

Phoenix Natural Gas Limited Conveyance Licence

Modification to Price Control Conditions

August 2007

1.0 Introduction

- 1.1 This note sets out the Northern Ireland Authority for Utility Regulation's (the "Authority's") decision on the proposed modifications to the price control conditions contained in the Licence for the Conveyance of Gas held by Phoenix Natural Gas Limited (the "Licencee").

2.0 Background

- 2.1 On 27th June 2007 the Authority issued a public notice on the proposed licence modifications to the Licence for the Conveyance of Gas held by the Licencee.
- 2.2 The modifications are intended to implement the licence restructuring agreement between the Licencee and the Authority concluded in November 2006 in terms of price control conditions and follows the Authority's April 07 consultation exercise on these issues. The modifications are being made to Part 2; Condition 2.3; Conveyance Charges, other Terms for the Conveyance of Gas and the provision of Conveyance service.
- 2.3 The effect of the modifications is to place the Licensee on a sustainable long-term financial footing and to ensure distribution charges are at a level so as to allow further development of the gas supply market. The conditions and modifications set out how distribution charges are determined and revenues, cash flows and regulatory asset values are calculated at periodic price control reviews.

3.0 Public Notice Responses

- 3.1 The Authority received no responses to the public notice.

4.0 Authority Decision

- 4.1 In pursuance of its powers under Paragraph 1 of Article 14 of the Gas (Northern Ireland) Order 1996 (the "Order"), and having complied with the provisions of Article 14 (3) and 14 (4) of the Order, the Authority, with the consent of the Licensee, hereby modifies the licence for the conveyance of gas in Northern Ireland granted in 1996 to the Licensee under Article 8 (1) (a) of the Order.
- 4.2 The modification came into effect on Thursday 2nd August 2007 and is attached in the annex to this note.

Annex

Condition 2.3: Conveyance Charges, Other Terms for the Conveyance of Gas and the provision of Conveyance services

2.3.8 Charging methodology for the conveyance of gas

The Licensee shall in setting its charges for the conveyance of gas in the Network use reasonable endeavours to ensure that in each Formula Year t commencing Formula Year 2007, the average conveyance revenue per therm of gas conveyed shall not exceed the maximum allowed average conveyance revenue per therm calculated in accordance with the following formula:

$$M_t = P_t (RPI_{F,t} / RPI_E) - K_t$$

where

M_t = the maximum allowed average conveyance revenue per therm for conveying gas in that Formula Year t ;

$RPI_{F,t}$ = the absolute value of the Retail Price Index for Formula Year t defined as the absolute value of the Retail Price Index published for September of Formula Year t ;

RPI_E = the Designated Parameter of that name established at the most recent Review (as the base reference point for the Retail Prices Index for September);

P_t = a value for that Formula Year t calculated in accordance with the following formula:

$$P_t = \sum_i (P_{E,i,t} \cdot W_{F,i,t})$$

where

\sum_i = the summation across all four conveyance categories where i is representative of a Conveyance Category;

$P_{E,i,t}$ = the Determined Revenue Per Therm in respect of Conveyance Category i for Formula Year t ;

$W_{F,i,t}$ = a weighting for each of the Conveyance Categories calculated in respect of Formula Year t in accordance with the following formula:

$$W_{F,i,t} = V_{F,i,t} / \sum_i V_{F,i,t}$$

where

$V_{F,i,t}$ = in respect of each of the four Conveyance Categories the actual number of therms of gas conveyed in that Formula Year t , in respect of that conveyance category i ;

$\sum_i V_{F,i,t}$ = the summation of $V_{F,i,t}$ across all four Conveyance Categories in Formula Year t ;

K_t = a value representing a correction factor as set out in Condition 2.3.9.

For the avoidance of doubt, the Licensee shall forecast values of $RPI_{F,t}$, $V_{F,i,t}$ and K_t (to the extent that the values are not known by 1st October of the Formula Year $t-1$), so as by its reasonable endeavours it makes a best estimate of them.

