the licensee's tax allowance in respect its NTS system operation activity in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5
IT_t (£ million, 04/05 prices)	3.1	2.1	1.3	0.0	-0.4

IP_t means the licensee's pension cost allowance in respect of its NTS system operation activity in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=1	t=2	t=3	t=4	t=5

IP _t (£ million, 04/05 prices)	6.7	6.9	6.8	7.1	7.1
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IX_{tt} means the relevant proportion (in respect of its NTS system operation activity) of the charge levied on the licensee by the agency (as defined in Standard Special Condition A15) in respect of formula year t as set out in the following table:

	Formula years				
Variable	t=1	t=2	t=3	t=4	t=5
IX _t (£ million, 04/05 prices)	6.6				

IRPI_t has the same meaning ascribed to it in paragraph b) this condition.:

Special Condition C11: Transmission Planning Code

1. The licensee shall have in force by 1st October 2008 a transmission planning code which shall be in a form approved by the Authority having been consulted on for a period of not less than 28 days by the licensee with interested parties (the “**transmission planning code**”).
2. The transmission planning code shall be designed so as to facilitate the achievement of the following objectives:
 - (a) the efficient and economic operation, development and maintenance of the gas pipe-line system in respect of the NTS;
 - (b) so far as is consistent with sub-paragraph (a) to facilitate effective competition in the production, shipping and supply of gas; and
 - (c) so far as is consistent with sub-paragraphs (a) and (b), to promote security and efficiency of the gas production, transmission and distribution systems in Great Britain.

hereinafter referred to as the “**transmission planning objectives**”.

3. The licensee’s transmission planning code shall include the following:
 - (a) specification of the design criteria and procedures to be applied by the licensee in the planning and development of the licensee’s gas pipe-line system and to be taken into account by persons connected or seeking connection with the licensee’s gas pipe-line system in the planning and development of their own plant and systems;
 - (b) criteria to determine the physical capacity of the gas pipe-line system taking into account the baseline and purchased entry and exit capacity, together with statutory network security standards;
 - (c) a method to identify the amount of capacity that may technically be substituted or transferred between nodes;
 - (d) criteria to determine the appropriate level of duplicated spare equipment;
 - (e) criteria to determine the appropriate level of flow margins;
 - (f) a method to determine line pack or flexibility available at each node of the gas pipe-line system;
 - (g) a method to identify the physical ability of the gas pipe-line system to accommodate incremental flows at a given entry (exit) node as flow at another entry (exit) node is reduced;

- (h) criteria for identifying the rate of change of flow that can be accommodated at each node; and
 - (i) criteria for identifying maximum and minimum pressures at each node;
4. The licensee shall establish and operate procedures (“**transmission planning modification procedures**”), for the modification of the transmission planning code (including procedures for modification of the modification procedures themselves).
 5. The transmission planning modification procedures shall be contained in the transmission planning code.
 6. The transmission planning modification procedures shall provide:
 - (a) for proposals for modification of the transmission planning code to be made by the licensee or other persons or parties as the transmission planning code may provide.
 - (b) where such a proposal is made:
 - (i) for bringing the proposal to the attention of interested parties;
 - (ii) for proper consideration of any representations on the proposal;
 - (iii) for properly evaluating whether the proposed modification would better facilitate achieving the applicable transmission planning code objectives;
 - (iv) for development of any alternative modification which may, as compared with the proposed modification, better facilitate achieving the applicable transmission planning code objectives;
 - (v) for the preparation of a report:
 - setting out the proposed modification and any alternative
 - evaluating the proposed modification and any alternative
 - assessing the extent to which the proposed modification or any

alternative would better facilitate achieving the transmission code objectives

- setting out a timetable for implementation of the modification and any alternative, including the date with effect from which such modification (if made) is to take effect;

- (c) for the timetable (referred to in sub-paragraph (b)(v)) for implementation of any modification to be such as will enable the modification to take effect as soon as practicable.

7. Except insofar as the Authority otherwise approves, the licensee shall not make a modification to the transmission planning code unless:
 - (a) it has consulted interested parties on the proposed modification and allowed them a period of not less than 28 days within which to make written representations; and
 - (b) it has provided a report to the Authority setting out –
 - (i) particulars of the proposed modification;
 - (ii) representations (if any) made by interested parties; and
 - (iii) any changes in the terms of the modification intended in consequence of such representations.

provided that where the licensee has complied with the requirements of sub-paragraphs (a) and (b), it will not make any modification to the transmission planning code where the Authority has, within 28 days (or within 3 months if the Authority intends to undertake an impact assessment) of the report being furnished to the Authority under sub-paragraph (b) given a direction to the licensee that the modification shall not be made.

