



Department for  
Energy Security  
& Net Zero

# Carbon Capture, Usage and Storage

An update on the business model for  
Transport and Storage -  
indicative heads of terms: explanatory note

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# Update to the business model for Transport and Storage - indicative heads of terms: explanatory note

*This document, and Annexes A-C to it, set out our updated proposals for the business model for transport and storage (TRI model), including the Licence, Government Support Package and the Revenue Support Agreement. The latest TRI model<sup>1</sup> and heads of terms<sup>2</sup> were published in January 2022.*

## Overview

### General

The indicative heads of terms dated June 2023 (published as Annexes A-C to this document) set out the current proposals on the matters to be addressed as part of the CCUS TRI model.

They remain subject to ongoing development in conjunction with the development of all other relevant components of the CCUS programme, in particular the CCS Network Code.

## Key updates

We set out below the key updates of note across the TRI model documentation, since the previous version of the indicative heads of terms were published in January 2022.

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<sup>1</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1045066/ccus-transport-storage-business-model-jan-2022.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1045066/ccus-transport-storage-business-model-jan-2022.pdf)

<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1045067/ccus-consolidated-heads-of-terms-jan-2022.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1045067/ccus-consolidated-heads-of-terms-jan-2022.pdf)

## Licence – Annex A

### 1. Structure and General Approach

The structure of the Licence heads of terms have been developed to reflect Ofgem's standard structure for network licences in the gas/electricity market, in particular to distinguish between:

- Licence Terms;
- Standard Conditions of the Licence; and
- Special Conditions of the Licence.

In order to progress the development of the Licence heads of terms, many of the provisions set out in the heads of terms included in the January 2022 update have now been progressed to more detailed drafting, although in many cases the drafting will be further developed when the heads of terms become full-form terms and conditions.

### 2. Licence Terms

New drafting for the Licence Terms have been included based on Ofgem's standard approach across other regulated industries, including but not limited to:

- reference to the Licence being granted under the [Energy Bill]; and
- provisions regarding the term of the Licence.

### 3. Standard Conditions

The General section of the Standard Conditions of the Licence heads of terms have been expanded based on the approach taken under gas and electricity network licences to deal with matters such as:

- how T&SCo should conduct its business;
- regulatory accounts and reporting;
- information to be provided to the Regulator; and
- CCUS-specific revocation rights.

The "Restriction on activity and financial ringfencing" provisions have been further developed to include specific "business separation" provisions.

The General section of the Standard Conditions now also deal in more detail with other matters which are more specific to T&S Networks, including:

- the CCS Network Code: the conditions dealing with the CCS Network Code have been developed to align with the development of the CCS Network Code heads of terms;

- procurement obligations: T&SCos will need to follow some minimum requirements relating to how contracts for the provision of goods and services are procured in order to demonstrate economy and efficiency following Licence Award.

The "Onshore" Standard Conditions have also been expanded to provide more detail in respect of T&SCo's specific obligations in relation to the onshore aspects of the T&S Network, including obligations and responsibilities in respect of:

- decommissioning;
- compliance with the UK Emissions Trading Scheme;
- metering; and
- ensuring that carbon dioxide is ultimately delivered into a store, either directly by T&SCo or (where applicable) via a chain of different licence holder(s).

The "Offshore" Standard Conditions have been expanded in a similar manner to the expansion of the Onshore Standard Conditions described above but in relation to the offshore aspects of the T&S Network. In addition, provisions relating to storage licences and permits have been added to the Offshore Standard Conditions.

#### **4. Special Conditions**

The key update to the "Special" Conditions of the Licence heads of terms has been to separate the Special Conditions into the following primary sections:

- General;
- Construction Phase;
- Commissioning Phase; and
- Operational Phase,

each as further summarised in the sections below.

The Special Conditions envisage three distinct stages (Construction Phase, Commissioning Phase and Operational Phase) in respect of the development of the initial phase of the T&S Network as envisaged in the Approved Project Development Plan to be agreed as part of the Initial Settlement. Each section of the Special Conditions details the RAB related provisions that apply to each of the three distinct phases.

The Special Conditions also recognise that the Licensee will continue to develop and enhance the T&S Network (as against the initial phase included in the Approved Project Development Plan agreed at Licence Award).

Such development of the T&S Network may result in Changes in Scope e.g. where On-going Devex that is envisaged in the Approved Project Development Plan reaches a stage where capex works not envisaged in the Approved Project Development Plan can commence.

The impact of such Change in Scope will be determined by the Regulator and could involve additional FIDs, construction phases and commissioning phases outside of the scope of the Handover Works and Commissioning Activities.

#### **4A. Special Conditions: General**

The General section of the Special Conditions of the Licence heads of terms detail T&SCo's overarching responsibilities during the First Regulatory Period, including both compliance with construction phase and commissioning phase obligations and the general obligation to develop the Approved T&S Network in accordance with the Approved Project Development Plan (as agreed with the SoS as part of FID).

The General section also includes the definitions for the Special Conditions, which have been further developed to update previous definitions and to include new definitions to reflect expanded concepts in the Special Conditions, including for example: Handover Works, Commissioning Activities, Approved T&S Network, Approved Project Development Plan, Pre-Licence Award Devex and On-going Devex.

#### **4B. Special Conditions: Construction Phase**

The Construction Phase section of the Special Conditions of the Licence heads of terms expands on the previous conditions that relate to the construction of the T&S Network. Expanded provisions have been included on a number of areas, including in respect of:

- the Handover Works and the achievement of Handover;
- SRAV build-up;
- SRAV Capex;
- Pre-Licence Award Devex;
- On-going Devex;
- Return during Construction; and
- Change in Law and Change in Scope.

The Licence heads of terms now envisage that the Handover Works have to be completed by T&SCo before the Commissioning Phase can commence.

The Licence heads of terms now distinguish between "Pre-Licence Award Devex" (i.e. development costs properly and efficiently incurred by the Licensee in relation to the T&S Business prior to Licence Award) and "On-going Devex" (i.e. On-going Devex costs relating to the development/expansion of the Approved T&S Network following Licence Award in accordance with the Approved Project Development Plan) and how such amounts are to be treated.

#### **4C. Special Conditions: Commissioning Phase**

A new Commissioning Phase section of the Special Conditions has been added to the Licence heads of terms. This section incorporates provisions that relate to the commissioning of the T&S Network, including provisions on:

- the Commissioning Activities and the achievement of the Commercial Operations Date;
- SRAV build-up;
- SRAV Capex;
- Opex;
- On-going Devex;
- On-going Capex;
- Return during Commissioning;
- the Post Construction Review; and
- Change in Law and Change in Scope.

The Commissioning Activities are the activities that T&SCo has to complete to demonstrate that the T&S Network is ready to commence operations. The Commercial Operations Date will occur on the completion of the Commissioning Activities, which triggers the commencement of the Operations Phase and T&SCo's ability to begin to recover Allowed Revenue via Charges from Users.

During the Commissioning Phase, given the T&S Network is not operational it is envisaged that the SRAV will continue to build until it is transferred to the RAV at the Commercial Operations Date.

#### **4D. Special Conditions: Operational Phase**

The Operational Phase section of the Special Conditions of the Licence heads of terms expands on the previous conditions that relate to the operation of the T&S Network.

Expanded provisions have been included on a number of areas, including in respect of:

- the Post Commissioning Review;
- calculation of Allowed Revenue;
- regulatory period lengths;
- Transferred SRAV and additional SRAVs;
- Opex;
- On-going Devex;
- On-going Capex;
- Decommissioning Allowance;
- Change in Law and Change in Scope; and
- Adjustments.

## 5. Schedules

The following Schedules have been added to the Licence heads of terms:

- Schedule 2 Revocation: which sets out the general licence revocation events. The approach generally follows that taken to revocation events under gas and electricity licences, with some additional CCUS-specific revocation events also being included in the Standard Conditions (see above);
- Schedule 3 Financial Settlement Schedule: which sets out the framework for incorporation of details of the financial settlement reached with T&SCo in respect of the First Regulatory Period; and
- Schedule 4 Technical Details Schedule: which sets out the framework for incorporation of project specific technical and programming details for each T&SCo, such as the project details, key dates and other variables relevant to the construction, commissioning, operation and decommissioning of the Approved T&S Network in accordance with the Approved Project Development Plan.



## Government Support Package – Annex B

### 1. Conditions Precedent

We have included further detail regarding conditions precedent, including:

- an indicative list of Conditions Precedent to Licence Award which forms an appendix to the Liaison Agreement; and
- due diligence on T&SCos financing structure for the purposes of the Discontinuation Agreement compensation calculation.

### 2. Supplemental Compensation Agreement

The key update to the SCA heads of terms is the insertion of an insurance schedule with a specification for Insured Risks and Insured Losses (see further detail below).

- We have also clarified the following with regards to the insurances required under the SCA:
- T&SCo's obligation to procure the insurances set out in the Insurance Schedule prior to Licence Award, to the extent possible;
- T&SCo's obligation to undertake regular market testing of the commercial insurance market in respect of the Insured Risks, Insured Losses and any Unavailability of commercial insurances;
- the process T&SCo should follow around renewals of the Commercial Insurance; and
- a right for the SoS to vary or amend the Insurance Schedule subject to certain conditions.

In addition, the application of the Unavailability test to Insured Risks and Insured Losses and the mechanisms for protection in respect of Excess Loss and Unavailability Loss have been expanded. The position established by way of the pre-Licence Award market testing is used as the basis for the protection for Excess Loss and Unavailability Loss.

A right for the SoS to check that T&SCo has sufficiently tested the commercial insurance market has been included – based on evidence provided by T&SCo.

### **Insured Risks**

Insured Risks include:

(a) property damage/malfunction of infrastructure assets at the Storage Complex; or

(b) geological conditions at the Storage Complex,

which results in:

(i) leakage of CO<sub>2</sub>, that obliges T&SCo under its Storage Permit to suspend the injection of CO<sub>2</sub> at the Storage Complex (including where such suspension results from the Corrective Measures Plan or a direction from NSTA); and/or

(ii) specified significant irregularities, that oblige T&SCo under its Storage Permit to suspend the injection of CO<sub>2</sub> at the Storage Complex for the long term or permanently (including where such suspension results from the Corrective Measures Plan or a direction from NSTA).

### **Insured Losses**

Insured Losses include (in short) costs, losses and liabilities relating to the following that arise from the Insured Risks:

- remediation of the Storage Complex;
- total abandonment of the Storage Complex;
- delay in start-up/business interruption;
- environmental remediation; and/or
- the purchase of UK ETS allowances.

## **3. Discontinuation Agreement**

The Discontinuation Agreement heads of terms have been updated to clarify how the triggers for Discontinuation will operate:

- The SCA Discontinuation Threshold will take account of claims, individually or in the aggregate with all other previous claims under the SCA, that have reached a threshold to be specified. This threshold will continue to increase in stages where SoS elects not to Discontinue.
- Similarly, the RSA Discontinuation Threshold will take account of claims under the RSA that are forecast to exceed a specified percentage of Allowed Revenue in each of the next three Charging Years. A process around the forecast of Allowed Revenue has also been included.

It has also been provided that the Total Compensation Cap will include the sum of the SRAV, in addition to the RAV assigned by the Regulator (and other allowable spend that has accrued but has not yet been added to the SRAV/RAV) at the date of Discontinuation.

We have clarified that the Equity Compensation will be a sum equal to the Total Compensation Cap less Senior Debt Compensation (if positive).

We have also clarified the position on compensation in the event of an insolvency.

A definition of Wilful Misconduct or Gross Negligence has been added in the context of where Equity Compensation may be reduced or forfeited if such conduct is proven for T&SCo.

#### **4. Liaison Agreement**

It has been clarified that the Liaison Agreement will form part of the Government Support Package documentation given that the only parties are SoS and T&SCo.

We have also made some updates to the reporting obligations on T&SCo within the Liaison Agreement heads of terms. For example, a process for enhanced reporting has been included where certain events are triggered, including where claims under the SCA or RSA reach a specified threshold which is lower than the discontinuation threshold.

It has also been clarified that, where T&SCo fails to comply with any of its reporting obligations, SoS has the right to issue a formal warning notice to senior management within T&SCo and receipt of two warning notices shall constitute a Remedy Event.

Other key updates to the Liaison Agreement heads of terms include:

- what constitutes a "variation" to the T&S Network (such that T&SCo must obtain the consent of SoS) has been updated to refer to a Change in Scope to the Approved Project Development Plan.
- obligations on T&SCo with regards to Qualifying Acquisitions i.e. where a transferee acquires control of T&SCo or control of assets which fall within the regulatory ringfence under T&SCo's licence. An ultimate controller undertaking has also been included.
- The Remedy and Failure Event regime has been moved from the Discontinuation Agreement and new Remedy Events have been included where SoS consider these events could be material enough in their own right i.e. without the need for qualification by the Material Adverse Effect test.

## Revenue Support Agreement – Annex C

There have been key updates to the difference payment mechanics within the RSA heads of terms as follows:

- The Interim Difference Payment will be based on the shortfall in any forecast market revenue as against Allowed Revenue in each Charging Year. This will be calculated 2 months prior to the commencement of the relevant Charging Year and settled within a specified period following the end of the relevant month.
- A reconciliation of the Interim Difference Payment will be calculated after the end of each quarter (Quarterly Reconciliation Payment) and settled within a specified period following the end of the relevant quarter.
- There will also be a further annual reconciliation calculated in the following Charging Year (in respect of the previous Charging Year) to account for any further shortfall/over payment (Annual Difference Payment). This will be settled in the second quarter of the second Charging Year after the relevant Charging Year in which the shortfall/over payment occurred.

The scope and mechanics around revenue support prior to operations and "first user delay" (previously described in the TRI business models as Timing Mismatch) have also been clarified.

# Annex A: Economic Regulatory Regime (ERR) Licence

## CCUS: T&SCo Licence

### Indicative Heads of Terms

**Note: these draft indicative heads of terms are subject to the "Disclaimer" section at the front of the explanatory note document to which they are annexed.**

#### A. INTRODUCTION

##### 1.1 Background

- (a) The indicative heads of terms set out the basis for the provision of a licence (the "**Licence**"), expected to be granted by the Secretary of State or the economic regulator (the "**Regulator**") to a company licensed to provide transport and storage services ("**T&SCo**") under HMG's CCUS programme (the "**Programme**").
- (b) The contents of the heads of terms are indicative only and do not constitute an offer by HMG or the Regulator and do not create a basis for any form of expectation or reliance. Any economic regulatory regime ("**ERR**") that is developed in the future will be subject to Parliamentary approval and any Licence that is developed in the future will be subject to approval by the Regulator and the development and completion of necessary documentation.
- (c) This introduction does not form part of the indicative heads of terms in section B (Licence Heads of Terms) of this document and is intended only to provide an overview of the rationale and assumptions for the terms and conditions of the Licence.

##### 1.2 Rationale

- (a) An ERR is required to provide a framework for users of the transport and storage ("**T&S**") network to pay T&SCo fees which will be regulated by the Regulator, and to set an allowed revenue for T&SCo and minimum standard of service to be provided by T&SCo for the T&S users.
- (b) Under the ERR, there will be mechanisms for the allocation of certain risks between the T&S users and incentives on T&SCo to provide the T&S services.

##### 1.3 Regulatory periods

- (a) The ERR will cover a number of regulatory periods over the term of the Licence. The first regulatory period will commence on the award of the Licence and conclude three years after the Commercial Operations Date, adjusted to the nearest 31 March (the "First Regulatory Period"). This means that the First Regulatory Period will cover construction phase activities, commissioning phase activities as well as the initial operating period. The second regulatory period will commence after the conclusion of the First Regulatory Period and there will be subsequent regulatory periods at agreed intervals.
- (b) HMG will determine the ERR for the First Regulatory Period, with the Regulator having a more limited role than it will in the second and subsequent regulatory periods. The

Regulator will, however still have certain responsibilities during this First Regulatory Period and these are set out in more detail below.

#### 1.4 **Regulator's duties and enforcement powers**

- (a) The Regulator's objectives for carrying out its functions will be set out in legislation. The relevant enabling legislation is currently progressing through Parliament<sup>3</sup>. The final wording of the Regulator's objectives will be subject to the outcome of the Parliamentary approval process.
- (b) The Licence will be supplemented by guidance from the Regulator on how the Regulator intends to approach any issues under the Licence where the Regulator is required to exercise a degree of discretion, including, in particular, the determination of the WACC in the second and subsequent regulatory periods. While it is intended that the guidance can be prepared in draft in advance of the award of the Licence, the guidance can only be issued in final form once the Regulator has been given its necessary powers, duties and functions under the relevant legislation and the Licence is in place.
- (c) The statutory framework, which will provide for the grant of the Licence, will give the Regulator the powers required to enforce the conditions of the Licence, following the approach in other regulated sectors.

#### 1.5 **Description**

- (a) This document sets out high level indicative terms for each of the following areas covered by the terms and conditions of the Licence:
  - (i) Part I: the Terms of the Licence;
  - (ii) Part II: the Standard Conditions;
  - (iii) Part III: the Special Conditions. These Special Conditions will, primarily, deal with the ERR – that is, the building blocks and mechanics for determining the Allowed Revenue of T&SCo. These will be amended for each individual T&SCo to incorporate the variables relevant to each individual T&SCo;
  - (iv) Schedule 1: Specified Area;
  - (v) Schedule 2: Revocation;
  - (vi) Schedule 3: Financial Settlement Schedule; and
  - (vii) Schedule 4: Technical Details Schedule.
- (b) The scope of the conditions remains subject to review, in particular in the context of the development of the wider Programme.

#### 1.6 **Initial assumptions**

- (a) This document is based on the following assumptions in respect of the T&S Network:
  - (i) ownership of the T&S Network: the "onshore" (i.e. onshore transportation systems) and "offshore" (i.e. Offshore Transportation and Storage Systems and offshore storage) elements of the T&S network will be owned by T&SCo. In

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<sup>3</sup> See the Energy Bill here: <https://bills.parliament.uk/bills/3311>

particular, T&SCo will hold any Crown Estate (including Crown Estate Scotland) lease and licence/permit issued by the NSTA (or licensing authority of a devolved administration);

- (ii) development and operation of the T&S Network: T&SCo will be responsible for the development, construction, operation and maintenance of the T&S Network, including obtaining all necessary permits and approvals;
- (iii) expansion of the T&S Network: in the future T&SCo may need to expand the T&S Network under the terms of the ERR and will provide access to new T&S users under the CCS Network Code, all relevant laws and regulations<sup>4</sup> and in accordance with the terms of its Licence;
- (iv) decommissioning: T&SCo will be responsible for the decommissioning and monitoring of:
  - (A) the Offshore Transportation and Storage System in accordance with the Petroleum Act 1998 as applied under the Energy Act 2008 (as may be amended or supplemented), and with regards to post closure obligations, T&SCo will be responsible as set out in its storage permit and licence granted by the NSTA; and
  - (B) the Onshore Transportation System in accordance with the relevant decommissioning conditions of any development/planning consent;
- (v) T&S Charges: users of the T&S Network will pay T&SCo Charges for provision of T&S services which will be regulated under the ERR;
- (vi) CO<sub>2</sub> ownership: T&SCo will certify delivery of CO<sub>2</sub> onto the T&S Network and will take title to and own the CO<sub>2</sub> and shall be responsible under UK ETS;
- (vii) government support package ("**GSP**"): T&SCo will benefit from a GSP provided by HMG to cover certain high impact, but low probability, risks beyond those which are manageable by operation of the ERR, which the investors and/or supply chain, including insurers, of T&SCo cannot take, or cannot price at an efficient level which is good value for money for UK taxpayers or consumers; and
- (viii) revenue support agreement ("**RSA**"): in the development of the revenue model for the T&S Network, HMG has identified that there may be certain structural demand related revenue risks to T&SCo, where T&SCo's actual revenues may fall short of T&SCo's Allowed Revenue under the ERR. Such demand related revenue risks will be addressed through a number of mitigation measures in the ERR and where the ERR is not sufficient, T&SCo will have access to the RSA as a mechanism which will enable the recovery by T&SCo of its Allowed Revenue in the event of a shortfall.

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<sup>4</sup> Consideration is being given to changes required to the existing third-party access rules as a result of the new regulatory regime.

## LICENCE HEADS OF TERMS

### PART I: TERMS OF THE LICENCE

1. This licence, granted under section [7] of [*the Energy Bill*] (the "**Act**"), authorises [*the relevant T&SCo*], a company registered in England and Wales under company registration number [x] ("the Licensee") whose registered office is situated at [x], to participate in:

- [operating a site for the disposal of carbon dioxide by way of geological storage; and]
- [providing a service of transporting carbon dioxide by means of a system of pipes,]

in the area specified in Schedule 1, during the period specified in paragraph 3 below, subject to:

- the standard conditions set out in Part II;
- the special conditions set out in Part III, (together "the conditions"); and
- such Schedules to the licence, if any, as may be referenced in the conditions or the terms of the licence.

2. This licence is subject to transfer, modification or amendment in accordance with the provisions of the Act, or the conditions.

3. This licence shall come into force on [x] and unless revoked in accordance with Schedule 2 or any conditions providing for revocation, shall continue until determined by not less than 25 years' notice in writing given by the Regulator to the Licensee.

**Note:** *the duration of the ERR will cover the construction, operational, closure, and post-closure (including decommissioning) phases of the T&S network. The Licence shall come into force on the date of Licence award and, unless revoked in accordance with certain limited revocation events, shall continue until terminated by a specified period of notice given by the Regulator to the Licensee.*

4. Without prejudice to sections 11 and 23(1) of the Interpretation Act 1978, Parts I to III of this licence and its Schedules shall be interpreted and construed in like manner as an Act of Parliament passed after the commencement of the Interpretation Act 1978.

- **Note:** *other more mechanical and interpretive provisions, such as provisions dealing with service of documents, may also be included here in due course.*

5. References in this licence to a provision of any enactment, where after the date of this licence:

- the enactment has been replaced or supplemented by another enactment; and
- such enactment incorporates a corresponding provision in relation to fundamentally the same subject matter,

shall be construed, so far as the context permits, as including a reference to the corresponding provision of that other enactment.



## PART II: STANDARD CONDITIONS

### Section A: Interpretation, Application and Payments

1.	<p><b>Definitions and interpretation</b></p>	<p>In the standard conditions unless the context otherwise requires:</p> <p><b>"Act"</b> means [<i>the Energy Bill</i>];</p> <p><b>"Affiliate"</b> means, in relation to the Licensee, any holding company of the Licensee, any subsidiary of the Licensee, or any subsidiary of a holding company of the Licensee;</p> <p><b>"Auditors"</b> means the Licensee's auditors for the time being holding office in accordance with the requirements of the Companies Act 2006;</p> <p><b>"Carbon Dioxide Storage Regulations"</b> means regulations in respect of the storage of carbon dioxide under the Energy Act 2008;</p> <p><b>"Carbon Dioxide Transportation and Storage Arrangements"</b> means arrangements between the Licensee and future Users/Users for use of the T&amp;S Network, including arrangements for the connection of future User's/User's facilities to the T&amp;S Network, and the delivery of carbon dioxide by Users at a Delivery Point;</p> <p><b>"CCS Licensee"</b> means any holder of a licence issued under [section 7 of the Act];</p> <p><b>"CCS Network Code"</b> means the document required to be prepared and maintained by the Licensee under condition B6 (CCS Network Code);</p> <p><b>"Delivery Point"</b> means a point in the T&amp;S Network, more particularly described under the CCS Network Code, at which a User delivers carbon dioxide for sequestration in a Storage Complex;</p> <p><b>"Holding company"</b> means a holding company within the meaning of section 1159 of the Companies Act 2006;</p> <p><b>"Legal Requirement"</b> means:</p> <ul style="list-style-type: none"> <li>any licences, permits and consents issued by any body of competent jurisdiction (including, for the avoidance of doubt, the consents of any devolved administration) in relation to the construction, commissioning, operation or decommissioning (and post-decommissioning monitoring) of the T&amp;S Network; and</li> <li>any Act of Parliament, subordinate legislation, ordinance, code, decision, directive, order, decree, regulation, determination or published procedure, policy or guidance of any body of competent jurisdiction (including courts and tribunals) which is legally binding on the Licensee;</li> </ul> <p><b>"NSTA"</b> means the North Sea Transition Authority, which is the trading name of the Oil and Gas Authority;</p> <p><b>"Offshore Pipeline Infrastructure"</b> means that part of the T&amp;S Network which is offshore, including the pipelines and related infrastructure from the pig trap at the Onshore Transportation System to the pig trap at the inlet to the Storage Complex, but excluding the Storage Complex and including the Terminal;</p> <p><b>"Offshore Transportation and Storage System"</b> means the Offshore Pipeline Infrastructure and any Storage Complex;</p> <p><b>"Onshore Transportation System"</b> means that part of the T&amp;S Network which is located onshore, including the pipelines and related infrastructure from the emitter(s) boundary fence to the pipeline entry pig trap at the entry to the Terminal, but excluding any part of the T&amp;S Network which constitutes the Offshore Transportation and Storage System;</p> <p><b>Note:</b> <i>the definitions of Onshore Transportation System, Offshore Transportation and Storage System, Offshore Pipeline Infrastructure and Terminal may require further adjustment.</i></p>
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		<p><b>"Regulator"</b> means the Gas and Electricity Markets Authority in its role as the economic regulator under Part 1 of the Act;</p> <p><b>"Storage Licence"</b> means the licence held by the Licensee in relation to the Storage Complex under the Carbon Dioxide Storage Regulations;</p> <p><b>"Storage Permit"</b> means the storage permit held by the Licensee in relation to the Storage Complex in accordance with the Energy Act 2008;</p> <p><b>"Storage Complex"</b> has the meaning given to it in the Carbon Dioxide Storage Regulations;</p> <p><b>"System Operation"</b> means those activities and functions of the Licensee which relate to the operation of the T&amp;S Network, being the allocation of capacity to Users, the management and system planning of that capacity, and constraint management;</p> <p><b>"T&amp;S Assets"</b> means all the infrastructure and equipment that makes up the T&amp;S Network;</p> <p><b>"T&amp;S Business"</b> means the development and operation of a network for the transportation and storage of carbon dioxide;</p> <p><b>"T&amp;S Network"</b> means the Onshore Transportation System and the Offshore Transportation and Storage System, and includes any part of them;</p> <p><b>"Terminal"</b> means the onshore terminal facility and all ancillaries between the pig trap at the Onshore Transportation System and the pipeline pig trap at the Onshore Pipeline Infrastructure, which is deemed to form part of the Offshore Transportation and Storage System and not form part of the Onshore Transportation System;</p> <p><b>"UK ETS"</b> means the UK Emissions Trading Scheme established under the Greenhouse Gas Emissions Trading Scheme Order 2020 (as amended or supplemented by other legislation) and any guidance issued in relation to it;</p> <p><b>"User"</b> means a person other than the Licensee or any other holder of a licence issued under [section 7 of the Act] who is for the time being bound by the CCS Network Code; and</p> <p>Unless the context otherwise requires, <b>"carbon dioxide"</b> means a gaseous stream consisting primarily of carbon dioxide (CO<sub>2</sub>) molecules and references to carbon dioxide being delivered by a User to the T&amp;S Network assume that the gaseous stream being delivered is carbon dioxide.</p>
2.	<p><b>Payments by the Licensee to the Regulator</b></p>	<p>2.1 The Licensee shall pay to the Regulator such amounts as are determined by or under this condition.</p> <p>2.2 In respect of each Relevant Year at the beginning of which the Licensee holds this licence, the Licensee shall pay to the Regulator an amount which is the Appropriate Proportion of the Regulator Costs during the year in question.</p> <p>2.3 In this condition:</p> <p>(a) "Regulator Costs" means costs estimated by the Regulator as likely to be or have been the costs of the Regulator in performing its functions under the Act, calculated in accordance with the principles determined by the Regulator for the purpose of this condition generally (after consultation with the Licensee and others likely to be affected by the application of such principles) and notified to the Licensee;</p> <p>(b) "Appropriate Proportion" means the proportion of the Regulator Costs attributable to the Licensee in accordance with the principles determined by the Regulator for the purposes of this condition generally (after consultation with the Licensee and others likely to</p>