2.3.9 Correction Factor

For the purposes of Condition 2.3.8 K_t shall be calculated in accordance with the following formulae:

either
$$K_t = \frac{[Z_{F,t-1}(1 + I_{F,t}/100)]}{\sum_i V_{F,i,t}}$$

if
$$Z_{F,t-1} \text{ is greater than } -0.1 \left(M_{t-1} \sum_i V_{F,i,t-1} \right)$$

or
$$K_t = \frac{\left[-0.1 \left(M_{t-1} \sum_i V_{F,i,t-1} \right) (1 + I_{F,t}/100) \right]}{\sum_i V_{F,i,t}}$$

if
$$Z_{F,t-1} \text{ is less than or equal to } -0.1 \left(M_{t-1} \sum_i V_{F,i,t-1} \right)$$

where

$$Z_{F,t} = \left(R_{F,t} - P_t (RPI_{F,t} / RPI_E) \sum_i V_{F,i,t} \right) + Z_{F,t-1} (1 + I_{F,t})$$

$R_{F,t}$ = the Licensee's Total Conveyance Revenue in Formula Year t;

$I_{F,t}$ = the percentage interest rate in Formula Year t, which shall be:

where K_t (taking no account of $I_{F,t}$ for this purpose) has a positive value, the Average Specified Rate in Formula Year t plus three percentage points; or

where K_t (taking no account of $I_{F,t}$ for this purpose) has a negative value, the Average Specified Rate in Formula Year t.

2.3.10 Review Process & Disapplication Notices

Conditions 2.3.10 to 2.3.13 set out the process by which the core terms of the price control will be established by the Authority from time to time.

2.3.11 The Review

The Designated Parameters and the Determination Values applying in respect of each Formula Year t will be established in accordance with the process set out below (a “Review”).

A Review will take place at scheduled intervals by reference to the end of Formula Year $t=n$.

2.3.12 Terms Relevant to Reviews

In respect of each Review:

- (a) m , n and q are those Designated Parameters set out in Condition 2.3.21 as established at the preceding Review; and
- (b) a is, in respect of any quantifiable term, the most recent Formula Year in respect of which the Licensee has submitted an Actual Value for such a term for the purposes of Conditions 2.3.14 to 2.3.19.

2.3.13 Reviews Generally

In respect of each Review:

- (a) the Licensee shall provide to the Authority the Best Available Values required in accordance with Conditions 2.3.14 to 2.3.19, together with the Licensee’s proposed Designated Parameters for that Review, by the date occurring 15 months prior to the end of each Formula Year $t = n$.
- (b) the Authority will determine the Determination Values and the Designated Parameters that apply in those Formula Years t occurring during the period $t = n+1$ to $t = q$ (inclusive) and in doing so:

- (i) the Authority shall have due consideration for the Best Available Values and proposed Designated Parameters submitted by the Licensee; and
 - (ii) base its determination of the Determined Revenue Per Therm for each Conveyance Category on the underlying calculations contained in Conditions 2.3.14 to 2.3.19;
- (c) the Authority shall, following its determination, give notice in writing to the Licensee of the Determination Values and the Designated Parameters that it proposes to apply in those Formula Years $t=n+1$ to $t=q$ inclusive (a "Determination Notice");
- (d) where the Licensee considers that the Authority's proposals in a Determination Notice would not be acceptable:
 - (i) the Licensee may within 28 days of the date of the Determination Notice request the Authority by notice (a "Review Disapplication Notice") not to establish the Determination Values and Designated Parameters set out in the Determination Notice and where such notice is given the Determination Values and Designated Parameters established by the preceding Review shall continue to apply;
 - (ii) where following the giving of a Review Disapplication Notice the Authority does not by the date falling 56 days after the date of the Review Disapplication Notice make a reference to the Competition Commission under Article 15 of the Order relating in whole or in part to a modification of this Condition 2.3.8, the Determination Notice shall have no effect and the Determination Values and Designated Parameters established at the preceding Review shall continue to apply; and
 - (iii) in the event of such a reference to the Competition Commission under (ii) above, this Condition 2.3 may be modified in accordance with the

Order and in the manner specified in the report of the Competition Commission;

- (e) without prejudice to paragraph (d) and to Article 14 of the Order, with effect from the first day of the Formula Year $t=n+1$ the effect of a Determination Notice given under paragraph (c) shall be such that:
- (i) the Determination Values set out in the Determination Notice shall apply for the purposes of and operation of this Condition 2.3 in relation to Formula Years $t=n+1$ to $t=q$;
 - (ii) Condition 2.3.21 shall be modified to include the Designated Parameters contained in the Determination Notice
- in each case in substitution for and instead of the Determination Values and Designated Parameters established by the preceding Review.

