

**Scottish Hydro Electric Power Distribution plc**

**Electricity Distribution Licence**

**Special Conditions**

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# Chapter 1: Interpretation, definitions and common procedure

## Special Condition 1.1 Interpretation

### Introduction

- 1.1.1 The purpose of this condition is to set out provisions of general interpretation for the special conditions. Note that other provisions exist in the terms of this licence and the standard conditions.

### Part A: Interpretation

- 1.1.2 Wherever the subscript 't' is used after a term, without any further numerical notation, the value to be used is the one for the Regulatory Year in question.
- 1.1.3 A positive or negative numerical notation after a subscript 't' indicates that the value to be used is, respectively, for a Regulatory Year after or before the Regulatory Year in question and the number indicates how many Regulatory Years after or before.
- 1.1.4 Other subscripts are also used to denote the value for a specific Regulatory Year and are explained in the relevant special condition.
- 1.1.5 Values derived by reference to the value of revenues accrued, received or paid by or to the licensee are the actual sum accrued, received or paid by or to the licensee on the date of the accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes charged directly by reference to the amounts so accrued, received or paid.
- 1.1.6 Monetary values are in sterling in a 2020/21 price base unless otherwise indicated. Any actual costs are deflated to this price base using the price index term defined in Part E of Special Condition 2.1 (Revenue Restriction).
- 1.1.7 The price base for each PCFM Variable Value is specified in the ED2 Price Control Financial Model "Input" sheet. Where a PCFM Variable Value is specified as a "£m nominal" input, the ED2 Price Control Financial Model converts these values in accordance with Part E of Special Condition 2.1, so that the component terms of Calculated Revenue are in a 2020/21 price base.
- 1.1.8 In each case in which the Authority may specify a date under any of the special conditions, it may specify:
- (a) a date; or
  - (b) a method by which that date is to be determined.
- 1.1.9 The heading or title of a chapter, special condition, section, table or appendix is for convenience only.

- 1.1.10 The 'introduction' of a special condition, before Part A, is for convenience only.
- 1.1.11 A reference in a special condition to a numbered appendix is, unless otherwise stated, to the relevant numbered appendix to that special condition.
- 1.1.12 These conditions are used to calculate and recalculate the value of Allowed Revenue for Regulatory Years commencing on or after 1 April 2023.

## **Special Condition 1.2 Definitions and references to the Electricity Distributors**

### **Introduction**

- 1.2.1 The purpose of this condition is to provide for the special conditions:
  - (a) the meaning of defined terms; and
  - (b) acronyms used to refer to the Electricity Distributors.

### **Part A: The use of definitions in these special conditions**

- 1.2.2 In the special conditions the following defined terms, which are capitalised throughout these special conditions, have the meanings given in the table below.
- 1.2.3 Where it is stated in the special conditions that the outputs, delivery dates and allowances for a Price Control Deliverable are located in another document, the following defined terms also have the meanings given in the table below in that document.
- 1.2.4 Where the table below states that a defined term has the meaning given to it by:
  - (a) another condition of this licence;
  - (b) the ED2 Price Control Financial Instruments;
  - (c) an Associated Document;
  - (d) the RIGs;
  - (e) the Smart Meter Communication Licence;
  - (f) a Transmission Licence;
  - (g) a Gas Transporter Licence;
  - (h) the Grid Code; or
  - (i) an Act of Parliament,
- 1.2.5 the defined term is to have the meaning given in that provision or document as amended from time to time.

#

1-in-20 Severe Weather Event	<p>means a weather event that originates in the Earth's atmosphere, that causes a number of Incidents at Distribution Higher Voltage in a 24-hour period, which exceeds the number specified in Appendix 1 to Special Condition 3.10 (Allowed Expenditure for 1-in-20 Severe Weather Events)</p> <p>The duration of the event is determined in accordance with the following:</p> <p>(a) the event starts at the beginning of a 24-hour period where the number of Incidents at Distribution Higher Voltage in that period is equal to or greater than the commencement threshold specified in Appendix 1 to Special Condition 3.10; and</p> <p>(b) the event ends at a time determined by the Authority having regard to:</p> <p>i) such time as the licensee may have declared was the end of the Severe Weather Event in its statement of facts submitted under paragraph 4.4.14(b) of Special Condition 4.4;</p> <p>ii) the time of Restoration of the last Customer off supply due to a Low Voltage Incident linked to the underlying cause of the severe weather (provided that all Customers off supply due to Incidents at Distribution Higher Voltage linked to the underlying cause of the event have been restored); and</p> <p>iii) the end of a 48-hour period, when the number of Customers off supply due to Incidents at Distribution Higher Voltage linked to the underlying cause of the 1-in-20 Severe Weather Event has fallen to zero.</p>
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A

Act	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Actual Corporation Tax Liability	means the value as shown in the licensee's Company Tax Return (CT600) as submitted to His Majesty's Revenue and Customs relating to the licensee.
Actual Percentage of Gross Load Related Expenditure	means actual expenditure on Specific Customer Funded Reinforcement for the Price Control Period expressed as a percentage of actual Gross Load Related Expenditure (including any expenditure on Strategic Investment projects) for the Price Control Period.
Actual Totex	is derived in accordance with Chapter 3 of the ED2 Price Control Financial Handbook.
Adjusted Outturn Network Risk Output	is derived in accordance with paragraph 3.1.29 of Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure).
Affiliate	in relation to a person means a Holding Company of that person, a Subsidiary of that person, or a Subsidiary of a Holding Company of that person.