		<p>be affected by the application of those principles) and notified to the Licensee; and</p> <p>(c) "Relevant Year" means a year beginning on 1 April of each calendar year and ending on 31 March of the following calendar year.</p> <p><b>Note:</b> <i>the apportionment of the costs of the Regulator is an issue that is being further considered.</i></p>
3.	<b>T&amp;S Network Area</b>	<p>3.1 This licence is granted for the "[name of the relevant T&amp;S Network to be inserted]" within the Specified Area (stated in Schedule 1 (Specified Area) of this licence) and more particularly defined in condition A3.2.</p> <p>3.2 In this condition, "[name of the relevant T&amp;S Network to be inserted]" means the T&amp;S Network to be built, operated and maintained by the Licensee of which:</p> <p>(a) the geographical location of the Onshore Transportation System is identified in Annex A to this Section A, as expanded or varied in accordance with the terms of this licence; and</p> <p>(b) the assets of the Offshore Transportation and Storage System are identified in Annex A to this Section A, as expanded or varied in accordance with the terms of this licence.</p>

## **Annex A to Section A**

### **1. Geographical location of the Onshore Transportation Network**

*[To be inserted]*

### **2. Assets of the Offshore Transportation Network**

*[To be inserted]*

## Section B: General

1.	<b>Conduct of T&amp;S Business</b>	<p>1.1 The Licensee shall conduct its T&amp;S Business in the manner best calculated to secure that neither:</p> <ul style="list-style-type: none"> <li>(a) the Licensee or any affiliate or related undertaking of the licensee, nor</li> <li>(b) any User or future User,</li> </ul> <p>obtains any unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the Licensee, one in connection with a business other than the T&amp;S Business.</p>
2.	<b>Requirement to enter into transportation and storage arrangements in conformity with CCS Network Code</b>	<p>2.1 Unless otherwise agreed by the Regulator, the Licensee shall only enter into Carbon Dioxide Transportation and Storage Arrangements which are in conformity with any relevant provisions of the CCS Network Code.</p> <p><i>Note: as the CCS Network Code will include template Connection Agreements and Construction Agreements, this condition will also capture the requirement for those contracts to be on standard terms.</i></p>
3.	<b>Access to T&amp;S Network</b>	<p>3.1 The Licensee must offer access to its T&amp;S Network in accordance with the CCS Network Code and any relevant law or regulation.</p> <p>3.2 The Licensee must make available to Users capacity in the T&amp;S Network up to the Obligated Network Capacity, where "Obligated Network Capacity" is the total capacity available, determined by the most restricted communal element of the T&amp;S Network.</p> <p><i>Note: the process and timing for determination of the Obligated Network Capacity are currently being developed. It is envisaged that the Regulator will play a role in the final determination of the Obligated Network Capacity.</i></p>
4.	<b>System development obligations</b>	<p>4.1 The Licensee must develop, maintain and operate the T&amp;S Network in an efficient, economic and co-ordinated manner, having regard to, among other things:</p> <ul style="list-style-type: none"> <li>(a) the duty to offer access in accordance with condition B3 (Access to the T&amp;S Network); and</li> <li>(b) the Licensee's obligations under the CCS Network Code.</li> </ul> <p><i>Note: further consideration is being given to any other specific obligations that the Licensee may have in respect of the development, maintenance and operation of the T&amp;S Network.</i></p>
5.	<b>System Development Statement</b>	<p>5.1 On an annual basis, by the start of each Charging Year, the Licensee shall prepare and publish a System Development Statement which sets out a forward-looking summary of the development activities that T&amp;SCo is or will be carrying out in discharging its obligations under condition B4 (System development obligations).</p> <p>5.2 The System Development Statement shall also include information about the Licensee's decommissioning obligations, and proposals for the discharge of those obligations, in relation to the Onshore Transportation System and the Offshore Transportation and Storage System, as the case may be.</p>

6.	<b>CCS Network Code</b>	<p>6.1 The Licensee shall establish the CCS Network Code which is designed to facilitate the achievement of the following objectives:</p> <ul style="list-style-type: none"> <li>(a) the safe, efficient and economic operation of the T&amp;S Network to which this licence relates (including the coordinated, safe, efficient and economic operation of the T&amp;S Networks of one or more other CCS Licensees where relevant); and</li> <li>(b) the efficient discharge of the Licensee's obligations under this licence,</li> </ul> <p>together, the "<b>Relevant Objectives</b>".</p> <p>6.2 The Licensee shall:</p> <ul style="list-style-type: none"> <li>(a) prepare and maintain a document (the "<b>CCS Network Code</b>") setting out (together with the terms of any other arrangements which the licensee considers it appropriate to set out in the document) the terms of the arrangements made in pursuance of condition B6.1 save in so far as they relate to matters contained in such an agreement, or an agreement of such a class or description, as may be designated by the Regulator for the purposes of this condition;</li> <li>(b) become legally bound by the provisions of the CCS Network Code by signing or acceding to the Code Agreement; and</li> <li>(c) together with other CCS Licensees: <ul style="list-style-type: none"> <li>(i) establish and operate procedures for the modification of the CCS Network Code so as to better facilitate the achievement of the Relevant Objectives; and</li> <li>(ii) establish, develop and operate (or otherwise procure the operation of (including without limitation on a sub-contracted basis)) arrangements for the administration of the CCS Network Code (including its governance and modification), as well as the maintenance of a portal or website for the publication of the CCS Network Code and any information required to be published or otherwise disseminated pursuant to the provisions of the CCS Network Code.</li> </ul> </li> </ul> <p><i><b>Note:</b> it is envisaged that the costs of administration of the CCS Network Code will be shared between different CCS Licensees. The details of this will be further considered at a later stage.</i></p> <p>6.3 The procedures for the modification of the CCS Network Code shall include provision for the expedited consideration of Urgent Modification Proposals, where an "Urgent Modification Proposal" is a proposal for a modification to the CCS Network Code which the Regulator agrees is urgent because it deals with an urgent issue relating to the safe and/or efficient operation of the T&amp;S Network.</p> <p>6.4 In this condition B6 (CCS Network Code), "Specified Code Review" means a review of one or more matters which the Regulator considers likely to:</p> <ul style="list-style-type: none"> <li>(a) relate to the CCS Network Code; and</li> <li>(b) be of particular significance in relation to the Regulator's principal objective and/or general duties (under section 1 of the Act),</li> </ul> <p>concerning which the Regulator has issued a notice to the CCS Network Code parties stating that the review will constitute a Specified Code</p>
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		<p>Review, the start date of the Specified Code Review, and the matters that will fall within the scope of the review.</p> <p>6.5 The CCS Network Code modification procedures shall provide that proposals for the modification of the CCS Network Code falling within the scope of a Specified Code Review may not be made while the Regulator is undertaking the Specified Code Review except:</p> <ul style="list-style-type: none"> <li>(a) where the Regulator determines that the modification proposal may be made, having taken into account (among other things) the urgency of the subject matter of the proposal; or</li> <li>(b) at the direction of, or by, the Regulator.</li> </ul> <p>6.6 The CCS Network Code modification procedure shall provide that, having completed a Specified Code Review, the Regulator may require the Licensee to comply with a direction of the Regulator to make a modification to the CCS Network Code which, in the opinion of the Regulator, will, as compared to the existing provisions of the CCS Network Code, better facilitate the achievement of the Relevant Objectives.</p>
7.	<b>Regulatory Accounts</b>	<p>7.1 The Licensee must prepare regulatory accounts for each Charging Year, for each of the following activities of the Licensee, where applicable:</p> <ul style="list-style-type: none"> <li>(a) the Onshore Transportation System;</li> <li>(b) the Offshore Pipeline Infrastructure;</li> <li>(c) any Storage Complex;</li> <li>(d) System Operation;</li> <li>(e) other activities to which this licence relates and to which the Regulator has given its consent in accordance with condition B11 (Restriction on activity and financial ring-fencing); and</li> <li>(f) the whole business to which this licence relates, as represented by the consolidation of the businesses and activities referred to within sub-paragraphs (a) to (e), where applicable.</li> </ul> <p>7.2 Except and so far as the Regulator otherwise consents, the regulatory accounts should be prepared in accordance with the requirements of condition B17.</p> <p>7.3 Unless the Regulator otherwise directs, after consulting the Licensee, the Licensee shall publish its regulatory accounts with the exception of any part of such regulatory accounts agreed by the Regulator in writing to be confidential.</p> <p>7.4 Unless the Regulator otherwise consents, the Licensee shall:</p> <ul style="list-style-type: none"> <li>(a) procure, in relation to its regulatory accounts an audit by an appropriate auditor and a report by that auditor, addressed to the Regulator, stating whether in the auditor's opinion those accounts fairly present the financial position, financial performance and cash flows of or reasonably attributable to the different parts of the Licensee's business in accordance with the requirements of this condition; and</li> <li>(b) deliver to the Regulator those accounts and the auditor's reports as soon as is reasonably practicable, and in any event prior to their publication and not later than 31 July following the end of the Charging Year to which the regulatory accounts relate.</li> </ul>

		<ul style="list-style-type: none"> <li><b>Note:</b> details of the regulatory reporting regime to be developed in due course. We would expect to follow relevant precedents from existing regulated networks.</li> </ul>
8.	<b>Disposal of assets and restrictions on charges</b>	<p>8.1 The Licensee must not, except with the consent of the Regulator:</p> <ul style="list-style-type: none"> <li>(a) dispose of or relinquish operational control over any T&amp;S Asset (in whole or in part);</li> <li>(b) grant any mortgage, charge, or other form of security over any receivables, contractual rights and/or any T&amp;S Asset.</li> </ul> <p><b>Note:</b> this condition will be reviewed in the context of any proposed financing structures.</p>
9.	<b>Provision of information to the Regulator</b>	<p>9.1 The Licensee shall, in addition to any requirements under the Act, furnish to the Regulator, in such manner and at such times as the Regulator may reasonably require, such information and shall procure and furnish to it such reports, as the Regulator may reasonably require or as may be necessary for the purpose of performing:</p> <ul style="list-style-type: none"> <li>(a) any functions transferred to or conferred on it by or under the Act; and</li> <li>(b) the regulatory functions conferred on the Regulator by other statute or enactment.</li> </ul> <p>9.2 The Licensee shall procure from each company or other person which the Licensee knows or reasonably should know is at any time an ultimate controller of the Licensee a legally enforceable undertaking in favour of the Licensee in a form specified by the Regulator that the ultimate controller ("the information covenantor") will give to the Licensee, and will procure that any person (including, without limitation, a corporate body) which is a subsidiary of, or is controlled by, the information covenantor (other than the Licensee and the Licensee's subsidiaries) will give to the Licensee, all such information as may be necessary to enable the Licensee to comply fully with the obligation imposed on it in condition B9.1. Such undertaking shall be obtained within 7 days of such corporate body or other person in question becoming an ultimate controller of the Licensee and shall remain in force for so long as the Licensee remains the holder of this Licence and the information covenantor remains an ultimate controller of the Licensee.</p> <p><b>Note:</b> specific areas of information provision (e.g. in relation to the results of On-going Devex) remains under consideration.</p>
10.	<b>Prohibition of cross-subsidies</b>	<p>10.1 The Licensee shall procure that the T&amp;S Business shall not give any cross-subsidy to, or receive any cross-subsidy from, any other business of the Licensee or of an affiliate or related undertaking of the Licensee.</p> <p>10.2 The Licensee may apply to the Regulator to disapply condition B10.1.</p>
11.	<b>Restriction on activity and financial ring fencing</b>	<p>11.1 The Licensee shall not, without the prior written consent of the Regulator, conduct any business or carry on any activity other than the T&amp;S Business.</p> <p>11.2 The Licensee shall not, without the prior written consent of the Regulator, hold or acquire shares or other investments of any kind except:</p> <ul style="list-style-type: none"> <li>(a) shares or other investments in a body corporate the sole activity of which is to carry on the activities of the T&amp;S Business;</li> </ul>



		<p>(b) shares or other investments in a body corporate which is a subsidiary of the Licensee and incorporated by it solely for the purpose of raising finance for the T&amp;S Business; or</p> <p>(c) investments acquired in the usual and ordinary course of the Licensee's treasury management operations, subject to the Licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or, in the absence of any such requirement, recommended) by the UK listing authority (or a successor body) from time to time for listed companies in the United Kingdom.</p> <p><b>Note:</b> paragraph (c) above may need to include an express carve-out to allow for the investment of the decommissioning fund.</p>
12.	<b>Business separation</b>	<p>12.1 Without prejudice to the Licensee's other obligations under this licence, the Licensee must at all times conduct the T&amp;S Business separately to any other businesses carried out by any Affiliates of the Licensee.</p> <p>12.2 Without prejudice to the generality of condition B12.1, in order to comply with that paragraph the Licensee must in particular ensure that at a minimum:</p> <p>(a) any businesses other than the T&amp;S Business are conducted entirely by corporate entities which are separate from that of the Licensee;</p> <p>(b) the Licensee's accounts are maintained, and to the extent required by law audited and reported on, separately from those of any corporate entity which conducts any other business;</p> <p>(c) persons engaged in, or in respect of, the management or operation of the Licensee (up to and including the members of the senior management team reporting to the Licensee's board of directors) are not simultaneously engaged either full or part time in respect of any other business or any corporate entity which conducts any other business without the prior consent of the Regulator;</p> <p>(d) arrangements are in place which are effective in restricting access by persons engaged in or in respect of the management or operation of any other business to any part of any premises which is occupied by persons engaged in, or in respect of, the management and operation of the T&amp;S Business, unless with the prior consent of the Regulator; and</p> <p>(e) the systems for the recording, processing or storage of information and data used by persons engaged in or in respect of, the management or operation of the T&amp;S Business cannot be accessed by persons engaged in, or engaged in respect of, the management or operation of any other business.</p> <p>12.3 The Licensee shall ensure, following consultation with the Regulator, that a compliance officer is appointed for the purpose of facilitating compliance by the Licensee with the business separation duties pursuant to this condition.</p> <p>12.4 The duties and tasks of the compliance officer shall include:</p> <p>(a) providing advice and information to the Licensee (including directors of the Licensee) and for the purpose of ensuring the licensee's compliance with the specified business separation duties;</p>

		<p>(b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the specified business separation duties; and</p> <p>(c) providing information about compliance with the duties for the purpose of the compliance statement to be prepared by the Licensee under condition B12.5.</p> <p>12.5 The Licensee shall, within [90 days] of Licence Award and after that every 12 months, provide to the Regulator a report setting out details of the activities of the compliance officer during the relevant period covered by the compliance report, as well the procedures in place to ensure that the Licensee is complying with this condition.</p> <p>12.6 The compliance report referred to in condition B12.5 shall be accompanied by a compliance certificate, in a form approved by the Regulator, certifying the accuracy of the compliance report, and which has been approved by a resolution of the Licensee's board of directors and signed by a director of the Licensee.</p>
13.	<b>Availability of resources</b>	<p>13.1 The Licensee shall at all times act in a manner calculated to secure that it has available to itself such resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents and facilities, on such terms and with such rights, as shall ensure that it is at all times able:</p> <p>(a) to properly and efficiently carry on the T&amp;S Business; and</p> <p>(b) to comply in all respects with its obligations under this licence, such obligations under the [the Act] as apply to those activities authorised by this licence and the CCS Network Code.</p> <p>13.2 The Licensee must by 31 July each year give the Regulator a certificate that has been approved by a resolution of the Licensee's board of directors and signed by a director of the Licensee pursuant to that resolution, stating that:</p> <p>(a) after making enquiries and having taken into account in particular (but without limitation) any dividend or other distribution that might reasonably be expected to be declared or paid by the Licensee, the Licensee's directors have a reasonable expectation that the Licensee will have sufficient financial resources and financial facilities available to itself to enable the Licensee to carry on the T&amp;S Business for a period of 12 months from the date of the certificate;</p> <p>(b) after making enquiries the Licensee's directors have a reasonable expectation that the Licensee will have sufficient operational resources including management, personnel, fixed and moveable assets, rights, licences, consents, and facilities available to itself to enable the Licensee to carry on the T&amp;S Business for a period of 12 months from the date of the certificate; and</p> <p>(c) after making enquiries the Licensee's directors consider that, at the time of their approval of this certificate, the Licensee is in compliance in all material respects with all of the obligations imposed on it by the Licence.</p> <p>13.3 The Licensee shall only declare or pay dividends or otherwise make distributions in accordance with a distribution policy which has been approved by the board of the Licensee and which complies with the principle that the dividends or distributions declared or paid will not impair the ability of the Licensee to finance the T&amp;S Business.</p>

14.	<b>Undertaking from Ultimate Controller</b>	<p>14.1 The Licensee shall procure from each company or other person which is at any time an ultimate controller of the Licensee a legally enforceable undertaking in favour of the Licensee in the form specified by the Regulator that that ultimate controller ("the covenantor"):</p> <ul style="list-style-type: none"> <li>(a) has, and will at all times exercise, the necessary skills, diligence, prudence and foresight which would be expected from a skilled and experienced operator engaged in the same or similar undertaking as the Licensee and will procure that any person (including, without limitation, a corporate body) which is a subsidiary of or controlled by, the covenantor (other than the Licensee) has (and will at all times exercise) such skills, diligence, prudence and foresight;</li> <li>(b) is a Fit and Proper Person and that any person (including, without limitation, a corporate body) which is a subsidiary of or controlled by, the covenantor (other than the Licensee) is a Fit and Proper Person; and</li> <li>(c) will refrain from any action, and will procure that any person (including, without limitation, a corporate body) which is a subsidiary of or controlled by, the covenantor (other than the Licensee and its subsidiaries) will refrain from any action, which would then be likely to cause the Licensee to breach any of its obligations under the Act or this licence.</li> </ul> <p>14.2 The undertaking referred to in condition B14.1 shall be obtained within 7 days of the company or other person in question becoming an ultimate controller and shall remain in force for as long as the Licensee remains the holder of this licence and the covenantor remains an ultimate controller of the Licensee.</p> <p>14.3 In this condition, "Fit and Proper Person" means, with respect to the relevant company or other person, that:</p> <ul style="list-style-type: none"> <li>(a) the relevant company or other person (or any person with significant managerial responsibility or influence in the relevant company or other person) does not have any criminal convictions in any jurisdiction (other than offences under the Road Traffic Offenders Act 1988 or convictions in respect of which the person has become rehabilitated under the Rehabilitation of Offenders Act 1974);</li> <li>(b) the relevant company or other person (or any person with significant managerial responsibility or influence in the relevant company or other person) are not disqualified to any extent from acting in connection with the affairs of a company in any jurisdiction;</li> <li>(c) the relevant company or other person (or any person with significant managerial responsibility or influence in the relevant company or other person) are not: <ul style="list-style-type: none"> <li>(i) an undischarged bankrupt;</li> <li>(ii) is, or has been, subject to insolvency proceedings (including any period of receivership or administration in connection with the affairs of a company); or</li> <li>(iii) is, or has been, subject to any County Court Judgements (CCJs)</li> <li>(iv) in any jurisdiction;</li> </ul> </li> <li>(d) the relevant company or other person (or any person with significant managerial responsibility or influence in the relevant company or other person) or any related person has not been involved in any compliance or</li> </ul>
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		<p>enforcement investigations conducted by the Regulator in the last 3 years;</p> <p>(e) the relevant company or other person has not been a person with significant managerial responsibility or influence at a current or former CCS Licensee in respect of whose T&amp;S Network the Regulator issued a T&amp;SCo of Last Resort Direction (including where they were a person with significant managerial responsibility or influence at that CCS Licensee within the 12 months prior to the T&amp;SCo of Last Resort Direction being issued);</p> <p>(f) the relevant company or other person (or any person with significant managerial responsibility or influence in the relevant company or other person) or any related person has not:</p> <p>(i) in relation to activities regulated by any other regulatory body ever been refused, had revoked, restricted, or terminated any licence, authorisation, registration, notification, membership or other permission granted by any such body;</p> <p>(ii) ever been found to be in breach of either Articles 101 or 102 of the Treaty on the Functioning of the EU or Chapter I or Chapter II of the Competition Act 1998.</p>
15.	<b>Financial Robustness Requirements</b>	<i>Note: the working assumption is that credit rating requirements will not apply at Licence Award. Further consideration is being given to other financial robustness requirements which may be included in the Licence.</i>
16.	<b>Indebtedness</b>	<p>16.1 In addition to the requirements of condition B8 (Disposal of assets and restrictions on charges over receivables), the Licensee shall not without the prior written consent of the Regulator (following the disclosure by the Licensee of all material facts):</p> <p>(a) create or continue or permit to remain in effect any mortgage, charge, pledge, lien or other form of security or encumbrance whatsoever, undertake any indebtedness to any other person or enter into or continue or permit to remain in effect any guarantee or any obligation otherwise than:</p> <p>(i) on an arm's length basis;</p> <p>(ii) on normal commercial terms;</p> <p>(iii) for a permitted purpose; and</p> <p>(iv) if the transaction is within the ambit of condition B8 (Disposal of assets and restrictions on charges over receivables) in accordance with that condition;</p> <p>(b) transfer, lease, license or lend any sum or sums, asset, right or benefit to any associate of the Licensee otherwise than by way of:</p> <p>(i) a dividend or other distribution out of distributable reserves;</p> <p>(ii) repayment of capital;</p> <p>(iii) payment properly due for any goods, services or assets provided on an arm's length basis and on normal commercial terms;</p> <p>(iv) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on</p>

		<p>normal commercial terms and made in compliance with the payment condition referred to in condition B16.2;</p> <p>(v) repayment of or payment of interest on a loan not prohibited by sub-paragraph (a);</p> <p>(vi) payments for group corporation tax relief calculated on a basis not exceeding the value of the benefit received; or</p> <p>(vii) an acquisition of shares or other investments in conformity with paragraph 2 of condition B11 (Restriction on activity and financial ring fencing) made on an arm's length basis and on normal commercial terms;</p> <p>(c) enter into an agreement or incur a commitment incorporating a cross-default obligation or continue or permit to remain in effect any agreement or commitment incorporating a cross-default obligation, provided, however, that the provisions of sub-paragraph (c) shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of sub-paragraph (a).</p> <p>16.2 The payment condition referred to in condition B16.1(b)(iv) is that the consideration due in respect of the transaction in question is paid in full when the transaction is entered into unless either:</p> <p>(a) the counter-party to the transaction has and maintains until payment is made in full an investment grade issuer credit rating; or</p> <p>(b) the obligations of the counter-party to the transaction are fully and unconditionally guaranteed throughout the period during which any part of the consideration remains outstanding by a guarantor which has and maintains an investment grade issuer credit rating.</p>
17.	<b>Regulatory Reporting</b>	<p>17.1 The Licensee must comply with the regulatory and revenue reporting obligations which are to be set out in the regulatory and revenue reporting guidance published by the Regulator, providing all required information using the templates included in the guidance, by 31 July of the relevant year to which the information relates.</p> <p>17.2 The information provided by the Licensee must be accompanied by a report from an auditor, confirming that the information complies with the requirements of the guidance and the amounts and figures presented are in accordance with the records which have been maintained by the Licensee.</p> <p><i>Note: it is intended that guidance on regulatory reporting will be developed by the Regulator.</i></p>
18.	<b>T&amp;SCo of Last Resort</b>	<p>18.1 The Licensee shall at all times comply with any T&amp;SCo of Last Resort Direction that has been given or varied by the Regulator pursuant to the licence.</p> <p>18.2 The Regulator may, following consultation with the Licensee and any other CCS Licensees affected thereby, give a T&amp;SCo of Last Resort Direction to provide carbon dioxide transport and storage services for a period not exceeding [five years] where the Regulator intends to revoke the licence of another CCS Licensee.</p> <p>18.3 The Regulator may only give a T&amp;SCo of Last Resort Direction to the Licensee if:</p>