2.3.14 Establishing the Best Available Values

For the purposes of Condition 2.3.8 the following Best Available Values shall be submitted by the Licensee, in respect of each Formula Year t from $t=a$ submitted at the preceding Review up to and including $t=q$ for the current Review. These Best Available Values shall comprise Actual Values in respect of the Formula Years up to $t=a$ for the current Review, and the Licensee's best estimate or forecast in respect of the Formula Years from $t=a+1$ to $t=q$ (inclusive).

The Best Available Values are:

$V_{B,i,t}$ Best Available Volume in Formula Year t for Conveyance Category i ;

$C_{B,t}$ Best Available Capital Expenditure in Formula Year t ;

$O_{B,t}$ Best Available Operating Expenditure in Formula Year t ;

$D_{B,t}$ Best Available Annual Depreciation in Formula Year t ;

$Q_{B,t}$ Best Available Working Capital for Formula Year t ; and

$RPI_{B,t}$ Best Available Value of the Retail Prices Index for September of that Formula Year.

To the extent the Best Available Values comprise monetary amounts, the Licensee shall express each such value in constant price terms (calculated in accordance with this Condition 2.3.14). For each of the Best Available Values submitted in respect of Formula Years $t=a+1$ to $t=q$ (inclusive), constant price terms shall mean that such forecasted values are all stated in the same money of the day terms as at the time they are all forecasted. For each of the Best Available Values submitted in respect of Formula Years up to $t=a$, constant price terms shall mean that such Actual Values are all converted to the same money of the day terms by multiplying the Actual Value by the following ratio:

$$\frac{RPI_B}{RPI_{B,t}}$$

Where RPI_B is the Licensee's proposed value for the Designated Parameter, to apply to each of the Formula Years that are the subject of the current Review. It is the base reference point for the Retail Prices Index and will reflect the money of the day terms in which those Best Available Values that are forecasts were forecasted.

In complying with this obligation under Conditions 2.3.14 to 2.3.19 the Licensee shall submit full workings of the calculations and figures upon which its values and calculations are based.

2.3.15 Establishing Best Available Revenue Per Therm

In addition to the Best Available Values referred to in Condition 2.3.14, the Licensee shall, at each Review, also submit Best Available Revenue Per Therm values for each Formula Year t that is to occur during the period $t=n+1$ to $t=q$ (inclusive) for that Review. The Licensee shall provide Best Available Revenue Per Therm values for each Conveyance Category and for each such Formula Year ($P_{B,i,t}$).

Conditions 2.3.15 to 2.3.19 set out the Best Available Value categories and the underlying calculations upon which the Licensee should base its values of $P_{B,i,t}$.

The Licensee shall estimate values for the Best Available Revenue Per Therm ($P_{B,i,t}$) so that:

- (a) such values comply with the requirements set out in this Condition 2.3.15;
- (b) the value for each Conveyance Category i will not, unless otherwise agreed with the Authority, differ between Formula Years t .

Each value of $P_{B,i,t}$ shall be set so that the cash flow (adjusted to reflect the allowed rate of return) over the Formula Years in question is equal to the difference between the Total Regulatory Value at the end of Formula Year n and the Depreciated Asset Value and Working Capital at the end of Formula Year q . This will be shown to be the case where the values of $P_{B,i,t}$ secure the following net present value result:

$$\sum_{t=n+1}^q \left(\frac{F_{B,t}}{(1+r_B)^{t-n}} \right) - TRV_{B,n} + \frac{DAV_{B,q} + Q_{B,q}}{(1+r_B)^{q-n}} = 0$$

For the purposes of Condition 2.3.15, the following terms shall have the following meanings:

n, q are Formula Years as defined in Condition 2.3.12. As the value of the Designated Parameter q for that Review is also being established as part of that Review, it will necessarily be the Licensee's proposed value of that Designated Parameter;

$\sum_{t=n+1}^q$ is the summation of data in respect of all Formula Years t from $t=n+1$ to $t=q$ inclusive;

