

Annex 1: GNI (UK) Proposed Licence Modification

- Proposed deletions are indicated by text which has been struck through.
 - Proposed additions are indicated by red text.
 - Changes made as a result of the consultation are highlighted in yellow.
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Condition 1.21: Regulatory Instructions and Guidance

1.21.1 Introduction

- (a) The purpose of this Condition 1.21 is to set out the scope, contents, and common governance arrangements for the Regulatory Instructions and Guidance (“**RIGs**”) published by the Authority pursuant to this condition.
- (b) The RIGs are the primary means by which the Authority directs the Licensee to collect and provide the information to the Authority that the Authority needs to enable it to administer the Price Control Conditions Part 2 of this licence and any determinations made by the Authority under or for the purposes of the Price Control Conditions.

1.21.2 Licensee’s obligation under this condition

- (a) Unless and so far as the Authority otherwise consents, the Licensee must have in place and maintain appropriate systems, processes, and procedures to enable it:
 - (i) to estimate, measure, and record the information detailed in the RIGs (“specified information”); and
 - (ii) to provide such information to the Authority in respect of such periods and within such timeframes as are specified in the RIGs.

- (b) To facilitate compliance with paragraph (a) of this Condition 1.21.2, the accounting records and other records kept by the Licensee with respect to the specified information must:
 - (i) be so arranged as to ensure that such information can be separately identified and reasonably attributed as between the Licensee's business and the business of any affiliate or related undertaking of the Licensee; and
 - (ii) be maintained for a period of eight years, or such shorter period as set out in the RIGs, from the date that they are made.

1.21.3 Scope and content of RIGs

- (a) Subject to paragraphs (b) and (c) of this Condition 1.21.3, the matters that may be included, or for which provision may be made, in the RIGs are:
 - (i) instructions and guidance on the establishment of systems, processes, procedures, and ways for recording and providing specified information;
 - (ii) instructions and guidance on the standards of accuracy and reliability that are applicable to the recording of specified information (including different classes of such information);
 - (iii) a timetable for the development of such systems, processes, and procedures as are required to achieve such standards;
 - (iv) the methodology for calculating or deriving numbers comprising specified information;
 - (v) provision with respect to the meaning of words and phrases used in defining specified information;
 - (vi) requirements as to the form and manner in which, or the frequency with which, specified information must be recorded;

- (vii) requirements as to the form and manner in which, or the frequency with which, specified information must be provided to the Authority;
 - (viii) requirements as to which (if any) of the specified information is to be subject to audit, the terms on which an auditor is to be appointed by the Licensee for that purpose, and the nature of the audit to be carried out by that person;
 - (ix) requirements as to the circumstances in which the Authority may appoint an examiner to examine the recording of the specified information by the Licensee;
 - (x) a statement on whether and to what extent each category of the specified information is required for the purposes of the RIGs; and
 - (xi) provision about how the Authority intends to monitor, assess, and enforce compliance with the RIGs (as to which, see also Condition 1.21.6).
- (b) The provisions of the RIGs must not exceed what is reasonably required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the Licensee in complying with those provisions.
- (c) No specified information may exceed what could be requested from the Licensee by the Authority under Condition 1.3.1.

1.21.4 Development and modification of the RIGs

- (a) The Authority may issue new RIGs or modify any existing RIGs by issuing a direction for that purpose to the Licensee.
- (b) Data collected in relation to each formula year must be reported according to the RIGs issued to the Licensee by the Authority as they may be (where applicable) modified in line with this Condition 1.21.4 and with Condition 1.21.5.

- (c) A direction issued by the Authority under paragraph (a) of this Condition 1.21.4 will be of no effect unless the Authority has first:
 - (i) given notice to the Licensee that it proposes to issue new RIGs or (as the case may be) to modify the RIGs:
 - (A) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
 - (B) setting out the text of the RIGs to be issued or (as the case may be) modified and the Authority's reasons for proposing to issue or modify it; and
 - (C) specifying the time (which will not be less than a period of 28 days from the date of the notice) within which representations in response to such proposals may be made; and
 - (ii) considered any representations in response to the notice that are duly made and not withdrawn.
- (d) The requirements for the issuing of new RIGs or modification of existing RIGs set out in paragraph (c) of this Condition 1.21.4 may be satisfied by actions taken by the Authority before as well as after the coming into effect of this condition.