		<ul style="list-style-type: none"> <li>(a) it considers that the Licensee could comply with the T&amp;SCo of Last Resort Direction without materially prejudicing the Licensee's ability to: <ul style="list-style-type: none"> <li>(i) continue to carry out its activities pursuant to this licence, and</li> <li>(ii) fulfil its contractual obligations under the CCS Network Code;</li> </ul> </li> <li>(b) it is satisfied that the Licensee is able to operate the relevant T&amp;S Network in an efficient and economic manner;</li> <li>(c) it is satisfied that the Licensee will be able to finance the activities which are the subject of obligations to be imposed on it by or by virtue of the T&amp;SCo of Last Resort Direction;</li> <li>(d) it is satisfied that the Licensee will be able to recover the costs of operating the relevant T&amp;S Network in an economic and efficient manner, including a reasonable rate of return;</li> <li>(e) it has given notice to the Licensee, pursuant to this condition, of its intention to give a T&amp;SCo of Last Resort Direction and specified a reasonable period (not being less than 14 days from the date of publication of the notice) within which the Licensee may make representations to the proposed T&amp;SCo of Last Resort Direction; and</li> <li>(f) it has considered any representations made by the Licensee and not withdrawn the notice.</li> </ul> <p>18.4 A T&amp;SCo of Last Resort Direction shall not take effect unless the Regulator has formally proposed modifications to the conditions of this licence, pursuant to [section 13 of the Act], that will prescribe the rights and obligations of the Licensee with respect to the relevant T&amp;S Network, including the annual revenue that the Licensee is able to earn for providing carbon dioxide transport and storage services through the relevant T&amp;S Network in an economic and efficient manner.</p> <p>18.5 "T&amp;SCo of Last Resort Direction" means a direction issued by the Regulator pursuant to condition B18.2.</p> <p><i>Note: It is intended that a T&amp;SCo of Last Resort regime will only be applied where reasonably practicable to implement, similarly to the regime that applies in the context of energy suppliers and networks.</i></p>
19.	<b>Procurement obligations</b>	<p>19.1 The Licensee must ensure that all goods and services which are procured by the Licensee in the course of the Licensee carrying out the T&amp;S Business are procured on terms which are designed to achieve the most efficient procurement of those goods and services.</p> <p>19.2 Without limiting the generality of condition B19.1, when the Licensee is procuring goods and services in the carrying out of the T&amp;S Business, the Licensee must:</p> <ul style="list-style-type: none"> <li>(a) follow procurement processes which: <ul style="list-style-type: none"> <li>(i) treat potential providers equally and without discrimination;</li> <li>(ii) are transparent;</li> <li>(iii) are designed to ensure an effective competition by ensuring: <ul style="list-style-type: none"> <li>(A) such processes do not exclude particular providers, or types/categories of providers,</li> </ul> </li> </ul> </li> </ul>

		<p>or otherwise artificially restrict or narrow competition;</p> <p>(B) any contract award decision is to be made on the basis of the most economically advantageous tenders, or some other clear, transparent and objective award criteria, which in each case are made available in advance to potential providers, are linked to a clear and objective scoring methodology and linked to the subject matter of the contract being procured; and</p> <p>(iv) are consistent with industry best practice for the procurement of such goods and services;</p> <p>(b) act in a transparent and proportionate manner;</p> <p>(c) carry out a competitive tender process or where this is not possible, incorporate appropriate procurement benchmarking in its procurement processes;</p> <p>(d) ensure that any contracts entered into as a result of the procurement process are:</p> <p>(i) on an arm's length basis; and</p> <p>(ii) on normal commercial terms.</p>
20.	<b>Revocation of the Licence</b>	<p>20.1 In addition to the rights of revocation set out in Schedule 2 (Revocation), the Regulator may also at any time revoke the licence by giving not less than 30 days' notice where the following events occur:</p> <p>(a) revocation of any legal permission which has a material adverse effect on the operation of the T&amp;S Network; or</p> <p>(b) issuance of a Discontinuation Notice by the Secretary of State.</p> <p><b>Note:</b> the revocation events to be included in this condition are subject to further consideration and development.</p>

## Section C: Onshore Standard Conditions

21.	<b>Application of Onshore Standard Conditions</b>	21.1	These standard conditions apply where any part of the T&S Network to which this licence applies includes an Onshore Transportation System.
22.	<b>Obligations relating to onshore transport of CO<sub>2</sub> and other obligations</b>	22.1	The Licensee shall comply with all Legal Requirements that apply to the Onshore Transportation System.
23.	<b>Decommissioning obligations</b>	23.1	The Licensee shall decommission the Onshore Transportation System in accordance with all Legal Requirements applying to the decommissioning of onshore facilities.
24.	<b>UK Emissions Trading Scheme</b>	24.1	The Licensee shall comply with all obligations arising under the UK ETS in relation to all carbon dioxide that is delivered by Users into the Onshore Transportation System.  <i>Note: obligations in respect of UK ETS remain subject to further consideration.</i>
25.	<b>Metering</b>	25.1	The Licensee shall be responsible for ensuring that appropriate metering equipment is installed, operated and maintained to accurately measure the rate of flow and composition of carbon dioxide being delivered by Users into the T&S Network.
		25.2	Without limiting the generality of condition C5.1, the Licensee shall ensure that the metering on the T&S Network complies with the requirements of:  (a) UK ETS; (b) NSTA; (c) the CCUS Network Code; and (d) any other Legal Requirements,  including but not limited to any requirements in respect of the location and specification of the metering and any requirements to identify CO <sub>2</sub> leakage on the Onshore Transportation System, Offshore Transportation and Storage System and any Storage Complex.
		25.3	The Regulator may require the Licensee to provide evidence of verification by an independent technical expert of compliance of the metering equipment with the relevant standards and levels of accuracy, as required by this condition.  • <i>Note: metering obligations remain subject to further consideration.</i>
26.	<b>Obligations in relation to carbon dioxide storage</b>	26.1	The Licensee shall ensure that any carbon dioxide that the Licensee accepts is contained within the T&S Network in accordance with the requirements of the Licence and either:  (a) stored in a Storage Complex in relation to which the Licensee holds a Storage Licence and Storage Permit (where the Offshore Transportation and Storage System is also operated by the Licensee); or  (b) delivered to an Onshore Transportation System or an Offshore Transportation and Storage System operated by another CCS Licensee.



## Section D: Offshore Standard Conditions

1.	<b>Application of Offshore Standard Conditions</b>	1.1 These standard conditions apply where any part of the T&S Network to which this licence applies includes an Offshore Transportation and Storage System.
2.	<b>Obligations relating to offshore transport of CO<sub>2</sub> and other obligations</b>	2.1 The Licensee shall comply with all Legal Requirements that apply to the Offshore Transportation and Storage System.
3.	<b>Decommissioning obligations</b>	<p>3.1 The Licensee shall decommission the Offshore Transport System in accordance with all Legal Requirements applying to the decommissioning of offshore facilities.</p> <p>3.2 The Licensee shall provide the Regulator with a copy of the Offshore Decommissioning Plan promptly after the Offshore Decommissioning Plan is approved by the Secretary of State (whether with or without modifications and unconditionally or subject to conditions) in accordance with the Petroleum Act 1998.</p>
4.	<b>UK Emissions Trading Scheme</b>	<p>4.1 The Licensee shall comply with all obligations arising under the UK ETS in relation to all carbon dioxide that is delivered to the Offshore Transportation and Storage System.</p> <p><i>Note: UK ETS obligations remain subject to further consideration.</i></p>
5.	<b>Metering</b>	<p>5.1 The Licensee shall be responsible for ensuring that appropriate metering equipment is installed, operated and maintained to accurately measure the rate of flow and composition of carbon dioxide being delivered by Users into the T&amp;S Network.</p> <p>5.2 Without limiting the generality of condition C5.1, the Licensee shall ensure that the metering on the T&amp;S Network complies with the requirements of:</p> <ul style="list-style-type: none"> <li>(a) UK ETS;</li> <li>(b) NSTA;</li> <li>(c) the CCUS Network Code; and</li> <li>(d) any other Legal Requirements,</li> </ul> <p>including but not limited to any requirements in respect of the location and specification of the metering and any requirements to identify Co<sub>2</sub> leakage on the Onshore Transportation System, Offshore Transportation and Storage System and any Storage Complex.</p> <p>5.3 The Regulator may require the Licensee to provide evidence of verification by an independent technical expert of compliance of the metering equipment with the relevant standards and levels of accuracy, as required by this condition.</p> <p><i>Note: metering obligations remain subject to further consideration.</i></p>

6.	<b>Obligations in relation to carbon dioxide storage</b>	<p>6.1 The Licensee shall ensure that any carbon dioxide that the Licensee accepts is contained within the T&amp;S Network in accordance with the requirements of the Licence and either:</p> <ul style="list-style-type: none"> <li>(a) stored in a Storage Complex in relation to which the Licensee holds a Storage Licence and Storage Permit; or</li> <li>(b) delivered to an Onshore Transportation System or Offshore Transportation and Storage System operated by another CCS Licensee.</li> </ul>
7.	<b>Storage Licence and Storage Permit</b>	<p>7.1 Without limiting the generality of condition D2 (Obligations relating to offshore transport of CO<sub>2</sub> and other obligations), the Licensee shall comply with the terms of the Licensee's Storage Licence and Storage Permit.</p>

**PART III: SPECIAL CONDITIONS**

**Section E: T&S Network Development**

1.	<b>T&amp;S Network development</b>	<p>1.1 In the First Regulatory Period the Licensee shall:</p> <ul style="list-style-type: none"> <li>(a) comply with its obligations under section F (Construction Phase Conditions) in relation to the Handover Works;</li> <li>(b) comply with its obligations under section G (Commissioning Phase Conditions) in relation to the Commissioning Activities; and</li> <li>(c) comply with the Approved Project Development Plan in relation to the development of the Approved T&amp;S Network.</li> </ul>
2.	<b>T&amp;S Network expansion and additional construction, commissioning and operational phases</b>	<p>2.1 The Approved Project Development Plan sets out the baseline for the Licensee's works and activities in the First Regulatory Period, as summarised in condition E1 (T&amp;S Network development) above.</p> <p>2.2 Sections F and G detail how the Licensee must complete the Handover Works and subsequently the Commissioning Activities to achieve the "initial" COD, which triggers the ability for the Licensee to begin to recover Allowable Revenue via Charges.</p> <p>2.3 However, it is recognised that the Licensee will continue to develop and enhance the T&amp;S Network (as against the Approved T&amp;S Network envisaged in the Approved Project Development Plan agreed at Licence Award).</p> <p>2.4 The further development of the T&amp;S Network may result in Changes in Scope (for example where On-going Devex envisaged in the Approved Project Development Plan reaches a stage where the Licensee can commence the associated capex works which are not assessed as part of the Initial Settlement.</p> <p>2.5 The impacts of any Changes in Scope are to be determined by the Regulator (see conditions F12, G12 and H23) but may result in additional FIDs, construction phases and commissioning phases outside of the scope of the Handover Works and Commissioning Activities. In such cases, the additional FIDs, construction phases and commissioning phases would not impact the Licensee's completion of the Handover Works, Commissioning Activities or the achievement of the "initial" COD (as described in condition E2.2 above) and would therefore not impact the Licensee's ability to recover Allowable Revenue via Charges in respect of the "initial" COD.</p> <p>2.6 Where the Regulator determines that a Change in Scope will require an additional construction phase and commissioning phase, it is envisaged that such phases will follow the same processes and principles as set out in Sections F and G (for example with the relevant costs during the construction and commissioning phases accruing to an SRAV before transferring to the RAV at the relevant COD, which is also the point that the Licensee's ability to begin to recover the relevant Allowable Revenue via Charges will be triggered).</p> <p>2.7 These special conditions therefore envisage the development of the T&amp;S Network by the Licensee (e.g. through the simultaneous undertaking of the Handover Works and Commissioning Activities alongside other additional FIDs, construction phases and commissioning phases associated with the further development and expansion of the T&amp;S Network). These special conditions should therefore be read by T&amp;SCos in this light.</p>

	<p><b>Definitions and interpretation</b></p>	<p>In the special conditions, terms defined in the standard conditions of this licence shall have the same meaning and, unless the context otherwise requires:</p> <p><b>"Allowed Revenue"</b> means the allowed revenue calculated, from time to time, in accordance with this licence;</p> <p><b>"Annual Difference Payment"</b> has the meaning given to it in the Revenue Support Agreement heads of terms;</p> <p><b>"Approved T&amp;S Network"</b> means the approved parts of the T&amp;S Network as set out in the Approved Project Development Plan;</p> <p><b>"Approved Project Development Plan"</b> means the project development plan as approved in the financial settlement;</p> <p><b>"Base Year"</b> means [<i>year to be specified</i>];</p> <p><b>"Capex"</b> means capital expenditure costs in respect of the T&amp;S Network;</p> <p><b>"Change in Law"</b> means:</p> <ul style="list-style-type: none"> <li>(a) any change to any Legal Requirement which results in the Licensee being required to implement a new Legal Requirement; and/or</li> <li>(b) any change to any Legal Requirement which applies to the Licensee and impacts on the capital or operational cost of the Project (including any change which results in such Legal Requirement ceasing to apply, being withdrawn or not being renewed); and/ or</li> <li>(c) any change in the interpretation or effect of any Legal Requirement as the result of: <ul style="list-style-type: none"> <li>(i) any judgment given by a court or tribunal of competent jurisdiction and in respect of which the period for making an appeal has expired; or</li> <li>(ii) guidance published by the relevant Competent Authority,</li> </ul> <p>which, in either case, applies to the Licensee and impacts on the capital or operational cost of the Project;</p> </li> </ul> <p><b>"Change in Scope"</b> means following Licence Award a change to the scope of the Project set out in the Approved Project Development Plan as a result of:</p> <ul style="list-style-type: none"> <li>(d) the conclusion of On-going Devex in respect of works referenced in the Approved Project Development Plan, such that settlement can be reached on expansion or enhancement of the Approved T&amp;S Network;</li> <li>(e) a change to the assumed Emitters in the Approved Project Development Plan; or</li> <li>(f) a cancellation of part of the Approved T&amp;S Network.</li> </ul> <p><b>"Charging Year"</b> means 1 April to 31 March of any calendar year [from Licence Award];</p> <p><b>"Commercial Operations Date"</b> or <b>"COD"</b> means the date when System Acceptance is achieved;</p> <p><b>"Commissioning Activities"</b> has the meaning given to it in the Technical Details Schedule;</p> <p><b>"CPIH"</b> means Consumer Prices Index, including owner occupiers' housing costs (series L522) published by the ONS;</p> <p><b>"Delay WACC"</b> means [<i>how Delay WACC will be set remains subject to consideration by BEIS, including taking into account the impact of indexation</i>];</p> <p><b>"Discriminatory Change in Law"</b> means a Change in Law that specifically applies to:</p>
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	<p>(a) [the Project and not to the design, development, construction, completion, testing, commissioning, operation, maintenance and decommissioning of any other project;</p> <p>(b) the T&amp;S Network and not to any other network; or</p> <p>(c) the Licensee and not to any other person];</p> <p><b>"Ex ante SRAV Allowance"</b> means, in respect of any Charging Year and subject to any adjustments made pursuant to the provisions of this Licence, the amount stated in [x] prices set out in [x] in respect of the Charging Year in question, as [indexed/deflated] falling within the period from (and including) Licence Award until (and including) the Charging Year in question;</p> <p><b>"Handover Works"</b> has the meaning given to it in the Technical Details Schedule;</p> <p><b>"Licence Award"</b> means the date on which this licence comes into effect;</p> <p><b>"Longstop Date"</b> means the date which is [X] months following Scheduled Commercial Operations Date;</p> <p><b>"Pre-Licence Award Devex"</b> means the development costs properly and efficiently incurred by the Licensee in relation to the T&amp;S Business prior to Licence Award, being the amount set out in the Financial Settlement Schedule;</p> <p><b>"Qualifying Change in Law"</b> means an unforeseeable:</p> <p>(a) Discriminatory Change in Law; and</p> <p>(b) Specific Change in Law.</p> <p><b>"Specific Change in Law"</b> means a Change in Law that specifically applies to:</p> <p>(a) the provision of services the same or similar to those provided by the Licensee across the T&amp;S Network; or</p> <p>(b) holding shares in a company whose main business is providing services the same or similar to those provided by the Licensee across the T&amp;S Network;</p> <p><b>"On-going Capex"</b> means Capex which is not SRAV Capex;</p> <p><b>"On-going Devex"</b> means the development costs for FEED and other development spend in relation to those parts of the Approved T&amp;S Network set out in the Approved Project Development Plan;</p> <p><b>"Opex "</b> means the operating, maintenance and management costs associated with the operation of the T&amp;S Network;</p> <p><b>"Project"</b> means the financing, design, construction, commissioning, acceptance, maintenance and ownership of the T&amp;S Network;</p> <p><b>"Scheduled Commercial Operations Date"</b> means the date on which the Commercial Operations Date is scheduled to be achieved, as may be extended in accordance with conditions [F12, F13, G12 or G13];</p> <p><b>"SRAV Calculation Period"</b> means a [period to be specified] within a Charging Year;</p> <p><b>"SRAV Capex"</b> means Capex which is attributable to an SRAV;</p> <p><i>Note: this includes Capex in respect of the Handover Works and Commissioning Activities and Capex assessed as part of a Change in Scope for inclusion on an additional SRAV.</i></p> <p><b>"System Acceptance"</b> means the confirmation by the regulator that the Commissioning Activities has been completed;</p> <p><b>"WACC"</b> means:</p> <p>(a) for the Construction Phase, an amount determined in accordance with condition F10 (WACC);</p>
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		<p>(b) for the Commissioning Phase, an amount determined in accordance with condition G9 (WACC); and</p> <p>(c) for the Operational Phase, an amount determined in accordance with condition H8 (WACC); and</p> <p>Unless the context otherwise requires, "<b>carbon dioxide</b>" means a gaseous stream consisting primarily of carbon dioxide (CO<sub>2</sub>) molecules and references to carbon dioxide being delivered by a User to the T&amp;S Network assume that the gaseous stream being delivered is carbon dioxide.</p>
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## Section F: Construction Phase Conditions

1.	<b>Construction Phase</b>	<p>1.1 The Construction Phase is the period from Licence Award to the Handover Date.</p> <p><i>Note: the Handover Date will be when the Commissioning Phase starts.</i></p> <p>1.2 The Construction Phase is within the First Regulatory Period.</p>
2.	<b>Obligation to achieve Handover</b>	<p>2.1 During the Construction Phase, the Licensee shall:</p> <ul style="list-style-type: none"> <li>(a) design, finance and construct the Handover Works;</li> <li>(b) in doing so, use all reasonable endeavours to achieve completion of the Handover Works by the Scheduled Handover Date.</li> </ul> <p><i>Note: it is recognised that phasing of construction/commissioning activities for the works envisaged by the Approved Project Development Plan may be required depending on a T&amp;SCo's proposed technical solution. Tailoring of the Licence may therefore be required for the inclusion of phasing mechanics, where relevant.</i></p> <p>2.2 The Licensee shall provide six-monthly updates to the Regulator, by 31 March and 30 September of each Charging Year and in the form agreed with the Regulator, setting out the Licensee's progress in relation to the Project Programme.</p> <p>2.3 In this condition:</p> <ul style="list-style-type: none"> <li>(a) "Handover" means the certification by the Regulator of the completion of the Handover Works.</li> <li>(b) "Scheduled Handover Date" means the date set out in the Technical Details Schedule.</li> </ul> <p><i>Note: see Schedule 4 (Technical Details Schedule) for the definition of Handover Works.</i></p>
3.	<b>Handover Date</b>	<p>3.1 The Handover Date shall be the date when Handover is achieved.</p> <p>3.2 The Licensee shall give the Regulator notice in writing of the date that it anticipates Handover is to be achieved.</p> <p>3.3 The Licensee shall provide to the Regulator:</p> <ul style="list-style-type: none"> <li>(a) evidence from an independent certifier that the Handover Works have been completed; and</li> <li>(b) any further evidence that the Regulator reasonably requires to determine whether the Handover Works have been completed.</li> </ul>
4.	<b>SRAV build-up</b>	<p>4.1 During the Construction Phase:</p> <ul style="list-style-type: none"> <li>(a) the Re-use Assets Valuation (if any);</li> <li>(b) the SRAV Capex as referenced in condition F6 (SRAV Capex (Handover Works));</li> <li>(c) the Pre-Licence Award Devex;</li> <li>(d) the On-going Devex as referenced in condition F8 (On-going Devex);</li> <li>(e) the Return During Construction; and</li> <li>(f) the licence fees payable in accordance with condition A2 (Payments by the Licensee to the Regulator),</li> </ul>

		<p>will accrue to a Shadow Regulatory Asset Value ("<b>SRAV</b>") in accordance with the provisions of this section F.</p> <p>4.2 SRAV, including Return During Construction calculated in accordance with condition F9 (Return during construction), will build up over an SRAV Calculation Period and will be moved on to the RAV in accordance with condition G10 (Post Construction Review).</p> <p>4.3 Where the Construction Phase includes part of a year, the calculation for that part of a Charging Year shall be apportioned.</p> <p>4.4 SRAV will be measured and maintained in real CPIH terms, with reference to the Base Year. Where required, additions to SRAV will be adjusted to align with this price basis.</p>
5.	<b>Re-use Assets</b>	<p><b>Note:</b> <i>it is recognised that certain oil and gas assets could be purchased and repurposed for T&amp;S purposes (referred to here as the "Re-use Assets"), as a cost-saving mechanism by comparison to building completely new assets.</i></p> <p><i>As any Re-use Assets are already constructed, the capex-based methodology for determining RAV would not be appropriate in relation to Re-use Assets. Therefore RAV in relation to the Re-use Assets will be determined using a different methodology.</i></p>
6.	<b>SRAV Capex (Handover Works)</b>	<p>6.1 An ex ante economic regulation regime will generally be applied to all Capex relating to the Handover Works: in that case, the Capex value of the SRAV for each year during the Construction Phase will be equal to the Ex ante SRAV allowance.</p> <p>6.2 An ex post economic regulation regime may be applied to Capex in respect of the Handover Works in certain limited circumstances: in that case, the Capex value of the relevant part of the SRAV at the end of construction will be determined through an ex post assessment by the Regulator of the economic and efficient expenditure incurred during construction. This will mean that recovery of any expenditure that is considered to be uneconomic or inefficient could be disallowed.</p> <p><b>Note:</b> <i>it is intended that guidance will be issued in relation to the approach to cost assessment and the circumstances in which an ex post assessment may apply. This guidance will apply to the cost assessment for the initial settlement before Licence Award.</i></p>
7.	<b>Pre-Licence Award Devex</b>	<p>7.1 The Pre-Licence Award Devex will be added to the SRAV at Licence Award in the lower of nominal values or Base Year prices.</p> <p><b>Note:</b></p> <ul style="list-style-type: none"> <li>• <i>This item is referred to as the "Pre-Licence Award Devex" to distinguish it from subsequent development costs – "On-going Devex – relating to the development/expansion of the Approved T&amp;S Network following Licence Award.</i></li> <li>• <i>Guidance for cost assessment, including assessment of pre-Licence Award Devex, will be issued separately.</i></li> <li>• <i>There will be no inflation return on Pre-Licence Award Devex.</i></li> </ul>
8.	<b>On-going Devex</b>	<p>8.1 An ex ante economic regulation regime will apply where possible for On-going Devex, meaning that the relevant On-going Devex value of the SRAV for each year during the Construction Phase will be equal to the annual allowance in respect of On-going Devex agreed with the Regulator.</p> <p>8.2 An ex post economic regulation regime may be applied to On-going Devex in certain circumstances: in that case, the On-going Devex value of the relevant part of the SRAV at the end of construction will be determined through an ex post assessment by the Regulator of the economic and efficient On-going Devex expenditure incurred during construction. This will mean that</p>



		<p>recovery of any expenditure that is considered to be uneconomic or inefficient could be disallowed.</p> <p>8.3 In relation to any ex post assessment by the Regulator of On-going Devex, any costs that have been incurred but do not result in any associated capex works (for example as a result of the cancellation of a part of the T&amp;S Network) may still accrue to the SRAV provided such costs are not considered to be uneconomic or inefficient.</p> <p><i>Note: mechanics for accrual of On-going Devex for "cancellation" remains under consideration.</i></p>
9.	<b>Return During Construction</b>	<p><i>Note: "Return During Construction" is now being used to refer to what was previously referred to as "Construction WACC".</i></p> <p>9.1 Return During Construction is an allowance for interest charges on the financing of and other costs of capital in relation to the Handover Works.</p> <p>9.2 The Return During Construction will be calculated as follows: For any SRAV Calculation Period, Return During Construction = WACC x SRAV Where: WACC = an amount determined in accordance with condition F10 (WACC); and SRAV = the opening balance of the SRAV (calculated in accordance with condition F4 (SRAV build-up)) for that SRAV Calculation Period.</p>
10.	<b>WACC (First Regulatory Period)</b>	<p>10.1 WACC for the First Regulatory Period represents the weighted average cost of capital, being the amount set out in the Financial Settlement Schedule.</p> <p>10.2 Subject to condition E10.3, the First Regulatory Period shall be the period of time from Licence Award to the date which is three years after COD.</p> <p>10.3 Where the end of the First Regulatory Period, as determined in accordance with condition E10.2, falls on a date other than 31 March, then the period of the First Regulatory Period must be adjusted to end on 31 March so that the total duration of the First Regulatory Period, as adjusted, is not longer than 3 years and 182 days after COD.</p> <p>10.4 Where there is a delay to COD for which T&amp;SCo is responsible, [Delay WACC] will apply during the period of delay as set out in the Financial Settlement Schedule and any references to WACC in condition F9 shall be construed accordingly.</p>
11.	<b>Indexation</b>	<p>11.1 During the Construction Phase, the SRAV will be measured and maintained in real CPIH terms, with reference to the Base Year.</p> <p>11.2 Where variable values need to be deflated from a nominal price base to Base Year prices, the following formula will be used: <math display="block">\text{Value}_{\text{BaseYear prices}} = \text{Value}_{\text{nominal}} \times \text{CPIH}_{\text{BaseYear}} \text{ divided by } \text{CPIH}_t</math> Where: <math display="block">\text{Value}_{\text{BaseYear prices}}</math> means the deflated/restated value in Base Year prices; <math display="block">\text{Value}_{\text{nominal}}</math> means the value in a nominal price base or in prices of a Charging Year other than the Base Year;</p>