Agreed Schemes	means schemes approved by the Authority for inclusion in the Green Recovery Scheme in its decision titled “RIIO-ED1 Green Recovery Scheme” published on 24 May 2021.
Allowed Distribution Network Revenue	means the revenue calculated in accordance with the formula for the AR term set out in Part B of CRC 2A (Restriction of Allowed Distribution Network Revenue) of this licence as in force on 31 March 2023.
Allowed Revenue	is derived in accordance with the formula in Part C of Special Condition 2.1 (Revenue restriction).
Annual Environmental Report	means a document prepared and published by the licensee in accordance with Part A of Special Condition 9.1 (Annual Environmental Report).
Annual Iteration Process	has the meaning given to that term in the ED2 Price Control Financial Handbook.
Annual Vulnerability Report	means the document of that name prepared and published by the licensee in accordance with Part G of Special Condition 4.6 (Consumer vulnerability output delivery incentive) and the RIIO-ED2 Consumer Vulnerability Guidance Document.
Appropriate Auditor	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Appropriately Qualified Independent Examiner	means a qualified tax accountant from a firm regulated by a relevant professional body, who may be an employee of the licensee's Appropriate Auditors.
Areas of Outstanding Natural Beauty	means protected landscapes in England, Wales and Northern Ireland as defined in the National Parks and Access to the Countryside Act 1949 and includes National Scenic Areas in Scotland, as comparable to AONBs.
Assistance Order	means the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005.
Associated Document	means the WSC Governance Document, the RIIO-ED2 Major Connections Incentive Guidance Document, the RIIO-ED2 Consumer Vulnerability Guidance Document, the Distribution System Operation Incentive Governance Document, the RIIO-2 NIA Governance Document, the RIIO-1 Electricity Network Innovation Allowance Governance Document, the Connections Engagement Guidance, the LCN Fund Governance Document, the Environmental Reporting Guidance, the Price Control Deliverable Reporting Requirements and Methodology Document, the Re-opener Guidance and Application Requirements Document, the DSAP Guidance, the Data Best Practice Guidance, the SIF Governance Document, the Smart Optimisation Output Guidance.



Associated Work	means any works required in order to provide a connection to the licensee's Distribution System, including any necessary reinforcement works or diversionary works.
Authority	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Authority's Website	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).

## B

Bad Debt	means the costs incurred by the licensee when Use of System charges owed to the licensee are not considered recoverable and which crystallises when normal payment terms have been exceeded and the licensee has made all reasonable efforts to collect the debt but is unable to recover the amounts owed.
Baseline Network Risk Output	means the cumulative total of Network Risk Outputs for all NARM Assets in the licensee's Network Asset Risk Workbook
Baseline Unit Cost of Risk	as derived in accordance with paragraph 3.1.38 in Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure).
Basic PCD Report	has the meaning given to that term in the Price Control Deliverable Reporting Requirements and Methodology Document.
Between	in the context of something being done, or occurring, between two dates, means on or after the first date and on or before the second date.
Business Plan	means a plan of the sort that the licensee was invited to submit by paragraph 3.5 of the document titled "RIIO-ED2 Sector Specific Methodology: Overview", published by the Authority on 17 December 2020.

## C

CAF Outcomes	means the outcomes set out under the cyber security and resilience principles set out in the document titled "CAF Guidance", version 3.0, published by the National Cyber Security Centre on 30 September 2019 as amended from time to time.
Calculated Revenue	has the value derived in accordance with Part D of Special Condition 2.1 (Revenue Restriction).
Calculated Tax Allowance	means the value of the TAX <sub>t</sub> term as set out in the "Revenue" sheet of the ED2 Price Control Financial Model.
CAM Activity	means an output, activity or deliverable that the licensee is applying to reallocate under Special Condition 3.7 (Coordinated adjustment mechanism Re-opener).

Carry-over Network Innovation Allowance	means the allowance provided by Special Condition 5.3 (Carry-over Network Innovation Allowance) to extend the RIIO-1 Network Innovation Allowance for an additional Regulatory Year.
Clawback Direction	means a direction under Part C of Special Condition 9.10 (Margins on licensee's Connection Activities) that requires the licensee to make repayment of some or all of the monetary value of the Margin that it had charged in its Connection Charges in relation to its Connection Activities in a Relevant Market Segment of the Local Connections Market during a specified period of time, being the difference (which may not be less than zero) between the Unregulated Margin and the level of Margin specified by the Authority in the Clawback Direction.
Collaboration Plan	means a document prepared and published by the licensee in accordance with Part A of Special Condition 9.13 (System Optimisation Output).
Collaborative Streetworks Project	means streetworks undertaken which: (a) are minimum of 0.2km in length, or any length where the project is deemed of strategic importance by the Greater London Authority; (b) involve collaboration at level two or above, as defined in the document titled "Collaboration Manual: A guide to the coordinated delivery of utility infrastructure" published by the London Borough of Croydon; (c) involve a minimum of two Statutory Undertakers, or a minimum of one Statutory Undertaker and one local authority, undertaking physical works in the same road or pathway; (d) are a permanent solution, not a temporary repair; and (e) will be completed by end of the Price Control Period.
Common Connection Charging Methodology	means the document of that name approved by the Authority on 11 July 2011 as amended from time to time.
Common Network Asset Indices Methodology	means the component of the NARM Methodology established pursuant to paragraph 9.2.3(a), which describes the methodology for determining Network Asset Indices and the Network Asset Risk Metric and is common to all Distribution Services Providers.
Company Tax Return	means the financial information that the licensee is required to file with His Majesty's Revenue and Custom each year for the purposes of calculating its Actual Corporation Tax liability.
Complaint	means an expression of dissatisfaction made to the licensee that is related to any one or more of its products, its services or the manner in which it has dealt with an expression of dissatisfaction, and where either a response is provided by or on behalf of the licensee at the point at which contact is made

	or a response is explicitly or implicitly required or expected to be provided thereafter.
Complaints Metric	means the metric used to measure the extent to which the licensee has handled its Complaints for the purposes of the broad measure of Customer service output delivery incentive.
Connection Activities	means activities that comprise or are associated with the provision, modification, or retention of a connection to the licensee's Distribution System as are able, in accordance with the licensee's Connection Charging Statement, to be undertaken by persons other than the licensee, where those activities are fully funded by the Customer (as described in Chapters 10 and 12 of the Authority's decision document published on 7 December 2009 under reference 145/09).
Connection Charge	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Connection Charging Statement	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Connection Regulations	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Connections Element	means the element of the Customer Satisfaction Survey that measures Customer satisfaction in relation to connections work carried out by the licensee for which the questions are prescribed in the RIGs.
Consumer Outcome	<p>means the benefits to existing and future consumers in terms of maintenance of existing levels of, or improvements in the licensee's Distribution System's capability or resilience including cyber resilience, or benefits to consumers in terms of service quality, or reduction in risk delivered, that would have been delivered by the output associated with the relevant Price Control Deliverable over the whole life of that output as specified in the relevant licence condition.</p> <p>In the context of works delivered by the licensee, this means the benefits to Customers or consumers in terms of maintenance of existing levels of, or improvements in the licensee's Distribution System's capability or resilience including cyber resilience, or benefits to consumers in terms of service quality, or reduction in risk delivered, that can be attributed to the works delivered by the licensee over the whole life of the works delivered.</p>
Consumer Prices Index Including Owner Occupiers' Housing Costs	means the monthly values of the "CPIH All Items", series ID "L522", published by the Office for National Statistics (or any other public body acquiring its functions).