1.21.5 Requirements for new or more detailed information

- (a) This Condition 1.21.5 applies if any modified or new RIGs have the effect of introducing a requirement to provide:
 - (i) a new category of specified information; or
 - (ii) an existing category of specified information to a greater level of detail,which has not previously been collected by the Licensee, whether under the provisions of the RIGs or otherwise.

- (b) Where this Condition 1.21.5 applies, the Licensee may provide estimates to the Authority in respect of the relevant category of specified information for any formula year specified by the Authority.
- (c) The estimates that are mentioned in paragraph (b) of this condition may be derived from such other information available to the Licensee as may be appropriate for that purpose.

1.21.6 Compliance with the provision of the RIGs

- (a) The Licensee must at all times comply with the provisions of the RIGs for the time being in force pursuant to this condition.
- (b) Where the Licensee holds more than one gas conveyance licence within a single legal entity, it must comply with the requirements of this condition separately in respect of each such licence.
- (c) Nothing in this condition requires the Licensee to provide any documents or give any information that it could not be compelled to produce or give in evidence in civil proceedings before a court.

1.21.7 Definitions

For the purposes of this condition:

"examiner" means, in relation to the RIGs, a person whose degree of knowledge and experience of the matters that are the subject of the RIGs will enable him to properly carry out and complete the tasks required of him under the terms of his nomination by the Authority pursuant to the provisions of the RIGs;

"specified information" means information (or a category of information) that is so described or defined in the RIGs.

"Price Control Conditions"

Means condition 2.2 in this Licence

2.2.4 Allowed Operating Expenditure

(a) Allowed Operating Expenditure for the purpose of this Condition and the determination of Total Allowed Conveyance Revenue in accordance with the Formula shall be the Operating Expenditure, both Controllable Operating Expenditure and Uncontrollable Operating Expenditure, which the Authority deems necessary or appropriate for:

- (i) the North West Pipeline; and
- (ii) the South North Pipeline; and
- (iii) each of the Spurs;

in each case in accordance with established gas transmission pipeline engineering and cost control principles given forecast development and throughput, established in accordance with the remaining paragraphs of this Condition 2.2.4.

(b) The Licensee shall provide such information or explanation and documents and records as the Authority reasonably requires for the purpose of verifying the forecast annual Operating Expenditure figures provided by the Licensee in accordance with Condition 2.2.4 (c) and (f).

(c) The Licensee may at any time and shall no later than twelve (12) months before the First Operational Commencement Date or such other date as agreed by the Authority and Licensee submit to the Authority a forecast of annual Operating Expenditure, both Controllable Operating Expenditure and Uncontrollable Operating Expenditure for each Gas Year of the Revenue Recovery Period for:

- (i) the North West Pipeline;
- (ii) the South North Pipeline; and
- (iii) each of the Spurs