		<p>CPIH<sub>BaseYear</sub> is the average value of each of the twelve monthly values of CPIH<sub>m</sub> from 1 April to 31 March within the Base Year; and</p> <p>CPIH<sub>m</sub> means the value of CPIH for the month m.</p>
12.	<b>Change in Scope</b>	<p>12.1 Subject to condition F12.2, following the occurrence of a Change in Scope during the Construction Phase, the Regulator will determine the impact to the Project, including but not limited to:</p> <ul style="list-style-type: none"> <li>(a) any reasonable increases or decreases to any ex ante allowance (including the Ex Ante SRAV Allowance and/or any ex ante allowance in respect of On-going Devex or Opex);</li> <li>(b) the impact on any ex post assessments of the economic and efficient expenditure by the Licensee;</li> <li>(c) any required adjustments to key milestone dates (including the Scheduled Handover Date, the Scheduled Commercial Operations Date and/or the Longstop Date); and/or</li> <li>(d) whether any new construction phases or operational phases (and associated SRAVs) are required in respect of the Change in Scope (see condition E2 (T&amp;S Network expansion and additional construction, commissioning and operational phases) above).</li> </ul> <p>12.2 The Licensee shall notify the Regulator as soon as it becomes aware of any proposed Change in Scope and shall provide details in respect of such proposed Change in Scope to the Regulator and any additional information that the Regulator considers appropriate.</p>
13.	<b>Change in Law</b>	<p>13.1 During the Construction Phase, following the occurrence of a Qualifying Change in Law and subject to condition F13.2, the Regulator will determine the impact to the Project, including but not limited to:</p> <ul style="list-style-type: none"> <li>(b) any required adjustments to key milestone dates (including the Scheduled Handover Date, the Scheduled Commercial Operations Date and/or the Longstop Date); and</li> <li>(c) any: <ul style="list-style-type: none"> <li>reasonable increases or decreases to any ex ante allowance (including the Ex ante SRAV Allowance and/or any ex ante allowance in respect of On-going Devex); or</li> <li>any reasonable amendments to the manner in which the Regulator will assess any ex post costs to apply the same principles that the Licensee should not be on cost risk for any Qualifying Changes in Law.</li> </ul> </li> </ul> <p>13.2 The amount of any increases to the Licensee's costs pursuant to condition F13.1 shall be subject to the Licensee providing satisfactory evidence that the Qualifying Change in Law prevents or delays construction and/or the cost impact to On-going Devex, Capex or Opex.</p> <p>13.3 The Licensee shall notify the Regulator as soon as it becomes aware of any Qualifying Change in Law, or potential Qualifying Change in Law and shall provide details in respect of such Qualifying Change in Law or potential Change in Law to the</p>

		Regulator and any additional information that the Regulator considers appropriate.
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## Section G: Commissioning Phase Conditions

1.	<b>Commissioning Phase</b>	<p>1.1 The Commissioning Phase is the period from the Handover Date to the Commercial Operations Date.</p> <p><i>Note: the Commercial Operations Date will be when the T&amp;S Network has passed all its commissioning tests, marking the end of the Commissioning Tests and the start of the Operational Phase.</i></p> <p>1.2 The Commissioning Phase is within the First Regulatory Period.</p>
2.	<b>Obligation to achieve System Acceptance</b>	<p>2.1 During the Commissioning Phase, the Licensee shall:</p> <ul style="list-style-type: none"> <li>(a) complete the Commissioning Activities;</li> <li>(b) in doing so, use its best endeavours to achieve System Acceptance by the Scheduled Commercial Operations Date.</li> </ul> <p>2.2 The Licensee shall achieve System Acceptance by the Longstop Date.</p> <p>2.3 The Licensee shall provide six-monthly updates to the Regulator, by 31 March and 30 September of each Charging Year, setting out the Licensee's progress in relation to the Project Programme.</p> <p>2.4 In this condition "Scheduled Commercial Operations Date" means the date set out in the Technical Details Schedule.</p> <p><i>Note: see Schedule 4 (Technical Details Schedule) for the definition of Commissioning Activities.</i></p>
3.	<b>System Acceptance/Commercial Operations Date</b>	<p>3.1 The Commercial Operations Date shall be the date when System Acceptance is achieved.</p> <p>3.2 The Licensee shall give the Regulator notice in writing of the date that it anticipates that System Acceptance is to be achieved.</p> <p>3.3 The Licensee shall provide to the Regulator:</p> <ul style="list-style-type: none"> <li>(a) evidence from an independent certifier that the Commissioning Activities have been completed; and</li> <li>(b) any further evidence that the Regulator reasonable requires to determine whether the Commissioning Activities have been completed.</li> </ul>
4.	<b>SRAV build-up</b>	<p>4.1 During the Commissioning Phase:</p> <ul style="list-style-type: none"> <li>(a) the SRAV Capex as referenced in condition G5 (SRAV Capex (Commissioning Activities));</li> <li>(b) the Opex;</li> <li>(c) any On-going Devex as referenced in condition G7 (On-going Devex);</li> <li>(d) the Return During Commissioning; and</li> <li>(e) the licence fees payable in accordance with condition A2 (Payments by the Licensee to the Regulator),</li> </ul> <p>will accrue to a SRAV.</p> <p>4.2 SRAV, including Return During Commissioning calculated in accordance with condition G8 (Return during Commissioning) , will build up over an SRAV Calculation</p>

		<p>Period and will be moved on to the RAV in accordance with condition H2 (Post Commissioning Review).</p> <p>4.3 Where the Commissioning Phase includes part of a year, the calculation for that part of a Charging Year shall be apportioned.</p> <p><i>Note: further consideration is being given to any required payments for CO<sub>2</sub> during the commissioning period to enable the completion of the Commissioning Activities.</i></p> <p>4.4 SRAV will be measured and maintained in real CPIH terms, with reference to the Base Year. Where required, additions to SRAV will be adjusted to align with this price basis.</p>
5.	<b>SRAV Capex (Commissioning Activities)</b>	<p>5.1 An ex ante economic regulation regime will generally be applied to all Capex relating to the Commissioning Activities: in that case, the Capex value of the SRAV for each year during the Commissioning Phase will be equal to the Ex Ante SRAV Allowance.</p> <p>5.2 An ex post economic regulation regime may be applied to Capex in respect of the Commissioning Activities in certain limited circumstances: in that case, the Capex value of the relevant part of the SRAV at the end of the Commissioning Phase will be determined through an ex post assessment by the Regulator of the economic and efficient expenditure incurred during the Commissioning Phase. This will mean that recovery of any expenditure that is considered to be uneconomic or inefficient could be disallowed.</p>
6.	<b>Opex</b>	<p>6.1 An ex ante economic regulation regime will apply for Opex to be incurred during the Commissioning Phase where such Opex costs are capable of being quantified at Licence Award, meaning that the relevant Opex value of the SRAV for each year during the Commissioning Phase will be equal to the annual allowance in respect of Opex agreed with the Regulator.</p> <p>6.2 An ex post economic regulation regime will be applied to Opex during the Commissioning Phase where such Opex costs are not capable of being quantified at Licence Award: in that case, the Opex value of the relevant part of the SRAV at the end of the Commissioning Phase will be determined as part of the Post Commissioning Review through an ex post assessment by the Regulator of the economic and efficient Opex expenditure incurred during the Commissioning Phase. This will mean that recovery of any expenditure that is considered to be uneconomic or inefficient could be disallowed.</p>
7.	<b>On-going Devex</b>	<p>7.1 An ex ante economic regulation regime will apply where possible for On-going Devex, meaning that the relevant On-going Devex value of the SRAV for each year during the Commissioning Phase will be equal to the annual allowance in respect of On-going Devex agreed with the Regulator.</p> <p>7.2 An ex post economic regulation regime may be applied to On-going Devex in certain circumstances: in that case, the On-going Devex value of the relevant part of the SRAV at the end of the Commissioning Phase will be determined through an ex post assessment by the Regulator of the economic and efficient On-going Devex expenditure incurred during the Commissioning Phase. This will mean that recovery of any expenditure that is considered to be uneconomic or inefficient could be disallowed.</p> <p>7.3 In relation to any ex post assessment by the Regulator of On-going Devex, any costs that have been incurred but do not result in any associated capex works (for example as a</p>

		result of the cancellation of a part of the T&S Network) may still accrue to the SRAV provided such costs are not considered to be uneconomic or inefficient.
8.	<b>Return Commissioning during</b>	<p>8.1 Return During Commissioning is an allowance for interest charges on the financing of and other costs of capital in relation to the Commissioning Activities.</p> <p>8.2 The Return During Commissioning will be calculated as follows: For any SRAV Calculation Period, Return During Commissioning = WACC x SRAV Where: WACC = an amount determined in accordance with condition G9 (WACC); and SRAV = the opening balance of the SRAV for that SRAV Calculation Period.</p>
9.	<b>WACC (First Regulatory Period)</b>	<p>9.1 WACC for the First Regulatory Period represents the weighted average cost of capital, being the amount set out in the Financial Settlement Schedule.</p> <p>9.2 Subject to condition G9.3, the First Regulatory Period shall be the period of time from Licence Award to the date which is three years after COD.</p> <p>9.3 Where the end of the First Regulatory Period, as determined in accordance with condition G9.2, falls on a date other than 31 March, then the period of the First Regulatory Period must be adjusted to end on 31 March so that the total duration of the First Regulatory Period, as adjusted, is not longer than 3 years and 182 days after COD.</p> <p>9.4 Where there is a delay to COD for which T&amp;SCo is responsible, [Delay WACC] will apply during the period of delay as set out in the Financial Settlement Schedule and any references to WACC in condition G8 shall be construed accordingly.</p>
10.	<b>Post Construction Review</b>	<p><b>Note:</b> <i>These Heads of Terms now envisage a Post Construction Review occurring during the Commissioning Period and a Post Commissioning Review occurring during the Operations Phase to allow a reconciliation of the SRAV for the Construction Phase and Commissioning Phases respectively.</i></p> <p>10.1 At the Post Construction Review there will be a reconciliation of the SRAV for the Construction Phase. At this point, the SRAV, including the [rolled-up] Return During Construction, will be moved to the RAV.</p> <p>10.2 Data from the Construction Phase shall be used in addition to forecasts to calculate the Allowed Revenue for the initial period of Operations Phase. Allowed Revenue will then be adjusted during the Operations Phase to reflect the outcome of the Post Commissioning Review (see section H2).</p> <p>10.3 During the Construction Phase, the Licensee shall provide the Regulator with such information as the Regulator may require to enable it to carry out the Post Construction Review.</p>
11.	<b>Indexation</b>	<p>11.1 During the Commissioning Phase, the SRAV will be measured and maintained in real CPIH terms, with reference to the Base Year.</p>

		<p>11.2 Where variable values need to be deflated from a nominal price base to Base Year prices, the following formula will be used:</p> $\text{Value}_{\text{BaseYear prices}} = \text{Value}_{\text{nominal}} \times \text{CPIH}_{\text{BaseYear}} \text{ divided by } \text{CPIH}_t$ <p>Where:</p> <p><math>\text{Value}_{\text{BaseYear prices}}</math> means the deflated/restated value in Base Year prices;</p> <p><math>\text{Value}_{\text{nominal}}</math> means the value in a nominal price base or in prices of a Charging Year other than the Base Year;</p> <p><math>\text{CPIH}_{\text{BaseYear}}</math> is the average value of each of the twelve monthly values of <math>\text{CPIH}_m</math> from 1 April to 31 March within the Base Year; and</p> <p><math>\text{CPIH}_m</math> means the value of CPIH for the month m.</p>
12.	<b>Change in Scope</b>	<p>12.1 Subject to condition G12.2, following the occurrence of a Change in Scope during the Commissioning Phase, the Regulator will determine the impact to the Project, including:</p> <ul style="list-style-type: none"> <li>(a) any reasonable increases or decreases to any ex ante allowance (including the Ex Ante SRAV Allowance and/or any ex ante allowance in respect of On-going Devex or Opex);</li> <li>(b) the impact on any ex post assessments of the economic and efficient expenditure by the Licensee;</li> <li>(c) any required adjustments to key milestone dates (including the Scheduled Handover Date, the Scheduled Commercial Operations Date and/or the Longstop Date); and/or</li> <li>(d) whether any new construction phases or operational phases (and associated SRAVs) are required in respect of the Change in Scope (see condition E2 (T&amp;S Network expansion and additional construction, commissioning and operational phases) above).</li> </ul> <p>12.2 The Licensee shall notify the Regulator as soon as it becomes aware of any proposed Change in Scope and shall provide details in respect of such proposed Change in Scope to the Regulator and any additional information that the Regulator considers appropriate.</p>
13.	<b>Change in Law</b>	<p>13.1 During the Commissioning Phase, following the occurrence of a Qualifying Change in Law and subject to condition G13.2, the Regulator will determine the impact to the Project, including but not limited to:</p> <ul style="list-style-type: none"> <li>(d) any required adjustments to key milestone dates (including the Scheduled Handover Date, the Scheduled Commercial Operations Date and/or the Longstop Date); and</li> <li>(e) any: <ul style="list-style-type: none"> <li>reasonable increases or decreases to any ex ante allowance (including the Ex Ante SRAV Allowance and/or any ex ante allowance in respect of On-going Devex); or</li> </ul> </li> </ul>

		<p style="text-align: center;">any reasonable amendments to the manner in which the Regulator will assess any ex post costs to apply the same principles that the Licensee should not be on cost risk for any Qualifying Changes in Law.</p> <p>13.2 The amount of any increases to the Licensee's costs pursuant to condition G13.1 shall be subject to the Licensee providing satisfactory evidence that the Qualifying Change in Law prevents or delays commissioning and/or the cost impact to On-going Devex, Capex or Opex.</p> <p>13.3 The Licensee shall notify the Regulator as soon as it becomes aware of any Qualifying Change in Law, or potential Qualifying Change in Law and shall provide details in respect of such Qualifying Change in Law or potential Change in Law to the Regulator and any additional information that the Regulator considers appropriate.</p>
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## Section H: Operational Phase Conditions

1.	<b>Operational Phase</b>	1.1 The Operational Phase is the phase from the end of the Commissioning Phase to revocation of the Licence. This means that the Operational Phase will start during the First Regulatory Period (after the Construction Phase and Commissioning Phase) and continue in the second and subsequent regulatory periods.
2.	<b>Post Commissioning Review</b>	<p>2.1 At the Post Commissioning Review there will be a reconciliation of the SRAV for the Commissioning Phase. At this point, the SRAV, including the Return During Commissioning, will be moved to the RAV.</p> <p>2.2 The Licensee shall provide the Regulator with such information as the Regulator may reasonably require to enable it to carry out the Post Commissioning Review or a Periodic Review (as applicable), including for the purpose of determining (having regard to all relevant circumstances) the Allowed Revenue for:</p> <p>(a) each year during the period from 1 April following the Post Commissioning Review to the day before the Periodic Review Date of the First Periodic Review; and/or</p> <p>(b) from the Periodic Review Date of the First Periodic Review, each year during each Review Period.</p>
3.	<b>Allowed Revenue: summary</b>	<p>3.1 Allowed Revenue is the annual amount that the Licensee is entitled to recover, calculated according to the building blocks set out in condition H5 (Allowed Revenue calculation).</p> <p>3.2 Allowed Revenue will be calculated and verified on an annual basis and calibrated periodically (for example, every 5 years) during a price control review.</p> <p>3.3 Allowed Revenue for the initial period of the Operations Phase shall be calculated as set out in section G10. The Allowed Revenue will then be adjusted to reflect the reconciliation of the SRAV for the Commissioning Phase undertaken at the Post Commissioning Review (see section H2 (Post Commissioning Review)).</p>
4.	<b>Regulatory period</b>	<p>4.1 Following the end of the First Regulatory Period, price control will take place periodically (for example, every 5 years) ("<b>Periodic Review</b>").</p> <p>4.2 The length of the second (or another subsequent) regulatory period may be adjusted by the Regulator (in advance of the regulatory period commencing) so that the regulatory periods of different T&amp;S networks are synchronized, if it is considered desirable for price controls of different T&amp;S networks to take place at the same time.</p>
5.	<b>Allowed Revenue calculation</b>	<p>5.1 For the Operational Phase, the Allowed Revenue will be calculated as follows:</p> <p><b>Allowed Revenue<sub>t</sub></b> = Allowed Revenue before AdjNominal<sub>t</sub> + AdjNominal<sub>t</sub></p> <p><b>Allowed Revenue before AdjNominal<sub>t</sub></b> = Calculated Revenue (real)<sub>t</sub> x CPIH<sub>t</sub> / CPIH<sub>BaseYear</sub> + Adj<sub>t</sub></p> <p><b>Calculated Revenue (real)<sub>t</sub></b> = RoC<sub>t</sub>+ Depr<sub>t</sub> + Opex<sub>t</sub> + Decom<sub>t</sub> +Tax<sub>t</sub></p> <p>Where:</p> <p>RoC<sub>t</sub> = RAV<sub>t</sub> x WACC<sub>i</sub></p>

		<p>RoC = the return on capital which the Licensee is expected to make during the First Regulatory Period;</p> <p>RAV = an amount calculated in accordance with condition H6.4 (RAV);</p> <p>WACC = an amount calculated in accordance with condition H8 (WACC);</p> <p>Depr = an amount calculated in accordance with condition H9 (Depreciation);</p> <p>Opex = an amount calculated in accordance with condition H10 (Opex);</p> <p>Decom = an amount calculated in accordance with condition H13 (Decommissioning allowance);</p> <p>Tax = an amount calculated in accordance with condition H15 (Tax);</p> <p>Adj = an amount calculated in accordance with condition H16 (Adjustments);</p> <p>AdjNominal = an amount calculated in accordance with condition H22 (Under/Over utilisation).</p> <p><b>Note:</b> all Calculated Revenue (real) amounts will be calculated in real terms, with the exception of some items such as tax allowance which will be on a nominal basis.</p>
6.	<b>RAV</b>	<p>6.1 The RAV shall be calculated in accordance with the following formula:</p> $RAV_t = RAV_{t-1} + \text{Transferred SRAV}_t + \text{Ongoing Capex}_t - \text{Depr}_t - \text{Disposals}_t + \text{AdjRAV}$ <p>Where:</p> <p>Transferred SRAV = SRAV which is to be moved to the RAV in accordance with H6 (Transferred SRAV and additional SRAV(s));</p> <p>Ongoing Capex = an amount as referenced in condition H11 (On-going Capex);</p> <p>Depr = an amount calculated in accordance with condition H9 (Depreciation);</p> <p>Disposals = an amount calculated in accordance with condition H14 (Disposals). At the Post Commissioning Review there will be a reconciliation of SRAV for the Construction Phase and Commissioning Phase. At this point, the rolled-up Return During Construction will be included in the SRAV; and</p> <p>AdjRAV = an amount calculated in accordance with condition H16 (Adjustments).</p> <p>6.2 RAV will be measured and maintained in real CPIH terms, with reference to the Base Year. Where required, additions to RAV will be adjusted to align with this price basis.</p> <p>6.3 The RAV used in the calculation of RoC will be the NPV-neutral RAV return base which will be calculated as the average of <math>RAV_{t-1}</math> and Discounted <math>RAV_t</math> where:</p> $\text{Discounted RAV} = RAV / (1+WACC)$ <p>WACC = an amount calculated in accordance with condition H8 (WACC).</p>
7.	<b>Transferred SRAV and Additional SRAV(s)</b>	<p>7.1 The SRAV will be moved to the RAV following the reconciliation of the SRAV at the Post Commissioning Review in accordance with condition H2 (Post Commissioning Review).</p>

		<p>7.2 The Licence will include mechanics which allow for the accrual of additional SRAVs (for example to reflect any phasing of the Approved T&amp;S Network by the Licensee or in the event of expansion of the T&amp;S Network) and the transfer of such additional SRAVs to the RAV.</p> <p>7.3 Any additional SRAVs will accrue and transfer in accordance with provisions equivalent to sections F (Construction) and G (Commissioning). This means that any additional SRAVs will only transfer to the RAV following the relevant Post Commissioning Review.</p>
8.	<b>WACC</b>	<p>8.1 In the First Regulatory Period, the WACC is as set out in condition F10 (WACC (First Regulatory Period)).</p> <p>8.2 In the second and subsequent regulatory periods, the WACC is the regulated average return on capital, determined by the Regulator, and adjusted by the Regulator from time to time according to market conditions.</p> <p>8.3 Where the Operational Phase includes part of a year, the calculation for that part of a Charging Year shall be apportioned.</p>
9.	<b>Depreciation</b>	<p>9.1 The Licensee will be paid back a portion of its RAV in each period over the economic life of the asset.</p> <p>9.2 The depreciation profile for the First Regulatory Period is to be straight line real terms by reference to the expected life of the T&amp;S network assets, with depreciation commencing at COD for amounts transferred from the SRAV or in the year following spend for On-going Capex.</p>
10.	<b>Opex</b>	<p>10.1 Any ex ante allowance in respect of Opex agreed with the Regulator will cover the forecastable costs related to the operation and maintenance of the T&amp;S Network, which for the avoidance of doubt may cover amounts relating to the following ancillary activities associated with such operation and maintenance:</p> <ul style="list-style-type: none"> <li>(a) bad debt costs; <i>Note: see condition H20 (Bad Debt Allowance).</i></li> <li>(b) hedging costs (such as for financial or energy price risks);</li> <li>(c) market engagement costs (to fund activities to find new Users); <i>Note: see condition H21 (market engagement costs).</i></li> <li>(d) private sector insurance costs;</li> <li>(e) licence and other regulatory fees; and</li> <li>(f) fees for the GSP.</li> </ul> <p>10.2 An ex ante economic regulation regime will apply where possible for Opex to be incurred during the Operational Phase where such Opex costs are capable of being quantified at Licence Award, meaning that the relevant Opex to be calculated as part of the Allowed Revenue will be equal to the amount forecast in respect of Opex agreed with the Regulator.</p> <p>10.3 An ex post economic regulation regime will be applied to Opex during the Operational Phase where such Opex costs are not capable of being quantified at Licence Award: in that case, the Opex value for the calculation of Allowed Revenue will be determined through an ex post assessment by the Regulator of the economic and efficient Opex expenditure incurred during the Operating Phase. This will mean that recovery of</p>

		<p>any expenditure that is considered to be uneconomic or inefficient could be disallowed.</p> <p>10.4 For the First Regulatory Period, the ex ante allowance in respect of Opex will have been agreed with HMG in the initial settlement.</p> <p>10.5 The Opex may be adjusted for pass-through costs, such as business rates and licence fees, and for any adjustments set out in condition H16.</p>
11.	<b>On-going Capex</b>	<p>11.1 An ex ante economic regulation regime will apply where possible for On-going Capex to be incurred during the Operational Phase where such On-going Capex costs are capable of being quantified at Licence Award, meaning that the relevant On-going Capex to be calculated as part of the Allowed Revenue will be equal to the amount forecast in respect of On-going Capex agreed with the Regulator.</p> <p>11.2 An ex post economic regulation regime will be applied to On-going Capex during the Operational Phase where such On-going Capex costs are not capable of being quantified at Licence Award: in that case, the On-going Capex value for the calculation of Allowed Revenue will be determined through an ex post assessment by the Regulator of the economic and efficient On-going Capex expenditure incurred during the Operating Phase. This will mean that recovery of any expenditure that is considered to be uneconomic or inefficient could be disallowed.</p> <p>11.3 Any On-going Capex will be transferred to the RAV as part of the process of calculation of the Allowed Revenue for each Charging Year.</p>
12.	<b>On-going Devex</b>	<p>12.1 Any On-going Devex will accrue towards the relevant SRAV to which it relates (see section H7 above).</p>
13.	<b>Decommissioning Allowance</b>	<p>13.1 The Decommissioning Allowance building block is intended to cover the costs that will be incurred by the Licensee in funding the decommissioning and monitoring liability related to the T&amp;S Network, as determined in accordance with this condition.</p> <p>13.2 The Licensee shall be required to prepare an accurate estimate of the costs of decommissioning and monitoring the T&amp;S Network in accordance with the Licensee's obligations under:</p> <ul style="list-style-type: none"> <li>(a) the Petroleum Act 1998, the Storage of Carbon Dioxide (Termination of Licences) Regulations 2011 and [Regulations made under sections 85 and 86 of the Act]; and</li> <li>(b) any Legal Requirements that apply to the decommissioning and monitoring of any part of the T&amp;S Network not covered by the obligations arising under paragraph (a) above.</li> </ul> <p>13.3 The cost estimate determined in accordance in condition H13.2 shall be approved by the regulators having competence and responsibility for its approval, and shall then be submitted for final approval by the Regulator, and shall be updated and re-submitted for approval from time to time as required in accordance with condition H13.2.</p> <p>13.4 The Decommissioning Allowance for each year will be an amount calculated by reference to the cost estimate approved in accordance with condition H13.3.</p> <p><i>Note: The initial estimate of decommissioning costs will be determined as part of the initial settlement.</i></p>

14.	<b>Disposals</b>	14.1	Asset disposals and scrapping will be included within the RAV calculation. Actual sale values will be used to offset the RAV after the sale transaction.
15.	<b>Tax</b>	15.1	An allowance for the expected tax costs of the Licensee.
16.	<b>Adjustments</b>	16.1	Adjustments will be applied to the calculation of Allowed Revenue and RAV including for: <ul style="list-style-type: none"> <li>(a) adjustments, including the availability adjustment, containment adjustment and store performance adjustment (see conditions H17-H19 below); and</li> <li>(b) true-ups, corrections and reconciliations in accordance with the Annual Iteration Process referenced in condition H16.2.</li> </ul> <p><b>Note:</b> consideration is also being given to whether a refinancing gainshare mechanism is required, which depends upon review of the T&amp;SCo's financing proposals.</p>
		16.2	There will be an Annual Iteration Process administered by the Regulator, which will address true-ups, corrections and reconciliations.
17.	<b>Availability adjustment</b>	17.1	The Licensee will be incentivised to minimise outages and to schedule planned outages in an efficient manner.
		17.2	The Licensee will be responsible for managing outages (regardless of who controls the risk) including payments for repairs using a relatively small ex ante allowance. The Licensee bears the risk that these repairs, whether planned or unplanned, cost more than the ex ante allowance.
		17.3	A reasonable and justified level of planned outages will be accounted for in the setting of availability targets for the Licensee.
		17.4	The availability adjustment associated with unplanned outages will be based upon nominations from Users and registered capacity from Users and will use a cap and floor mechanism: <ul style="list-style-type: none"> <li>(a) the Licensee will benefit from an upside reward if availability exceeds the availability target, up to a cap.</li> <li>(b) in-year incentive: when availability falls below the set target, reductions will apply to the Allowed Revenue for that Charging Year.</li> <li>(c) incentive floor: if availability falls further below a floor (such that the Licensee's financeability is undermined over the price control period), lower availability will not result in additional reductions. In such circumstances, further enforcement actions may be taken by the Regulator, which could ultimately result in the revocation of the Licence if enforcement processes do not resolve the problem.</li> </ul> <p>The maximum target availability is likely to be lower than 100% due to planned outages for maintenance.</p>
18.	<b>Containment adjustment</b>		<b>Note:</b> the working assumption is that as a result of the Licensee's ETS requirements, it may not be necessary to include a separate containment adjustment in the Licence.
19.	<b>Store performance</b>	19.1	The Licensee shall put in place systems and procedures for the dynamic appraisal of any Storage Complex.

