



Making a positive difference  
for energy consumers

National Grid Gas plc, gas shippers, gas suppliers and other interested parties

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**Withdrawal of previous consultation Notice dated 5 February 2014: Statutory consultation on the 2014/15 Permit Arrangements (varying lead-times for incremental "obligated capacity"); and issue of new consultation Notice under section 23(2) of the Gas Act 1986**

We are making changes to National Grid Gas' (NGG) licence to extend NGG's Permits Arrangements to Year 2 of RIIO-T1 and to implement a £13.39m allowance within that year. Extending these arrangements will provide industry with increased certainty about securing incremental capacity in NGG's capacity release windows.

We previously issued a statutory consultation<sup>1</sup> where we set out our intention to modify the licence with an option to implement the £13.39m allowance. We would only implement the allowance contingent on the new commercial arrangements not coming into effect. The new commercial arrangements have been progressing as UNC modifications 452 and 465 (Planning and Advanced Reservation of Capacity).

Since the previous statutory consultation, it has become clear that the new commercial arrangements which would have superseded the requirement for permits, will not be in place for NGG's capacity release windows. As a result we do not require the power and flexibility in the licence to implement permits by a separate direction. We are instead proposing to modify the licence so that the 2014-15 Permits Arrangements come into force the moment the licence changes take effect. This is the only material change from the statutory consultation of 5 February.

## **Background**

Users of the NTS provide signals to NGG when they require additional capacity through the capacity release windows. This capacity is known as "incremental capacity"<sup>2</sup>. NGG is required to deliver this capacity within 42 months and 38 months for entry and exit capacity respectively. These delivery times are called lead-times. As part of delivering this capacity NGG may need to invest in infrastructure on the NTS. The scale and complexity of the infrastructure required to meet some signals may mean that NGG will require longer than the default lead-times.

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<sup>1</sup> Ofgem, Statutory consultation on the 2014/15 Permits Arrangements (varying lead-times for incremental obligated capacity) – Notice under section 23(2) of the Gas Act 1986, 5 February 2014

<sup>2</sup> Incremental capacity is capacity above NGG's baselines – the amount of capacity NGG is obligated to provide under its licence.

To allow NGG sufficient time to provide this infrastructure, we put into effect the Permits Arrangements<sup>3</sup>, which allow NGG to extend the lead-times. We grant NGG an allowance of Permits which allows it to extend lead-times where it needs more time to deliver incremental capacity. NGG can also “earn” additional permits by reducing the lead-times for simpler projects. The overall effect is that this allows NGG to trade off the risk of more complex projects with those of simpler projects.

Each permit also has an associated financial value. At the end of each scheme<sup>4</sup>, NGG receives a sum of money for any permits that it has not used or that it has earned. This incentivises NGG to reduce lead-times where possible.

In our RIIO-T1 Final Proposals<sup>5</sup>, we said that if the new commercial arrangements were not in place for Years 2-4 of RIIO-T1, we would consider continuing the RIIO-T1 Year 1 Permit Arrangements. The policy and structure of possible Permits Arrangements in Years 2-4 were determined as part of the RIIO-T1 Final Proposals, which we had previously consulted on as part of RIIO-T1. The proposals in this consultation and in our February consultation are therefore in line with the policy in RIIO-T1.

### **Our February consultation and responses**

On 5 February 2014 we issued a statutory consultation on implementing the Permits Arrangements for 2014-15. This was subject to a further direction from us and was contingent on the new commercial arrangements not being in place. The February statutory consultation also contained additional background information, our reasons and the effect of our proposed modification.

Our reasons for implementing the Permits Arrangements in 2014-15 have not changed however there has been a change in circumstances. There is no longer any uncertainty about whether the Permits Arrangements will need to be implemented for 2014-15 and we therefore no longer require the direction powers that we had previously set out in the licence. There have been no other changes to the Permits Arrangements that were proposed in our February statutory consultation.

We received 3 non-confidential responses to the consultation that commented on the licence text and the policy behind the Permits Arrangements, and these have been published on our website<sup>6</sup>.

#### *Clarity over implementation date for Permits*

All 3 respondents commented that they desired more clarity from us over when we would implement the Permits Arrangements and bring them into force.

#### *Start date of the Permits Arrangements*

Two respondents commented on the dates within the licence condition stating it was unclear from the licence condition when NGG would be able to start using permits. One respondent also commented that if the Permits Arrangements did not start on 1 April consumers would be exposed to significant buy-back costs. Another respondent questioned whether it was our intent to implement the Permits Arrangements retrospectively.

