

# Appendix 8

## Phoenix Natural Gas Limited – Gas Distribution Licence (extracts)

### CONDITION 1.10: MODIFICATIONS

#### 1.10.1 Modification of Licence Conditions

The Conditions of the licence granted by this Licence Document are subject to modification in accordance with their terms or with Articles 9, 14, ~~17, 17A-14A, 14E~~ or 18 of the Order or with any provision for the modification of the same in the Energy Order.

#### CONDITION 1.14: PAYMENT OF FEES TO THE AUTHORITY

1.14.1 In respect of each year, beginning on 1 April, during which the Licence is in force, the Licensee shall pay to the Authority a fee of the amount determined in accordance with this Condition (the **licence fee**).

1.14.2 The Licensee shall pay to the Authority the licence fee for each year (the relevant year) within 30 days of the Authority giving notice to the Licensee of the amount due from the Licensee for the relevant year.

1.14.3 For each relevant year, the licence fee shall be the total of:

- (a) an amount that is the Relevant Contribution to the Estimated Costs of the Authority for the relevant year;
- (b) an amount that is the Relevant Contribution to the Estimated Costs of the Consumer Council with regard to the exercise of its functions relating to gas consumers for the relevant year; and
- (c) ~~an amount that is the Relevant Contribution to the Estimated Costs of the Competition Commission, in connection with any reference made to it in respect of the Licence or any other licence granted under Article 8(1)(a) of the Order, for the year immediately preceding the relevant year (the previous year); and~~
- ~~(d)~~ an amount which is the difference (which may be a positive or negative amount), if any, between:
  - (i) the licence fee that would have been due from the Licensee for the year immediately preceding the relevant year (the previous year) had such fee been calculated in relation to the actual costs of:
    - (A) the Authority for the previous year; and
    - (B) the Consumer Council with regard to the exercise of its functions relating to gas consumers for the previous year; and

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~~(C) — the Competition Commission, in connection with references of the type referred to in sub-paragraph 1.13.3(c), for the year immediately preceding the previous year; and~~

(ii) the licence fee paid by the Licensee for the previous year,

provided that where the Licence is in force for only a part of the relevant year, the amount payable in respect of that year shall be a proportionate part of the licence fee due for the full year.

1.1314.4 Where:

- (a) the Estimated Costs of the Authority or of the Consumer Council are revised during the course of the relevant year (**Revised Costs**);
- (b) the Licensee has paid the licence fee for the relevant year; and
- (c) the Revised Costs would, had they applied to the calculation of the licence fee paid by the Licensee, have resulted in the calculation of a lower licence fee than that paid by the Licensee,

the Authority may, where it is reasonable for it to do so taking into consideration the timing of the Revised Costs and the provisions of paragraph 1.1314.3(d), refund to the Licensee the difference between the amount of the licence fee paid by the Licensee and the amount of the lower licence fee referred to in paragraph 1.1314.4(c) above.

1.1314.5 Where the Licensee fails to pay the amount of the licence fee as notified to it under paragraph 1.1314.2 above within the 30 day period specified, it shall with effect from the end of that 30 day period pay simple interest on the amount at the rate which is from time to time equivalent to the base lending rate of an institution designated by the Authority for this purpose.

1.1314.6 In this Condition:

- “Estimated Costs”
- (i) in relation to the costs of the Authority, means the costs estimated by the Authority as likely to be its costs for the relevant year as calculated in

accordance with the Principles; ~~and~~

(ii) in relation to the costs of the Consumer Council, means either:

(A) the costs notified to the Authority by the Consumer Council as its estimated costs for the relevant year as approved by the Department; or

(B) in the event that the Authority does not receive such notification by 31 July in the relevant year, the costs estimated by the Authority (having regard to any estimate of such costs in any forward work programme published by the Consumer Council in respect of the relevant year) as likely to be the costs of the Consumer Council for the relevant year; ~~and~~

~~(iii) in relation to the costs of the Competition Commission, means the costs estimated by the Authority following consultation with the Competition Commission as likely to be the costs of the Competition Commission for the previous year in connection with references of the type referred to in sub-paragraph 1.13.3(c) above.~~