		<i><b>Note:</b> the regime for store performance, in particular in respect of the injection rate and capacity over time at any Storage Complex, remains subject to on-going development.</i>
20.	<b>Bad Debt Allowance</b>	<i><b>Note:</b> the mechanics of the bad debt allowance remain subject to on-going development. The working assumption is that the bad debt allowance will be set at zero for the First Regulatory Period given other protections on offer to T&amp;SCo (such as the RSA) and value for money considerations.</i>
21.	<b>Market engagement costs</b>	<i><b>Note:</b> assumption is that costs associated with market engagement will be insubstantial during the First Regulatory Period.</i>
22.	<b>Under/overutilisation adjustment</b>	<p>22.1 The Licensee's Annual Difference Payment in respect of Charging Year<sub>t</sub> shall be calculated by the Licensee and assured by the Regulator during Charging Year<sub>t+1</sub> as part of annual calculation of Allowed Revenue in respect of Charging Year<sub>t+2</sub>. See Condition H5 (Allowed Revenue calculation).</p> <p>22.2 If the amount of the Annual Difference Payment is negative, then that amount will be taken into account as part of the "AdjNominal" for Charging Year<sub>t+2</sub>.</p>
23.	<b>Change in Scope</b>	<p>23.1 Subject to condition H23.2, following the occurrence of a Change in Scope during the Operational Phase, the Regulator will determine the impact to the Project, including but not limited to:</p> <ul style="list-style-type: none"> <li>(a) any reasonable increases or decreases to any ex ante allowance (including the Ex Ante SRAV Allowance or any ex ante allowance in respect of On-going Devex and/or Opex);</li> <li>(b) the impact on any ex post assessments of the economic and efficient expenditure by the Licensee;</li> <li>(c) any required adjustments to key milestone dates (including any relevant Scheduled Handover Date, Scheduled Commercial Operations Date and/or Longstop Date); and/or</li> <li>(d) whether any new construction phases or operational phases (and associated SRAVs) are required in respect of the Change in Scope (see condition E2 (T&amp;S Network expansion and additional construction, commissioning and operational phases) above).</li> </ul> <p>23.2 The Licensee shall notify the Regulator as soon as it becomes aware of any proposed Change in Scope and shall provide details in respect of such proposed Change in Scope to the Regulator and any additional information that the Regulator considers appropriate.</p>
24.	<b>Change in Law</b>	<p>24.1 During the Commissioning Phase, following the occurrence of a Qualifying Change in Law and subject to condition H24.2, the Regulator will determine the impact to the Project, including but not limited to:</p> <ul style="list-style-type: none"> <li>(f) any required adjustments to key milestone dates (including the Scheduled Handover Date, the Scheduled Commercial Operations Date and/or the Longstop Date); and</li> <li>(g) any: <ul style="list-style-type: none"> <li>reasonable increases or decreases to any ex ante allowance (including the Ex Ante SRAV</li> </ul> </li> </ul>

		<p>Allowance and/or any ex ante allowance in respect of On-going Devex); or</p> <p>any reasonable amendments to the manner in which the Regulator will assess any ex post costs to apply the same principles that the Licensee should not be on cost risk for any Qualifying Changes in Law.</p> <p>24.2 The amount of any increases to the Licensee's costs pursuant to condition H24.1 shall be subject to the Licensee providing satisfactory evidence that the Qualifying Change in Law prevents or delays commissioning and/or the cost impact to Capex, Opex or operations.</p> <p>24.3 The Licensee shall notify the Regulator as soon as it becomes aware of any Qualifying Change in Law, or potential Qualifying Change in Law and shall provide details in respect of such Qualifying Change in Law or potential Change in Law to the Regulator and any additional information that the Regulator considers appropriate.</p>
25.	<b>Non-regulated revenue</b>	<p>25.1 Any revenues generated by the Licensee in relation to the use of the T&amp;S Network are to be considered as regulated revenue.</p> <p><i>Note: it is not anticipated that the Licensee will earn any non-regulated revenue (for example fees obtained in relation to the non-regulated transport of CO<sub>2</sub> from markets outside of the licence area) in the First Regulatory Period.</i></p> <p>25.2 The Licensee shall not be entitled to undertake any non-regulated activities or earn any non-regulated revenue without the written consent of the Regulator.</p> <p>25.3 The Regulator will determine the treatment of any non-regulated revenues received by the Licensee.</p> <p><i>Note: for the avoidance of doubt, any non-regulated revenue received by the Licensee will be taken into account in the calculations made pursuant to the RSA – see the RSA heads of terms for further details.</i></p>
26.	<b>Use of System Charging Methodology</b>	<p>26.1 The Licensee shall have in place a Use of System Charging Methodology, which sets out the methodology for the determination of the Use of System Charges, through which the Licensee can recover its Allowed Revenue for each Charging Year.</p> <p>26.2 The Use of System Charging Methodology that applies from the date of the grant of the Licence is the Use of System Charging Methodology set out in CCS Network Code as at the date of the grant of the Licence.</p> <p>26.3 The Licensee shall, for the purpose of ensuring that the Use of System Charging Methodology achieves the Relevant Objectives, keep the Use of System Charging Methodology at all times under review.</p> <p>26.4 The Licensee shall, in accordance with the provisions of the CCS Network Code, make such modifications to the Use of System Charging Methodology as may be requisite for the purpose of better achieving the Relevant Objectives, provided that any such modification must be approved by the Regulator.</p>
27.	<b>Use of System Charging Statement</b>	<p>27.1 For each Charging Year, the Licensee shall prepare a statement of its Use of System Charges for using the T&amp;S Network and how those charges have been calculated in accordance with the Use of System Charging Methodology (the "System Charging Statement").</p>

		<p>27.2 The Licensee shall submit the draft System Charging Statement for each Charging Year to the Regulator for approval by [31 December] before the start of the Charging Year to which the draft System Charging Statement relates.</p> <p>27.3 For the purposes of this condition, "Use of System Charges" means:</p> <ul style="list-style-type: none"> <li>(a) Flow Charges, which shall comprise: <ul style="list-style-type: none"> <li>(i) an Onshore Flow Charge; and</li> <li>(ii) an Offshore Flow Charge;</li> </ul> </li> <li>(b) Capacity Charges, which shall comprise: <ul style="list-style-type: none"> <li>(i) an Onshore Capacity Charge; and</li> <li>(ii) an Offshore Capacity Charge;</li> </ul> </li> <li>(c) Network Charges, which shall comprise: <ul style="list-style-type: none"> <li>(i) an Onshore Network Charge; and</li> <li>(ii) an Offshore Network Charge.</li> </ul> </li> </ul> <p><b>Note:</b> <i>It is intended that initially at least no separate connection charges will be payable by Users.</i></p>
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**Schedule 1: Specified Area**

UK

## Schedule 2: Revocation

1. The Regulator may at any time revoke the licence by giving not less than 30 days' notice (24 hours' notice, in the case of a revocation under sub-paragraph 1(f)) in writing to the Licensee:
  - (a) if the Licensee agrees in writing with the Regulator that the licence should be revoked;
  - (b) if any amount payable under Standard condition [A2] (Payments by Licensee to the Regulator) is unpaid 30 days after it has become due and remains unpaid for a period of 14 days after the Regulator has given the licensee notice that the payment is overdue – provided that no such notice shall be given earlier than the sixteenth after the day on which the amount payable became due;
  - (c) if the Licensee fails:
    - (i) to comply with a final order (within the meaning of [sub-paragraph 1(1) of Schedule 3 ] of the Act) or with a provisional order (within the meaning of [sub-paragraph 1(2) of Schedule 3 of the Act]) which has been confirmed under that section and (in either case) such failure is not rectified to the satisfaction of the Regulator within three months after the Regulator has given notice of such failure to the Licensee - provided that no such notice shall be given by the Regulator before the expiration of the period within which an application under paragraph 3 of Schedule 3 of the Act could be made questioning the validity of the final or provisional order or before the proceedings relating to any such application are finally determined; or
    - (ii) to pay any financial penalty (within the meaning of paragraph 4 of Schedule 3 of the Act) by the due date for such payment and such payment is not made to the Regulator within three months after the Regulator has given notice of such failure to the Licensee - provided that no such notice shall be given by the Regulator before the expiration of the period within which an application under paragraph 8 of Schedule 3 of the Act could be made questioning the validity or effect of the financial penalty or before the proceedings relating to any such application are finally determined;
  - (d) if the Licensee fails to comply with:
    - (i) an order made by the court under section 34 of the Competition Act 1998;
    - (ii) an order made by the Regulator under sections 158 or 160 of the Enterprise Act 2002;
    - (iii) an order made by the Competition and Markets Authority under sections 76, 81, 83, 84 and 161 of the Enterprise Act 2002;
    - (iv) an order/decision made by the Secretary of State under sections 66, 147, 160 or 161 of the Enterprise Act 2002;

**Note:** *the statutory references in paragraph (d) above are subject to further review.*
  - (e) if the Licensee:
    - (i) has ceased to carry on the T&S Business; or
    - (ii) has not commenced carrying on the T&S Business within [x] years of the date on which the licence comes into force;
  - (f) if the Licensee:
    - (i) is unable to pay its debts (within the meaning of section 123(1) or (2) of the Insolvency Act 1986, but subject to paragraphs 2, 3 and 4 of this schedule) or has any voluntary arrangement proposed in relation to it under section 1 of that Act or enters into any scheme of arrangement (other than for the purpose of reconstruction or amalgamation

upon terms and within such period as may previously have been approved in writing by the Regulator);

- (ii) has a receiver (which expression shall include an administrative receiver within the meaning of section 251 of the Insolvency Act 1986) of the whole or any material part of its assets or undertaking appointed;
  - (iii) has an administration order under Schedule B1 of the Insolvency Act 1986 made in relation to it;
  - (iv) passes any resolution for winding-up other than a resolution previously approved in writing by the Regulator; or
  - (v) becomes subject to an order for winding-up by a court of competent jurisdiction.
2. For the purposes of sub-paragraph 1(f)(i), section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as the Regulator may from time to time determine by notice in writing to the Licensee.
3. The Licensee shall not be deemed to be unable to pay its debts for the purposes of sub- paragraph 1(f)(i) if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Licensee with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Regulator under paragraph 1.
4. Any rights the Regulator may have to revoke the Licence under paragraph 1 above shall be automatically suspended whilst the Licensee is in transport and storage administration under Chapter 4 of Part 1 of the Act until such time as the Regulator has determined, having consulted with the T&S administrator (as defined in section 49 of the Act), that achieving the objective of the transport and storage administration (as defined in section 43 of the Act), is no longer reasonably practicable.
5. The Regulator may at any time revoke the licence by giving no less than 7 days' notice in writing to the Licensee where the Regulator is satisfied that there has been a material misstatement (of fact) by, or on behalf of the Licensee, in making its application for the licence.
6. Where the Licence is revoked, the Licensee acknowledges that a [statutory transfer scheme] may be applied pursuant to [section [50] of the Act]. [By entering into the Licence,] the Licensee provides its consent to the operation of any such statutory transfer scheme on the basis that:
- 6.1 if revocation is as a result of Discontinuation, compensation will be provided for under the Discontinuation Agreement; or
  - 6.2 if revocation is as a result of any other reason, compensation will be based on the market value attributable by an insolvency practitioner in an insolvency process of the licensee.

### Schedule 3: Financial Settlement Schedule

The Financial Settlement Schedule sets out details of the financial settlement determined before Licence Award, as set out below.

<b>Item reference</b>	<b>Item</b>	<b>Details</b>
	<b>Delay WACC</b>	
	<b>Pre-Licence Award Devex</b>	
	<b>WACC</b>	
	<b>Re-Use Asset Valuation</b>	
	<b>Ex Ante SRAV Allowance</b>	
	<b>Ex ante allowance in respect of On-going Devex</b>	
	<b>Ex ante allowance in respect of On-going Capex</b>	
	<b>Ex ante allowance in respect of Opex</b>	

#### Schedule 4: Technical Details Schedule

The Technical Details Schedule sets out procedural, technical and programming details relating to the construction and commissioning of the T&S Network, as set out below.

Item reference	Item	Details
Condition F2	<b>Scheduled Handover Date</b>	[x]
Condition F2	<b>Project Programme</b>	<i>[may refer here to a separate document]</i>
Condition F2	<b>Project Scope</b>	<i>[may refer here to a separate document]</i>
Condition F2	<b>Handover Works</b>	<p>The works and activities to be undertaken by the Licensee during the Construction Phase as set out in the Approved Project Development Plan that are required to ensure that the Approved T&amp;S Network is able to commence commissioning.</p> <p>Some indicative examples of the works and/or activities that are likely to form part of the Handover Works include but are not limited to:</p> <ul style="list-style-type: none"> <li>• design and construction of the assets of the Approved T&amp;S Network (including any Onshore Pipeline System, Offshore Transportation and Storage System, Storage Complex(s), metering or systems);</li> <li>• carrying out pre-commissioning activities (e.g. functional / statutory testing, mechanical completion, FAT and SAT);</li> <li>• carrying out non-operational testing;</li> <li>• obtaining all required permits/consents; and</li> <li>• Organisational activities (such as the hiring/training of operational staff).</li> </ul>
Condition G2	<b>Commissioning Activities</b>	<p>The activities to be undertaken by the Licensee during the Commissioning Phase as set out in the Approved Project Development Plan in order to demonstrate that the Approved T&amp;S Network is able to commence operations.</p> <p>Some indicative examples of the activities that are likely to form part of the Commissioning Activities include but are not limited to:</p> <ul style="list-style-type: none"> <li>• system Pressurisation and first fill;</li> <li>• initial flow and line testing;</li> <li>• metering and data / control system interface operability, venting;</li> <li>• testing of rejection system responsiveness – emitter and T&amp;SCo side;</li> </ul>

Item reference	Item	Details
		<ul style="list-style-type: none"> <li>• testing of Storage Complex responsiveness;</li> <li>• proving of assets (e.g. leakage levels on end-to-end operations, energy, and CO2 performance (MWh/tCO2 stored, availability (for a specified duration), operability, start-up/shutdown operations, injectivity and Storage Complex responsiveness;</li> <li>• proving of operational capability (e.g. emergency response, event response (dry runs), leakage analysis process, control and safety systems); and</li> <li>• organisational activities (such as the hiring/training of operational staff).</li> </ul>
Condition G2	<b>Scheduled Commercial Operations Date</b>	[x]
Condition G2	<b>Longstop Date</b>	[x]

## Annex B: Government Support Package for T&SCo

### CCUS: Government Support Package for T&SCo Introduction and Indicative Heads of Terms

**Note: this introduction and draft indicative heads of terms are subject to the "Disclaimer" section at the front of the explanatory note document to which they are annexed.**

#### **B. INTRODUCTION**

##### **1.1 Background**

- (a) The indicative heads of terms in section C (*Supplemental Compensation Agreement*), section D (*Discontinuation Agreement*) and section E (*Liaison Agreement*) of this document set out the basis upon which HM Government ("**HMG**") would consider providing a contingent Government Support Package ("**GSP**") to a company licensed to provide transport and storage services ("**T&SCo**") as part of HMG's CCUS Programme (the "**Programme**").
- (b) The contents of the heads of terms in section C (*Supplemental Compensation Agreement*), section D (*Discontinuation Agreement*) and section E (*Liaison Agreement*) of this document are indicative only and do not constitute an offer by HMG and do not create a basis for any form of expectation or reliance. Any GSP arrangements that are developed in the future will be subject to approval by Ministers, in consultation with the economic regulator ("**Regulator**"), and the development and completion of necessary contractual documentation.
- (c) The introduction set out in this section A does not form part of the indicative heads of terms in section C (*Supplemental Compensation Agreement*), section D (*Discontinuation Agreement*) and section E (*Liaison Agreement*) of this document and is intended only to provide an overview of the rationale and assumptions for the provision of the GSP.

##### **1.2 Rationale**

- (a) The GSP has been structured to cover certain high impact, but low probability risks beyond those which are manageable by operation of the Economic Regulatory Regime ("**ERR**") and the Revenue Support Agreement ("**RSA**"), which the investors and/or supply chain, including insurers, of T&SCo cannot take, or cannot price at an efficient level which is good value for money for UK taxpayers, consumers and users.
- (b) The risks to be covered by the GSP and the detailed terms of coverage remain under consideration, but these heads of terms set out current HMG thinking on the support which could be provided by the GSP. This will depend upon the terms of the ERR and RSA and the target risk profile and credit rating for T&SCo required by the ERR and RSA.

##### **1.3 Description**

- (a) This document comprises the following:
  - (i) section A: introduction;

- (ii) section B: conditions precedent to the GSP and other activities pre-Licence Award;
  - (iii) section C: heads of terms for the supplemental compensation agreement ("**Supplemental Compensation Agreement**" or "**SCA**");
  - (iv) section D: heads of terms for the discontinuation agreement ("**Discontinuation Agreement**" or "**DA**"); and
  - (v) section E: heads of terms for the liaison agreement ("**Liaison Agreement**").
- (b) The scope of the areas of specific protection set out in the indicative heads of terms in section C (*Supplemental Compensation Agreement*), section D (*Discontinuation Agreement*) and section E (*Liaison Agreement*) remain subject to review, in particular in the context of the detail of the ERR and the RSA.

#### 1.4 Initial assumptions

- (a) This document is based on the following assumptions in respect of the T&S Network:
- (i) ownership of the T&S Network: the "onshore" (i.e. onshore transportation systems) and "offshore" (i.e. offshore transportation systems and offshore storage) elements of the T&S Network will be owned by T&SCo. In particular, T&SCo will hold any Crown Estate (including Crown Estate Scotland) lease and licence/permit issued by the NSTA (or licensing authority of a devolved administration);
  - (ii) development and operation of the T&S Network: T&SCo will be responsible for the development, construction, operation and maintenance of the T&S Network, including obtaining all necessary permits and approvals;
  - (iii) expansion of the T&S Network: in the future T&SCo may need to expand the T&S Network under the terms of the ERR and will provide access to new T&S users in accordance with the terms of its Licence, the CCS Network Code and all relevant laws and regulations;<sup>5</sup>
  - (iv) decommissioning: T&SCo will be responsible for the decommissioning and monitoring of:
    - (A) the Offshore Transportation System in accordance with the Petroleum Act 1998 as applied under the Energy Act 2008 (as may be amended or supplemented) and with regards to post closure obligations, T&SCo will be responsible as set out in its storage permit and licence granted by the NSTA; and
    - (B) the Onshore Transportation System in accordance with the relevant decommissioning conditions of any development/planning consent;
  - (v) T&S Charges: users of the T&S Network will pay T&SCo Charges for provision of T&S services which will be regulated under the ERR;
  - (vi) CO<sub>2</sub> ownership: T&SCo will certify delivery of CO<sub>2</sub> onto the T&S Network and will take title to and own the CO<sub>2</sub> and shall be responsible under UK ETS;

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<sup>5</sup> Consideration is being given to changes required to the existing third party access rules as a result of the new regulatory regime.



- (vii) revenue support agreement ("**RSA**"): in the development of the revenue model for the T&S Network, HMG has identified that there may be certain demand related revenue risks to T&SCo, where T&SCo's actual revenues may fall short of T&SCo's Allowed Revenue under the ERR. Such demand related revenue risks will be addressed through a number of mitigation measures in the ERR and where the ERR is not sufficient, T&SCo will have access to the RSA as a mechanism which will enable the recovery by T&SCo of its Allowed Revenue in the event of a shortfall.

## 1.5 **Defined terms**

Capitalised terms not otherwise defined in this document have the meaning given to them in the Licence heads of terms.

**B. CONDITIONS PRECEDENT TO THE GSP AND OTHER ACTIVITIES PRE-LICENCE AWARD**

No.	Item	Commercial Terms
1.	Conditions precedent	1.1 It is proposed that the GSP will be conditional on certain conditions precedent including those set out at Appendix 1 to section E ( <i>Liaison Agreement</i> ). <sup>6</sup>
2.	Procurement of insurances prior to Licence Award	2.1 Prior to Licence Award T&SCo will use all reasonable endeavours to secure commercial insurance in respect of each of the Insured Risks and Insured Losses in accordance with the requirements of the Insurance Schedule appended to the SCA.  2.2 T&SCo shall ensure that any commercial insurances are placed and maintained with a commercial insurer of Good Standing (as defined in section 23 ( <i>Definitions</i> ) of section C ( <i>Supplemental Compensation Agreement</i> )).
3.	Insurance assurance	3.1 T&SCo shall provide evidence, including confirmation from independent brokers that T&SCo has satisfied its obligation to use reasonable endeavours to secure commercial insurances in respect of each of the Insured Risks and Insured Losses.  3.2 The SoS will check that T&SCo has satisfied its obligation to use all reasonable endeavours to secure commercial insurances in respect of each of the Insured Risks and Insured Losses.  3.3 The SoS will undertake a review of the commercial insurances procured by T&SCo in respect of each of the Insured Risks and Insured Losses to determine whether commercial insurance for any of the Insured Risks or Insured Losses is Unavailable at Licence Award.
4.	T&SCo's financing structure/due diligence	4.1 T&SCo's financing structure will be the subject of due diligence checks for the purpose of assessment against the terms of the Discontinuation Agreement (including, but not limited to, any compensation on termination payable).  4.2 T&SCo's financing structure shall be in accordance with the Agreed Financing Principles and Approved Hedging Policy, each as set out in Appendix 1 of section D ( <i>Discontinuation Agreement</i> ).

<sup>6</sup> Note: conditions precedent to be kept under review.

### C. SUPPLEMENTAL COMPENSATION AGREEMENT (SCA)

No.	Heading	Description
1.	Parties	<p>1.1 The Parties to the SCA will be:</p> <p>(a) SoS; and</p> <p>(b) T&amp;SCo.</p>
2.	Commencement and Duration	<p>2.1 The term of the SCA shall commence on and from Licence Award and shall expire on the first to occur of:</p> <p>(a) revocation of the Licence; and</p> <p>(b) Discontinuation.</p>
3.	Insurance Schedule	<p>3.1 The SCA will include an insurance schedule which will detail the relevant insurance requirements in respect of each of the Insured Risks and Insured Losses (the "<b>Insurance Schedule</b>"). A draft version of the Insurance Schedule is set out in Appendix 1 (<i>Insurance Schedule</i>) to this section C (<i>Supplemental Compensation Agreement</i>) and this may be updated from time to time in accordance with section 13 (<i>Variation to the [Insurance Schedule]</i>).</p> <p>3.2 The Insurance Schedule provides the basis for protection for T&amp;SCo under the Supplemental Compensation Agreement – see sections on Excess Loss Compensation and Unavailability Loss Compensation below.</p> <p>3.3 T&amp;SCo has, prior to Licence Award, procured commercial insurances which include cover in respect of each of the Insured Risks and Insured Losses, other than:</p> <p>(a) [<i>specified</i>] Insured Risks; and</p> <p>(b) [<i>specified</i>] Insured Losses,</p> <p>for which commercial insurance is Unavailable at Licence Award.</p>
4.	Other insurances of T&SCo	<p>4.1 The requirements of the SCA are without limitation to any other insurances that T&amp;SCo elects to procure as part of its ordinary course in managing risk in operating the T&amp;S Network, including but not limited to cover for: construction risk, employer's liability, professional indemnity, credit risk, property/pipeline cover, business property coverage, cover for delayed start-up and CO<sub>2</sub> leakage coverage beyond the requirements of the SCA.</p>
5.	Unavailability	<p>5.1 Subject to section 5.2, in relation to any Insured Risks or Insured Losses, if at Licence Award or on a Renewal Date:</p> <p>(a) commercial insurance is not available in respect of the project (and comparable activities in the United Kingdom) in the worldwide insurance market with reputable insurers of Good Standing; or</p> <p>(b) the premium or deductible under the insurance to cover the relevant Insured Risks or Insured Losses is such that</p>

No.	Heading	Description
		<p>the insurance cover is not commercially viable in accordance with section 5.3, or</p> <p>(c) there has been a material adverse change in the terms (excluding the premium, sub-limits and policy deductibles) on which insurance in respect of any Insured Risks or Insured Losses is available,</p> <p>then commercial insurance in respect of each such Insured Risks or Insured Losses shall be regarded as "<b>Unavailable</b>" and Unavailability shall be construed accordingly.</p> <p>5.2 Any commercial insurance in respect of Insured Risks and/or Insured Losses shall only be treated as Unavailable if:</p> <ul style="list-style-type: none"> <li>▪ such Unavailability has not occurred as a result of any criminal activity, fraud or wilful default by T&amp;SCo;</li> </ul> <p>(a) a prudent board of directors of a company providing infrastructure in the UK (but without the overriding statutory rights and duties of T&amp;SCo) would, acting reasonably and in the best interests of their company, cease to operate such business as a result of such Unavailability; and</p> <p>(b) such Insured Risks and/or Insured Losses are not continued to be covered by Commercial Insurances beyond the Renewal Date.</p> <p>5.3 The commercial insurance for the relevant Insured Risks and/or Insured Losses will be considered not commercially viable pursuant to section 5.1(b) if the cost of the premium or other terms are such that a prudent board of directors of a company engaged in similar services would in similar circumstances, acting reasonably in the best interests of the company, resolve that such commercial insurance for the relevant Insured Risks and/or Insured Losses is not commercially viable.</p>
6.	Excess Loss Compensation	<p>6.1 If an event leading to claims in respect of the Insured Risks that exceed the financial limit set out in the most recently placed or renewed Commercial Insurances occurs, the SoS will meet the amounts which are in excess of the financial limit set out in such Commercial Insurances, provided the provider(s) of the relevant Commercial Insurances (the "<b>Primary Insurance Provider(s)</b>") have paid out in respect of such claims up to the financial limit.</p> <p>6.2 The settlement of these claims will follow as far as is practical the terms of the Primary Insurance Providers and in accordance with the usual market position in respect of layered insurances.</p>
7.	Unavailability Loss Compensation	<p>7.1 The SoS will provide supplemental compensation protection in the case of the Unavailability of commercial insurance in respect of any Insured Risks and/or Insured Losses.</p> <p><u>Terms of cover</u></p>