- (d) If the Authority following verification approves the forecast of annual Operating Expenditure submitted under paragraph (c) that forecast shall, subject to subsequent adjustment in accordance with paragraphs (g), (h), (i), (j) and (k) be the Allowed Operating Expenditure for the Gas Year in question.
- (e) If the Authority following verification and consideration of such further information as may be submitted by the Licensee considers that the Licensee's forecast should be approved subject to modification, the amended sums notified to the Licensee by the Authority shall, subject to subsequent adjustment in accordance with paragraphs (g), (h), (i), (j) and (k) be the Allowed Operating Expenditure for the Gas Year in question provided that before making any modifications to the Licensee's forecast, the Authority shall provide details of the proposed modifications and the reasons for them and give the Licensee an appropriate period (being not less than 28 days) to comment on them.
- (f) The Licensee shall, on the date 15 months prior to each Review Date or such other date as agreed between the Authority and the Licensee, submit to the Authority the Licensee's then current estimate of annual Operating Expenditure (separately identifying the Controllable Operating Expenditure and the Uncontrollable Operating Expenditure) for each of the **five** Gas Years in the period from the Review Date. ~~to the end of the Revenue Recovery Period. The format of the submission will be set out in the Regulatory Instructions and Guidance ("RIGs") published by the Authority pursuant to Condition 1.21.~~
- (g) If the Authority, following verification, approves the forecasts of annual Operating Expenditure submitted under Condition 2.2.4 (f), such forecast Operating Expenditure for each Gas Year **commencing on the next Review Date** set out in such forecast shall, subject to subsequent adjustment in accordance with Condition 2.2.4 ~~(g)~~, (h), (i), (j) and (k) be the Allowed Operating Expenditure **(separately identifying the Allowed Controllable Operating Expenditure and the Allowed Uncontrollable Operating Expenditure)** for such Gas Year **until the next Review date** ~~in place of the Allowed Operating Expenditure for such Gas Year as previously determined in accordance with Condition 2.2.4 (d), (e), (g), (h) or (i), as appropriate.~~

- (h) If the Authority, following verification and consideration of such further information as may be submitted by the Licensee, determines that the Licensee's forecast submitted under Condition 2.2.4 (f) should be approved subject to amendments, the forecast Operating Expenditure for each Gas Year **commencing on the next Review Date** set out in the Licensee's forecast as amended in the manner notified to the Licensee by the Authority shall, subject to subsequent adjustment in accordance with Condition 2.2.4 ~~(g), (h)~~, (i), (j) and (k) be the Allowed Operating Expenditure **(separately identifying the Allowed Controllable Operating Expenditure and the Allowed Uncontrollable Operating Expenditure)** for such Gas Year **until the next Review date.** ~~in place of the Allowed Operating Expenditure previously determined for such Gas Year under Condition 2.2.4 (d), (e), (g), (h) or (i), as appropriate~~ provided that before making any amendments to the Licensee's forecast, the Authority shall provide details of the proposed amendments and the reasons for them and give the Licensee an appropriate period (being not less than 28 days) to comment on them.
- (i) A special operating expenditure forecast review may be requested at any time by either the Licensee or the Authority if the Actual **Controllable** Operating Expenditure in any Gas Year differs from the most recently agreed **Allowed Controllable Operating Expenditure forecast** by more than 15% and the Authority may, following such a review, substitute an amended figure as the Allowed Operating Expenditure for the remaining ~~term~~ **Gas Years** (including the Gas Year in which the review occurs) **until the next Review Date of the Revenue Recovery Period** subject always to subsequent amendment in accordance with Condition 2.2.4 ~~(g)~~, (j), ~~(h)~~ and (k) or this condition 2.2.4 (i). The Licensee shall provide to the Authority such information and explanations and such documents and records as the Authority reasonably requires for the purposes of any special Operating Expenditure forecast review.

The difference between the amended Allowed Operating Expenditure and the initial figure for the Gas Year in which this review takes place will be accounted for by an adjustment to the Allowed Operating Expenditure, applying to the Gas Year following the review and will include an interest element based on LIBOR plus 2%.

- (j) The Licensee shall be permitted to seek the Authority's approval to recover Unforeseen Operating Expenditure. Where possible Unforeseen Operating Expenditure should be approved prior to being incurred, however it is recognised that in all circumstances prior approval may not be possible. Where the Authority, in its absolute discretion, approves the recovery of any Unforeseen Operating Expenditure, such adjustment as the Authority determines appropriate will be made to the figure for Allowed Operating Expenditure applying to the second Gas Year following the Gas Year in which the expenditure was incurred and will include an interest element based on LIBOR plus 2%.
- (k) The Licensee shall submit, on an annual basis, no later than six months before the end of the Gas Year, details of **the Actual Controllable Operating Expenditure and the Actual Uncontrollable Operating Expenditure** incurred in the preceding Gas Year. **The format of the submission will be set out in the RIGs published by the Authority pursuant to condition 1.21.**

In the case of Uncontrollable Operating Expenditure the Authority may determine that amended figures be substituted as the Actual Uncontrollable Operating Expenditure. The Licensee shall provide to the Authority such information and explanations and such documents and records as the Authority reasonably requires for the purposes of any such review.