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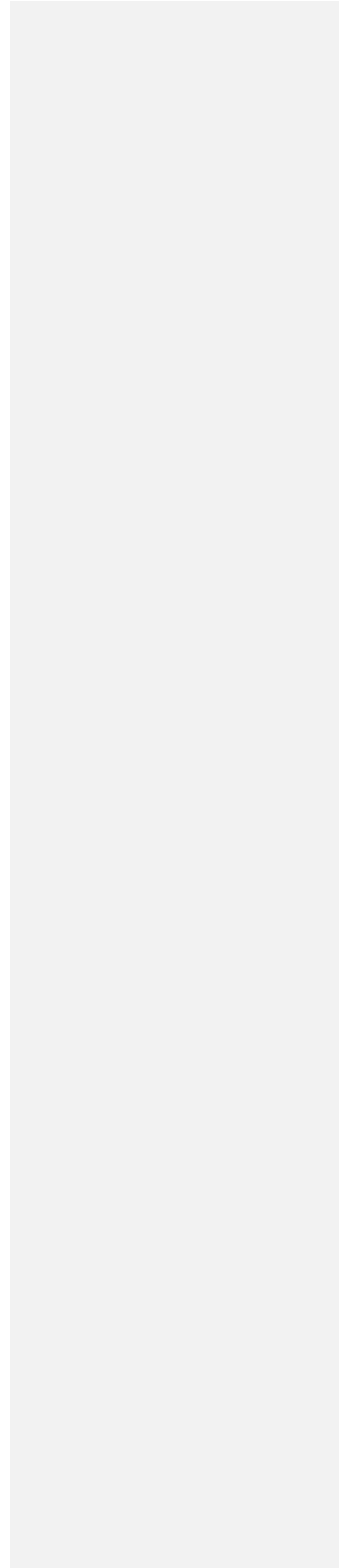
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“Principles”

means the principles determined by the Authority for the purposes of this Condition generally, following consultation with the Licensee and with others likely to be affected by the application of such principles and as

notified to the Licensee in writing.

“Relevant Contribution” means, in respect of the Estimated Costs, the level of contribution to those costs applicable, whether by way of a specified amount or a stated proportion, to the Licensee as determined under or in accordance with the Principles.



## **CONDITION 2.2: TERRITORIAL SCOPE AND EXCLUSIVITY**

### **2.2.1 Territorial Scope**

The Licensee is authorised to convey gas from one place to another in the Licensed Area.

### **2.2.2 Exclusivity**

Subject to Conditions 2.2.3, 2.2.5 and 2.2.6, the Licensee shall be entitled exclusively to convey gas to premises in the Exclusive Area until 04 September 2006 and thereafter until 31st December 2016 unless, prior to that date, the Authority determines that the continuation of the exclusive authority granted by this Condition 2.2.2 is no longer necessary or expedient for the efficient operation of conveyance of gas to premises in the Exclusive Area and accordingly terminates the Licensee's exclusivity for all or part of the Exclusive Area by notice in writing to the Licensee.

### **2.2.3 Loss of Exclusivity in a district and the Licensed Area**

Subject to Condition 2.2.4, the Licensee shall cease to be entitled exclusively to convey gas to any premises in a district within the Exclusive Area where the Authority determines on notice to the Licensee:

- (a) that the Licensee has not in that district commenced to install or installed and brought into operation or made readily capable of being brought into operation distribution pipe-lines in accordance with paragraph 1 of Schedule 4; or
- (b) prior to the twelfth anniversary of this licence coming into force, that the Licensee has refused a request by either:
  - (i) a gas supplier for the connection of premises in that district to the Network in order to give a supply; or
  - (ii) the owner or occupier of premises in that district for the connection of premises to the Network;

and:

- (iii) that gas supplier or owner or occupier is willing to pay the charge for connection for the premises as determined under Condition 2.4 and comply with the Licensee's other terms for connection as also determined under Condition 2.4; and
- (iv) at the time of the request the infill date in accordance with paragraph 1(b) of Schedule 4 has passed with respect to the district in which the premises are located;

and subject to Condition 2.2.4, the Licensee shall cease to be entitled exclusively to convey gas to any premises in the whole of the Exclusive Area where:

- (c) with the exception of the district of Larne, the Authority has determined on notice to the Licensee that the Licensee should cease to be entitled exclusively to convey gas to premises in three or more districts under this Condition 2.2.3; or
- (d) the Department modifies Condition 2.2.2 and Schedule 1 pursuant to Article 9(5) of the Order where it is satisfied on reasonable grounds of a contravention by the Licensee of any of the following conditions which are "relevant conditions" for the purposes of Article 9 of the Order ("relevant conditions"):
  - (i) Conditions 1.3.3, 1.3.4, 1.11, 1.12 and 1.13; and
  - (ii) Conditions 2.3.4 (but excluding Condition 2.3.4(c)), 2.3.5, 2.3.6, 2.4.6, (but excluding Condition 2.4.6(c)), 2.4.9, 2.6.1, 2.6.2, 2.6.3 and 2.6.4.

#### 2.2.4 Disapplication of Condition 2.2.3

Without prejudice to any other means of modifying this licence under Condition 1.10 and the Order or the Energy Order, where the Authority determines on notice to the Licensee that the Licensee should cease to be entitled exclusively to convey gas to premises under Condition 2.2.3, then:

- (a) that determination shall not have effect for 28 days commencing with the date of the notice of the determination; and

- (b) the Licensee may within 28 days of the date of the notice of the determination request the Authority by notice to the Authority (a "disapplication notice"), not to apply the relevant paragraph of Condition 2.2.3 in which event the determination shall not apply;
- ~~(c) unless within six months of the date of the disapplication notice the Authority makes a reference to the Competition Commission under Article 15 of the Order relating in whole or in part to the modification of Condition 2.2.2, the relevant paragraph of Condition 2.2.3 will continue not to be applied after that period has passed in respect of the premises concerned; and~~
- ~~(d) in the event of such a reference to the Competition Commission under paragraph (c) above, the Commission gives a report, then until the licence granted under paragraph 1(a) of the Grant shall be modified in accordance with the Order in relation to that reference, the Licensee shall remain entitled exclusively to convey gas with respect to and notwithstanding the relevant paragraph of Condition 2.2.3.~~

#### 2.2.5 Loss of Exclusivity in respect of particular premises

Following the twelfth anniversary of this licence coming into force, the Licensee shall cease to be entitled exclusively to convey gas to particular premises where the Authority determines it has refused a request by either a gas supplier for the connection of those premises to the Network, in order to give a supply, or the owner or occupier of the premises for the connection of those premises to the Network, and that the gas supplier or owner or occupier is willing to pay the charge for connection as determined under Condition 2.4 and comply with the Licensee's other terms for connection as also determined under Condition 2.4.

#### 2.2.6 Conveyance of Gas for Transshipment

Nothing in Condition 2.2.2 shall exclude the entitlement of any other person authorised by licence or exemption to convey gas through pipe-lines in the Licensed Area provided that such person does not convey gas to premises in the Exclusive Area other than as may be conveyed to premises solely for the operation of its gas plant.



2.2.7 Additional duty to provide information

The Licensee shall advise the Authority by its report given under Condition 1.2 in respect of the immediately preceding year whilst that Condition applies, and thereafter by a report provided to the Authority no later than 1st March of each year for the immediately preceding year ending on the 31st December, of:

- (a) the number of requests made by gas suppliers and owners or occupiers of premises to connect premises to the Network distinguishing between domestic consumers and non domestic consumers;
- (b) the number of connections made or agreed to be made by the Licensee;
- (c) the length and route of distribution pipe-line installed by the Licensee in each district (and whether or not it was at operational pressure in any period), and the length and route of infill distribution pipe-line and in respect of the latter the number of premises to which a connection has been and may be made; and
- (d) capital expenditure on distribution pipe-lines, gas plant, and other apparatus utilised by the Licensee in the conveyance of gas in aggregate for the Licensed Area and individually in respect of each district.

**CONDITION 2.3: CONVEYANCE CHARGES, OTHER TERMS FOR THE  
CONVEYANCE OF GAS  
AND THE PROVISION OF CONVEYANCE SERVICES**

2.3.1 Determination of conveyance charges by the Licensee

Conveyance charges shall be determined by the Licensee in respect of Formula Year 1999 and each Formula Year thereafter and the Licensee shall subject to the provisions of Conditions 2.3.8, 2.3.14 and 2.3.7A, as the case may be, establish the methods and principles on which conveyance charges shall be determined for gas suppliers wishing and entitled (or entitled within the Formula Year in respect of which the methods and principles shall be determined or the next following Formula Year), to use the Network and the Licensee shall publish the same in accordance with ~~Condition~~[Condition](#) 2.3.2 provided that for the purposes of Condition 2.3.1(a) in establishing the methods and principles on which conveyance charges shall be determined the Licensee shall do so in a manner consistent with the subsequent application of the provisions of Condition 2.3.8.