No.	Heading	Description
		<p>7.2 The supplemental compensation for the Unavailability of commercial insurance in respect of any Insured Risks and/or Insured Losses shall at the SoS's election:</p> <p>(a) replicate the terms of the relevant Commercial Insurances (if any) immediately prior to such Unavailability; or</p> <p>(b) where:</p> <p>(i) no Commercial Insurances applied immediately prior to such Unavailability; or</p> <p>(ii) the SoS considers (acting reasonably) that the Commercial Insurances that applied immediately prior to such Unavailability are no longer appropriate,</p> <p>replicate the terms of the other Commercial Insurances as extended to cover the relevant Insured Risks or Insured Losses that are Unavailable, on terms determined by the SoS (acting reasonably).</p> <p><u>Exclusions</u></p> <p>7.3 If any Unavailability has occurred as a result of any criminal activity, fraud or wilful default by a named insured party under the insurances listed in the Insurance Schedule, any loss suffered by that party is excluded from T&amp;SCo's entitlement to claim under the SCA in relation to such Unavailability.</p> <p><u>Defences, exclusions and deductibles</u></p> <p>7.4 The SoS shall be entitled to rely on any defences, exclusions and deductibles that apply in accordance with the provisions of section 7.2.</p>
8.	Subsequent Recovery	<p>8.1 If and to the extent claims paid pursuant to the SCA are subsequently recovered from third parties, the SoS will expect these monies to be returned in full to prevent double payment of claims.</p> <p>8.2 The SoS will require the same rights of subrogation as any relevant Primary Insurance Provider(s).</p> <p>8.3 A Lead Insurer Agreement will be put in place to deal with, amongst other things, in claims handling and rights of subrogation.</p>
9.	Claims Handling	<p>9.1 Claims handling under the SCA is to be consistent insofar as practicable with usual insurance market practices.</p> <p>9.2 A Lead Insurer Agreement will be entered into to set out the relevant requirements and process in respect of claims handling and loss adjustment.</p>
10.	Failure to maintain Commercial Insurances	<p>10.1 If T&amp;SCo fails to maintain any Commercial Insurances as set out in Appendix 1 to this section C (<i>Supplemental Compensation Agreement</i>) (other than as a result of any Unavailability), then the SoS may either:</p>

No.	Heading	Description
		<p>(a) pay any premiums required to keep the Commercial Insurances in force; or</p> <p>(b) procure the Commercial Insurances itself,</p> <p>and in each case, T&amp;SCo shall be liable to the SoS in respect of any premiums paid by the SoS.</p>
11.	Renewal of Insurances	<p>11.1 T&amp;SCo undertakes to provide prior notice to the SoS in respect of amendments to or the renewal of any Commercial Insurance policies.</p> <p>11.2 To the extent Commercial Insurances are amended or renewed in the absence of SoS approval, the SoS shall not be liable to pay any amount of Excess Loss (see section 6) or Unavailability Loss (see section 7) which would not have been incurred had such amendments to the relevant insurance policies not been made.</p> <p>11.3 The process around renewals of the Commercial Insurance is expected to involve:</p> <p>(a) T&amp;SCo to give notice to SoS of T&amp;SCo's proposal in relation to the Commercial Insurances prior to their renewal or expiry.</p> <p>(b) This notice of renewal should include an outline of T&amp;SCo's proposals on:</p> <p>(i) the changes to the Commercial Insurances since the date of the SCA or the previous Renewal Date; and</p> <p>(ii) any proposed changes in the reinstatement value of all assets required to be insured, insured amounts in respect of all risks insured, the amount of deductibles and the applicable policy limit and any claims experience in respect of the existing insurance.</p> <p>(c) T&amp;SCo must then give notice to the SoS of the full details of the insurance proposals.</p> <p>(d) SoS will have an opportunity to comment on the outline of the insurance proposals and also the more detailed issue of the proposals.</p> <p>(e) SoS will have a specified number of business days to consider whether it agrees or not with the proposals (such agreement not to be unreasonably withheld or delayed) and SoS should not be entitled to withhold its consent to the proposals where such insurances are to be renewed on terms consistent with the Insurance Schedule.</p> <p>(f) If the SoS does not consent to the insurance proposals provided by T&amp;SCo or if T&amp;SCo amends the terms of the insurances without the consent of SoS, T&amp;SCo could continue to place the insurances but the SoS would not be obliged to pay any amount of Excess Loss or Unavailability Loss to the extent that such loss would not have been</p>

No.	Heading	Description
		incurred but for T&SCo placing or amending the insurance on such terms.
12.	T&SCo insurance market testing	<p>12.1 T&amp;SCo shall undertake regular testing of the commercial insurance market to assess whether commercial insurances are:</p> <ul style="list-style-type: none"> <li>(a) available in respect of any Insured Risks or Insured Losses that were previously Unavailable; or</li> <li>(b) Unavailable in respect of any Insured Risks or Insured Losses that were previously available,</li> </ul> <p>such testing to be undertaken at least every twelve months.</p> <p>12.2 At the SoS's request (such requests to be made no more than once in any twelve month period), T&amp;SCo shall undertake additional testing of the commercial insurance market in accordance with the requirements of section 12.1.</p>
13.	Insurance assurance	<p>13.1 T&amp;SCo shall provide evidence to the SoS (including confirmation from independent brokers) that on each Renewal Date T&amp;SCo has sufficiently tested the commercial insurance market in respect of each of the Insured Risks and Insured Losses and any Unavailability of commercial insurances and the SoS will satisfy itself that adequate and suitable quantum and coverage has been sought effectively and, where relevant, obtained or is otherwise Unavailable.</p> <p>13.2 Where appropriate, the SoS may consult the Regulator and/or seek independent advice on the evidence provided by T&amp;SCo pursuant to section 13.2 above.</p>
14.	Variation to Insurance Schedule	<p>14.1 Subject to section 14.2, the SoS shall be entitled, on notice to T&amp;SCo, to vary or amend the Insurance Schedule, including the Insured Risks and Insured Losses.</p> <p>14.2 The SoS shall not make any amendment to the Insurance Schedule if:</p> <ul style="list-style-type: none"> <li>(a) such amendment would materially and adversely affect T&amp;SCo's ability to operate the T&amp;S Network; and/or</li> <li>(b) the SoS does not have the legal power or capacity to require the implementation of such an amendment,</li> </ul> <p>unless, the SoS has obtained the prior written consent of T&amp;SCo.</p>
15.	Discontinuation Trigger	<p>15.1 The SoS will have a right to Discontinue in specified circumstances - see section D (<i>Discontinuation Agreement</i>).</p> <p>15.2 Where the SoS exercises its right to Discontinue pursuant to any of the triggers for such right, this will be without prejudice to the SoS's obligation to pay supplemental compensation in respect of third party liabilities and claims arising prior to or on the date on which the SoS elects to Discontinue pursuant to the Discontinuation Agreement (and made and notified to the SoS no later than [●]).</p>

No.	Heading	Description
16.	Utmost Good Faith	16.1 T&SCo acknowledges and agrees that it owes a duty of utmost good faith to the SoS.
17.	SCA Fee	17.1 SoS will charge fees for support under the SCA.  <b>Note:</b> <i>methodology of calculation of fee is under consideration.</i>
18.	Undertakings	18.1 T&SCo will provide certain information and other undertakings to the SoS in support of its obligations to maintain Commercial Insurances and other obligations under the SCA.
19.	Dispute Resolution Procedure	19.1 Any dispute arising out of or in connection with the SCA shall be resolved in accordance with the Dispute Resolution Procedure.  19.2 Either party shall be entitled to refer a dispute under the SCA to identified senior representatives for resolution.  19.3 If the relevant dispute is not resolved by the senior representatives after a period of [●] Business Days, either party may refer the dispute to adjudication in accordance with the identified procedure prior to any final determination by court.
20.	Representatives and personnel	20.1 Roles of the representatives of the Parties to the SCA are to be developed, including delegated authority.  20.2 T&SCo representative shall:  (a) manage and oversee compliance by T&SCo with its duties and obligations under the SCA; and  (b) exercise any right and perform any obligation exercisable by or to be performed by the T&SCo representative under the SCA.  20.3 SoS representative shall:  (a) manage and oversee compliance by SoS with its duties and obligations under the SCA; and  (b) exercise any right and perform any obligation exercisable by or to be performed by the SoS representative under the SCA.
21.	Assignment and Sub-Contracting	21.1 The SCA shall benefit and bind Parties, their permitted assignees and respective successors and any reference in the SCA to any party shall be construed accordingly.  21.2 The SCA will include restrictions on the assignment and/or transfer by T&SCo of any of its rights or obligations under the SCA (in whole or in part except) without the prior written consent of the SoS (such consent not to be unreasonably withheld or delayed), save that T&SCo will be permitted to create a security assignment in favour of its secured creditors (and SoS will assist in facilitating this, provided that all costs and expenses properly incurred by SoS in giving effect to such assignment are paid by T&SCo).  21.3 The SoS may, subject to the conditions to be set out in the SCA, transfer its rights or novate its obligations under the SCA to any



No.	Heading	Description
		Minister of the Crown or any entity directly wholly-owned by a Minister of the Crown.
22.	Confidentiality	<p>22.1 The SCA will set out confidentiality provisions which will apply to all Parties in respect of the Project. There will be customary exceptions.</p> <p>22.2 The SCA sets out that the SoS is, and that T&amp;SCo may become subject to, the requirements of the Freedom of Information Act ("FOIA") and the Environmental Information Regulations and each party shall facilitate compliance by the other party with its information disclosure requirements pursuant to the FOIA and the Environmental Information Regulations.</p>
23.	Rights of Third Parties	23.1 A person who is not a party to the SCA shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any of its terms.
24.	Governing Law	24.1 The SCA shall be governed by and construed in accordance with English law and the courts of England and Wales shall have exclusive jurisdiction.
25.	Definitions	<p><b>"Carbon Dioxide Storage Regulations"</b> means regulations in respect of the storage of carbon dioxide under the Energy Act 2008;</p> <p><b>"Commercial Insurances"</b> means the commercial insurances placed by T&amp;SCo in respect of each of the Insured Risks and Insured Losses;</p> <p><b>"Corrective Measures Plan"</b> has the meaning given to that term in the Carbon Dioxide Storage Regulations;</p> <p><b>"FOIA"</b> means the Freedom of Information Act 2000 (as amended);</p> <p><b>"Good Standing"</b> means in relation to a commercial insurer that such insurer is:</p> <ul style="list-style-type: none"> <li>(a) a UK authorised insurer (i.e. regulated by the Prudential Regulation Authority or any successor body) or European Economic Area (EEA) authorised insurer operating in the UK; and</li> <li>(b) an issuer that has a long-term rating of a minimum of A- by S&amp;P Global Ratings (Standard &amp; Poor's) or a minimum of A3 by Moody's Investors Service, or an equivalent rating by another recognised ratings agency;</li> </ul> <p><b>"Insurance Schedule"</b> has the meaning given to it in section 3 (<i>Insurance Schedule</i>) of this section C (<i>Supplemental Compensation Agreement</i>);</p> <p><b>"Insured Losses"</b> has the meaning given in Appendix 1 (<i>Insurance Schedule</i>) to this section C (<i>Supplemental Compensation Agreement</i>);</p> <p><b>"Insured Risks"</b> has the meaning given in Appendix 1 (<i>Insurance Schedule</i>) to this section C (<i>Supplemental Compensation Agreement</i>);</p> <p><b>"Lead Insurer Agreement"</b> means the agreement to be entered into between the SoS and the lead insurers in respect of, amongst other things, claims handling and subrogation rights;</p>

No.	Heading	Description
		<p><b>"Primary Insurance Provider(s)"</b> has the meaning given to it in section 6 (<i>Excess Loss Compensation</i>) of this section C (<i>Supplemental Compensation Agreement</i>);</p> <p><b>"Renewal Date"</b> means a renewal date in respect of any Commercial Insurances or any date on which T&amp;SCo undertakes market testing of the commercial insurance market pursuant to section 12;</p> <p><b>"Storage Complex"</b> has the meaning given to that term in the Carbon Dioxide Storage Regulations;</p> <p><b>"Storage Permit"</b> has the meaning given to that term in the Carbon Dioxide Storage Regulations; and</p> <p><b>"Unavailable"</b> has the meaning given to it in section 7 (<i>Unavailability Loss Compensation</i>) of this section C (<i>Supplemental Compensation Agreement</i>).</p>

**Appendix 1 to Section C (Supplemental Compensation Agreement): Draft Insurance Schedule  
Insurance Schedule**

**1.6 Insured**

- (a) T&SCo;
  - (b) the [Secured Creditors];
  - (c) the [sub-contractors of T&SCo];
  - (d) the Regulators (Ofgem, the North Sea Transition Authority (NSTA) and Offshore Petroleum Regulator for Environment and Decommissioning (OPRED);
  - (e) the SoS
  - (f) [suppliers, manufacturers, professional consultants and engineers for their site activities only in connection with the carrying out of works]; and
  - (g) employees, directors and officers of the above,
- each for their respective rights and interests.

**1.7 Insured Risks**

Insured Risks means any of the following risks:

- (a) [property damage/malfunction of infrastructure assets (including any equipment and/or legacy wells)] at the Storage Complex; or
- (b) [geological conditions] at the Storage Complex,

which results in:

- (i) leakage of CO<sub>2</sub>, that obliges T&SCo under its Storage Permit to suspend the injection of CO<sub>2</sub> at the Storage Complex (including where such suspension results from the Corrective Measures Plan or a direction from NSTA); and/or
- (ii) a specified significant irregularity, that obliges T&SCo under its Storage Permit to suspend the injection of CO<sub>2</sub> at the Storage Complex for the long term or permanently (including where such suspension results from the Corrective Measures Plan or a direction from NSTA).

(the "**Insured Risks**")

The Insured Risks may be caused either by a single event or may emerge over a longer period of time through monitoring of the Storage Complex.

**1.8 Insured Losses**

Insured Losses means the following costs, losses and liabilities arising from the Insured Risks (up to the Sums Insured and subject to the Principal Exclusions):

- (a) costs resulting from remediation of infrastructure at the Storage Complex back to its pre-existing status/condition (to the extent reasonably practicable) including costs associated with the Corrective Measures Plan and costs of control of well (such as

making safe costs and those costs associated with stopping a CO<sub>2</sub> leak in the event of a well blowout);

- (b) costs in the event of total abandonment, i.e. any abandonment costs not covered by the decommissioning fund;
  - (c) delay in start-up/business interruption costs (covering critical fixed opex costs and debt service only) in the event that suspension of injection of CO<sub>2</sub> at the Storage Complex (as specified in paragraph 1.2 above) is required;
  - (d) any environmental remediation costs necessary to comply with relevant legal requirements at the time of the occurrence of the Insured Risk and/or any Storage Permit obligations, including costs associated with clean-up and third-party damage; and
  - (e) costs relating to the purchase of UK ETS allowances,
- (the "**Insured Losses**").

1.9 **Period**

- (h) Initial Period – Construction and Commissioning

The initial period of cover will run from Licence Award and will remain in effect during the Construction Period and Commissioning Period, ending on the Commercial Operations Date.

- (i) Secondary Period – First phase of operations

The secondary period of cover will run from the Commercial Operations Date up to the end of the First Regulatory Period.

- (j) Subsequent Periods

The subsequent periods of cover (with renewals at each periodic review unless otherwise required to achieve an economic and efficient outcome) will run:

- (i) during the period from the end of the First Regulatory Period until closure of the Storage Complex (following cessation of CO<sub>2</sub> injection at the Storage Complex); and
- (ii) during the period throughout the decommissioning/post closure period.

During the decommissioning/post closure period the following elements of this Insurance Schedule will cease to apply:

- (iii) costs in the event of total abandonment of the Storage Complex; and
- (iv) delay in start-up/business interruption.

1.10 **Sum Insured**

[The Sums Insured in respect of the Insured Losses are as follows:

<b>Insured Loss</b>	<b>Reference</b>	<b>Sum insured</b>
Remediation	1.3(a)	Reinstatement costs

Abandonment	1.3(b)	[To be specified]
Business interruption	1.3(c)	[To be specified]
Environmental	1.3(d)	[To be specified]
Carbon UKETS	1.3(e)	[To be specified]

#### 1.11 **Geographical Limits**

Geographical limits for the SCA insurance requirement relate to the management of CO<sub>2</sub> leakage risk offshore, specifically arising at the Storage Complex which, is to include the precise location and delimitation of the storage site and the Storage Complex.

#### 1.12 **Deductibles**

Insurance deductibles relate to the first loss amount borne by the T&SCo in the event of a CO<sub>2</sub> leak from the Storage Complex. These deductibles should align with market standard. In particular, T&SCo shall remain liable for business interruption costs during any specified waiting period.

Where there is an opportunity for the T&SCo to decide upon the level of premia versus the level of deductibles, there will be pre-agreed parameters determined upfront with SoS.

#### 1.13 **Principal Extensions**

Any extension to the cover in this Insurance Schedule should be priced separately unless there is no differential.

#### 1.14 **Principal Inclusions**

Principal inclusions for cover will include the following:

- (a) Cash remediation clause; and
- (b) Market standard non-vitiation clause.

#### 1.15 **Principal Exclusions**

Principal exclusions from cover will include the following:

- (a) any fines and penalties borne by T&SCo;
- (b) tangible environmental damage or environmental remediation costs to third parties beyond what is necessary to comply with relevant legal requirements and Storage Permit requirements;
- (c) any normal operating costs incurred by T&SCo, including operating, maintenance (whether preventative or reactive which should be carried out as a matter of good industry practice) and management costs associated with the operation of the T&S Network in the operational phase of the project and, in each case as eligible for assessment as part of the T&SCo's Allowed Revenue (as defined in the Licence);
- (d) any costs related to constraints on the level of CO<sub>2</sub> injection or the capacity of the Storage Complex either before any leak or specified significant irregularity has occurred or afterwards, where such constraints do not amount to suspension of CO<sub>2</sub> injection at the Store Complex (as specified in paragraph 1.2 above); and
- (e) any costs or liabilities of Users (as defined in the Licence) arising from the Insured Risks.



## D. DISCONTINUATION AGREEMENT (DA)

No.	Heading	Description
1.	Parties	<p>1.1 The Parties to the Discontinuation Agreement will be:</p> <ul style="list-style-type: none"> <li>(a) SoS; and</li> <li>(b) T&amp;SCo.</li> </ul>
2.	Commencement and Duration	<p>2.1 The term of the Discontinuation Agreement shall commence on and from Licence Award and shall expire on the first to occur of:</p> <ul style="list-style-type: none"> <li>(a) revocation of the Licence; and</li> <li>(b) Discontinuation.</li> </ul>
3.	Discontinuation	<p>3.1 The SoS will have the right (but not the obligation) to discontinue the provision of the GSP on or where:</p> <ul style="list-style-type: none"> <li>(a) claims, individually or in aggregate with all other previous claims, under the SCA have exceeded a minimum of [●] pounds (£[●])(indexed) in the aggregate or such higher amount as arises from adjustments in accordance with section 3.2 below ("<b>SCA Discontinuation Threshold</b>");</li> <li>(b) pursuant to section 5 (<i>Unavailability</i>) of section C (<i>Supplemental Compensation Agreement</i>), the conditions for supplemental compensation protection in respect of Unavailability of commercial insurance for any of the Insured Risks or Insured Losses have been satisfied at any Renewal Date;</li> <li>(c) if the aggregate claims for Difference Payments under the RSA are forecast to exceed [●]% of Allowed Revenue in each of the next three Charging Years, as forecast in accordance with section 3.3 below ("<b>RSA Discontinuation Threshold</b>") or</li> <li>(d) at any time during which T&amp;SCo is insolvent.</li> </ul> <p>3.2 If any claims under the SCA, individually or in aggregate with all other previous claims, exceed the then current SCA Discontinuation Threshold and the SoS has not exercised its right to Discontinue, then the current SCA Discontinuation Threshold shall be increased to the next multiple of £[●] (indexed) that exceeds the aggregate of all previous claims under the SCA.</p> <p>3.3 In conjunction with the process for setting the Allowed Revenue and associated user charges for each Charging Year:</p> <ul style="list-style-type: none"> <li>(a) the T&amp;SCo will provide the Regulator with a forecast of the Allowed Revenue for each of the next three Charging Years and a forecast of the revenues expected to be collected from user charges;</li> <li>(b) the Regulator will review and validate the forecasts referred to in limb (a) above;</li> <li>(c) T&amp;SCo will provide the validated forecast to the SoS; and</li> </ul>

No.	Heading	Description
		(d) the SoS will determine whether or not the RSA Discontinuation Threshold has been exceeded using the validated forecasts.
4.	Consequences of Discontinuation	<p>4.1 An election by the SoS to Discontinue will result in:</p> <p>(a) a calculation of compensation payable in respect of debt/equity investors in T&amp;SCo - see below sections 8 and 9;</p> <p>(b) the Regulator being entitled to revoke the Licence; and</p> <p>(c) the SoS being entitled to institute a statutory transfer scheme in respect of the T&amp;S Network.</p>
5.	Discontinuation Decision	5.1 Discontinuation under these provisions is a right of the SoS and not an obligation.
6.	Partial Discontinuation	<p>6.1 Without prejudice to any rights that the SoS has to Discontinue the GSP, following the occurrence of any of the events set out in section 3.1 above, the Parties may agree to the discontinuation of only part of the GSP as applicable to an individual Store (a "<b>Partial Discontinuation</b>"), provided that the Parties agree the impact of any such Partial Discontinuation, including but not limited to:</p> <p>(a) any discontinuation compensation payable in respect of such Partial Discontinuation; and</p> <p>(b) any other consequences of such Partial Discontinuation (including in respect of any relevant assets or documents).</p>
7.	Total Compensation Cap	<p>7.1 Discontinuation compensation will be capped at the Total Compensation Cap and paid in the following order of priority:</p> <p>(a) first, to senior debt creditors in respect of the Senior Debt Liabilities – see section 8; and</p> <p>(b) second, to equity investors in T&amp;SCo – see section 9.</p> <p>7.2 If T&amp;SCo is not insolvent, the "<b>Total Compensation Cap</b>" will be a contractually certain amount which (subject to final modelling) is anticipated to be equal to the sum of the RAV and the SRAV assigned by the Regulator at the date of Discontinuation, plus:</p> <p>(a) any accrued amounts as at the date of Discontinuation which would have been assigned by the Regulator to the RAV or the SRAV under the Licence, but for Discontinuation; and</p> <p>(b) any hedging breakage costs permitted under the Approved Hedging Policy.</p> <p>7.3 If a Discontinuation occurs during a period while a Failure Event has occurred and has not been Remedied or reduced to a Remedy Event, then any project spend incurred during the period that a Failure Event has occurred but has not been remedied or reduced to a Remedy Event shall be deducted from the Total Compensation Cap. If the Failure Event is Remedied or reduced</p>



No.	Heading	Description
		to a Remedy Event prior to a Discontinuation occurring, this deduction shall cease to apply.
8.	Senior Debt Compensation	<p>8.1 If T&amp;SCo is not insolvent, the SoS will deposit the "<b>Senior Debt Compensation</b>" into a specified account, being the lower of the Total Compensation Cap and Senior Debt Liabilities.</p> <p>8.2 "<b>Senior Debt Liabilities</b>" shall mean an amount equal to:</p> <p>(a) outstanding principal, interests, costs, expenses and liabilities in respect of senior debt financing entered into in accordance with the Agreed Financing Principles (including hedging breakage costs in respect of hedging arrangements which have been entered into in accordance with the Approved Hedging Policy) as at the date of Discontinuation; less</p> <p>(b) any claims in respect of contingent funding liabilities, hedging breakage gains and any other amounts received by senior creditors as the result of any other enforcement action as at the date of Discontinuation.</p> <p>8.3 A provision for tax gross-up will apply to Senior Debt Compensation.</p> <p>8.4 The SoS may (at its option) elect to pay the Senior Debt Compensation in instalments sized by reference to the debt repayment profile or as may be otherwise agreed between the SoS and the Security Trustee.</p>
9.	Equity Compensation	<p>9.1 If T&amp;SCo is not insolvent, the SoS will deposit the "<b>Equity Compensation</b>" into a specified account, being a sum equal to the Total Compensation Cap less Senior Debt Compensation (if positive).</p> <p>9.2 Where and to the extent any breakage costs arise in connection with a hedging strategy that is not in compliance with the Approved Hedging Policy these will be a matter for equity to meet from within the Equity Compensation.</p>
10.	Compensation on insolvency	<p>10.1 If T&amp;SCo is insolvent at the time of discontinuation, the Total Compensation Cap, Senior Debt Compensation and Equity Compensation will be determined by a licensed practitioner and shall be based on the market value of T&amp;SCo attributable by an insolvency practitioner in an insolvency process of the licensee on the assumption that, at the date of Discontinuation:</p> <p>(a) T&amp;SCo remains insolvent, taking into account the circumstances giving rise to the entry of T&amp;SCo into insolvency;</p> <p>(b) the debt and equity in T&amp;SCo is transferred or T&amp;SCo's assets and business are transferred, in either case under a statutory transfer scheme or under a transfer by agreement; and</p> <p>(c) any transfer of debt and equity in or assets of T&amp;SCo is to a willing transferee,</p>

No.	Heading	Description
		and which amount shall not result in greater compensation than would have been the case in the event of a discontinuation outside of insolvency.
11.	Set off against Equity Compensation	11.1 The SoS will have the right to set off any outstanding claims against T&SCo against the payment of the Equity Compensation.
12.	Reduction/forfeiture of Equity Compensation	<p>12.1 Equity Compensation may be reduced or forfeited where Wilful Misconduct or Gross Negligence is proven on the part of T&amp;SCo.</p> <p>12.2 <b>"Wilful Misconduct or Gross Negligence"</b> means any act or failure to act by T&amp;SCo or its respective personnel, which:</p> <ul style="list-style-type: none"> <li>(a) leads to a prosecution by a relevant regulator of T&amp;SCo;</li> <li>(b) results from failure by T&amp;SCo to comply with a written notice from a Relevant Regulator requiring steps to be taken by T&amp;SCo to remedy or prevent a contravention within the timeframe required; or</li> <li>(c) gives rise to the revocation of a Relevant Regulator permit</li> </ul> <p>and in any such case results in an increased risk of the occurrence of any Insured Risks or Insured Losses.</p>
13.	Timing of Compensation	<p>13.1 Senior Debt Compensation and Equity Compensation will be paid within [●] Business Days of agreement or determination of the completion of applicable calculation procedures.</p> <p>13.2 The calculation of compensation on discontinuation shall involve:</p> <ul style="list-style-type: none"> <li>(a) determination of the Total Compensation Cap, Senior Debt Compensation and Equity Compensation; and</li> <li>(b) if at the time of discontinuation T&amp;SCo is insolvent, appointment of the licensed practitioner and the determination of the compensation on discontinuation which applies in that context.</li> </ul>
14.	Fee for Compensation	14.1 It is currently proposed that there will be no charge to T&SCo or the equity recipients and providers of senior debt for the provision of compensation on discontinuation.
15.	Reimbursement of Discontinuation Payment	<p>15.1 The SoS will have a right of reimbursement from T&amp;SCo for amounts paid out under the Discontinuation Agreement on the basis that such right:</p> <ul style="list-style-type: none"> <li>(a) will rank behind senior debt but ahead of subordinated debt/equity (other than amounts recovered as part of the discontinuation payment itself); and</li> <li>(b) will be backed by security over those of T&amp;SCo's assets which have not transferred to a replacement T&amp;SCo (if there is one).</li> </ul> <p>15.2 If following payment of both the Senior Debt Compensation and the Equity Compensation there is still a secured senior debt shortfall, the SoS's security over any amounts recoverable by</p>

No.	Heading	Description
		<p>T&amp;SCo is subordinated to the secured senior funder recovery of that shortfall.</p> <p>15.3 The amounts representing the payment of Senior Debt Compensation and Equity Compensation shall be excluded from the SoS's right of reimbursement.</p>
16.	Discontinuation Plan	16.1 Immediately following the issuance by the SoS of a Discontinuation Notice, T&SCo shall be required to carry out immediate make-safe activities implemented by T&SCo pursuant to a plan agreed with the SoS to the extent not covered by the decommissioning plan, based on the Template Discontinuation Plan set out at Appendix 2 to this section D as may be updated from time to time (" <b>Approved Discontinuation Plan</b> ").
17.	Approved Discontinuation Plan Obligations and Equity Compensation Retention	<p>17.1 Following Discontinuation and until the completion of the Approved Discontinuation Plan, the SoS shall be entitled to withhold from the Equity Compensation to be paid in accordance with section 9 (Equity Compensation), an amount equal to the greater of:</p> <p>(a) [●] per cent of the Equity Compensation; and</p> <p>(b) £[●] (indexed),<sup>7</sup></p> <p>such portion of Equity Compensation retained to be released as follows:</p> <p>(c) the first [●] per cent in accordance with the staged release detailed in the Approved Discontinuation Plan; and</p> <p>(d) the second [●] per cent within [●] Business Days of completion of the obligations under the Approved Discontinuation Plan.</p>
18.	Representatives and personnel	<p>18.1 Roles of the representatives of the Parties to the Discontinuation Agreement are to be developed, including delegated authority.</p> <p>18.2 T&amp;SCo representative shall:</p> <p>(a) manage and oversee compliance by T&amp;SCo with its duties and obligations under the Discontinuation Agreement; and</p> <p>(b) exercise any right and perform any obligation exercisable by or to be performed by the T&amp;SCo representative under the Discontinuation Agreement.</p> <p>18.3 SoS representative shall:</p> <p>(a) manage and oversee compliance by SoS with its duties and obligations under the Discontinuation Agreement; and</p> <p>(b) exercise any right and perform any obligation exercisable by or to be performed by the SoS representative under the Discontinuation Agreement.</p>

<sup>7</sup> Note: the amounts withheld for the Approved Discontinuation Plan remain subject to further consideration by BEIS.