The difference between the Actual Uncontrollable Operating Expenditure and the Allowed Uncontrollable Operating Expenditure will be accounted for by an adjustment to the Allowed Operating Expenditure, applying to the second Gas Year following the Gas Year in which the expenditure was incurred and will include an interest element based on LIBOR plus 2%.

- (l) The Licensee shall, as soon as practicable and in any event not later than six (6) months after the end of each Financial Year, submit to the Authority a statement, certified by its auditors as being accurate, detailing the Actual Operating Expenditure (separately identifying the Actual Controllable Operating Expenditure and the Actual Uncontrollable Operating Expenditure) incurred by the Licensee during the preceding Financial Year in the administration,

maintenance and operation of the North West Pipeline, the South North Pipeline, and the Spurs.

2.2.5 Five-yearly Review of the Capital Revenue Requirement - CRR

(a) The Authority shall:

- (i). following a request from the Licensee to review the CRR Formula for the purposes referred to in Conditions 2.2.5 (b) and (d) provided that such request is submitted no later than twelve (12) months prior to the relevant Review Date; or
- (ii). otherwise if the Authority considers it appropriate,

conduct a review of the CRR Formula in accordance with this Condition 2.2.5 and each such review shall have effect from the next following Review Date.

(b) In any review under this Condition 2.2.5 the Authority shall be entitled to consider whether there have been any changes since 01 October 2004 to the actual values, including Actual Capital Expenditure, grants and capitalised interest, which are used to calculate the CRR Formula (the “CRR Actuals”) or to one or more of the following (the “CRR Variables”):

- (i) tax allowances, laws, statutory rules and regulations applicable to the Licensee’s development, construction, operation and maintenance of the Economic Network;
- (ii) the inflation rate indicated by the Consumer Prices Index;
- (iii) tax rates;
- ~~(iv) the Rate of Return;~~
- (iv) such other variables as the Authority may determine from time to time after consultation with the Licensee.

(c) The Licensee shall provide such information and explanation, documents and records as the Authority reasonably requires for the purpose of conducting its review in accordance with Condition 2.2.5 (b).

(d) Subject to Condition 2.2.5 (e), if following a review as referred to in Condition 2.2.5 (b) the Authority reasonably deems it necessary or desirable, the Authority

shall be entitled by notice in writing to the Licensee with effect from the relevant Review Date to:

- (i) amend, add to and/or delete the CRR Formula, any CRR Actuals or any CRR Variables (~~“Formula Amendments”~~); and
- (ii) recalculate the CRR Formula, taking into account any changes to the CRR Actuals and the CRR Variables, to produce an amended CRR_m^{fp} for all future months in the Revenue Recovery Period;

such that from the relevant Review Date, the CRR_m^{fp} will be calculated to ensure:

$$\sum_{m=z}^n \frac{CRR_m^{fp}}{\prod_{m=z}^n (1 + rn_m)} + \sum_{m=1}^{z-1} \frac{CRR_m^{ap}}{\prod_{m=1}^{z-1} (1 + rn_m)} = OAV^P_{m=1} + PVT^P_{m=1}$$

where

$m=1$ is the month when the First Operational Commencement Date, for pipeline p, occurs;

z is the month of the Review Date;

n is 300 at the 25th anniversary of the First Operational Commencement Date for pipeline p;

rn_m is the nominal weighted average Rate of Return in month m calculated in accordance with paragraph 5 of Annex A;