$F_{B,t}$ is the Best Available Cash Flow for Formula Year t , (being a sum calculated in accordance with Condition 2.3.16);

r_B is the Licensee's proposed value of the Designated Parameter for rate of return to apply to each of the Formula Years within the relevant period. Provided that, where the Licensee does not propose the same value for each of the relevant Formula

Years, $(1 + r_B)^{t-n}$ shall be replaced with $(1 + r_{B,n+1}) \cdot (1 + r_{B,n+2}) \dots (1 + r_{B,t})$ and $(1 + r_B)^{q-n}$ shall be treated accordingly;

$DAV_{B,t}$ is the Best Available Depreciated Asset Value for Formula Year t (being a sum calculated in accordance with Condition 2.3.17); and

$TRV_{B,n}$ is, the Best Available Total Regulatory Value at the end of Formula Year $t=n$ (being a sum calculated in accordance with Condition 2.3.18).

2.3.16 Calculating $F_{B,t}$ (Cash Flow)

$F_{B,t}$ is an amount equal to the sum of the Best Available Conveyance Revenues for all of the Conveyance Categories and the relevant Formula Year, less the Best Available Capital Expenditure for that Formula Year, less the Best Available Operating Expenditure for that Formula Year, adjusted (where applicable) for the Best Available Movement in Working Capital for that Formula Year, which shall be calculated as follows:

$$F_{B,t} = \sum_i (P_{B,i,t} \cdot V_{B,i,t}) - C_{B,t} - O_{B,t} - Q'_{B,t}$$

where $Q'_{B,t}$ is the difference between the Best Available Working Capital for Formula Year t and the Best Available Working Capital for Formula Year $t-1$, which shall be calculated as follows:

$$Q'_{B,t} = Q_{B,t} - Q_{B,t-1}$$

2.3.17 Calculating $DAV_{B,t}$ (Depreciated Asset Value)

$DAV_{B,t}$ is an amount equal to the indexed, depreciated, rolled forward value of the Depreciated Asset Value to date, measured at the end of each Formula Year. In respect of Formula Year $t=2006$, $DAV_{F,t} = £316.3m$. In respect of Formula Year t from 2007, it shall be the value of such amount applying to Formula Year $t-1$, plus the Best Available Capital Expenditure in Formula Year t , less the Best Available Annual Depreciation in Formula Year t , which shall be calculated as follows:

$$DAV_{B,t} = DAV_{B,t-1} + C_{B,t} - D_{B,t}$$

The Depreciated Asset Value at the end of Formula Year $t = n$ shall be subject to any direction that is set out in the Determination Notice for the preceding Review that relates to the treatment of the difference between the Actual Value of Capital Expenditure and the Determined Value of Capital Expenditure.

2.3.18 Calculating $TRV_{B,n}$ (Total Regulatory Value)

$TRV_{B,n}$ is the Best Available Total Regulatory Value at the end of Formula Year $t = n$. It is the sum of the Best Available Depreciated Asset Value for Formula Year $t = n$ (or in other words the opening position at the beginning of Formula Year $t = n+1$), plus the Best Available Working Capital for Formula Year $t = n$ (or in other words the opening position at the beginning of Formula Year $t = n+1$), plus the Best Available Profile Adjustment as follows:

$$TRV_{B,n} = DAV_{B,n} + Q_{B,n} + PA_{B,n}$$

Where:

$PA_{B,n}$ is the Profile Adjustment (being an adjustment calculated in accordance with Condition 2.3.19), and

$Q_{B,t}$ is treated as a pass-through and is corrected to actuals at the end of each Review Period.

2.3.19 Calculating the Profile Adjustment

The Profile Adjustment is an adjustment to reflect the long-term nature of the price control set out in this Condition 2.3. The Determined Revenue Per Therm values are established at each Review by reference to the period to Formula Year $t=q$ and not by reference to the period to Formula Year $t=n$. At each Review therefore, it is necessary to recognise the financial impact of having set a deferred recovery profile

at the previous Reviews, by allowing the value that has been deferred at the preceding Reviews to be included as part of the Total Regulatory Value within the current Review.