Coordinated Adjustment Mechanism Re-opener	means the Re-opener established by Special Condition 3.7 (Coordinated Adjustment Mechanism Re-opener).
Critical National Infrastructure	means those critical elements of infrastructure (namely assets, facilities, systems, networks or processes and the essential workers that operate and facilitate them), the loss or compromise of which could result in: (a) major detrimental impact on the availability, integrity or delivery of essential services – including those services whose integrity, if compromised, could result in significant loss of life or casualties – taking into account significant economic or social impacts; or (b) significant impact on national security, national defence, or the functioning of the state.
Curtailment Efficiency Outturn Performance Metric	has the meaning given to that term in the Distribution System Operation Incentive Governance Document.
Customer	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Customer Satisfaction Survey	means the survey used to measure the extent to which Customers are satisfied with the service provided by the licensee for the purposes of the broad measure of Customer service output delivery incentive for which the questions are prescribed in the RIGs.
Customer Support Costs	means the cost to the licensee, incurred either directly or by virtue of reimbursing Customers or suppliers, of: (a) providing the Customer with food, drink and temporary accommodation, in a hotel or otherwise, during a 1-in-20 Severe Weather Event; (b) providing a Customer with welfare items during a 1-in-20 Severe Weather Event. This includes the procurement of items such as portable toilets, blankets, gas heaters, torches, fuel for customer generators; and (c) contact centre and support staff, over and above the costs the licensee incurs in the normal course of running the Distribution Business.
CVP	means the consumer value propositions which were submitted by the licensee in its Business Plan and accepted by the Authority in its RIIO-ED2 Final Determinations.
CVP Full Delivery	means the delivery as a minimum of the CVP Outputs for each CVP set out in Appendix 1 to Special Condition 4.7 (Consumer value proposition) by 31 March 2028.
CVP Output	means the outputs set out in Appendix 1 to Special Condition 4.7 (Consumer value propositions).

CVP Reward	means the values set out in Appendix 1 to Special Condition 4.7 (Consumer value propositions).
Cyber Resilience IT Baseline Allowances Table	means the table in Part B of Appendix 1 to the document titled “Cyber Resilience Information Technology Final Determination” sent by the Authority to the licensee on 14 December 2022.
Cyber Resilience IT PCD Table	means the table in Appendix 2 to the document titled “Cyber Resilience Information Technology Final Determination” sent by the Authority to the licensee on 29 and 30 November 2022.
Cyber Resilience IT Re-opener	means the Re-opener established by Part H of Special Condition 3.2 (Uncertain Costs Re-openers).
Cyber Resilience IT Re-opener Allowances Table	means the table of that name sent by the Authority to the licensee on [date].
Cyber Resilience OT Baseline Allowances Table	means the table in Part B of Appendix 1 to the document titled “Cyber Resilience Operational Technology Final Determination” sent by the Authority to the licensee on 29 and 30 November 2022.
Cyber Resilience OT PCD Table	means the table in Appendix 2 to the document titled “Cyber Resilience Operational Technology Final Determination” sent by the Authority to the licensee on 29 November 2022.
Cyber Resilience OT Re-opener	means the Re-opener established by Part G of Special Condition 3.2 (Uncertain Costs Re-openers).
Cyber Resilience OT Re-opener Allowances Table	means the table of that name sent by the Authority to the licensee on [date].

## D

Data Best Practice	means a set of principles referenced to in the Data Best Practice Guidance document.
Data Best Practice Guidance	means the document of that name issued by the Authority in accordance with Part D of Special Condition 9.5 (Digitalisation).
Data Services	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Decision on SHEPD’s Contribution to the Shetland Transmission Link	means the following documents published on the Authority’s website: Ofgem’s Decision on Scottish Hydro Electric Power Distribution’s proposals to contribute towards proposed electricity transmission links to Shetland, Western Isles and Orkney published on 17 December 2019; and Ofgem’s Confirmation of approval of SHEPD proposal to contribute to the Shetland electricity transmission project published on 30 July 2020.

Defaulting Electricity Supplier	means an Electricity Supplier whose insolvency or liquidation has resulted in the licensee incurring Bad Debt. The timing and meaning of insolvency and liquidation should be interpreted in accordance with the first Group of Parts of the Insolvency Act 1986.
Delayed	means where the licensee has Not Delivered the output set out in the relevant special condition in full by the relevant delivery date, but has delivered or intends to deliver the output in full or in part at a later date.
Demand Customer	means, in relation to any energised or de-energised Exit Point on the licensee's Distribution System, the person who is taking, or is deemed to be taking, a supply of electricity through that Exit Point.
Determined Outturn Network Risk Output	is derived in accordance with paragraphs 3.1.35 or 3.1.37 in Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure).
DG Standards Direction	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Digitalisation	means the use of digital technologies to change an organisation's operating model and provide new revenue or equivalent value-creating opportunities; it is the process of moving to a digital business or organisation.
Digitalisation Action Plan	means a document prepared and published by the licensee in accordance with Part B of Special Condition 9.5 (Digitalisation).
Digitalisation Re-opener	means the Re-opener established by Part I of Special Condition 3.2 (Uncertain Costs Re-openers).
Digitalisation Strategy	means a document prepared and published by the licensee in accordance with Part A of Special Condition 9.5 (Digitalisation).
Directly Attributable Costs	means costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any Transmission Licensee or any other holder of an Electricity Distribution Licence), that have not been otherwise funded through Use of System Charges or the NIC Funding Mechanism.
Directly Remunerated Service	has the meaning given to that term in paragraph 9.7.5 of Special Condition 9.7 (Directly Remunerated Services).
Disallowed Expenditure	means revenue received (whether by the licensee or any Transmission Licensee or any other holder of an Electricity Distribution Licence) under the NIC Funding Mechanism, that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