2.3.2 Publication of conveyance charges and other terms for the conveyance of gas

Subject to Condition 2.3.3:

- (a) the licensee shall (no later than 1 October in each preceding year), for the forthcoming year, publish a statement of:
  - (i) its conveyance charging methodology for the use of the Network by gas suppliers for that forthcoming Formula Year, by which any such gas supplier may reasonably be able to calculate applicable conveyance charges; and
  - (ii) its other terms for the use by them of the Network (and in relation to the Network Code by reference to the Network Code);in such manner as will secure adequate publicity for it; and
- (b) the Licensee shall send a copy of any such statement to any person who asks for one;

and subject to Condition 2.3.4(b) such statement shall clearly distinguish cases and classes of cases of gas supplier for whom the conveyance charging methodology may result in differing conveyance charges.

2.3.3 Approval of Authority to conveyance charges and other terms for the conveyance of gas

No later than one month and five working days before it intends to publish its statement under Condition 2.3.2 the Licensee shall notify the Authority of the contents of that statement, and:

- (a) provide the Authority with such information as will enable the Authority to be reasonably satisfied that the methodology and principles for the conveyance charges have been determined in accordance with the provisions of Condition 2.3.8;
- (b) provide the Authority with an explanation of the other terms for conveyance set out in the statement; and
- (c) prior to publication, obtain the Authority's approval to the form and content of that statement.

2.3.4 Charging for the conveyance of gas and prohibition on undue discrimination

The Licensee shall:

- (a) unless the Authority otherwise consents, not charge for the conveyance of gas in the Network during any Formula Year, or apply other terms for the conveyance of gas on any basis other than contained in its statement of conveyance charges published under Condition 2.3.2 in respect of that Formula Year;
- (b) not show any undue preference towards or undue discrimination against any gas supplier or case or classes of cases of gas supplier in the conveyance charges made or other terms for the conveyance of gas applied in relation to the Network; and

- (c) within 28 days of receiving a request for the quotation of conveyance charges for specified conveyance services by a gas supplier, provide the gas supplier with a specific statement of the conveyance charges and other terms for the conveyance of gas applicable to the conveyance services for which the gas supplier requested a quotation;

and for the purposes of Condition 2.3.4(c) and the Licensee's obligation to provide a specific statement of conveyance charges, a request for the quotation of conveyance charges for specified conveyance services shall be treated as such if it is in such form as the Licensee can reasonably be expected to provide a specific statement of conveyance charges in return.

2.3.5 Licensee's obligation to provide services for the conveyance of gas in accordance with the Network Code

The Licensee shall provide gas suppliers with conveyance services in accordance with the Network Code.

2.3.6 Resolution of Disputes

The Authority may, on the application of any person entitled (or claiming to be entitled) to require conveyance services by the Licensee, will refer the application in the first instance to the General Consumer Council who will try to resolve the dispute, provided the General Consumer Council shall give the Licensee not less than one month in which to make representations regarding such application: the General Consumer Council will settle any dispute between the applicant and the Licensee in so far as it relates to any of the following matters and at any time thereafter the Licensee shall provide a gas supplier with conveyancing services:

- (a) in accordance with the conveyance charges and/or other terms for the conveyance of gas, and where applicable the Licensee's connection charges, as determined by the Authority pursuant to it settling a dispute referred to the general Consumer Council in accordance with the above paragraph, and where the gas supplier is willing to accept the same and the Licensee has otherwise

refused to provide such conveyancing services. If the General Consumer Council is unable to resolve the dispute the application will be referred back to the Authority. The Authority will try to resolve the dispute with reference to conditions 2.3.6 (a) and 2.3.6 (b)..