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<sup>3</sup> The Permits Arrangements were first introduced in TPCR4 (Transmission Price Control Review 4) which ran from 1 April 2007 to 31 March 2012.

<sup>4</sup> The permits scheme are time defined and separate ones were in place for TPCR4, TPCR4 Roll-over and there is a scheme in place for RIIO-T1.

<sup>5</sup> Ofgem, RIIO-T1 Final Proposals for National Grid Electricity Transmission and National Grid Gas, Outputs, incentives and innovation supporting document, Section 3, 17 December 2012

<sup>6</sup> <http://www.ofgem.gov.uk/publications-and-updates/notice-under-section-23-gas-act-extending-permits-arrangements>

### *Ability for the Authority to issue a direction*

One respondent commented on the Authority's ability to issue a direction, stating that the drafting needed further specificity and suggested text for the licence condition with a difference scope.

### *Status of the Permits Arrangements when the new commercial arrangements are introduced*

One respondent queried whether by not accommodating the potential new commercial arrangements within the Permits Arrangements we were implying that the new arrangements would not be in place before April 2015. The same respondent also questioned whether it would be in consumers' interests to curtail NGG's allowance under the Permit Arrangements, were the new commercial arrangements to be introduced partway through the year.

### *Permits as a windfall gain*

Two respondents commented that allowing NGG additional permits under the Permits Arrangements could represent a windfall gain for NGG if NGG were not to use their permits.

### *Volume of permits*

One respondent commented that we had pro-rated the £40.2m allowance set out within RIIO-T1 for three years and assigned that to NGG for 2014-15.

### *Structure of the Permits Arrangements*

One respondent commented that a financial incentive was unnecessary as part of the Permits Arrangements and should be removed.

### *NGG obligation to information Ofgem about proposed usage of permits*

One respondent commented that the lack of clarity over when the Permits Arrangements would be in place could be problematic with NGG's obligation to provide us 90 days' advance notice of their intention to use permits.

### *New commercial arrangements*

Two respondents commented on the Ofgem process for approving the new commercial arrangements and encouraged Ofgem to make a decision on the modifications submitted to us.

## **Our Views**

While we have withdrawn our previous consultation, consultees have responded and we would like to acknowledge those responses and comment.

### *Clarity over implementation date for Permits*

As a result of the changes we are making to the licence condition we are proposing that the 2014-15 Permits Arrangements come into force on 1 July 2014.

### *Start date of the Permits Arrangements*

We agree that it should be clear when the Permit Arrangements will be in force. We are proposing that the Permits Arrangements will come in to force on 1 July 2014. If an incremental capacity signal were to materialise before that date, we will take steps to ensure consumers do not face excessive buyback costs.

### *Ability for the Authority to Issue a Direction*

We now know the Permits Arrangements will need to be implemented and have modified the licence condition to remove the need to issue a direction.

We do not agree with the respondent's view that the direction power in Part A of the licence was too broad. The drafting in Part A was designed to be broad to ensure that we would have the ability to safeguard consumers' interests in a range of possible scenarios for progress on the new commercial arrangements as well as to ensure we could give effect to our policy intent. Our policy intent had been clearly set out in the introduction of the licence condition and in our statutory consultation cover letter.

### *Status of the Permits Arrangements when the new commercial arrangements are introduced*

We agree with the respondent that we will need to consider the treatment of the Permit Arrangements when new commercial arrangements are introduced. However, while the Permit Arrangements are being introduced so that they can last for the whole of 2014-15 this does not imply that we will only allow the new commercial arrangements to be implemented after 2014-15. We are implementing permit arrangements for 2014-15 so that industry has certainty that there will be mechanisms for handling incremental capacity requests until 31 March 2015.

If and when new commercial arrangements are introduced we will consider what an appropriate and fair treatment of NGG's permit allowance is.

### *Permits as a windfall gain*

We recognise that if NGG receives permits and does not use them then it appears that NGG may be making a windfall gain. NGG's allocation of permits is based on an assessment of the potential projects they face. While it is possible that NGG will not face any incremental capacity signals it is also possible that they will face more than they expect. NGG is best placed to manage the risk and their permit allowance gives them the flexibility to handle the possible signals.

In addition, we set out our policy and the structure of the Permits Arrangements in Years 2-4 of RIIO-T1 within our RIIO-T1 Final Proposals. Our current proposed modifications to the licence implement existing policy which we had previously consulted on and extend the Year 1 Permits arrangements to Year 2.