Disapplication Date	has the meaning given to that term in paragraph 9.6.4 of Special Condition 9.6 (Disapplication of Relevant Special Conditions).
Disapplication Notice	means the notice under Special Condition 9.6 (Disapplication of Relevant Special Conditions) that terminates the application of the Relevant Special Conditions (or any part or parts of them) specified in that request.
Disapplication Request	means a request under Special Condition 9.6 (Disapplication of Relevant Special Conditions) for the Authority's consent to disapply the Relevant Special Conditions (in whole or in part) that complies with Parts C and D of that condition.
Distributed Generation	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Distributed Generation Connection Standards	means any standards specified by the Authority in a DG Standards Direction issued under Standard Condition 15A (Connection Policy and Connection Performance).
Distributed Generator	means an installation comprising any plant or apparatus for the production of electricity that is directly connected to the licensee's Distribution System or is connected to that system through one or more electricity networks (other than an onshore Transmission System) that is or are directly connected to it (or, where the context so requires, means a person that owns or operates such an installation).
Distribution Business	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Distribution Connection and Use of System Agreement	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Distribution Higher Voltage	means any nominal voltage of more than 1,000 volts up to and including 132 kilovolts (except in Scotland, where it means any nominal voltage of more than 1,000 volts, but less than 132 kilovolts).
Distribution Network Voltage Control Services	means the services provided to the GB System Operator by a licensee using Relevant Assets at primary substations on the licensee's Distribution System, such as Customer Load Active System Services (CLASS).
Distribution Services	means all services provided by the licensee as part of its Distribution Business other than Directly Remunerated Services.
Distribution Services Area	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Distribution Services Provider	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).



Distribution System	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Distribution System Operation	means the engagements undertaken by the licensee pursuant to the operation of the Distribution System, being the planning and network development, network operation and market development of the Distribution System as set out in the Distribution System Operation Incentive Governance Document.
Distribution System Operation Incentive Governance Document	means the document of that name issued by the Authority in accordance with Part F of Special Condition 4.8 (Distribution System Operation output delivery incentive).
Distribution System Operation Performance Panel	means a panel established by the Authority to make recommendations to the Authority on the performance of the licensee for the purposes of the Distribution System Operation output delivery incentive established by Special Condition 4.8 (Distribution System Operation output delivery incentive).
Distribution System Operation Performance Panel Submission	means a document prepared and published by the licensee in accordance with Part E of Special Condition 4.8 (Distribution System Operation output delivery incentive).
Distribution System Operation Stakeholder	has the meaning given to that term in the Distribution System Operation Incentive Governance Document.
Distribution System Operation Stakeholder Satisfaction Survey	means the survey (as established by the Distribution System Operation Incentive Governance Document) used to measure the extent to which Distribution System Operation Stakeholders are satisfied with the service provided by the licensee for the purposes of the Distribution System Operation output delivery incentive for which the questions are prescribed in the Distribution System Operation Incentive Governance Document.
Domestic Customer	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Domestic Premises	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
DRS Net Revenue	means the revenue received by the licensee from charges for a Directly Remunerated Service listed in Special Condition 9.7 (Directly Remunerated Services) less any attributable costs associated with the provision of those services not already included in the licensee's Actual Totex. Revenues and costs are ascertained on a normal accruals basis and in accordance with any RIGs that apply for the purposes of this condition, and DRS Net Revenue is expressed as a negative figure when the revenue received exceeds the associated costs.



DSAP Guidance	means the document of that name maintained by the Authority in accordance with Part C of Special Condition 9.5 (Digitalisation).
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## E

ED1 Legacy Price Control Financial Model	means the final version of the ED1 Price Control Financial Model.
ED1 Price Control Financial Handbook	means the ED1 Price Control Financial Handbook (slow-track licensees) that was first published by the Authority to come into effect on 1 April 2015, as in force on 31 March 2023, and includes specific information and advice about the operation of the ED1 Price Control Financial Model.
ED1 Price Control Financial Model	has the meaning given to that term in Charge Restriction Condition 1B (Interpretation of Part 4) of this licence as in force on 31 March 2023.
ED2 Price Control Financial Handbook	means the document of that name that was first published by the Authority to come into effect on 1 April 2023 and includes specific information and advice about the operation of the ED2 Price Control Financial Model.
ED2 Price Control Financial Instruments	means the ED2 Price Control Financial Handbook and the ED2 Price Control Financial Model.
ED2 Price Control Financial Model	means the model of that name that was first published by the Authority to come into effect on 1 April 2023.
ED2 Price Control Financial Model Working Group	means the working group identified in and whose terms of reference are set out in Chapter 2 of the ED2 Price Control Financial Handbook.
Efficiency	in relation to Price Control Deliverables, means expenditure decision making by the licensee that resulted in lower costs than could have been reasonably expected at the time of submitting the Business Plan. This does not include: (a) where lower costs have been achieved by delivering a lower Consumer Outcome than would have been achieved if the licensee had delivered the output as specified in the relevant special condition; or (b) where expenditure decisions were the result of factors beyond the reasonable control of the licensee including, but not limited to growth in demand for the licensee's services or government policy.
Elective Communication Services	has the meaning given to that term in Condition 1 of the Smart Meter Communication Licence.
Electricity Distribution Licence	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).

Electricity Distributor	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Electricity Meter	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Electricity Network Innovation Competition Governance Document	means the document of that name maintained by the Authority in accordance with Part B of Special Condition 7.9 (RIIO-ED1 network innovation competition).
Electricity Supplier	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Electricity System Restoration Re-opener	means the Re-opener established by Part D of Special Condition 3.2 (Uncertain Costs Re-openers).
Electricity System Restoration Scope of Work	means the scope of work the licensee has agreed to undertake in order to assist the GB System Operator to meet its obligations to comply with the target Restoration Times that the Secretary of State has directed the GB System Operator to have the capability to meet.
Eligible CNIA	means the amount of expenditure spent or accrued by the licensee in respect of Eligible CNIA Projects.
Eligible CNIA Internal Expenditure	means the amount of Eligible CNIA spent or accrued on the internal resources of the licensee.
Eligible CNIA Projects	means RIIO-1 Network Innovation Allowance projects on which work commenced prior to 31 March 2023, pursuant to the requirements of the RIIO-1 NIA Governance Document.
Eligible LCN Fund Project	means a project undertaken by a Distribution Services Provider that in the Authority's view satisfies those requirements of the LCN Fund Governance Document as are necessary to enable the project to be funded under the LCNF First Tier Funding Mechanism, or the LCNF Second Tier and Discretionary Funding Mechanism (as the case may be).
Eligible NIC Project	means a project undertaken by the licensee or any other Electricity Distributor or Transmission Licensee that in the Authority's view satisfies those requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
Eligible SIF Project	means a project undertaken by the licensee or any other holder of an Electricity Distribution Licence that the Authority assesses as satisfying those requirements of the SIF Governance Document as are necessary to enable the project to be funded under the SIF Funding Mechanism.
ENA Smarter Networks Portal	means the information portal at <a href="https://www.smarternetworks.org/">https://www.smarternetworks.org/</a> .