The Best Available Profile Adjustment for each Review shall be calculated as follows:

$$PA_{B,n} = PA_{E,m} \cdot \frac{RPI_B}{RPI_E}$$

where $PA_{E,m}$ will have been Determined by the Authority at the preceding Review.

$PA_{E,m}$ will have been calculated by the Authority as follows:

$$PA_{E,m} = - \left(\begin{array}{l} \sum_{t=m+1}^n F_{E,t} \cdot (1 + r_E)^{n-t} \\ -TRV_{E,m} \cdot (1 + r_E)^{n-m} \\ +DAV_{E,n} + Q_{E,n} \end{array} \right)$$

Where:

m, n are Formula Years as defined in Condition 2.3.12;

$\sum_{t=m+1}^n$ is the summation of data in respect of all Formula Years from $m+1$ to n (inclusive);

$F_{E,t}$, $r_{E,t}$, $TRV_{E,m}$, $DAV_{E,n}$, $Q_{E,n}$ are Determination Values and Designated Parameters established by the Authority at the previous Review in respect of Formula Years t , m or n (respectively);

r_E is the Designated Parameter for rate of return that applies to each of the Formula Years within the relevant period. Provided that, where the Authority did not

establish the same value for each of the relevant Formula Years, $(1 + r_E)^{n-t}$ shall be replaced with $(1 + r_{E,t+1}) \cdot (1 + r_{E,t+2}) \dots (1 + r_{E,n})$ and $(1 + r_E)^{n-m}$ shall be treated accordingly.

2.3.20 Closing Regulatory Value

If $DAV_{E,t=q} > 0$, this value shall be returned to the Licensee in those Formula Years following $t = q$, in accordance with the principles determined by the Authority at that time, such principles to provide (inter alia) for an allowed rate of return and depreciation rate.

2.3.21 Current Designated Parameters

The Designated Parameters to apply in the first Formula Year and in each subsequent Formula Year up to and including Formula Year 2011 shall be:

Designated Parameter	Value
r_t	0.075
m	2006
n	2011
q	2046
RPI	200.1

2.3.22 Definitions and Interpretation

In this Condition 2.3, the following terms and expressions shall have the meanings attributed to them below:

“Actual”	used as an adjective in relation to another defined word or phrase, means the Actual Value to be attributed to it;
“Actual Value”	means, in relation to any quantifiable term and in respect of any Formula Year t , a value that is established as the accurate value to be attributed to that term at the end of that Formula Year by reference to verifiable data in the possession of the Licensee. An Actual Value is denoted in the terms of formulae in this Condition 2.3 by the use of an F subscript;
“Average Conveyance Revenue per therm”	means Total Conveyance Revenue in a Formula Year divided by the Total Volume in that Formula Year;
“Average Specified Rate”	means, in respect of a Formula Year, the average of the daily base rates of Northern Bank plc expressed as a percentage (or if such a rate ceases to be published, such other comparable rate as the Authority may specify)
“Allowed Revenue”	means, in respect of Conveyance Category i in Formula Year t , the Determined Revenue Per Unit multiplied by the Actual Volume in respect of that Conveyance Category in that year;
“Annual Depreciation”	means the annual depreciation of those assets included within the Depreciated Asset Value, allocated on a systematic basis over the useful lives of such assets, using policies and asset life assumptions approved by the

Authority. The Depreciated Asset Value for 2006 shall be depreciated on a straight-line basis using a 40 year asset life;

“Best Available” used as an adjective in relation to another defined word or phrase, means the Best Available Value to be attributed to it;

“Best Available Value” means, in relation to any quantifiable term, a value for which the Licensee is required to provide best available information in accordance with Condition 2.3.14 or 2.3.15 and which, in respect of past Formula Years and to the extent possible, is based on Actual Values, and otherwise is a forecast best estimate. A Best Available Value is denoted in the terms of formulae in this Condition 2.3 by the use of a *B* subscript;

“Capital Expenditure” means that capital expenditure for the development, construction, maintenance and operation of the Network in order to provide conveyance services in an economically efficient and safe manner given forecast development, including but not limited to the capital costs of standard credit and prepayment gas meters which the Licensee may be required to provide under Condition 2.6.1 and payments which may be made by the Licensee under Conditions 2.6.2(a)(ii) and 2.6.3(a)(ii) and expenditure on capital works by the Licensee undertaken by affiliates or related undertakings, but excluding costs which may be recoverable by the Licensee under Conditions 2.4, 2.6.2(a)(i) and