### *Volume of permits*

We agree with the respondent that the volume of permits NGG we propose to assign is equal to what would result if NGG's proposed £40.2m allowance over three years had been pro-rated. However we did not arrive at this value by pro-rating NGG's proposed allowance value. The number we determined was based on the project data that NGG had submitted.

### *Structure of the Permits Arrangements*

We recognise the concerns of the respondent about the financial component of the Permits Arrangements. However as we set out in RIIO-T1 Final Proposals and our Statutory Consultation cover letter, the financial incentive is a key aspect of the Permits Arrangements. Without the financial incentive NGG would be incentivised to use as many permits as possible and delay the lead-times for incremental capacity signals without regard to whether they were appropriate or required.

### *NGG obligation to inform Ofgem about proposed usage of permits*

We agree with the respondent that additional clarity over NGG's obligations and the interactions with permits would be useful. As we are now proposing to implement the Permits Arrangements so that they are in force on 1 July 2014 we would expect NGG to inform us of their intention to use permits in the July application window, in line with the provisions specified within the licence condition.

### *New Commercial Arrangements*

We agree that it is beneficial to provide industry with certainty whenever possible. However we can only make a decision on the new commercial arrangements when we are sure that whatever decision we make will be in consumers' interest. As a result we are implementing the Permits Arrangements to ensure that consumers' interests are protected and that industry has certainty that there will be incremental capacity arrangements in place that they are familiar with, until such time as new arrangements can be put in place.

### **Minded to Decision**

We are implementing the Permits Arrangements for 2014-15, allowing them to be used from 1 July 2014, and granting NGG a £13.39 allowance.

### **Reasons for our Decision**

Extending the Permit Arrangements for another year will:

- enable NGG to continue to manage incremental capacity requests efficiently while new incremental capacity arrangements are developed;
- allow existing capacity arrangements with which industry is familiar to continue, before new arrangements are implemented;
- maintain existing lead-times; and
- ensure consumers are not potentially exposed to significant incremental buy-back costs under the constraint management incentive.

### **Proposed Licence Modification**

Our proposed modifications to implement Permits Arrangements for Year 2 will:

- implement Permits Arrangements from 1 July 2014 to 31 March 2015;
- allow permits earned or not used between 1 April 2013 and 31 March 2014 to be used between 1 July 2014 and 31 March 2015;
- allocate £13.39m of permits in RIIO-T1 for the formula year commencing 1 April 2014; and
- delay the cash-out date for any permits which are unused.

In line with our RIIO-T1 Final Proposals, NGG's Year 1 permit allowance will carry over to Year 2. Any permits that NGG earns or does not use in Year 1 will be usable in Year 2<sup>7</sup>. Accordingly, as the Permits Arrangements run for an additional year NGG will receive revenue from the Permits Arrangements a year later; the cash-out date for the Permits Arrangements will be moved from 1 April 2015 to 1 April 2016.

### **Permits Arrangements in Years 3-4 of RIIO-T1**

As set out within our previous Statutory Consultation, should new arrangements not be in place before the start of 2015-16 we would expect to explore alternatives to a further

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<sup>7</sup> As an example, if NGG is allowed 100 permits in Year 1, and 100 additional permits in Year 2, if it uses 40 permits in Year 1 it will then be allowed to use 160 in Year 2. If it then uses 130 in Year 2, it will have 30 permits left over and these will be cashed out.

extension of the Permits Arrangements. Alternatives would include setting a reduced allowance below the level than indicated in Final Proposals, or not extending the Permits Arrangements at all.

### **Next Steps**

Subject to any representations that are made, we aim to publish the direction to modify Special Conditions 2D in April 2014. The proposed modification would take effect 56 days after our decision to modify is published.

If you have any questions regarding the proposed modification please contact Aled Moses, (0207 901 3850; [aled.moses@ofgem.gov.uk](mailto:aled.moses@ofgem.gov.uk)) in the first instance.

Any representations on the proposed licence modifications may be made on or before 14 April 2014 to: Aled Moses, Gas Transmission Policy, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [gas.transmissionresponse@ofgem.gov.uk](mailto:gas.transmissionresponse@ofgem.gov.uk).