No.	Heading	Description
19.	Dispute Resolution Procedure	<p>19.1 Any dispute arising out of or in connection with the Discontinuation Agreement shall be resolved in accordance with the Dispute Resolution Procedure.</p> <p>19.2 The Dispute Resolution Procedure remains under consideration depending on the type of dispute but is expected to involve an escalation process to senior management of both Parties with alternative dispute resolution prior to any final determination by court.</p>
20.	Assignment and Sub-Contracting	<p>20.1 The Discontinuation Agreement shall benefit and bind the parties, their permitted assignees and respective successors and any reference in the Discontinuation Agreement to any party shall be construed accordingly.</p> <p>20.2 The Discontinuation Agreement will include restrictions on the assignment and/or transfer by T&amp;SCo of any of its rights or obligations under the Discontinuation Agreement (in whole or in part except) without the prior written consent of the SoS (such consent not to be unreasonably withheld or delayed), save that T&amp;SCo will be permitted to create a security assignment in favour of its secured creditors (and SoS will assist in facilitating this, provided that all costs and expenses properly incurred by SoS in giving effect to such assignment are paid by T&amp;SCo).</p> <p>20.3 The SoS may, subject to the conditions to be set out in the Discontinuation Agreement, transfer its rights or novate its obligations under the Discontinuation Agreement to any Minister of the Crown or any entity directly wholly-owned by a Minister of the Crown.</p>
21.	Confidentiality	<p>21.1 The Discontinuation Agreement will set out confidentiality provisions which will apply to all Parties in respect of the Project. There will be customary exceptions.</p> <p>21.2 The Discontinuation Agreement sets out that the SoS is, and that T&amp;SCo may become subject to, the requirements of the FOIA and the Environmental Information Regulations and each party shall facilitate compliance by the other party with its information disclosure requirements pursuant to the FOIA and the Environmental Information Regulations.</p>
22.	Rights of Third Parties	<p>22.1 A person who is not a party to the Discontinuation Agreement shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any of its terms.</p>
23.	Governing Law	<p>23.1 The Discontinuation Agreement shall be governed by and construed in accordance with English law and the courts of England and Wales shall have exclusive jurisdiction.</p>
24.	Appendix	<p>24.1 Appendix 1 will form a schedule to the Discontinuation Agreement.</p>
25.	Definitions	<p><b>"Act"</b> has the meaning given to it in the Standard Conditions of the Licence;</p> <p><b>"Agreed Financing Principles"</b> means the approved financing principles set out in Appendix 1 of this section D (<i>Discontinuation Agreement</i>);</p>

No.	Heading	Description
		<p><b>"Approved Discontinuation Plan"</b> has the meaning given to it in section 16 (<i>Discontinuation Plan</i>) of this section D (<i>Discontinuation Agreement</i>);</p> <p><b>"Approved Hedging Policy"</b> means the approved hedging policy set out in Appendix 1 of this section D (<i>Discontinuation Agreement</i>);</p> <p><b>"Difference Payments"</b> has the meaning given to it in the RSA heads of terms;</p> <p><b>"Discontinuation"</b> means the discontinuation of the GSP in accordance this section D (<i>Discontinuation Agreement</i>);</p> <p><b>"Equity Compensation"</b> has the meaning given to it in section 9 (<i>Equity Compensation</i>) of this section D (<i>Discontinuation Agreement</i>);</p> <p><b>"FOIA"</b> means the Freedom of Information Act 2000 (as amended);</p> <p><b>"GSP"</b> has the meaning given to it in the Liaison Agreement heads of terms;</p> <p><b>"Relevant Regulator"</b> means the NSTA, OPRED, HSE, or Ofgem;</p> <p><b>"Senior Debt Compensation"</b> has the meaning given to it in section 8 (<i>Senior Debt Compensation</i>) of this section D (<i>Discontinuation Agreement</i>);</p> <p><b>"Senior Debt Liabilities"</b> has the meaning given to it in section 8 (<i>Senior Debt Compensation</i>) of this section D (<i>Discontinuation Agreement</i>);</p> <p><b>"Template Discontinuation Plan"</b> means the template plan agreed between SoS and T&amp;SCo as set out in Appendix 2 of this section D (<i>Discontinuation Agreement</i>); and</p> <p><b>"Total Compensation Cap"</b> has the meaning given to it in section 7 (<i>Total Compensation Cap</i>) of this section D (<i>Discontinuation Agreement</i>).</p>

## **Appendix 1 to section D (*Discontinuation Agreement*): Approved Hedging Policy and Agreed Financing Principles**

### **Part 1: Approved Hedging Policy**

**Note:** *Approved policy for hedging that will count toward Senior Debt Liabilities for purposes of the Senior Debt Compensation calculation to be included following further consideration by BEIS and its advisers.*

*The Approved Hedging Policy will outline that T&SCo will be required to seek approval of SoS for its initial hedging policy and further approval where this is subject to substantive change.*

*It will also include guiding principles for T&SCo's hedging terms, including:*

- *any financing and hedging should be held within T&SCo;*
- *any hedging should be procured in the normal course of business and on market standard terms; and*
- *the term and structure of any hedging instruments should be aligned with the term of the debt.*

### **Part 2: Agreed Financing Principles**

**Note:** *Agreed parameters for financing that will count toward Senior Debt Liabilities for purposes of the Senior Debt Compensation calculation to be included following further consideration by BEIS and its advisers.*

*Assumptions of the SoS will include that T&SCo:*

- *is financially resilient;*
- *obtains a proportion of funding through equity/risk carrying capital; and*
- *obtains a proportion of funding through green financing.*

**Appendix 2 to section D (*Discontinuation Agreement*): Template Discontinuation Plan**

**Note:** *Template Discontinuation Plan to be developed in conjunction with technical advisers.*

## E. LIAISON AGREEMENT

No	Heading	Description
1.	Parties	<p>1.1 The Parties to the Liaison Agreement will be:</p> <p>(a) SoS; and</p> <p>(b) T&amp;SCo.</p>
2.	Conditions Precedent	<p>2.1 Detailed conditions precedent to the effectiveness of the Liaison Agreement will be specified in the full form documentation – see an outline list at Appendix 1 to this section E (Liaison Agreement). Such conditions precedent are expected to track the conditions precedent to the award of the Licence by the Regulator ("<b>Licence Award</b>").</p> <p>2.2 T&amp;SCo shall notify the SoS when it is satisfied that the conditions precedent have been satisfied in a form and substance satisfactory to it.</p> <p>2.3 Following receipt of T&amp;SCo's notice pursuant to paragraph (b) above, if the SoS is of the view that the conditions precedent have been satisfied (acting reasonably), it shall give notice to T&amp;SCo, that the conditions precedent have been satisfied.</p>
3.	Term	<p>3.1 Subject to section 2 (Conditions Precedent), the Liaison Agreement will commence on the date of Licence Award and continue until the expiry of the GSP (the "<b>Term</b>").</p> <p>3.2 In the event of a transfer of T&amp;SCo pursuant to the terms of the Licence, legislation or otherwise in accordance with law, the Liaison Agreement will provide that all of the Project Documents and Support Documents will be transferred at the same time, in order to ensure that the integrity of the contractual structure agreed at Licence Award is maintained.</p>
4.	Changes to Project Documents	<p>4.1 T&amp;SCo shall not without the prior written consent of the SoS:</p> <p>(a) enter into, vary, amend, replace, supplement or terminate all or any part of any Project Document<sup>8</sup> which would be reasonably likely to have a Material Adverse Effect; or</p> <p>(b) notwithstanding limb (a) above, enter into a Project Document where the proposed counterparty does not have the legal capacity, financial resources or technical competence to perform the rights of the counterparty under the replacement Project Document.</p>
5.	Variations to T&S Network	<p>5.1 T&amp;SCo shall not without the prior written consent of the SoS, make any variation to the Approved Project Development Plan [that constitutes a Change in Scope (as defined in the Licence)] ("<b>Variation</b>").</p>

<sup>8</sup> Note: this will include any Project Documents existing at the date of the Liaison Agreement and those entered into after the date of the Liaison Agreement where such documents meet certain criteria (to be confirmed).



No	Heading	Description
6.	Representatives and personnel	<p>6.1 Roles of the representatives of the Parties to the Liaison Agreement are to be developed, including delegated authority.</p> <p>6.2 T&amp;SCo representative shall:</p> <ul style="list-style-type: none"> <li>(a) manage and oversee compliance by T&amp;SCo with its duties and obligations under the Liaison Agreement; and</li> <li>(b) exercise any right and perform any obligation exercisable by or to be performed by the T&amp;SCo representative under the Liaison Agreement.</li> </ul> <p>6.3 SoS representative shall:</p> <ul style="list-style-type: none"> <li>(a) manage and oversee compliance by SoS with its duties and obligations under the Liaison Agreement; and</li> <li>(b) exercise any right and perform any obligation exercisable by or to be performed by the SoS representative under the Liaison Agreement.</li> </ul>
7.	Reporting and information requirements – Project Update Report	<p>7.1 T&amp;SCo shall prepare and circulate a report on a quarterly basis on any issues which may have a material impact on the Project, including the requirements set out in Appendix 3 as such requirements may be updated by the SoS from time to time (the "<b>Project Update Report</b>").</p>
8.	Reporting and information requirements – additional information requests	<p>8.1 The SoS (acting reasonably) may from time to time request T&amp;SCo to include additional information in the Project Update Report. T&amp;SCo will provide an index of such additional information.</p> <p>8.2 The T&amp;SCo representative shall address such information requests and shall:</p> <ul style="list-style-type: none"> <li>(a) respond to SoS acknowledging such request promptly and in any event within [●] Business Days; and</li> <li>(b) provide the information requested to SoS where possible (acting reasonably) within [●] Business Days.</li> </ul>
9.	Reporting and information requirements – enhanced reporting	<p>9.1 In the event that:</p> <ul style="list-style-type: none"> <li>(a) claims, individually or in aggregate with all other previous claims, under the SCA reach a specified threshold (which shall be lower than the SCA Discontinuation Threshold)<sup>9</sup>;</li> <li>(b) aggregate claims for Difference Payments under the RSA are forecast in the next three Charging Years to</li> </ul>

<sup>9</sup> Note: threshold to be confirmed by BEIS.

No	Heading	Description
		<p>exceed a specified threshold (which shall be lower than RSA Discontinuation Threshold)<sup>10</sup>;</p> <p>(c) an Insured Risk occurs;</p> <p>(d) [T&amp;SCo receives a written notice from a Relevant Regulator requiring steps to be taken by T&amp;SCo to remedy or prevent a contravention];</p> <p>(e) a Remedy Event occurs; or</p> <p>(f) [Others],</p> <p>T&amp;SCo shall notify SoS as soon as reasonably practicable and in any event within [●] Business Days of the above events occurring and T&amp;SCo shall prepare and circulate a report on a monthly basis updating on the status the above issues and the impact on the Project until such issue is resolved.</p>
10.	Reporting and information requirements – reporting failures	<p>10.1 In the event that T&amp;SCo fails to comply with any of its reporting obligations set out in sections 7 to 9 (<i>Reporting and information requirements</i>), SoS shall have the right to issue a formal warning notice to T&amp;SCo.</p> <p>10.2 Where T&amp;SCo has received a warning notice, the reporting failure shall be escalated to the senior management of T&amp;SCo.</p> <p>10.3 The receipt by T&amp;SCo of two warning notices shall constitute a Remedy Event.</p>
11.	Qualifying Acquisition	<p><u>Qualifying Acquisition</u></p> <p>11.1 For the purposes of this section, "Qualifying Acquisition" means a transaction by which a transferee:</p> <p>(a) acquires control of T&amp;SCo; or</p> <p>(b) acquires control of assets which fall within the regulatory ringfence under T&amp;SCo's licence.</p> <p><u>Notification of a Qualifying Acquisition</u></p> <p>11.2 T&amp;SCo shall inform the SoS in writing not less than [●] Business Days in advance of completion of any Qualifying Acquisition.</p> <p>11.3 T&amp;SCo shall procure from each company or other person which T&amp;SCo knows or reasonably should know is at any time an ultimate controller of T&amp;SCo a legally enforceable undertaking in favour of T&amp;SCo that the ultimate controller ("the information covenantor") will give to T&amp;SCo, and will procure that any person (including, without limitation, a corporate body) which is a subsidiary of, or is controlled by, the information covenantor (other than T&amp;SCo and its subsidiaries) will give to T&amp;SCo all such information as may be necessary to enable T&amp;SCo to comply fully with the</p>

<sup>10</sup>

Note: threshold to be confirmed by BEIS.

No	Heading	Description
		<p>obligations imposed on it by paragraph 11.2. Such undertaking shall be obtained upon such corporate body or other person in question becoming an ultimate controller of T&amp;SCo and shall remain in force for so long as T&amp;SCo has a licence under the Act and the information covenantor remains an ultimate controller of T&amp;SCo.</p>
12.	Remedy and Failure Event regime	<p>12.1 The Remedy Events are defined to capture T&amp;SCo's failures which take the T&amp;S Network outside the basis for the SoS's offer of the GSP. They are therefore defined by reference to events which, of themselves or subject to having the requisite Material Adverse Effect, represent a shift outside the basis for that offer – see definition of Remedy Events outlined in Appendix 2.</p> <p>12.2 Upon the occurrence of a Remedy Event there will be a restriction on Distributions until the Remedy Event (and associated Failure Event) is Remedied (as defined in paragraph 4 of Appendix 2).</p> <p>12.3 Following the occurrence of a Remedy Event, T&amp;SCo will have the opportunity to remedy the Remedy Event or agree a Remediation Plan (as defined in paragraph 3 of Appendix 2) with the SoS, in each case within a prescribed period. It should be noted in particular that where remediation of a Remedy Event is not reasonably practicable, the Remediation Plan will only require mitigation of the Remedy Event, rather than remediation (see paragraph 3 of Appendix 2).</p> <p>12.4 If a Failure Event (as defined in paragraph 2 of Appendix 2) arises, then this has the following consequences:</p> <ul style="list-style-type: none"> <li>(a) escalation of the fee and additional deductibles under the Supplemental Compensation Agreement; and/or</li> <li>(b) any project spend incurred during the period that a Failure Event has occurred but has not been remedied or reduced to a Remedy Event shall be deducted from the Total Compensation Cap by the SoS pursuant to the Discontinuation Agreement.</li> </ul>
13.	Transfer Scheme	<p>13.1 Where the Licence is revoked, T&amp;SCo acknowledges that a [statutory transfer scheme] may be applied pursuant to [section [50] of the Act]. T&amp;SCo provides its consent to the operation of any such statutory transfer scheme on the basis that:</p> <ul style="list-style-type: none"> <li>(a) if revocation is as a result of Discontinuation, compensation will be provided for as set out under section E (<i>Discontinuation Agreement</i>); or</li> <li>(b) if revocation is as a result of any other reason, compensation will be based on the market value attributable by an insolvency practitioner in an insolvency process of T&amp;SCo.</li> </ul>

No	Heading	Description
14.	Dispute Resolution Procedure	<p>14.1 Any dispute arising out of or in connection with the Liaison Agreement shall be resolved in accordance with the Dispute Resolution Procedure.</p> <p>14.2 The Dispute Resolution Procedure remains under consideration depending on the type of dispute but is expected to involve an escalation process to senior management of both Parties with alternative dispute resolution prior to any final determination by court.</p>
15.	Limits of Liability	<p>15.1 There will be provisions relating to:</p> <p>(a) exclusion of liability for consequential/indirect losses; and</p> <p>(b) remedies for breach under the Liaison Agreement or Support Documents.</p>
16.	Assignment and Sub-Contracting	<p>16.1 The Liaison Agreement will include restrictions on assignment, transfers and sub-contracting the benefit or burden of any right or obligation under the Support Documents in whole or in part except with the prior written consent of the other relevant parties (such consent not to be unreasonably withheld or delayed).</p> <p>16.2 The SoS may, subject to the conditions to be set out in the Liaison Agreement, transfer its rights or novate its obligations under the Liaison Agreement to any Minister of the Crown or any entity directly wholly-owned by a Minister of the Crown.</p>
17.	Confidentiality	<p>17.1 The Liaison Agreement will set out confidentiality provisions which will apply to all Parties in respect of the Project. There will be customary exceptions.</p> <p>17.2 The Liaison Agreement sets out that the SoS is, and that T&amp;SCo may become subject to, the requirements of the FOIA and the Environmental Information Regulations and each Party shall facilitate compliance by the other Party with its information disclosure requirements pursuant to the FOIA and the Environmental Information Regulations.</p>
18.	Rights of Third Parties	<p>18.1 A person who is not a party to the Liaison Agreement shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any of its terms.</p>
19.	Governing Law	<p>19.1 The Liaison Agreement shall be governed by and construed in accordance with English law and the courts of England and Wales shall have exclusive jurisdiction.</p>
20.	Definitions	<p><b>"Act"</b> has the meaning given to it in the Standard Conditions of the Licence;</p> <p><b>"Approved Project Development Plan"</b> has the meaning given to it in the Special Conditions of the Licence;</p> <p><b>"Approved T&amp;S Network"</b> has the meaning given to it in the Special Conditions of the Licence;</p>

No	Heading	Description
		<p><b>"Environmental Information Regulations"</b> means the Environmental Information Regulations 2004 (as amended);</p> <p><b>"Difference Payments"</b> has the meaning given to it in the RSA heads of terms;</p> <p><b>"Discontinuation Agreement"</b> means the agreement between SoS and T&amp;SCo setting out the discontinuation events, the consequences of discontinuation and how discontinuation compensation is to be calculated;</p> <p><b>"Failure Event"</b> has the meaning given to it in Appendix 2 of this section E (Liaison Agreement);</p> <p><b>"Finance Documents"</b> means <i>[the contractual documents put in place to provide finance to T&amp;SCo]</i>;</p> <p><b>"GSP"</b> means the Government Support Package, comprising the Supplemental Compensation Agreement, the Discontinuation Agreement and the Liaison Agreement;</p> <p><b>"FOIA"</b> means the Freedom of Information Act 2000 (as amended);</p> <p><b>"Law"</b> means <i>[scope to be confirmed]</i>;</p> <p><b>"Material Adverse Effect"</b> means a material adverse effect on:</p> <p>1.16 any right or liability (whether actual, potential or contingent) of the SoS; or</p> <p>1.17 the ability of the SoS to perform its obligations,</p> <p>1.18 in each case under or in relation to the Support Documents or at Law; or</p> <p>1.19 the effect of materially increasing the likelihood of a call on any element of the Support Documents;</p> <p><b>"Project Documents"</b> means <i>[scope to be confirmed]</i><sup>11</sup>;</p> <p><b>"Project Update Report"</b> has the meaning given to it in section 7 of this section E (Liaison Agreement);</p> <p><b>"Proposed Transfer"</b> has the meaning given to it in section 11 of this section E (Liaison Agreement);</p> <p><b>"Remediation Plan"</b> has the meaning given to it in Appendix 2 of this section E (Liaison Agreement);</p> <p><b>"Remedy Event"</b> has the meaning given to it in Appendix 2 of this section E (Liaison Agreement);</p> <p><b>"RSA"</b> means the Revenue Support Agreement; and</p> <p><b>"Support Documents"</b> means the GSP [and •]</p>

<sup>11</sup> Note: this definition is designed to capture documents to which the SoS is not party but which if amended may have a material adverse effect on the risk profile of the SoS (as assessed at the outset of the project)

No	Heading	Description
		<p><b>"Transferor"</b> has the meaning given to it in section 11 of this section E (Liaison Agreement); and</p> <p><b>"Unsuitable Party"</b> has the meaning given to it in section 11 of this section E (Liaison Agreement).</p>

## Appendix 1: Outline Conditions precedent to the GSP<sup>12</sup>

A.	T&S network	Examples
1.	Legislation	1.1 New legislation required for implementation of the CCUS programme
2.	Economic Licence	2.1 Appointment of economic regulator 2.2 Grant of the economic licence
3.	Revenue Support	3.1 Appointment of RSA Counterparty 3.2 Award of RSA
4.	Property and planning	4.1 Planning approval and conditions 4.2 Land agreements 4.3 Asset protection agreements
5.	Licences and consents	5.1 Storage Permit 5.2 Grant of rights from the Crown Estate and/or Crown Estate Scotland 5.3 UK ETS permit 5.4 Other
6.	Mandated requirements	6.1 [Any specific mandated requirements have been met]
7.	Equity	7.1 Evidence that T&SCo has been established 7.2 T&SCo governance arrangements (including shareholders agreement) in satisfactory form
8.	Finance	8.1 Finance documentation including intercreditor arrangements in satisfactory form
9.	Model/tax	9.1 Model/tax audit of base case financial model, including sensitivity checks
10.	Sub-contractors	10.1 Appointment of works contractor(s) and professional team

<sup>12</sup> Note: this list of conditions precedent is a high-level list only, offering examples of the categories of conditions precedent that may be required. This list is expected to develop as the business model (and user business models) progress.