End-to-End Restoration Time	means the duration of time of the site opening until the works reinstatement are completed, including the full period of disruption for the works covering both the work to find and fix the fault, as well as the time taken to reinstate and clear the works, in relation to an unplanned emergency fault street works.
Energy Ombudsman	means the person appointed to investigate and resolve consumer Complaints against (amongst others) the licensee pursuant to a redress scheme approved by the Authority under section 49 of the Consumers, Estate Agents and Redress Act 2007.
Energy Ombudsman Findings Against the Licensee	means any Energy Ombudsman decisions requiring the licensee to make a payment exceeding that previously offered to the complainant, or finding the licensee should change its processes beyond what it had previously indicated to the complainant, or both.
Energy System Data	has the meaning given to that term in the Data Best Practice Guidance.
Environmental Action Plan	means the document of that name that the licensee submitted as part of its Business Plan.
Environmental Action Plan Commitments	means the actions and initiatives that the licensee proposed in its Environmental Action Plan to undertake over the course of the Price Control Period.
Environmental Re-opener	means the Re-opener established by Part E of Special Condition 3.2 (Uncertain Costs Re-openers).
Environmental Reporting Guidance	means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.1 (Annual Environmental Report).
Equally Challenging	means presenting an equal or higher challenge to the licensee in the over-delivery opportunity that exists with the rebased Baseline Network Risk Output when compared with the over-delivery opportunity that existed with the original Baseline Network Risk Output, where over-delivery opportunity is the capability to deliver greater Network Risk Output by undertaking the same volume of interventions but selecting different assets for intervention from those assumed in the setting of the Baseline Network Risk Output.
Equivalent Charges	means the Use of System Charges made by the Electricity Distributor that has a Distribution Services Direction that specifies the Distribution Services Area in which the Domestic Premises connected to the licensee's Distribution System are located and the Authority may give the licensee a direction that specifies which of the Use of System Charges made by the Distribution Services Provider for the Distribution Services Area are relevant for the purposes of determining Equivalent Charges.

EV Optioneering Project	means work by the licensee in collaboration with any Local Authority to assess or determine optimal locations for public electric vehicle chargepoints done in accordance with the optioneering methodology contained in Annex 4A.27 'Strategic DNO' of the licensee's Business Plan.
Evaluative Price Control Deliverable	means a Price Control Deliverable specified in Special Condition 3.3 (Evaluative Price Control Deliverables), the Cyber Resilience OT PCD Table, the Cyber Resilience IT PCD Table or Special Condition 3.6 (Net Zero Re-opener and Price Control Deliverable).
Ex-ante Regulatory Equity	means the value specified for the licensee, in £million: ENWL 872 NPgN 648 NPgY 894 WMID 1126 EMID 1153 SWALES 576 SWEST 874 LPN 757 SPN 783 EPN 1222 SPD 831 SPMW 924 SSEH 620 SSES 1169
Excluded Market Segment	has the meaning given to that term in Part E of Special Condition 9.10 (Margins on Connections licensee's Connections Activities).
Exit Point	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).

## F

Final Investment Decision	means the point in the capital project planning process when the decision to make major financial commitments is taken by the relevant company, eg when major equipment orders and construction contracts are placed.
Final Needs Case	has the meaning given to that term in Special Condition 1.1 (Interpretation and definitions) of the Transmission Licence.
Flexibility Reinforcement Deferral Outturn Performance Metric	has the meaning given to that term in the Distribution System Operation Incentive Governance Document.
Former Electricity Supplier	means any person who has been Authorised to supply electricity in the past.

Fuel Poverty Customer Satisfaction Survey	means the survey used to measure the satisfaction of Domestic Customers in Vulnerable Situations with the Fuel Poverty Services Delivered by the licensee.
Fuel Poverty Services Delivered	means the contact an individual Domestic Customer in a Vulnerable Situation has had with their licensee or the licensee's partner or contractor where a service has been provided or a job has been completed which is of benefit to the Domestic Customer in a Vulnerable Situation in alleviating the impacts of fuel poverty.
Full PCD Report	has the meaning given to that term in the Price Control Deliverable Reporting Requirements and Methodology Document.
Fully Deliver	means to deliver an output specified in the relevant licence condition in full on or before the delivery date specified in that licence condition.
Fully Delivered	means where the output specified in the relevant licence condition has been delivered in full on or before the delivery date specified in that licence condition.
Fully Delivered With An Alternative Specification	means where the licensee has delivered a different specification to that set out in the relevant special condition, while achieving a Consumer Outcome that is materially equivalent or better than what would have been achieved if the licensee had delivered the output as set out in the relevant special condition.
Funding Return	means the total amount, in respect of the licensee, of any amounts arising under the Funding Return Mechanism.
Funding Return Mechanism	means the mechanism that provides for the recovery from the licensee and from Transmission Licensees and any other Electricity Distributor, in each case to the extent (if any) as may be relevant, of: (a) Halted Project Revenues; (b) Disallowed Expenditure; (c) Returned Royalty Income; and (d) Returned Project Revenues.

## G

Gas Distribution System	has the meaning given to that term in Standard Special Condition A3 (Definitions and interpretation) of the Gas Transporter Licence.
Gas Transporter Licence	means a licence granted under section 7 of the Gas Act 1986.
GB System Operator	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
GB Transmission System	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).

General Enquiries Element	means the element of the Customer Satisfaction Survey that measures Customer satisfaction in relation to general enquiries work carried out by the licensee for which the questions are prescribed in the RIGs.
General Financial Adjustment Methodology	means the methodology of that name specified in Chapter 8 (Legacy) of the ED2 Price Control Financial Handbook.
Green Recovery Scheme	means the Authority's coordinated whole systems approach to accelerating low regrets network investment to reduce barriers, support an equitable transition and stimulate economic recovery and low-carbon development announced on 8 February 2021.
Green Recovery Scheme Project Costs	means any costs directly or indirectly incurred by the licensee in respect of Agreed Schemes where:  (a) the licensee will meet or has met the Overall Expenditure Condition, absent the expenditure on Agreed Schemes; or (b) where the expenditure on Agreed Schemes will be or has been necessary to meet the Overall Expenditure Condition, that part of any costs directly or indirectly incurred on Agreed Schemes which is in excess of the Overall Expenditure Condition; and (c) work on the Agreed Schemes started during the RIIO-1 Price Control Period.
Grid Code	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation) of the Transmission Licence.
Gross Load Related Expenditure	means the total amount of expenditure incurred by the licensee in respect of cost areas that make up Load Related Expenditure before the deduction of Specific Customer Funded Reinforcement.