Yours faithfully,

**Andy Burgess**  
**Associate Partner, Transmission and Distribution Policy**

## Appendix 1 - Proposed Modifications to Special Condition 2D (Permit Arrangements for the Provision of Incremental Capacity)

### Special Condition 2D. Permit Arrangements for the provision of incremental capacity

#### Introduction

2D.1 The purpose of this condition is to provide arrangements for the use of permits by the Licensee in relation to the provision of Incremental Obligated Entry Capacity and Incremental Obligated Exit Capacity (together ‘incremental obligated capacity’), including the maximum value of permits available for the Formula Year commencing on 1 April 2013 of £19m (2009/10 prices) and the maximum value of permits available for the Formula Year commencing on 1 April 2014 of £32.39m (2009/10 prices), which would be an addition of £13.39m.

2D.2 The effect of the application of the Permit Arrangements under this condition is to allow the Licensee:

- (a) to vary the date on which the Licensee is contractually obliged to provide incremental obligated capacity; and
- (b) to obtain additional revenue for permits remaining at 31 May 2013 from the Legacy Permit Arrangements.

2D.3 The Licensee can use a permit to defer the delivery of one GWh per Day of incremental obligated capacity for a month or earn a permit for every one GWh per Day of incremental obligated capacity it delivers early by a month.

2D.4 The Licensee can use or earn multiple permits to defer or for delivery of any amount of incremental obligated capacity for a number of months subject to the provisions of this condition.

2D.5 Permits held by the Licensee at the end of the Formula Year commencing on 1 April 2013 will be usable by the Licensee in the Formula Year commencing on 1 April 2014.

2D.6 Permits held by the Licensee in the Formula Year commencing on 1 April 2014 will be implemented in accordance with Part C and will only be usable from the 1 July 2014.

~~2D.5~~ 2D.7 Part A sets out the provisions under which permits may be used and earned.

~~2D.6~~ 2D.8 Part B sets out the level of permits applicable for use in the Formula Year commencing on 1 April 2013.

2D.9 Part C sets out the level of permits applicable for use in the Formula Year commencing on 1 April 2014.

~~2D.7~~ ~~Part C sets out the revenue earned by the Licensee for the Permit Arrangements commencing on 1 April 2013.~~

2D.10 Part D sets out the revenue earned by the Licensee for the Permit Arrangements commencing on 1 April 2013 and 1 April 2014.

~~2D.8~~ 2D.11 Part ~~E~~ sets out arrangements to allow the Licensee to obtain additional revenue for any permits under the Legacy Permit Arrangements remaining on 31 May 2013.

#### Part A: Provisions for using and earning permits

~~2D.9~~2D.12 The Permit Arrangements will apply, unless otherwise directed by the Authority in writing, for the Formula Years commencing on 1 April 2013 and 1 April 2014.

~~2D.10~~2D.13 Subject to paragraph 2D.144, the Licensee may, with the consent of the Authority, vary the Entry Lead Time for any individual NTS Entry Point or vary the Exit Lead Time for any individual NTS Exit Point.

~~2D.11~~2D.14 Consent will be deemed to have been granted by the Authority under paragraph 2D.130 if:

- (a) the Licensee is proposing to reduce the Entry Lead Time in relation to NTS Entry Points or the Exit Lead Time in relation to NTS Exit Points; or
- (b) the volume of capacity being deferred (in units of GWh per Day for each one month period) is, at Day n, less than the Licensee's permit entitlement  $PE_n$  defined in paragraph 2D.196 (within the Formula Year commencing 1 April 2013) and defined in paragraph 2D. 21 (within the Formula Year commencing 1 April 2014) of this condition.

~~2D.12~~2D.15 The Licensee must not vary the Entry Lead Time or Exit Lead Time by more than 24 months at any NTS Entry Point or NTS Exit Point in relation to a single variation event without seeking written consent to do so from the Authority (such consent must be sought in a timely manner).

~~2D.13~~2D.16 In relation to NTS Entry Points, the Licensee must seek written consent not later than 105 days before the start of the Annual Invitation Period.

~~2D.14~~2D.17 In relation to NTS Exit Points either:

- (c) for applications for Incremental Obligated Exit Capacity under the Annual Application Window, the Licensee must seek written consent not later than 90 days before the start of the Annual Application Window; or
- (d) for applications for Incremental Obligated Exit Capacity made outside the Annual Application Window consistent with the obligations under Special Conditions 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements) and 9B (Methodology to determine the release of Entry Capacity and Exit Capacity volumes), the Licensee must use reasonable endeavours to seek written consent not later than 90 days in advance of the application.

