Licensee taken together over time as could reasonably have been achieved consistently with the proper protection of the interests of domestic customers of the Licensee in respect of the prices charged for the supply of gas over the period beginning on 1st April 1997 and ending on 31st March 2000, the other terms for such supply, the continuity of such supply and the quality of gas supply services provided.

"Regulated Gas" means gas (except gas for consumption in premises owned or occupied by the Licensee or a Related Person of the Licensee) purchased -

a) by the Licensee under any contract entered into before 1st October 1996;

b) by a Related Person of the Licensee under any contract entered into before 1st October 1996 except where the Director General of Gas Supply has determined (after consulting the Licensee and that person) prior to the inclusion of this Condition in the licence that as purchased under such contract should not be treated as Regulated Gas; or

c) by the Licensee or a Related Person of the Licensee under any other contract which, after taking account of any transaction or series of transactions of which that contract forms a part, can properly be regarded as a contract for the purchase of gas -

i) for enabling activities within the Gas Shipping and Supply Business to be carried on (except any contract for the acquisition of gas in the operation of a flexibility market within the meaning of condition 3(1)(a) of the standard Conditions of Gas Shippers' Licenses);

ii) for delivery over a period exceeding six months or, in the case of a contract for the purchase of gas by a Related Person of the Licensee, exceeding twelve months; or

iii) for enabling a particular contract for the sale of gas during a period exceeding six months or, in the case of a contract for the sale of gas by a Related Person of the Licensee, exceeding twelve months, to be discharged.

"Related Person" means a person who is -

a) a related person within the meaning of the Standard Conditions;

b) carrying on the activity of producing or purchasing gas which is

i) landed in Great Britain;

ii) not consumed in premises owned or occupied by that person; and

c) not an Excluded Person

In the Formula Year 1997/8, Related Persons to the Licensee were Accord Energy Limited and Hydrocarbon Resources Limited.

1. *Total Gas Costs*

The total amount paid or payable in respect of Total Gas Costs in the Formula Year consistent with the Economic Objective is £3,847.5 million. This is the aggregate of the amounts relating to the following parts of the definition of Total Gas Costs as given in Clause 1. (1) of condition 3 of British Gas Trading's Special Conditions of its Supplier's Licence:

a) Payments by the Licensee or Related Persons to vendors of Regulated Gas who are not Related Persons

(i) payments for Regulated Gas by the Licensee
payments for Regulated Gas by Related Persons

(ii) capacity charges paid by the Licensee
capacity charges paid by Related Persons

b) Prepayments for gas delivered in the Formula Year

(i) initial payments
(ii) interest on the initial payment, accrued since 1st April 1997

c) Processing costs to meet the requirements of any public gas transporter

(i) payable to non-Related Persons
(ii) payable to Related Persons

d) Payments by the Licensee for the conveyance of Regulated Gas

(i) to shippers who are non-Related Persons
(ii) to shippers who are Related Persons

e) Payments for Own Gas based on the Market Value as ascertained by the Oil Taxation Office (OTO) of the Inland Revenue

f) Gas Levy payable to the Secretary of State in the Formula Year

g) Any other appropriate amounts

Renegotiation costs
Other relevant costs

2. *British Gas Trading's reasons for forming the opinion that Total Gas Costs are consistent with the Economic Objective*

This section explains the main components of each category of costs and summarises the approach and types of actions taken by the Licensee to ensure that Total Gas Costs are consistent with the Economic Objective. The Total Gas Costs relate to total volumes of Regulated Gas purchased in the Formula Year of 17,953 million therms.

In considering the management of the gas portfolio it must be recognised that neither the sales of Regulated Gas nor the total gas sales of the Licensee or Related Persons can be known in advance. Furthermore, Regulated Gas comprises a wide range of different sources of gas with different contractual characteristics and counterparties.

The Licensee has continuously sought to improve its gas cost base through the ongoing commercial management of the gas purchasing portfolio. Where counterparties have been willing to enter into variations which made sound commercial sense then these deals have been pursued.

Annual Take targets have also been set and frequently reviewed to ensure that the scheduling of supplies is the most economically advantageous which can reasonably be expected to be achieved. In practice this judgement has involved the general principle of aiming to minimise the payments for gas over time, whilst taking into account the risks and constraints associated with a wide variety of contractual, operational and seasonal factors.

a) *Payments by the Licensee or Related Persons to vendors of Regulated Gas who are not Related Persons*

These payments are by far the largest proportion of the Total Gas costs and arise primarily from the Licensee's pre October 1996 gas purchase contracts.

Nominations for the delivery of gas from these contracts were scheduled in the most economically advantageous way by considering the targets required for each supply year (1st October to 30th September) within the formula year and then developing the optimal within-supply year scheduling, taking