CRR_m^{fp} is the forecast monthly capital revenue requirement in month m with respect to pipeline p, calculated in accordance with paragraph 2 of Annex A;

CRR_m^{ap} is the actual monthly capital revenue received in month m with respect to pipeline p, calculated in accordance with paragraph 2 of Annex A;

OAV^p_m is the opening asset value in month m calculated in accordance with paragraph 2 of Annex A;

$PVT^p_{m=1}$ is the present value of estimated grossed up tax payments in month m=1 calculated in accordance with paragraph 2 of Annex A; and

p is the North-West Pipeline or South-North Pipeline or any Spur along with any associated Postalised Distribution Pipelines as appropriate.

(e) Before ~~serving a notice under Condition 2.2.5(d), making any amendments to the Formula~~ the Authority shall provide details of the amendments and the reasons for them and give the Licensee an appropriate period (not being less than 28 days) to comment on them.

~~(f) In the event that the Authority serves a notice under Condition 2.2.5 (d):~~

~~(i) subject to the remaining provisions of this Condition 2.2.5(f), the Formula Amendments and recalculation referred to in the notice shall have effect on the relevant Review Date;~~

~~(ii) the Licensee may within 28 days of the date of the notice serve a written notice on the Authority (a “Disapplication Notice”), in which case the Formula Amendments and recalculation referred to in the notice shall not apply;~~

~~(iii) the Disapplication Notice may be withdrawn by the Licensee at any time within six months of the date of the Disapplication Notice;~~

~~(iv) if within six months after the date of the Disapplication Notice (provided such Disapplication Notice has not been withdrawn), the Authority publishes a decision under Article 14(8) of the Order to modify this Condition in respect of the CRR Formula, CRR Actuals and CRR Variables (or any aspect or part of~~

~~them) (“the Modification Decision”) then Condition 2.2.5(g) shall apply.~~

~~(g) Where this Condition 2.2.5(g) applies and;~~

~~(i) — the Licensee either:~~

~~(A) — does not exercise its right to appeal to the CMA against the Modification Decision in accordance with Article 14B of the Order; or~~

~~(B) — does exercise that right, but the CMA refuses permission for or otherwise does not allow the appeal²~~

~~then the Formula Amendments and recalculation referred to in the Authority’s notice under Condition 2.2.5(d) shall apply in the period from the date of that notice to the date of modification pursuant to Article 14(9) of the Order, and such adjustment as the Authority may direct shall be made to CRRfpm for any future months in the Revenue Recovery Period to reflect the retrospective application of the Formula Amendments and recalculation;~~

~~(ii) — the Licensee exercises its right to appeal to the CMA against the Modification Decision in accordance with Article 14B of the Order, and:~~

~~(A) — the CMA quashes the modification decision of the Authority under Article 14E(2)(a) of the Order; and~~

~~(B) — the CMA neither remits the matter back to the Authority under Article 14E(2)(b) of the Order nor substitutes its own decision for that of the Authority under Article 14E(2)(c) of the Order;~~

~~then the Formula Amendments and recalculation referred to in the Disapplication Notice shall not apply; or~~

~~(iii) — the Licensee exercises its right to appeal to the CMA against the Modification Decision in accordance with Article 14B of the Order, and the CMA reaches a conclusion other than one of those described in Conditions 2.2.5(g)(i) and (ii), then the CRR Formula, CRR Actuals and CRR Variables shall have effect in accordance with that conclusion or any decisions of the CMA or the Authority made pursuant to it.~~

2.2.19 Additional Definitions and interpretation

~~“Actual Controllable Operating Expenditure” means the “Actual Controllable Operating Expenditure” notified by the Licensee in accordance with Condition 2.2.4 (1);~~

~~“Allowed Controllable Operating Expenditure” means “Controllable operating expenditure” less the amount of “Uncontrollable Operating Expenditure approved by the Authority under Condition 2.2.4 (g) or (h).”~~

~~“Formula Amendments” has the meaning given to that term in Condition ~~2.2.5~~ 2.2.22;~~

2.2.21 Allocation of OS Revenues

2.2.21.1 The Licensee may, in respect of each Gas Year, retain the Licensee’s OS Revenues Share as calculated in accordance with the relevant provisions of the OS Scheme.