~~2D.15~~2D.18 The Licensee shall notify the Authority in writing and in a timely manner of each instance where it varies the Entry Lead Time or Exit Lead Time for incremental obligated capacity specifying:

- (e) the NTS Entry Point or NTS Exit Point affected;
- (f) the volume of capacity (in units of GWh per Day) for which the Entry Lead Time or Exit Lead Time is being shortened; or
- (g) the volume of capacity (in units of GWh per Day) for which the Entry Lead Time or Exit Lead Time is being lengthened.

## **Part B: Level of Permits Arrangements (1 April 2013 – 31 March 2014)**

~~2D.16~~2D.19 The Licensee's permit entitlement on Day n ( $PE_n$ ) (in units of GWh per Day for each one month period) for the Formula Year commencing on 1 April 2013 will be calculated in accordance with the following formula:



$$PE_n = 3800 + \sum_{v,n-1} DLTDVE_v$$

where:

$DLTDVE_v$  means the change in the Entry Lead Time or Exit Lead Time (in units of GWh per Day for each one month period) that arises from the variation event  $v$  as notified to the Authority pursuant to paragraph 2D.130 of this condition.

$v$  means the relevant variation event, where  $v=1$  shall mean the first variation event notified to the Authority pursuant to paragraph 2D.130 of this condition.

2D.20 For the avoidance of doubt:

(h) where there have been no variations to the Entry Lead Time or Exit Lead Time ( $v=0$ ),  $DLTDVE_v$  will have the value zero (0); and-

(h)(i) the Licensee's Permit Entitlement (PE<sub>n</sub>) in the Formula Year commencing on 1 April 2013 shall be adjusted by variation events notified to the Authority pursuant to paragraph 2D.13 within the Formula Year commencing on 1 April 2013.

### **Part C: Level of Permits Arrangements (1 July 2014 – 31 March 2015)**

2D.21 The Licensee's permit entitlement on Day  $n$  ( $PE_n$ ) (in units of GWh per Day for each one month period) for the Formula Year commencing on 1 April 2014 will be calculated in accordance with the following formula from the 1 July 2014:

$$PE_n = 6478 + \sum_{v,n-1} DLTDVE_v$$

where:

$DLTDVE_v$  means the change in the Entry Lead Time or Exit Lead Time (in units of GWh per Day for each one month period) that arises from the variation event  $v$  as notified to the Authority pursuant to paragraph 2D.13 of this condition.

$v$  means the relevant variation event, where  $v=1$  shall mean the first variation event notified to the Authority pursuant to paragraph 2D.13 of this condition.

2D.22 For the avoidance of doubt:

(j) where there have been no variations to the Entry Lead Time or Exit Lead Time ( $v=0$ ),  $DLTDVE_v$  will have the value zero (0) and;

(k) the Licensee's permit entitlement ( $PE_n$ ) in the Formula Year commencing on 1 April 2014 shall be adjusted by variation events notified to the Authority pursuant to paragraph 2D.13 within the Formula Years commencing on 1 April 2013 and 1 April 2014.

### **Part C: Revenue earned from Permit Arrangements (1 April 2013 – 31 March 2014)**

2D.17 For the purposes of Part E of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) the term  $PA_t$  shall be calculated in the Formula Year commencing 1 April 2015 as follows:

$$PA_t = \min[(PE_{\text{end}} \times \pounds 5,000), \pounds 19,000,000] \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

where:

$PE_{\text{end}}$  means the value of  $PE_n$  (in GWh per Day for each one month period) where Day n is 31 May 2014.

$PVF_t$  has the value given to it by Part D of Special Condition 2A.

$RPI$  has the value given to it by Part D of Special Condition 2A.

~~2D.18~~  $PA_t$  will have the value zero other than in the Formula Year commencing on 1 April 2015.

### **Part D: Revenue earned from Permit Arrangements (1 April 2013 – 31 March 2015)**

~~2D.23~~ For the purposes of Part E of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) the term  $PA_t$  shall be calculated in the Formula Year commencing 1 April 2016 as follows:

$$PA_t = \min[(PE_{\text{end}} \times \pounds 5,000), \pounds 32,390,000] \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

where:

$PE_{\text{end}}$  means the value of  $PE_n$  (in GWh per Day for each one month period) where Day n is 31 May 2015.

$PVF_t$  has the value given to it by Part D of Special Condition 2A.

$RPIF_t$  has the value given to it by Part D of Special Condition 2A.