2.6.3(a)(i);

“Conveyance Category” means a particular group of customers defined for the purposes of calculating the maximum allowable average conveyance revenue per therm, the four categories being:

1. domestic - firm gas demand of less than 2,500 therms per annum which uses distribution pipe-line for conveyance;

2. small and medium industrial and commercial - firm gas demand of 2,500 - 25,000 therms per annum which uses distribution pipe-line for conveyance;

3. large industrial and commercial - firm gas demand of over 25,000 therms per annum which uses distribution pipe-line for conveyance;

4. interruptible - gas demand which can be interrupted under the terms of the supply contract and which uses distribution pipe-line for conveyance;

“Designated Parameters” means those parameters set out in Condition 2.3.25, the applicable values from time to time for which are set out in Condition 2.3.21; and those parameters that have been established (subject to any restrictions imposed under Condition 2.3.25) as such by the Authority in accordance with Conditions 2.3.11 to 2.3.13 (highlighted by use of the E subscript); and, in respect of Best Available Values, the Licensee’s proposed values for those parameters (highlighted by use of the B subscript). The Designated Parameters set at one Review will apply unless and until

revised at the next Review. Unless a Designated Parameter has a t subscript, the value set at a Review must be the same for each Formula Year in the period $t=n+1$ to $t=q$;

“Determined”	used as an adjective in relation to another defined word or phrase, means the Determination Value to be attributed to it;
“Determination Notice”	means a notice given in accordance with Condition 2.3.13 (c);
“Determination Value”	means, in respect of each Formula Year t , a value that has been determined by the Authority to apply in respect of that Formula Year in accordance with Condition 2.3.13. A Determination Value is denoted in the terms of formulae in this Condition 2.3 by the use of an E subscript;
“Formula Year”	means a year commencing on 1 January;
“Operating Expenditure”	means that operating expenditure for the development, construction, maintenance and operation of the Network to provide conveyance services in an economically efficient and safe manner given forecast development and throughput, including but not limited to the charge for commissioning gas, such commissioning gas to be purchased on an economic basis, and including but not limited to the installation and operating costs of standard credit and pre-payment gas meters which the Licensee may be required to provide under Condition 2.6.1, and

payments which may be made by the Licence under Conditions 2.6.2(ii) and 2.6.3(ii) and the charges for services to the Licensee by affiliates or related undertakings of the Licensee, but excluding costs which may be recoverable by the Licensee under Conditions 2.4, 2.6.2(i) and 2.6.3(i). For the avoidance of doubt, allowed operating expenditure shall include but not be limited to the charge for gas purchased from companies affiliated to the Licensee for the purpose of operating the Network, such purchases to be on an economic basis;

“Retail Prices Index” or
“RPI”

means the General Index of Retail Prices published by the Office of National Statistics each month in respect of all items; or

(a) if the Index for the specified month in any year shall not have been published on or before the last day of the sixth month after the specified month, such index for such month or months as the Authority may after consultation with the Licensee determine to be appropriate in the circumstances; or

b) if there is a material change in the basis of the Index, such other index as the Authority may after consultation with the Licensee determine to be appropriate in the circumstances;

“Revenue Per Therm”

means, in respect of any Formula Year t , the Total Conveyance Revenue for that Formula Year divided by the Total Volume for that Formula Year;

“Review”	has the meaning attributed to it in Condition 2.3.11;
“Review Disapplication Notice”	means a notice given in accordance with Condition 2.3.13 (d);
“Total Conveyance Revenue”	means the revenue (measured on an accruals basis) derived by the Licensee from the provision of conveyance services after deduction of value added tax (if any) and any other taxes based directly on this revenue;
“Total Volume”	means the aggregate quantity of gas, in therms, taken off the Network as a result of arrangements with gas suppliers in the Formula Year;
“Working Capital”	means, in respect of each Formula Year and to the extent only that they relate to the Controlled Charges: <ul style="list-style-type: none"> (i) any monies due to the Licensee, at the end of that Formula Year; plus (ii) any payments by the Licensee that, at the end of that Formula Year, constitute prepayments; plus (iii) any grants that are, at the end of that Formula Year, still due to the Licensee; less (iv) any monies due from the Licensee, at the end of that Formula Year; less (v) any payments to the Licensee that, at the end of

that Formula Year, constitute prepayments.