~~2.2.23.2~~ 2.2.21.2 In respect of each Gas Year for which the Licensee has an obligation pursuant to the OS Scheme to make a payment during the Gas Year, the Licensee shall make such payment at the time prescribed and otherwise in accordance with the OS Scheme.

2.2.22 Disapplication

- (a) This Condition 2.2.22 applies in the event that the Authority:
- (i) amends, pursuant to Condition 2.2.4(g) or 2.2.4(h), the Allowed Operating Expenditure for any Gas Year t ;
 - (ii) determines, pursuant to paragraph 5(a) of Annex A, nominal post tax rate of return of equity, the level of financial gearing, and the cost of debt (which in each case is to apply at and with effect from the relevant Review Date ~~the value to be given to~~ for the purposes of the terms $r_{e,t}$, g_t , and d_t in that paragraph 5(a) of Annex A) ~~the term $r_{e,t}$, g_t , or d_t , for the purposes of calculating $r_{m,t}$ as set out in that paragraph; or~~
 - (iii) serves a notice under Condition 2.2.5(d).
- (b) For the purposes of this Condition 2.2.22:
- (i) any amendment or determination referred to in Condition 2.2.22(a)(i) and 2.2.22(a)(ii), and any amendment, addition ~~or~~ deletion ~~and~~ recalculation (as the case may be) set out in the notice referred to Condition 2.2.22(a)(iii), is a "Formula Amendment"; and
 - (ii) each Formula Amendment shall, for the purposes of ~~this~~ Condition 2.2.22~~(e)~~, constitute and be treated as a separate Formula Amendment (including where it may be made at or around the same time ~~, or within~~ the same notice given to the Licensee, as any other Formula Amendment).
- (c) Where the Authority makes a Formula Amendment:
- (i) subject to the remaining provisions of this Condition 2.2.22, the Formula Amendment, and where a notice is served under Condition 2.2.5(d) the recalculation referred to in that notice (the "associated recalculation"), shall have effect for the relevant Gas Year t or on the relevant Review Date (as the case may be);

- (ii) the Licensee may within 28 days of the date of the Authority's notification to it of the Formula Amendment serve a written notice on the Authority (a “Disapplication Notice”) which shall identify the part(s) of the Formula Amendment the Licensee wishes to be disappplied, in which case:
 - (A) those part(s) of the Formula Amendment identified in the Disapplication Notice shall not take effect; and
 - (B) where the part(s) of the Formula Amendment identified in the Disapplication Notice relate to a determination made under paragraph 5(a) of Annex A, the Rate of Return that applied on the date immediately prior to the relevant Review Date shall continue to apply on and from the relevant Review Date; and
 - (C) where the part(s) of the Formula Amendment identified in the Disapplication Notice relate to an amendment to the Allowed Operating Expenditure, the Allowed Operating Expenditure which shall apply for each relevant Gas Year t shall be;

$$AOE_t = \left(\sum_{t=-5}^{t=-1} AOE_t \right) \times 0.2$$

- (iii) the Disapplication Notice may be withdrawn by the Licensee at any time within six months of the date of the Disapplication Notice;
- (iv) if within six months after the date of the Disapplication Notice (provided such Disapplication Notice has not been withdrawn), the Authority publishes a decision under Article 14(8) of the Order to:
 - (A) where the Disapplication Notice relates to a Formula Amendment in respect of the CRR Formula, CRR Actuals and CRR Variables, modify this Condition 2.2 in respect of the CRR Formula, CRR Actuals and CRR Variables (or any aspect of part of them);
 - (B) where the Disapplication Notice relates to a Formula Amendment in respect of the Allowed Operating Expenditure, modify this

Condition 2.2. in respect of the Allowed Operating Expenditure (or any aspect or part relating to it);

- (C) where the Disapplication Notice relates to a Formula Amendment in respect of the calculation of ~~the Rate of Return r_{m} (as set out in paragraph 5(a) of Annex A)~~, modify this Condition 2.2 or Annex A in respect of the calculation of ~~the Rate of Return r_{m}~~ (or any aspect or part relating to it),

in each case “the Modification Decision”, then Condition 2.2.22(d) shall apply.