~~2D.24~~  $PA_t$  will have the value zero other than in the Formula Year commencing on 1 April 2016.

### **Part ~~E~~D: Legacy Permit Arrangements**

~~2D.19~~~~2D.25~~ For the purposes of Part C of Special Condition 3A (Restriction of NTS System Operation Revenue) the  $DELINC_t$  term is derived in accordance with the following formula:

$$DELINC_t = RLTDVEN_{t-1} + RLTDVEX_{t-1}$$

where:

$RLTDVEN_{t-1}$  means the value of the entry permits held by the licensee on 31 May 2013 from the arrangements set out in Special Condition C8C (NTS System Operation Activity Revenue Restriction) paragraph 3(a) as it was in force in this licence as at 31 March 2013.

$RLTDVEX_{t-1}$  means the value of the exit permits held by the licensee on 31 May 2013 from the arrangements set out in Special Condition C8C paragraph 3(a) as it was in force in this licence as at 31 March 2013.

~~2D.20~~~~2D.26~~  $DELINC_t$  will have the value zero except in the Formula Year commencing 1 April 2013 when it will be calculated in accordance with the formula in 2D.2~~5~~9.

~~2D.21~~~~2D.27~~  $RLTDVEN_{t-1}$  shall be calculated in accordance with the following formula:

$$RLTDVEN_{t-1} = \min[(LTDVEN_{\text{end}} \times \pounds 5,000), \pounds 8,256,960] \times RPIF_t$$

where:

LTDVEn<sub>end</sub> means the value of LTDVEn<sub>n</sub> (in GWh per Day for each one month period) where Day n is 31 May 2013 and is derived with the following formula:

$$\text{LTDVEn}_n = 1440 + \sum_{v,n-1} \text{DLTDVEn}_v$$

DLTDVEn<sub>v</sub> means the change in the Entry Lead Time (in units of GWh per Day for each one month period) that arises from the variation event v as notified to the Authority by 1 May 2013.

~~2D.222D.28~~ RLTDVEx<sub>t-1</sub> shall be calculated in accordance with the following formula:

$$\text{RLTDVEx}_{t-1} = \min[(\text{LTDVEx}_{\text{end}} \times \text{£}274), \text{£}688,149] \times \text{RPIF}_t$$

where:

LTDVEx<sub>end</sub> means the value of LTDVEx<sub>n</sub> (in GWh per Day) where Day n is 31 May 2013 and is derived with the following formula:

$$\text{LTDVEx}_n = 2190 + \sum_{v,n-1} \text{DLTDVEx}_v$$

DLTDVEx<sub>v</sub> means the change in the Exit Lead Time (in units of GWh per Day) that arises from the variation event v as notified to the Authority by 1 April 2013.

## Appendix 2 - Proposed Modifications to Special Condition 3A (Restriction of NTS System Operation Revenue)

### Special Condition 3A. Restriction of NTS System Operation Revenue

#### Part C: Calculation of Maximum NTS System Operation Revenue (SOMR<sub>t</sub>)

3A.1 Maximum NTS System Operation Revenue, in Formula Year t, is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$\text{SOMR}_t = \text{SOBR}_t + \text{CM}_t + \text{TSS}_t + \text{DELINC}_t + \text{SOOIRC}_t - \text{SOK}_t$$

3A.2 In the Principal Formula:

- SOMR<sub>t</sub>** means the amount of Maximum NTS System Operation Revenue in Formula Year t.
- SOBR<sub>t</sub>** means the amount of Base NTS System Operation Revenue in Formula Year t as derived in accordance with the formula set out in Part D of this condition.
- CM<sub>t</sub>** means the revenue adjustment in Formula Year t in respect of Constraint Management as derived in accordance with Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management).
- TSS<sub>t</sub>** means the revenue adjustment in Formula Year t in respect of NTS Transportation Support Services as derived in accordance with Special Condition 3C (NTS Transportation Support Services).
- DELINC<sub>t</sub>** means the permits revenue adjustment made in Formula Year t in respect of Legacy Permit Arrangements as derived in accordance with Part ~~ED~~ of Special Condition 2D (Permit Arrangements for the provision of incremental capacity).
- SOOIRC<sub>t</sub>** means the NTS System Operation Revenue External Incentive adjustment in respect of Formula Year t as derived in accordance with Special Condition 3D (NTS System Operator external incentives, costs and revenues).
- SOK<sub>t</sub>** means the correction term revenue adjustment in Formula Year t as derived in accordance with the formula set out in Part E of this condition.