- (b) notwithstanding the provisions of Conditions 2.3.1 and 2.3.2, in accordance with a price determined by the Authority as will allow the Licensee to enjoy a revenue within the maximum amount recoverable under its conveyance charging methodology for the use of the Network by gas suppliers as may be realised under Conditions 2.3.8 and 2.3.14 as the case may be, and where applicable, the Licensee's connection charges, and on such other terms as the Authority reasonably considers appropriate in all the circumstances, including terms as to the Network Code, or as may establish, modify or amend a Network Code, where the Licensee's conveyance charges and other terms for the conveyance of gas and/or the Network Code:
  - (i) are insufficient to the reasonable satisfaction of the Authority for the conveyance services sought by the gas supplier;
  - (ii) the Licensee and gas supplier have been unable to reach agreement on appropriate terms; and
  - (iii) the gas supplier is willing to accept the Authority's determination;

provided that for the purposes of this Condition 2.3.6 the Authority is satisfied that any determination would not prejudice the efficient and safe operation of the Network or the conveyance by the Network of:

- (c) the quantities of gas which the Licensee requires or may reasonably be expected to require to be conveyed by the Network to enable the Licensee to comply with the conditions of the licence granted under paragraph 1(a) of the Grant; and
- (d) the quantities of gas of any person who has a right to have gas conveyed by the Network is entitled to require to be so conveyed in exercise of that right.

### 2.3.7 Additional duty to provide information

The Licensee shall advise the Authority by its report given under Condition 1.2 in respect of the immediately preceding Formula Year whilst that Condition applies, and thereafter by a report provided to the Authority no later than 1st March of each year for the immediately preceding Formula Year, of:

- (a) the number of separate arrangements with gas suppliers for gas conveyancing services provided; and
- (b) the volumes of gas offtaken from the Network by gas suppliers.

### 2.3.7A Direction by the Authority

- (a) Where the Authority determines that it is necessary for the Licensee to revise:
  - (i) the methods and principles on which it has determined the conveyance charges as provided in the Licensee's latest published statement; and/or
  - (ii) the conveyance charges and other terms for the conveyance of gas determined and included in the latest published statement,

in order to ensure that they are (or continue to be) proportionate and applied in a non-discriminatory manner, the Authority may direct the Licensee to revise its methods, principles, charges or terms (as the case may be) in accordance with the provisions of the direction.

- (b) The Licensee shall comply with the requirements of any direction issued by the Authority under this Condition 2.3.7A and shall publish a revised statement in accordance with Condition 2.3.2.

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~~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 *amount it recovers under its conveyance charging methodology for the use of the Network by gas suppliers* shall not exceed the *amount* calculated in accordance with the following formula:

$$M_t = (R_{E,t} + G_{F,t})(RPI_{F,t}/RPI_E) - K_t$$

where

$M_t$  = the maximum *amount recoverable under the Licensee's conveyance charging methodology* in that Formula Year  $t$ ;

$RPI_{F,t}$  = the absolute value of the Retail *Prices* Index for Formula Year  $t$  defined as the absolute value of the Retail *Prices* 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);

$R_{E,t}$  = *the Determined Total Conveyance Revenue* for that Formula Year  $t$  calculated in accordance with the following formula:

$$R_{E,t} = \sum_i (P_{E,i,t} \cdot V_{E,i,t})$$

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  $t$ ;

$V_{E,i,t}$  = in respect of each of the four Conveyance Categories the determined number of therms of gas conveyed in that Formula Year  $t$ , in respect of that Conveyance Category  $i$ ;

$G_{F,t}$  = the Total Connections Incentive Revenue for Formula Year  $t$  calculated in accordance with the following formula:

$$G_{F,t} = \sum_{i,j} (N_{F,i,j,t} - N_{E,i,j,t}) H_{E,i,j,t}$$

where

$\sum_{i,j}$  = the summation across all Conveyance Categories and Conveyance Subcategories where  $i$  is representative of a Conveyance Category and  $j$  of a Conveyance Subcategory;

$N_{F,i,j,t}$  = the actual number of New Connections in respect of Conveyance Category  $i$  and Conveyance Subcategory  $j$  for Formula Year  $t$ ;

$N_{E,i,j,t}$  = the Determined number of New Connections in respect of Conveyance Category  $i$  and Conveyance Subcategory  $j$  for Formula Year  $t$ ;

$H_{E,i,j,t}$  = the Determined Average Incentive Value in respect of Conveyance Category  $i$  and Conveyance Subcategory  $j$  and value of  $(N_{F,i,j,t} - N_{E,i,j,t})$  for Formula Year  $t$  determined in



accordance with the methodology agreed between the Authority and the Licensee;

For the avoidance of doubt, the Connections Incentive shall apply from Formula Year 2008.