## H

Hebrides and Orkney Re-opener	means the Re-opener established by Part O of Special Condition 3.2 (Uncertain Costs Re-openers).
High Value Project	means any individual non-load related investment project that is reasonably forecast to cost the licensee £25 million or more.
High Value Projects Re-opener	means the Re-opener established by Part L of Special Condition 3.2 (Uncertain Costs Re-openers).

High-cost Distribution Payments	means annual payments made by the GB System Operator pursuant to the Assistance Order and in accordance with standard condition C22 (Assistance for areas with high distribution costs scheme: payments to a Relevant Distributor) of the GB System Operator's Transmission Licence.
Holding Company	in relation to a person, means a holding company within the meaning of section 1159 of the Companies Act 2006.

I

Incentive on Connections Engagement Guidance	means the document of that name maintained by the Authority in accordance with Part D of Special Condition 7.4 (Legacy incentive performance).
Incidents	has the meaning given to that term in the RIGs.
Incurred NARM Expenditure	means the total expenditure incurred by the licensee during the Price Control Period on NARM Asset Interventions, adjusted to reverse the implied contribution of Real Price Effects that would be calculated using the methodology set out in chapter 5 of the Price Control Financial Handbook.
Information Gathering Plan	means a plan required by Part E of Special Condition 9.2 (Network Asset Risk Metric methodology).
Initial Needs Case	has the meaning given to that term in Special Condition 1.1 of the Transmission Licence held by Relevant Network Licensees.
Innovation	in relation to Price Control Deliverables means: (a) solutions that have been trialled by any Network Licensee as part of a RIIO-1 Network Innovation Allowance project pursuant to the requirements of the RIIO-1 NIA Governance Document or a RIIO-2 NIA Project; or (b) involves the application of technology, systems or processes that were not proven as at the time of submission of the Business Plan.
IT	means a licensee's information technology network and information systems that relate to the use of computers, software, hardware and other devices to perform business operations.

I

Justified Over-Delivery	means a delivery above the Baseline Network Risk Output that in the Authority's opinion was justified based on analysis that indicates: (a) the actual level of risk was higher than that set out in the Network Asset Risk Workbook and delivery of the Outturn Network Risk Output above the level set out was required by the licensee to mitigate that risk; or (b) the level of expenditure otherwise represented an efficient
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	use of the licensee's resources, even if the actual level of risk remained unchanged.
Justified Under-Delivery	means a delivery below the Baseline Network Risk Output that in the Authority's opinion was justified based on analysis that indicates: (a) the actual level of risk was lower than that set out in the Network Asset Risk Workbook and delivery of the level of Baseline Network Risk Output set out was not required; or (b) the level of expenditure otherwise represented an efficient use of the licensee's resources, even if the actual level of risk remained unchanged.

## K

Key Prepayment Electricity Meter	means an Electricity Meter that requires the use of a key to enable information to be transferred to that meter from a point of sale for electricity, and vice versa.
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## L

LCN Fund Governance Document	means the document of that name previously issued by the Authority and now maintained under Special Condition 7.8 (Low Carbon Networks Fund).
LCN Fund Returned Project Revenues	means: (a) revenues received (whether by the licensee or another Distribution Services Provider) under the LCNF Second Tier and Discretionary Funding Mechanism in respect of an Eligible LCN Fund Project that the Authority determines have not been spent, and where the project has been carried out in accordance with the applicable provisions of the LCN Fund Governance Document and/or the terms of the relevant LCNF Project Direction; or (b) revenues earned from Eligible LCN Fund Project (whether by the licensee or another Distribution Services Provider) other than Returned LCN Fund Royalties, that the Authority determines are payable to Customers.
LCNF Approved Amount	means an amount approved by the Authority in relation to a claim submitted by a Distribution Services Provider to receive funding for an Eligible LCN Fund Project under the LCNF Second Tier and Discretionary Funding Mechanism, where such claim complies in all respects with any requirements as are imposed by the LCN Fund Governance Document.



LCNF Directly Attributable Costs	means the costs relating to the maintenance and management of intellectual property generated through Second Tier LCN Fund projects (whether by the licensee or another Distribution Services Provider) that have not have been remunerated by Use of System Charges, charges for Metering Point Administration Service, Legacy Metering Equipment Charges, revenue from Data Services, Directly Remunerated Services or by the LCNF Second Tier and Discretionary Funding Mechanism.
LCNF Disallowed Expenditure	means revenue received (whether by the licensee or another Distribution Services Provider) under the LCNF Second Tier and Discretionary Funding Mechanism that the Authority determines not to have been spent in accordance with the provisions of the LCN Fund Governance Document or those of the relevant LCNF Project Direction.
LCNF Discretionary Funding	means the aggregate (for the licensee and all other Distribution Services Providers) of the discretionary funding awarded by the Authority, in accordance with the LCN Fund Governance Document, in respect of Eligible LCN Fund Projects.
LCNF First Tier Funding Mechanism	means the mechanism used for the recovery of funding for Eligible LCN Fund Projects raised through revenues contributed through the licensee's Use of System Charges Between 1 April 2010 and 31 March 2015.
LCNF Halted Project Revenues	means revenues received (whether by the licensee or another Distribution Services Provider) under the LCNF Second Tier and Discretionary Funding Mechanism in respect of an Eligible LCN Fund Project that have not yet been spent, or otherwise committed, at the time that the Authority requires that Eligible LCN Fund Project to be halted in accordance with the provisions of the LCN Fund Governance Document or those of the relevant LCNF Project Direction.
LCNF Project Direction	means a direction issued by the Authority pursuant to the LCN Fund Governance Document setting out the terms to be followed in relation to the Eligible LCN Fund Project as a condition of its funding pursuant to the LCNF Second Tier and Discretionary Funding Mechanism.
LCNF Second Tier and Discretionary Funding Mechanism	means the mechanism governed by Special Condition 7.8 (Low Carbon Networks Fund) and the LCN Fund Governance Document used for the recovery by, and apportionment among, the licensee and other Distribution Services Providers of: (a) LCNF Second Tier Funding; (b) LCNF Discretionary Funding; (c) LCNF Halted Project Revenues; (d) LCNF Disallowed Expenditure;