8. The licensee shall furnish the Authority with a copy of the licensee's transmission planning code (as from time to time revised) to any person requesting the same.
9. The licensee may make a charge for any copy of the licensee's transmission planning code (as from time to time revised) given or sent pursuant to paragraph 6 of an amount which does not exceed any amount specified for the time being for the purposes of this condition issues by the Authority.
10. The Authority may (following consultation with the licensee) issue directions relieving the licensee of its obligations to implement or comply with the licensee's transmission planning code in respect of such parts of the licensee's

transportation system and/or to such extent as may be specified in the directions.

Special Condition C24: Network Model

1. The licensee shall have in force by 1 April 2009 a functioning computer simulation model of its NTS gas transportation system which shall be in a form approved by the Authority (the “**network model**”).
2. The network model shall be designed so as to facilitate the achievement of the following objectives:
 - (a) the efficient and economic operation, development and maintenance of the NTS gas transportation system;
 - (b) so far as is consistent with sub-paragraph (a), facilitate effective competition in the production, shipping and supply of gas;
 - (c) so far as is consistent with sub-paragraphs (a) and (b), to promote the security and efficiency of the gas production, transmission and distribution systems in Great Britain;
 - (d) so far as is consistent with sub-paragraphs (a) to (c), the efficient transfer, trading and substitution of entry and exit capacity between different entry points on the gas transportation network; and
 - (e) so far as is consistent with sub-paragraphs (a) to (d), the transparent communication of information to Ofgem regarding the technical capability of the gas pipe-line system.

hereinafter referred to as the “**network model objectives**”.

3. The network model, which shall be based on the transmission planning code defined in Special Condition C11 shall include but not be limited to the following:
 - (a) software necessary to model the technical capacity characteristics of the licensee's gas transportation system in accordance with planning standards included in the licensee's transmission planning code defined in Special Condition C11;
 - (b) modelling the capability of the licensee's gas transportation system to transport gas between entry and exit points;
 - (c) modelling capacity such that exchange rates between different entry points and different exit points on the gas transportation system can be determined;

- (d) modelling the ability of the gas transportation system to provide flexibility capacity; and
 - (e) modelling the ability of the gas transportation system to accommodate changes in flow rates (ramp rates) at each entry point and exit point.
4. The licensee shall, prior to submitting the network model to the Authority for its approval in accordance with paragraph 1 of this condition, commission an independent expert to review the network model and provide a report of that review which shall be sent to the Authority for its consideration. The report shall include but not be limited to the independent expert's opinion on the extent to which the network model satisfies the network model objectives set out in paragraph 3 of this condition.
 5. The licensee shall provide the Authority with reasonable access to the network model and shall use reasonable endeavours to provide a software platform which allows remote internet access to enable the Authority and its consultants to operate the network model.
 6. The licensee shall provide data to populate the network model which shall include but not be limited to:
 - (a) data for all material technical aspects relating to the capability of the extant and planned transportation network to transport gas between entry and exit points;
 - (b) physical data pertaining to the licensee's gas transportation system that is required by the computer model to perform calculations;
 - (c) baseline capacity at each network entry and exit point;
 - (d) capacity bookings at each entry and exit point;
 - (e) forecasts of demand at each network exit point for the gas days specified in the licensee's transmission planning code defined in special condition C11; and
 - (f) forecasts of calorific value of gas at each entry point and throughout the gas pipe-line system.
 7. The licensee shall submit to the Authority for its approval procedures for revising and/or updating data referred to in paragraph 6 of this condition. The licensee shall revise these procedures if requested by the Authority.
 8. The licensee shall periodically review (including upon the request of the Authority) the network model. Except insofar as the Authority otherwise approves, the licensee shall not make a change to the network model, other

than in respect of data referred to in paragraph 6 under the procedures pursuant to paragraph 7 of this condition, unless it has:

- (a) furnished the Authority with a report setting out the:
 - (i) outcome of the review; and
 - (ii) proposed changes to the licensee's network model the licensee reasonably thinks better facilitate the achievement of the network model objectives referred to in paragraph 3 of this condition.
- (b) commissioned an independent expert who shall review the proposed changes to the network model and provide a report of that review which shall be sent to the Authority. The report shall include the independent expert's opinion on the extent to which the proposed changes to the network model better facilitate the network model objectives set out in paragraph 3 of this condition.

provided that, where the licensee has complied with the requirements of sub-paragraphs (a) and (b), it will not make any modification to the network model where the Authority has, within 28 days (or within 3 months if the Authority intends to undertake an impact assessment) of the report being furnished to it under sub-paragraph (a) given a direction to the licensee that the modification shall not be made.

9. Following a change to the network model, the licensee shall appoint an independent auditor to review and report on the implementation of the change to the network model. A copy of the auditor's report shall be provided to the Authority.
10. The Authority may (following consultation with the licensee) issue directions relieving the licensee of its obligations to implement or comply with the licensee's network model in respect of such parts of the licensee's transportation system and/or to such extent as may be specified in the directions.