$K_t$  = 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  $RPI_{F,t}$ ,  $V_{F,i,t}$ ,  $N_{F,i,j,t}$ , 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  $K_t = Z_{F,t-1}(1 + I_{F,t}/100)$

if  $Z_{F,t-1}$  is greater than  $-0.1(M_{t-1})$

or  $K_t = -0.1(M_{t-1})(1 + I_{F,t}/100)$

if  $Z_{F,t-1}$  is less than or equal to  $-0.1(M_{t-1})$

where

$$Z_{F,t} = (M_{F,t} - (R_{E,t} + G_{F,t})(RPI_{F,t} / RPI_E)) + Z_{F,t-1}(1 + I_{F,t})$$

$M_{F,t}$  = the actual amount recovered by the Licensee under its conveyance charging methodology for the use of the Network by gas suppliers 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,  $r_t$  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  $t$  *plus one and a half percentage points*.

#### 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 2.3.22 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, following such consultation as may be required in accordance with Articles 14(2) – (5) of the Order and any such other consultation as the Authority may consider appropriate, 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) the Authority shall base its determination of the Determined Revenue Per Therm for each Conveyance Category *and Determined Total Conveyance Revenue* on the underlying calculations contained in Conditions 2.3.14 to 2.3.19; and
- (c) the Authority ~~shall, following its determination, will~~shall modify Conditions 2.3.22 and 2.3.24, in accordance with Articles 14(8) – (10) of the Order, to give notice in writing to the Licensee of the Determination Values and effect to the Designated Parameters and Determination Values 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:~~

~~(A) this Condition 2.3 may be modified in accordance with the Order and in the manner specified in the report of the Competition Commission; and~~

~~(B) the Authority shall give notice in writing to the Licensee (a "Replacement Determination Notice") of any Determination Values and Designated Parameters that have been specified, or been calculated by the Authority in accordance with the conclusions of the report of the Competition Commission to apply in those Formula Years  $t=n+1$  to  $t=q$  inclusive;~~

~~(e) without prejudice to paragraphs (d)(i) and (ii) 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) (where no Replacement Determination Notice has been given), or of a Replacement Determination Notice given under paragraph (d)(iii) (where such notice has been given), shall be such that:~~

~~(i) the Determination Values set out in the Determination Notice or (as the case may be) the Replacement 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 2.3.22 shall be modified to include the Designated Parameters contained in the Determination Notice or (as the case may be) the Replacement Determination Notice~~

~~— in each case in substitution for and instead of the Determination Values and Designated Parameters established by the preceding Review determined.~~

#### 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 *before adjustments for movements in Capital Creditors* in Formula Year  $t$ ;

$CC_{B,t}$  *Best Available Capital Creditors 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  $t$ ;

$N_{B,i,j,t}$  *Best Available number of New Connections in respect of Conveyance Category  $i$  and Conveyance Subcategory  $j$  for Formula Year  $t$ ;*

$H_{B,i,j,t}$  *Best Available Average Incentive Value in respect of Conveyance Category  $i$  and Conveyance Subcategory  $j$  and value of  $(N_{F,i,j,t} - N_{E,i,j,t})$  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 and Total Conveyance Revenue

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 ( $P_{B,i,t}$ ). *The Licensee shall provide Best Available Total Conveyance Revenue for each Conveyance Category ( $R_{B,i,t}$ ) and for each such Formula Year ( $R_{B,t}$ ) where*

$$R_{B,i,t} = P_{B,i,t} \cdot V_{B,i,t} \text{ and}$$

$$R_{B,t} = \sum_i R_{B,i,t}$$

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  $t$ .