	(e) Returned LCN Fund Royalties; and (f) LCN Fund Returned Project Revenues.
LCNF Second Tier Funding	means the aggregate (for the licensee and all other Distribution Services Providers) of all the LCNF Approved Amounts in the 2015/16 Regulatory Year.
Legacy Metering Equipment	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Legacy Metering Equipment Charges	means the charges levied by the licensee for the provision of Legacy Metering Equipment in accordance with the relevant charging statement prepared by the licensee under standard condition 36 (Charges for the provision of Legacy Metering Equipment and Data Services).
Legal Requirements Test	means an assessment of the licensee's compliance, in respect of the making of connections to its Distribution System with: (a) paragraph 12.6(c) of standard condition 12 (Requirement to offer terms for Use of System and connections); (b) standard condition 15 (Standards for the provision of Non-Contestable Connection Services); (c) standard condition 15A (Connections policy and connection performance); (d) standard condition 19 (Prohibition of discrimination under Chapters 4 and 5); and (e) the Competition Act 1998.
LineSIGHT	means the overhead line safety management system project developed by Electricity North West Limited to install 400 sensors to 800km of high risk high voltage circuits and 1,800 sensors to 7,200km of normal risk high voltage circuits and integrate them with its network management system as set out in its Engineering Justification Paper (Reference No. BA EJP 1 - Safety) dated 1 December 2021.
Load Related Expenditure	means expenditure in the following cost categories: (a) connections that are subject to the apportionment rules under the Common Connection Charging Methodology after deduction of Specific Customer Funded Reinforcement; (b) primary reinforcement; (c) secondary reinforcement; (d) fault level reinforcement; and (e) New Transmission Capacity Charges.

Load Related Expenditure Re-opener	means the Re-opener established by Part K of Special Condition 3.2 (Uncertain Costs Re-openers).
Load Related Expenditure Volume Drivers Governance Document	means the document of that name issued by the Authority in accordance with Part C of Special Condition 3.9 (Load related expenditure volume drivers).
Local Area Energy Plan	means a plan that is the product of a process: (a) through which a range of stakeholders including other Network Licensees and local authorities agree on the optimal long-term energy solutions for an area; and (b) that has been conducted in the context of enabling energy systems with net zero carbon emissions.
Local Connections Market	has the meaning given to that term in Standard Condition 52 (Competition in Connections Code of Practice).
Long-term Monetised Risk	means an estimate of the present value of monetised condition based asset risk measured over a defined period of time greater than one year from a given start date, and equal to the cumulative total of the present value of in-year risk for each year of the defined period.
Long-term Monetised Risk Benefit	means the risk benefit delivered or expected to be delivered by an asset intervention and is the difference between without intervention and with intervention Long-term Monetised Risk.
LOTI	has the meaning given to that term in Special Condition 1.1 of the Transmission Licence held by Relevant Network Licensees.
Low Carbon Networks Fund	means the funding mechanism of that name that was in operation during distribution price control review 5 Between 1 April 2010 and 31 March 2015 to incentivise the development of low carbon networks.
Low Carbon Transition Customer Satisfaction Survey	means the survey used to measure the satisfaction of Domestic Customers in Vulnerable Situations with the Low Carbon Transition Services Delivered by the licensee.
Low Carbon Transition Services Delivered	means the contact an individual Domestic Customer in a Vulnerable Situation has had with their licensee or the licensee's partner or contractor where a service has been provided or a job has been completed which is of benefit to the Domestic Customer in a Vulnerable Situation in enabling participation in a net zero energy system.
Low Voltage	means a nominal voltage not exceeding 1,000 volts.

LV Monitoring	means the use of direct measurement, or advanced analytics, to allow for real time measurement and assessment of network conditions on the licensee's Low Voltage network.
LVSSA	means a low-voltage demand connection (other than of a load that could reasonably be expected to cause disruption to other Customers) to single premises, involving a single-phase connection and no significant work other than the provision of a service line and the Electricity Distributor's fuses.
LVSSB	means a connection (other than of a load that could reasonably be expected to cause disruption to other Customers) via low-voltage circuits fused at 100 amperes or less per phase with whole-current metering, and where the highest voltage of the assets involved in providing the connection, and any Associated Works, is low-voltage, to: (a) a development scheme requiring more than one but fewer than five single-phase connections at Domestic Premises and involving only the provision of a service line and the Electricity Distributor's fuses; or (b) a development scheme requiring fewer than five single-phase connections at Domestic Premises and involving an extension of the existing low-voltage network; or (c) single premises requiring a two-phase or three-phase connection and involving only the provision of a service line and the Electricity Distributor's fuses.

## M

Major Connections Annual Report	means the report of that name prepared by the licensee in accordance with Part B of Special Condition 4.5 (Major connections output delivery incentive).
Major Connections Customer Satisfaction Survey	means the survey used to measure major connections Customers' satisfaction with the service provided by the licensee.
Major Connections Governance Document	means the document of that name issued by the Authority in accordance with Part C of Special Condition 4.5 (Major connections output delivery incentive).
Margin	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Materiality Threshold	means the value specified for the licensee, in £million: ENWL 3.95 NPgN 2.73 NPgY 3.61 WMID 4.20 EMID 4.23 SWALES 2.12 SWEST 3.06 LPN 3.71 SPN 3.61

	<p>EPN 5.56</p> <p>SPD 3.92</p> <p>SPMW 4.09</p> <p>SSEH 2.16</p> <p>SSES 5.56</p>
Mature Innovation	<p>in relation to the Digitalisation Re-opener means a product or service that has:</p> <p>(a) progressed through network innovation spending, such as the SIF, NIC, or NIA, to the point where it is ready to be considered as part of business-as-usual operations;</p> <p>(b) is the result of industry-wide activities relating to the modernisation of regulatory reporting; or</p> <p>(c) is the result of industry-wide activities relating to the implementation of the Technology Business Management taxonomy.</p>
Mechanistic Price Control Deliverable	<p>means a Price Control Deliverable where the relevant licence condition establishes the adjustment that will be made to allowances in a mechanistic manner, where the output has not been delivered as specified in the licence.</p>
Medically Dependent Customers	<p>means Domestic Customers who are dependent on electricity supply for critical medical support, and for whom a loss of electricity supply may result in loss of life or serious harm to that Domestic Customer.</p>
Metered	<p>means, in relation to any quantity of electricity distributed, measured by an Electricity Meter installed for the purpose.</p>
Metering Point Administration Service	<p>means the service of that name that the licensee must operate and maintain in accordance with the requirements of standard condition 18 (Provision of and charges for Metering Point Administration Services).</p>
Metering Service	<p>has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).</p>
Modern Equivalent Asset Purchase Price	<p>in relation to any type of Electricity Meter, means the purchase price of a new Electricity Meter of the same functionality as that type.</p>
Moorside Nuclear Site	<p>means the site directly adjacent to the north side of the decommissioned Sellafield nuclear power station, in the West Coast of Cumbria, which has been identified by United Kingdom government as a potential site for new nuclear generation.</p>
Moorside Pre-Construction Funding	<p>means the funding required to enable the development of the project to connect new nuclear generation, including associated infrastructure, at the Moorside Nuclear Site, to the point that consents are obtained, and the project is ready to begin construction.</p>