- (d) Where this Condition 2.2.22(d) applies and;

- (i) the Licensee either:

- (A) does not exercise its right to appeal to the CMA against the Modification Decision in accordance with Article 14B of the Order; or
- (B) does exercise that right, but the CMA refuses permission for or otherwise does not allow the appeal;

then:

- (C) the Formula Amendment, including where applicable any associated recalculation, shall apply in the period from ~~the relevant Review Date the date of that notice~~ to the date of modification pursuant to Article 14(9) of the Order; and
- (D) such adjustment as the Authority may direct shall be made, ~~to the Formula, and including~~ where applicable to CRR_{m}^{fp} , in respect of any future months in the Revenue Recovery Period to reflect the retrospective application of the Formula Amendment and, where applicable, any associated recalculation;

- (ii) the Licensee exercises its right to appeal to the CMA against the Modification Decision in accordance with Article 14B of the Order, and:

(A) the CMA quashes the Modification Decision of the Authority under Article 14E(2)(a) of the Order; and

(B) the CMA neither remits the matter back to the Authority under Article 14E(2)(b) of the Order nor substitutes its own decision for that of the Authority under Article 14E(2)(c) of the Order,

then the Formula Amendment, and where applicable the associated recalculation, referred to in the Disapplication Notice shall not apply; or

(iii) the Licensee exercises its right to appeal to the CMA against the Modification Decision in accordance with Article 14B of the Order, and the CMA reaches a conclusion other than one of those described in Conditions 2.2.22(d)(i) and (ii), then the Formula Amendment, and where applicable the associated recalculation, shall have effect in accordance with that conclusion or any decisions of the CMA or the Authority made pursuant to it.

ANNEX A: ACTUAL REQUIRED REVENUE FORMULA

5. Rate of Return

The applicable Rate of Return is expressed on a vanilla weighted average cost of capital basis and will apply to the North West Pipeline, South North Pipeline, and each of the Spurs and any associated Postalised Distribution Pipelines.

(a) The nominal weighted average rate of return in month m is calculated according to the following formula:

$$rn_m = [1 + g_t ((1 + d_t) \cdot (1 + i_t) - 1) + (1 - g_t) \cdot re_t]^{1/12} - 1$$

where:

rn_m is the nominal weighted average rate of return in month m ;

re_t is the nominal post tax rate of return on equity in Gas Year t and shall be determined by the Authority to apply at and with effect from each Review Date, as notified to the Licensee by the Authority, taking account of (amongst other relevant considerations) the prevailing market rates at the time of the determination;

g_t is the level of financial gearing as determined by the Authority to apply at and with effect from each Review Date; as notified to the Licensee by the Authority,

d_t is the cost of debt as determined by the Authority to apply at and with effect from each Review Date, as notified to the Licensee by the Authority, taking account of (amongst other relevant considerations) the prevailing market rates at the time of the determination.

(b) The regulatory allowed real weighted average rate of return in month m is calculated according to the following formula:

$$rr_m = \frac{(1 + rn_m)}{(1 + i_m)} - 1$$

(c) The regulatory allowed nominal weighted average rate of return in Gas Year t is calculated according to the following formula:

$$rn_t = (1 + rn_m)^{12} - 1$$

(d) Before determining the nominal post tax rate of return on equity, the level of financial gearing and the cost of debt that shall apply under and in accordance with paragraph (a) above at and with effect from the relevant Review Date, the Authority shall provide details of the proposed determinations and the reasons for them and give the Licensee an appropriate period (not being less than 28 days) to comment on them.