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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, Working Capital and Capital Creditors 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:

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

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 Best Available *Total Conveyance Revenue* for the relevant Formula Year, less the Best Available Capital Expenditure *for that Formula Year, adjusted (where applicable) for the Best Available Movement in Capital Creditors* 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:

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



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:

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

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

$$CC'_{B,t} = CC_{B,t} - CC_{B,t-1}$$

#### 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  $t$  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 ~~given by the Authority to the Licensee 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 *Capital Creditors 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:

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

Where:

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

$Q_{B,t}$  and  $CC_{B,t}$  are treated as a pass-through and are corrected to actuals at the end of each Review Period as described in condition 2.3.23.

In respect of Formula Year  $t=2006$ ,  $TRV_{F,t} = £312.8m$ , which is indexed to  $RPI_{F,2006}$ .

In respect of Formula Years after  $t=2011$ ,  $TRV_{F,2011}$  is reduced by £13.6m, a reduction which is indexed to  $RPI_{F,2010}$ . The reduction is effected for the purpose of condition 2.3.18 as a reduction to  $DAV_{F,2006}$ .

### 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:

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

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);

$F_{E,t}, r_{E,t}, TRV_{E,m}, DAV_{E,n}, CC_{E,n}, Q_{E,n}$  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 New Connections**

*The Licensee shall, at each Review, submit Best Available Values for the number of New Connections it expects in each Conveyance Category  $i$  and Conveyance Subcategory  $j$  in the period  $t=n+1$  to  $t=q$ .*

**2.3.22 Current Designated Parameters**

*The Designated Parameters to apply in the first Formula Year  $(m+1)$  and in each subsequent Formula Year up to and including Formula Year ~~2011~~n shall be:*

<b>Designated Parameter</b>	<b>Value</b>
$r_i$	0.075
$m$	<del>2011</del> <u>2013</u>
$n$	<del>2013</del> <u>6</u>
$q$	2046
$RPI$	<del>225.3</del> <u>244.2</u>

**2.3.23 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 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)

“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 Creditors*” means, in respect of each Formula Year and to the extent that they relate to the Controlled Charges:

- (i) Any monies due from the Licensee, relating to Capital Expenditure, at the end of that Formula Year; plus
- (ii) Any payments due from the Licensee, relating to Capital Expenditure, that, at the end of that Formula Year, constitute accruals.

“Capital Expenditure” means that capital expenditure in Formula Year *t* *before adjustments for Movements in Capital Creditors* 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” and “Conveyance Subcategory” means a particular group of customers defined for the purposes of calculating the maximum conveyance revenue and applying a connections incentive, the four Conveyance Categories *i*, and their Conveyance Subcategories *j* (where applicable) being:

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

*Subcategories j:*

*j = 1 domestic owner occupied;*

*j = 2 domestic new build;*

*j = 3 domestic N.I.H.E.;*

*j = 4 industrial and commercial*

*i = 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;*

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

*Subcategories j:*

*j = 1 firm gas demand of 25,000 - 75,000 therms per annum;*

*firm gas demand of over 75,000 therms per annum. i = 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 2.3.26, the applicable values from time to time for which are set out in Condition 2.3.22; ~~and those parameters that have been established (subject to any restrictions imposed under~~

~~Condition 2.3.26) as such by the Authority in accordance with Conditions 2.3.11 to 2.3.13 (highlighted by use of the (and denoted in the terms of formulae in this Condition 2.3 by the use of an *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 (e);~~

“Determination Value/Values” means, ~~those terms set out under that heading in Condition 2.3.25, the applicable values from time to time for which are set out in Condition 2.3.24~~ 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;

“New Connection” means a first time connection of a premises or site to the Network in Formula Year *t* and thus is one which has not previously contributed to the revenue of the Licensee for



*the conveyance of gas;*

“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 a 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 Licensee 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;

~~“Replacement Determination Notice” means a notice given in accordance with Condition 2.3.13(d)(iii);~~

“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 allowed revenue for the conveyance of gas determined by the Authority;*

“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:

- (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 due from the Licensee that, at the end of that Formula Year, constitute accruals.