		10.2 Appointment of operator contractor(s) 10.3 Appointment of other key sub-contractor(s) 10.4 Execution of sub-contracts
11.	Technical	11.1 Satisfactory conclusion of technical assessment of costs/returns for economic licence 11.2 Satisfactory assurance of store performance
12.	Insurance	12.1 Commercial Insurances have been placed 12.2 Brokers undertakings
13.	Formalities	13.1 Approvals of contract counterparties 13.2 Legal opinions in satisfactory form 13.3 Adviser due diligence reports in satisfactory form
	<b>User business models</b>	<b>Indicative CPs</b>
14.	Power	14.1 Awarded DPAs, including any associated conditions precedent
15.	Industry	15.1 Awarded ICCCs, including any associated conditions precedent
16.	Hydrogen	16.1 Awarded support contract, including any associated conditions precedent
17.	Bioenergy Carbon Capture System (BECCS)	17.1 Awarded support contract, including any associated conditions precedent
18.	Direct Air Carbon Capture System (DACCS)	18.1 Awarded support contract, including any associated conditions precedent



## Appendix 2: Remedy and Failure Event regime

No.	Item	Commercial Terms
1.	Remedy Event	<p>1.1 <b>"Remedy Event"</b> means:</p> <ul style="list-style-type: none"> <li>(a) breach of an obligation of T&amp;SCo under the Liaison Agreement which has or is reasonably likely to have a Material Adverse Effect;</li> <li>(b) breach of an obligation of T&amp;SCo under the Support Documents which has or is reasonably likely to have a Material Adverse Effect;</li> <li>(c) breach of an obligation of T&amp;SCo under its Storage Permit (as defined in section 23 (Definitions) of section C (<i>Supplemental Compensation Agreement</i>)) which results in a written notice from NSTA to T&amp;SCo;</li> <li>(d) failure to maintain Commercial Insurance or to comply with the renewal process where there is no Unavailability pursuant to the Supplemental Compensation Agreement;</li> <li>(e) failure to market test the insurance market pursuant to the terms of the Supplemental Compensation Agreement;</li> <li>(f) failure to issue a Qualifying Acquisition Notice to SoS pursuant to the terms of the Liaison Agreement;</li> <li>(g) breach by T&amp;SCo of any restriction on making Distributions;</li> <li>(h) receipt of two warning notices pursuant to section 10 (Reporting and information requirements – reporting failures) of the Liaison Agreement; or</li> <li>(i) [<i>breach of other mandated requirements</i>].</li> </ul>
2.		<p>2.1 <b>"Material Adverse Effect"</b> means a material adverse effect on:</p> <ul style="list-style-type: none"> <li>(a) any right or liability (whether actual, potential or contingent) of the SoS; or</li> <li>(b) the ability of the SoS to perform its obligations,</li> </ul> <p>in each case under or in relation to the Support Documents or at Law; or</p> <ul style="list-style-type: none"> <li>(c) the effect of materially increasing the likelihood of a call on any element of the Support Documents.</li> </ul>
3.	Failure Event	<ul style="list-style-type: none"> <li>(a) A "Failure Event" only arises where T&amp;SCo has not remedied a Remedy Event and T&amp;SCo fails:</li> <li>(b) to put forward or to agree a Remediation Plan (see section 4 below), in each case within a prescribed period; or</li> <li>(c) to comply in any material respect with the agreed Remediation Plan.</li> </ul>

No.	Item	Commercial Terms
4.	Remediation Plan	<p>4.1 <b>"Remediation Plan"</b> means a programme for remedying or mitigating the Remedy Event (as applicable) within a prescribed period which is acceptable to the SoS, acting reasonably.</p> <p>4.2 For the purposes of agreeing the Remediation Plan, the SoS and T&amp;SCo shall have due regard to the following considerations:</p> <ul style="list-style-type: none"> <li>(a) the extent to which the event or circumstance giving rise to the Remedy Event is reasonably capable of being remedied;</li> <li>(b) the extent to which the event or circumstance giving rise to the Remedy Event is reasonably capable of being mitigated; and</li> <li>(c) any alternative steps which may be appropriate having regard to the risks of the SoS under the GSP.</li> </ul>
5.	Remedied	<p>5.1 A Remedy Event (and the associated Failure Event, if applicable) shall be treated as <b>"Remedied"</b> if:</p> <ul style="list-style-type: none"> <li>(a) T&amp;SCo remedies the Remedy Event;</li> <li>(b) T&amp;SCo completes the relevant Remediation Plan; or</li> <li>(c) the SoS waives the Remedy Event.</li> </ul>
6.	Reduction of Failure Event to Remedy Event	<p>6.1 If a Failure Event has arisen but:</p> <ul style="list-style-type: none"> <li>(a) where a Remediation Plan has not previously been agreed, the SoS and T&amp;SCo have subsequently agreed a Remediation Plan and the SoS is satisfied (acting reasonably) that T&amp;SCo is making substantial progress in carrying out the Remediation Plan; or</li> <li>(b) where a Remediation Plan has previously been agreed but T&amp;SCo has failed to comply in any material respect with the agreed Remediation Plan, the SoS is subsequently satisfied (acting reasonably) that T&amp;SCo has resumed making substantial progress in carrying out the Remediation Plan,</li> </ul> <p>the Failure Event will be reduced to a Remedy Event (noting that the restriction on Distributions will then continue until the Remedy Event is Remedied).</p>

### Appendix 3: Project Update Report

The Project Update Report shall include the following:

<b>Project specification</b>	<ul style="list-style-type: none"> <li>(a) Any new significant risks or material changes to the remaining significant risks (as updated) identified in the Project Risk Register.</li> <li>(b) Details of plans for new users to connect to the network or existing users to disconnect from the network.</li> <li>(c) Any proposed Variations.</li> <li>(d) Details of any non-regulated activity in respect of the network.</li> </ul>
<b>Performance</b>	<ul style="list-style-type: none"> <li>(a) Reasonable details of the performance of each of the Project Documents and the Support Documents, including any material breaches of the Project Documents or the Support Documents which have been made by any party thereto since the last report.</li> <li>(b) Details of any Remedy Event and/or Failure Event.</li> <li>(c) Details of any specified regulatory reports relevant to the containment of CO<sub>2</sub> and the monitoring of CO<sub>2</sub> including for the purposes of ETS compliance.</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>(a) An update on the financing plan, including any proposed or contemplated equity or debt issuance (with the dates, amounts and principal terms of such issuances).</li> <li>(b) Details of any event of default or potential event of default or breach of cover ratios under the T&amp;SCo's financing arrangements.</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>(a) Any change in the terms or availability of the Commercial Insurances (or any change that T&amp;SCo foresees is likely to occur in respect of the terms or availability of the Commercial Insurances).</li> <li>(b) Details of any claims made under the Commercial Insurances (and in respect of claims made (but not settled) over a certain de minimis threshold, the status of those claims).</li> </ul>
<b>HMG Contingent Liabilities</b>	<ul style="list-style-type: none"> <li>(a) Any relevant information relating to the management by HMG of its contingent liabilities as part of its responsibilities for managing public finances.</li> </ul>
<b>Discontinuation Plan</b>	<ul style="list-style-type: none"> <li>(a) Any updates required to the Template Discontinuation Plan.</li> </ul>
<b>Qualifying Acquisition</b>	<ul style="list-style-type: none"> <li>(a) Details in relation to any Qualifying Acquisition.</li> </ul>
<b>Information</b>	<ul style="list-style-type: none"> <li>(a) Any information required as a result of the enhanced reporting requirements at section 9 (<i>Enhanced Reporting</i>) of section E (<i>Liaison Agreement</i>).</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>(a) Any additional information requested by the SoS pursuant to section 9 (<i>Reporting and information requirements – enhanced reporting</i>) of section E (<i>Liaison Agreement</i>).</li> </ul>

## Annex C: Revenue Support Agreement for T&SCo

### CCUS: Revenue Support Agreement for T&SCo

#### Introduction and Indicative Heads of Terms

**Note: this introduction and draft indicative heads of terms are subject to the "Disclaimer" section at the front of the explanatory note document to which they are annexed.**

#### A. INTRODUCTION

##### 1.1 Background

- (a) The indicative heads of terms in section B (*Revenue Support Agreement*) of this document set out the basis upon which a revenue support agreement ("**RSA**") could be provided to a company licensed to provide transport and storage services ("**T&SCo**") as part of HM Government's ("**HMG**") CCUS Programme (the "**Programme**").
- (b) The contents of the indicative heads of terms in section B (*Revenue Support Agreement*) of this document are indicative only and do not constitute an offer by the RSA Counterparty and do not create a basis for any form of expectation or reliance. Any RSA arrangements that are developed in the future will be subject to approval by Ministers, in consultation with the Regulator, and the development and completion of necessary contractual documentation.
- (c) The introduction set out in this section A does not form part of the indicative heads of terms in section B (*Revenue Support Agreement*) of this document and is intended only to provide an overview of the rationale and assumptions for the provision of the RSA.

##### 1.2 Rationale

- (a) In the development of the revenue model for the transport and storage ("**T&S**") network, HMG has identified that there may be certain structural demand related revenue risks to T&SCo, where T&SCo's actual revenues may fall short of T&SCo's Allowed Revenue set by the economic regulator ("**Regulator**") under the economic regulatory regime ("**ERR**") or where the first user of the T&S network joins later than expected. HMG has considered how these demand related revenue risks will be mitigated and identified a number of risk mitigation mechanisms ("**RMMs**"). If the initial proposals for these RMMs are not sufficient, HMG has identified the RSA as a mechanism which will enable the recovery by T&SCo of:
  - (i) its Allowed Revenue in the event of a shortfall; and/or
  - (ii) operating expenditure and allowed cost of debt where the first user is delayed in joining the network.
- (b) The detailed terms of coverage of the RSA remain under consideration, but the indicative heads of terms section B (*Revenue Support Agreement*) of this document set out current HMG thinking on the support which could be provided by the RSA. Final provisions will depend upon the final terms of the ERR and its target risk profile .

##### 1.3 Description

- (a) This document comprises the following:

- (i) this Part A: an introduction to the RSA; and
  - (ii) Part B: heads of terms for the RSA.
- (b) The scope of the areas of specific protection set out in section B (*Revenue Support Agreement*) of this document remain subject to review, in particular in the context of the evolving detail of the ERR.

#### 1.4 Initial assumptions

- (a) This document is based on the following assumptions in respect of the T&S Network:
- (i) ownership of the T&S Network: the "onshore" (i.e. onshore transportation systems) and "offshore" (i.e. offshore transportation systems and offshore storage) elements of the T&S Network will be owned by T&SCo. In particular, T&SCo will hold any Crown Estate (including Crown Estate Scotland) lease and licence/permit issued by the NSTA (or licensing authority of a devolved administration);
  - (ii) development and operation of the T&S Network: T&SCo will be responsible for the development, construction, operation and maintenance of the T&S Network, including obtaining all necessary permits and approvals;
  - (iii) expansion of the T&S Network: in the future T&SCo may need to expand the T&S Network under the terms of the ERR and will provide access to new T&S users in accordance with the terms of its Licence, the CCS Network Code and all relevant laws and regulations;<sup>13</sup>
  - (iv) decommissioning: T&SCo will be responsible for the decommissioning and monitoring of:
    - (A) the Offshore Transportation System in accordance with the Petroleum Act 1998 as applied under the Energy Act 2008 (as may be amended or supplemented) and with regards to post closure obligations, T&SCo will be responsible as set out in its storage permit and licence granted by NSTA; and
    - (B) the Onshore Transportation System in accordance with the relevant decommissioning conditions of any development/planning consent;
  - (v) T&S Charges: users of the T&S Network will pay T&SCo Charges for provision of T&S services which will be regulated under the ERR;
  - (vi) CO<sub>2</sub> ownership: T&SCo will certify delivery of CO<sub>2</sub> onto the T&S Network and will take title to and own the CO<sub>2</sub> and shall be responsible under UK ETS; and
  - (vii) government support package ("**GSP**"): T&SCo will benefit from a GSP provided by HMG to cover certain high impact, but low probability, risks beyond those which are manageable by operation of the ERR, which the investors and/or supply chain, including insurers, of T&SCo cannot take, or cannot price at an efficient level which is good value for money for UK taxpayers or consumers.

#### 1.5 Defined terms

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<sup>13</sup> Consideration is being given to changes required to the existing third party access rules as a result of the new regulatory regime.

1.6 Capitalised terms not otherwise defined in this document, including in section 17 (*Definitions*), have the meaning given to them in the Licence heads of terms.

## B. REVENUE SUPPORT AGREEMENT

No.	Item	Commercial Terms
1.	Parties	<p>1.1. The Parties to the RSA will be:</p> <p>(a) T&amp;SCo; and</p> <p>(b) [Low Carbon Contracts Company Ltd]<sup>14</sup> ("<b>RSA Counterparty</b>"),</p> <p>each a "<b>Party</b>" together the "<b>Parties</b>".</p>
2.	Rationale	<p>2.1. The Revenue Support Agreement is intended to provide mitigation against demand-related risk of shortfall in actual revenues earned by T&amp;SCo compared with the Allowed Revenue set by the Regulator under the ERR.</p>
3.	Term	<p>3.1. The term of the Revenue Support Agreement shall commence on and from Licence Award and shall expire on the first to occur of:</p> <p>(a) [●]<sup>15</sup>;</p> <p>(b) Discontinuation; and</p> <p>(c) revocation of the Licence.</p>
4.	Conditions precedent	<p>4.1. T&amp;SCo will be required to satisfy certain initial conditions precedent specified in the Revenue Support Agreement including, amongst other things:</p> <p>(a) evidence that it holds a Licence pursuant to which T&amp;SCo is entitled to receive an Allowed Revenue;</p> <p>(b) a capacity legal opinion from its legal advisers;</p> <p>(c) evidence of satisfaction of know your customer checks; and</p> <p>(d) other conditions precedent, equivalent to those set out in Appendix 1 of the Liaison Agreement heads of terms.</p>
5.	Interim Difference Payment	<p>5.1. The Interim Difference Payment shall be calculated as the amount by which the Adjusted Allowed Revenue is greater than the Adjusted Forecast Market Revenue (pro-rated for the relevant month).</p> <p>5.2. T&amp;SCo shall submit to the Regulator its calculation of the Interim Difference Payment for each Charging Year (Charging Year<sub>t</sub>) no later than 2 months prior to commencement of Charging Year<sub>t</sub>. This will be assured by the Regulator in accordance with section 8 (<i>Information sharing</i>) below.</p>

<sup>14</sup> Note: the minded to position is that the Low Carbon Contracts Company Ltd (LCCC) will be the RSA Counterparty. This remains subject to confirmation by BEIS.

<sup>15</sup> Note: the term of the RSA remains subject to consideration by BEIS and HM Treasury. For the avoidance of doubt, the expiry of the RSA prior to any revocation of the Licence will not trigger the RSA Discontinuation Threshold under section 3.1(c) of the Discontinuation Agreement heads of terms.

No.	Item	Commercial Terms
		<p>5.3. Where the Adjusted Allowed Revenue is greater than the Adjusted Forecast Market Revenue (pro-rated for the relevant month), T&amp;SCo shall be entitled to payment of the Interim Difference Payment by the RSA Counterparty on a [pro rata monthly]<sup>16</sup> basis during Charging Year<sub>t</sub>, in accordance with section 10 (<i>Billing and payment</i>).</p>
6.	Quarterly Reconciliation Payment <sup>17</sup>	<p>6.1. After the end of each quarter of Charging Year<sub>t</sub> a reconciliation of the Adjusted Forecast Market Revenue for that quarter against the Adjusted Market Revenue for that quarter shall be performed by T&amp;SCo for the purposes of determining the "<b>Quarterly Reconciliation Payment</b>".</p> <p>6.2. The Quarterly Reconciliation Payment shall be calculated as the amount by which the Adjusted Forecast Market Revenue for the relevant quarter is greater than the Adjusted Market Revenue for the relevant quarter.</p> <p>6.3. Where the Quarterly Reconciliation Payment Amount is:</p> <p>(a) positive, the RSA Counterparty shall pay the difference to T&amp;SCo; or</p> <p>(b) negative, the difference shall be addressed through an adjustment to the next Interim Difference Payment payable to T&amp;SCo, where the next Interim Difference Payment(s) exceed the Quarterly Reconciliation Payment (or where applicable the Annual Difference Payment).</p> <p>6.4. The RSA Counterparty shall pay any Quarterly Reconciliation Payment to T&amp;SCo in accordance with section 10 (<i>Billing and payment</i>).</p>
7.	Annual Difference Payment	<p>7.1. As Allowed Revenues are set in Charging Year<sub>t+1</sub> for Charging Year<sub>t+2</sub> a reconciliation of Adjusted Allowed Revenue against Adjusted Market Revenue for Charging Year<sub>t</sub> but taking account of any Interim Difference Payments and/or any Quarterly Reconciliation Payments made in respect of Charging Year<sub>t</sub>, shall be performed by T&amp;SCo for the purposes of determining the Annual Difference Payment.</p> <p>7.2. The Annual Difference Payment shall be calculated as the amount by which the Adjusted Allowed Revenue for Charging Year<sub>t</sub> is greater than the Adjusted Market Revenue for Charging Year<sub>t</sub>, less any Interim Difference Payments and/or any Quarterly Reconciliation Payments made in respect of Charging Year<sub>t</sub> ("<b>Annual Difference Payment</b>").</p> <p>7.3. Where the Annual Difference Payment is:</p>

<sup>16</sup> Note: payment of the Interim Difference Payment following the end of the relevant month remains to be confirmed by BEIS.

<sup>17</sup> Note: this mechanism remains under review by BEIS, in particular the need to distinguish between shortfall in Adjusted Market Revenue arising from utilisation build-up and underutilisation.



No.	Item	Commercial Terms
		<p>(a) positive, the RSA Counterparty shall pay the difference to T&amp;SCo; or</p> <p>(b) negative, the difference shall be addressed through reconciliation and/or adjustment regimes in the Licence.</p> <p>7.4. The RSA Counterparty shall pay any Annual Difference Payment to T&amp;SCo in accordance with section 10 (<i>Billing and payment</i>).</p>
8.	Information sharing	<p>8.1. T&amp;SCo shall be required to provide the Regulator with evidence of and calculations for each of the Difference Payments, for assurance by the Regulator before any payment of such amounts by the RSA Counterparty.</p> <p>8.2. T&amp;SCo shall cooperate with the RSA Counterparty to provide such other information as the RSA Counterparty may reasonably require to evidence the Regulator's assurance of T&amp;SCo's calculation of the items at section 8.1 above.</p> <p>8.3. T&amp;SCo shall notify the RSA Counterparty immediately upon any revocation notice being issued by the Regulator under the Licence.</p>
9.	Revenue support prior to operations	<p>9.1. Where T&amp;SCo has evidenced to the RSA Counterparty that it is COD Ready but the first User is delayed in joining the T&amp;S Network or otherwise causes delay to COD (other than where T&amp;SCo has caused such delay) ("<b>First User Delay</b>"), revenue support will be provided by the RSA Counterparty to T&amp;SCo for:</p> <p>(a) unavoidable operating expenditure which shall be based on actual operating costs evidenced by T&amp;SCo to the RSA Counterparty; and</p> <p>(b) allowed cost of debt which shall be based on the assumed debt element of the WACC<sup>18</sup>,</p> <p>where such costs relate to the period from Scheduled COD to COD ("<b>Pre-operations Difference Payment</b>").</p> <p>9.2. T&amp;SCo shall liaise with the first User pursuant to the Construction Agreement and shall use reasonable endeavours to mitigate First User Delay.</p> <p>9.3. The RSA Counterparty shall pay any Pre-operations Difference Payment to T&amp;SCo in accordance with section 10 (<i>Billing and payment</i>).</p>
10.	Billing and payment	<p>10.1. The RSA Counterparty shall deliver a billing statement to T&amp;SCo in each month where a Difference Payment has been incurred.</p> <p>10.2. The RSA will specify detailed requirements in relation to the content of each billing statement, which will include, among other things and where relevant, the amount payable, calculated in</p>

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Note: the assumed equity element of the WACC will be rolled up on the SRV.

No.	Item	Commercial Terms
		<p>accordance with the relevant Difference Payment(s) together with a breakdown of such calculation.</p> <p>10.3. Subject to the RSA Counterparty being satisfied with the evidence provided by T&amp;SCo pursuant to section 8.2, the RSA Counterparty will be required to pay to T&amp;SCo any amounts calculated pursuant to:</p> <ul style="list-style-type: none"> <li>(a) section 5 (<i>Interim Difference Payment</i>), within a specified period following the end of the relevant month;<sup>19</sup></li> <li>(b) section 6 (<i>Quarterly Reconciliation Payment</i>), within a specified period following the end of the relevant quarter dependent on the source of the positive Quarterly Reconciliation Payment Amount;</li> <li>(c) section 7 (<i>Annual Difference Payment</i>), in the second quarter of Charging Year<sub>t+2</sub> ; and</li> <li>(d) section 9 (<i>Revenue support prior to operations</i>), in arrears from Scheduled COD, within a specified period following the end of the relevant month.</li> </ul>
11.	RSA Counterparty payment obligation and undertakings	<p>11.1. RSA Counterparty's obligation to make payments to the T&amp;SCo only arises once it has itself been funded and its obligation only extends to the funds which have been paid to it (i.e. the RSA Counterparty pays if paid and would not be required to make up any shortfall).</p> <p>11.2. The Revenue Support Agreement will include undertakings in respect of the RSA Counterparty's obligation to enforce its rights of recovery to ensure it is in sufficient funds to meet its liabilities to T&amp;SCo.</p>
12.	Representations, warranties and undertakings	12.1. Each of T&SCo and the RSA Counterparty shall make standard representations and warranties.
13.	Limitation of liability	13.1. The RSA Counterparty shall exclude liability for any special, indirect or consequential loss including any such loss which constitutes loss of use, loss of goodwill, loss of profit or loss of revenue, provided that this shall not exclude liability for express payment obligations under the Revenue Support Agreement.
14.	Payment disruption	14.1. The RSA Counterparty shall be relieved from liability to pay T&SCo to the extent that, and for so long as, the RSA Counterparty is suffering a material disruption to those payment systems or financial markets which are required to operate in order for payments to be made pursuant to the Revenue Support Agreement which the RSA Counterparty could not reasonably have overcome and which are not due to the RSA Counterparty's fault or negligence (a " <b>Payment Disruption Event</b> ").

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Note: this will be paid to T&SCo at the same time as the user charges are paid to T&SCo.

No.	Item	Commercial Terms
		14.2. Where a Payment Disruption Event occurs, RSA Counterparty shall use reasonable endeavours to overcome any disruption.
15.	Transfers	<p>15.1. The Revenue Support Agreement shall benefit and bind Parties, their permitted assignees and respective successors and any reference in the Revenue Support Agreement to any party shall be construed accordingly.</p> <p>15.2. The Revenue Support Agreement will include restrictions on the assignment and/or transfer by T&amp;SCo of any of its rights or obligations under the Revenue Support Agreement (in whole or in part except) with the prior written consent of the RSA Counterparty (such consent not to be unreasonably withheld or delayed), save that T&amp;SCo will be permitted to create a security assignment in favour of its secured creditors (and RSA Counterparty will assist in facilitating this, provided that all costs and expenses properly incurred by RSA Counterparty in giving effect to such assignment are paid by T&amp;SCo).</p>
16.	Boilerplate	16.1. The Revenue Support Agreement will include "boilerplate provisions" (including, but not limited to, in relation to interpretation, notices, confidentiality, intellectual property, dispute resolution, entire agreement, severability, set-off, third party rights, amendments, counterparts and governing law), which will be broadly based on the equivalent provisions set out in the GSP.
17.	Definitions	<p><b>"Adjusted Market Revenue"</b> means Market Revenue earned by T&amp;SCo in the relevant Charging Year, other than by way of Flow Charges;</p> <p><b>"Adjusted Forecast Market Revenue"</b> means Market Revenue forecast to be earned by T&amp;SCo in the relevant Charging Year, other than by way of Flow Charges;</p> <p><b>"Adjusted Allowed Revenue"</b> means the Allowed Revenue in the relevant Charging year, other than by way of Flow Charges as calculated under the Charging Methodology in Section H of the CCS Network Code;</p> <p><b>"Allowed Revenue "</b> means the Allowed Revenue which T&amp;SCo is entitled to charge in the relevant Charging Year determined by the Regulator pursuant to and in accordance with the Licence from time to time;</p> <p><b>"Annual Difference Payment"</b> means the amount determined pursuant to section 7 (<i>Annual Difference Payment</i>);</p> <p><b>"Business Day"</b> means a day (other than a Saturday or a Sunday) on which banks are open for general business in London;</p> <p><b>"CCS Network Code"</b> means the code in respect of the T&amp;S Network required to be prepared and maintained under the Licence;</p> <p><b>"Charges"</b> has the meaning given in the CCS Network Code;</p> <p><b>"Charging Year"</b> means a period of 12 calendar months starting on 1 April and ending on 31 March provided that:</p>

No.	Item	Commercial Terms
		<p>(e) where COD falls part way through a Charging Year, the relevant number of calendar months shall be the number of calendar months (or days) during the Charging Year which fall within the period from COD to 31 March in the relevant year; and</p> <p>(f) where the Revenue Support Agreement expires part way through a Charging Year, the relevant number of calendar months shall be the number of calendar months (or days) during the Charging Year which fall within the period from 1 April to the expiry date in the relevant year;</p> <p><b>"COD"</b> has the meaning given to it in the Licence heads of terms;</p> <p><b>"COD Ready"</b> means where T&amp;SCO has achieved validation by the Regulator of completion of [<i>specified Commissioning Activities under the Licence</i>];<sup>20</sup></p> <p><b>"Construction Agreement"</b> has the meaning given in the CCS Network Code;</p> <p><b>"Difference Payment"</b> means any of the following:</p> <ul style="list-style-type: none"> <li>(g) Interim Difference Payment;</li> <li>(h) Quarterly Reconciliation Payment;</li> <li>(i) Annual Difference Payment; and</li> <li>(j) Pre-operations Difference Payment;</li> </ul> <p><b>"Discontinuation"</b> has the meaning given to it in the Discontinuation Agreement heads of terms;</p> <p><b>"First User Delay"</b> has the meaning given to it in section 9;</p> <p><b>"Flow Charges"</b> has the meaning given in the CCS Network Code;</p> <p><b>"Forecast Allowed Revenue "</b> means a forecast of the Allowed Revenue Amount over a Charging Year;</p> <p><b>"Forecast Market Revenue"</b> means Market Revenue forecast to be earned by T&amp;SCo over a Charging Year;</p> <p><b>"Interim Difference Payment"</b> means the amount determined pursuant to section 5 (<i>Interim Difference Payment</i>);</p> <p><b>"Market Revenue"</b> means revenue earned by T&amp;SCo from Charges and any other revenue in the relevant Charging Year;<sup>21</sup></p> <p><b>"Pre-operations Difference Payment"</b> means the amount determined pursuant to section 9 (<i>Revenue support prior to operations</i>);</p>

<sup>20</sup> Note: BEIS continues to consider the process for demonstrating COD readiness in circumstances of first user delay. The intention is that T&SCos will be required to demonstrate their completion of specific commissioning activities to the satisfaction of the Regulator

<sup>21</sup> Note: the Market Revenue will include all revenue of T&SCo, including non-regulated revenue for example.

No.	Item	Commercial Terms
		<p><b>"Quarterly Reconciliation Payment"</b> means the amount determined pursuant to section 6 (<i>Quarterly Reconciliation Payment</i>);</p> <p><b>"Scheduled COD"</b> has the meaning given to it in the Licence heads of terms;</p> <p><b>"User"</b> has the meaning given to it in the Licence heads of terms; and</p> <p><b>"WACC"</b> has the meaning given to it in the Licence heads of terms.</p>

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