In this Condition 2.3, “revenue”, “expenditure”, “debtors”, “prepayments”, “creditors” and “accruals” are the amounts that are confirmed by the Licensee as relating to the Licensee’s Separate Business of conveying gas by distribution pipe-lines for each period in question.

2.3.23 Determination Values

The Determination Values to apply in the first Formula Year (year $m+1$) and in each subsequent Formula Year up to and including Formula Year n shall be as notified by the Authority to the Licensee in accordance with Condition 2.3.13.

2.3.24 Best Available Values, Determination Values and Actual Values

Description	Best Available Values	Determination Values	Actual Values
Volume (for Conveyance Categories i)	$V_{B,i,t}$	$V_{E,i,t}$	$V_{F,i,t}$
Capital Expenditure	$C_{B,t}$	$C_{E,t}$	
Operating Expenditure	$O_{B,t}$	$O_{E,t}$	
Annual Depreciation	$D_{B,t}$	$D_{E,t}$	
Cash Flow (calculated in accordance with Condition 2.3.16)	$F_{B,t}$	$F_{E,t}$	
Working Capital	$Q_{B,t}$	$Q_{E,t}$	
Revenue Per Therm (for Conveyance Categories i)	$P_{B,i,t}$	$P_{E,i,t}$	$P_{F,i,t}$
Depreciated Asset Value (calculated in accordance with Condition 2.3.17)	$DAV_{B,t}$	$DAV_{E,t}$	

Total Regulatory Value (calculated in accordance with Condition 2.3.18)*	$TRV_{B,n}$	$TRV_{E,m}$	
Profile Adjustment (calculated in accordance with Condition 2.3.19)*	$PA_{B,n}$	$PA_{E,m}$	

* at end of Formula Year n (for the Review in which Best Available Values are being submitted) or at the end of Formula Year m (on and following determination of Determination Values for that Review).

2.3.25 Designated Parameters

Description	Designated Parameters	Limitation to the application of re-designated values
Rate of return	r_t	Means a pre-tax rate of return of 7.5% up to and including Formula Year 2016 applied to real cashflows, after which time it may be reviewed by the Authority;
Trigger for Reviews (as defined in Condition 2.3.11)	n	A Formula Year
The Formula Year that was n for the preceding review	m	A Formula Year
The forecasting horizon for review calculations (as defined in Condition 2.3.12)	q	Shall be the Formula Year 2046 until 2041, after which time it may be the Formula Year 2046 or any Formula Year after 2046
The indexation base *	RPI	None

* which will, in respect of the Determination Values determined at the Review in question, reflect the prices in which those Determination Values are expressed. It can therefore be used, in conjunction with $RPI_{F,t}$, to adjust the Determined Revenue Per Therm value to allow for changes in the Retail Prices Index in the period since the value of the Determined Revenue Per Therm was determined.

Key to other formula parameters:

a subscript to denote a Formula Year as defined in Condition 2.3.12;

B subscript to denote a Best Available Value;

C_t Capital Expenditure in Formula Year t ;

E subscript to denote Determination Values;

F subscript to denote Actual Values;

i subscript to denote a Conveyance Category;

I_t *Average Specified Rate in Formula Year t*

m subscript to denote a Formula Year as defined in Condition 2.3.12;

Q_t Working Capital in Formula Year t

Q'_t Movement in Working Capital in Formula Year t ;

O_t Operating Expenditure in Formula Year t ;

PA_t Profile Adjustment (calculated in accordance with Condition 2.3.19) in Formula Year t ;

RPI_E , RPI_B Retail Prices Index base reference points (as defined in Conditions 2.3.8 and 2.3.14);

$RPI_{F,t}$, Retail Prices Index value for September of Formula Year = t ;

t subscript to denote any Formula Year;

$Z_{F,i,t}$ the Actual Value for accumulated under or over-recoveries for Formula Year t and Conveyance Category i (calculated in accordance with Condition 2.3.9).