In this Condition 2.3, “revenue”, “expenditure”, “debtors”, “prepayments”, “creditors” and “accruals” including *Capital Creditors* are the amounts which are confirmed by the auditors to be relevant to the provision of conveyance services within the meaning of this Licence and which are equal to such of those relevant amounts as have been included under appropriate headings in the financial statements of the Licensee’s Separate Business of conveying gas to, through and within the Licensed Area as specified in Condition 1.3 for each period in question

2.3.24 Current 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.:~~*

<u>Determination Value</u>		<u>All Values in £(000's) and Indexed to RPI 2012</u>		
		<u>t=2014</u>	<u>t=2015</u>	<u>t=2016</u>
<u><math>V_{E,t}</math></u>	<u><math>i = 1</math></u>	<u>65,545</u>	<u>69,578</u>	<u>73,712</u>
<u><math>V_{E,t}</math></u>	<u><math>i = 2</math></u>	<u>21,051</u>	<u>21,427</u>	<u>21,804</u>
<u><math>V_{E,t}</math></u>	<u><math>i = 3</math></u>	<u>31,350</u>	<u>31,425</u>	<u>31,510</u>
<u><math>V_{E,t}</math></u>	<u><math>i = 4</math></u>	<u>17,374</u>	<u>17,378</u>	<u>17,445</u>
<u><math>C_{E,t}</math></u>		<u>-12,672</u>	<u>12,996</u>	<u>-12,919</u>
<u><math>CC_{E,t}</math></u>		<u>-4,447</u>	<u>-4,501</u>	<u>-4,488</u>
<u><math>O_{E,t}</math></u>		<u>13,750</u>	<u>14,042</u>	<u>14,197</u>
<u><math>D_{E,t}</math></u>		<u>12,782</u>	<u>13,269</u>	<u>13,742</u>

$\underline{F_{E,t}}$		<u>18,150</u>	<u>18,495</u>	<u>20,304</u>
$\underline{Q_{E,t}}$		<u>-4,428</u>	<u>-4,213</u>	<u>-3,973</u>
$\underline{P_{E,i,t}}$	$i = 1$	<u>0.3765</u>	<u>0.3765</u>	<u>0.3765</u>
$\underline{P_{E,i,t}}$	$i = 2$	<u>0.3389</u>	<u>0.3389</u>	<u>0.3389</u>
$\underline{P_{E,i,t}}$	$i = 3$	<u>0.3192</u>	<u>0.3192</u>	<u>0.3192</u>
$\underline{P_{E,i,t}}$	$i = 4$	<u>0.1606</u>	<u>0.1606</u>	<u>0.1606</u>
$\underline{R_{E,t}}$		<u>44,610</u>	<u>46,281</u>	<u>48,002</u>
$\underline{DAV_{E,t}}$		<u>390,785</u>	<u>391,099</u>	<u>390,606</u>
$\underline{TRV_{E,m}}$				<u>564,447</u>
$\underline{PA_{E,m}}$				<u>182,302</u>
$\underline{N_{E,i,j,t}}$		<u>not used</u>	<u>not used</u>	<u>not used</u>
$\underline{H_{E,i,j,t}}$		<u>not used</u>	<u>not used</u>	<u>not used</u>

<u>Determination Value</u>	<u>Value(s)</u>

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### 2.3.25 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	$C_{B,t}$	$C_{E,t}$	
<i>Capital Creditors</i>	$CC_{B,t}$	$CC_{E,t}$	
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 $i$ )	$P_{B,i,t}$	$P_{E,i,t}$	$P_{F,i,t}$
<i>Total Conveyance Revenue</i>	$R_{B,t}$	$R_{E,t}$	
<i>Number of New Connections (for Conveyance Categories <math>i</math> and Conveyance Subcategories <math>j</math>)</i>	$N_{B,i,j,t}$	$N_{E,i,j,t}$	$N_{F,i,j,t}$
<i>Average Incentive Value (for Conveyance Categories <math>i</math> and Conveyance Subcategories <math>j</math>)</i>	$H_{B,i,j,t}$	$H_{E,i,j,t}$	
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)*	$PA_{B,n}$	$PA_{E,m}$	

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\* 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).

### 2.3.26 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 $t$ ;
$CC_t$	<i>Capital Creditors in Formula Year <math>t</math>;</i>
$CC'_t$	<i>Movement in Capital Creditors in Formula Year <math>t</math>;</i>
$E$	subscript to denote Determination Values;
$F$	subscript to denote Actual Values;
$i$	subscript to denote a Conveyance Category;
$j$	<i>subscript to denote a Conveyance Subcategory;</i>
$I_t$	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 ).