MPAS Charging Statement	means a statement prepared by the licensee in accordance with paragraph 18.4 of standard condition 18 (Provision of and charges for Metering Point Administration Services).
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N

NARM Asset	means an asset specified within the NARM Methodology where its associated Long-term Monetised Risk can be estimated by applying the NARM Methodology.
NARM Asset Intervention	means an intervention, of a type that is classified as an Asset Replacement or Refurbishment (NARM) activity in the RIGs, undertaken on a NARM Asset.
NARM Asset Register Category	means a category of assets with similar functions and design as specified in the NARM Methodology.
NARM Justification Report	means a report required by paragraph 3.1.20 of Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure (NARM <sub>t</sub> )).
NARM Methodology	means a methodology comprised of the Common Network Asset Indices Methodology and the Network Asset Indices Methodology.
NARM Objectives	means the objectives set out in Part B of Special Condition 9.2 (Network Asset Risk Metric methodology).
NARM Performance Report	means a report required by Part E of Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure (NARM <sub>t</sub> )).
National Electricity Transmission System	means the system consisting (wholly or mainly) of high voltage electric lines owned or operated by transmission licensees within Great Britain, in the territorial sea adjacent to Great Britain and in any Renewable Energy Zone and used for the transmission of electricity from one generating station to a sub-station or to another generating station or between sub-stations or to or from any interconnector and includes any electrical plant or meters owned or operated by any transmission licensee within Great Britain, in the territorial sea adjacent to Great Britain and in any Renewable Energy Zone in connection with the transmission of electricity.
National Parks	means the areas that are designated as protected areas as defined in the National Parks and Access to the Countryside Act 1949.
National Scenic Areas	means the areas that are defined in the Town and Country Planning (Scotland) Act 1997 as being of outstanding scenic value in a national context.

Net Zero Carbon Targets	means the targets set out in: (a) section 1 of the Climate Change Act 2008; (b) section A1 of the Climate Change (Scotland) Act 2009; and (c) section 29 of the Environment (Wales) Act 2016.
Net Zero Development	means a change in circumstances related to the achievement of the Net Zero Carbon Targets that is: (a) a change in national government policy (including policies of the devolved national parliaments); (b) a change in local government policy; (c) the successful trial of new technologies or other technological advances; (d) a change in the pace or nature of the uptake of low carbon technologies; or (e) new investment arising from the agreement of a Local Area Energy Plan or an equivalent arrangement.
Net Zero Re-opener	means the Re-opener established by Part C of Special Condition 3.6 (Net Zero Re-opener and Price Control Deliverable).
Network Asset	means the assets that collectively form the Distribution System to which this licence relates, and includes the principal components of those assets.
Network Asset Indices	means the indices representing an asset's health, criticality and Long-term Monetised Risk, which are: (a) the "Health Index", which relates to the current condition of the licensee's NARM Assets, and the predicted rate of deterioration in the condition of those assets, so as to enable their present and future condition and the probability of their failure to be assessed; (b) the "Criticality Index", which reflects the safety impact, environmental impact, network (or system) reliability impact, financial implications, and other consequences that the licensee may reasonably deem to be relevant to its NARM Assets; and (c) the "Risk Index", which provides the Network Asset Risk Metric and is a measure of Long-term Monetised Risk, derived from a combination of the Health Index and Criticality Index.
Network Asset Indices Methodology	means the component of the NARM Methodology established pursuant to paragraph 9.2.3(b), that is the licensee's own methodology for implementation of the Common Network Asset Indices Methodology using the licensee's own asset information.



Network Asset Risk Metric	means the Long-term Monetised Risk associated with a NARM Asset or the Long-term Monetised Risk Benefit associated with a NARM Asset Intervention.
Network Asset Risk Workbook	means the workbook containing the licensee's Baseline Network Risk Output issued by the Authority in accordance with Part C of Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure (NARM <sub>t</sub> )).
Network Licensee	means the holder of a licence granted under section 7 of the Gas Act 1986 or section 6(1)(b) or (c) of the Act.
Network Risk Output	means the Long-term Monetised Risk Benefit delivered, or expected to be delivered, by NARM Asset Interventions measured from the end of the Price Control Period for a period defined in the Common Network Asset Indices Methodology.
New Control Room	means the preferred option contained in the RIIO ED2 SSEN Engineering Justification Papers (a) 416_SHEPD_DSO_CTRL_ROOM_CLEANOFGEM.pdf; and (b) 415_SEPD_DSO_CTRL_ROOM_CLEANOFGEM.pdf.
New Depot	means the preferred option contained in the following RIIO ED2 NGED (WPD at time of submission) Engineering Justification Papers: (a) EJP004 Exeter Depot Refurbishment.pdf; (b) EJP005 Torquay Depot Refurbishment.pdf; and (c) EJP006 Plymouth Depot Refurbishment.pdf.
New Transmission Capacity Charges	means those elements of Transmission Connection Point Charges that are attributable (in whole or in part) to connection assets first becoming energised on or after 1 April 2023 pursuant to a requirement of the licensee for the provision of new or reinforced connection points between the GB Transmission System and the licensee's Distribution System.
NIA	means the network innovation allowance provided by Special Condition 5.2 (RIIO-2 network innovation allowance).
NIC	means the arrangements known as the network innovation competition established by Charge Restricted Condition 5A (The Network Innovation Competition) of this licence as in force on 31 March 2023.
NIC Funding	means the amount transferred to the licensee to fund the implementation of a NIC Project.
NIC Funding Mechanism	means the arrangements, pursuant to Special Condition 7.9 (RIIO-ED1 network innovation competition), for the recovery by the GB System Operator through its Transmission Network Use of System Charges of the amount of total authorised NIC Funding in a Regulatory Year and the apportionment of that



	amount amongst the GB System Operator, the licensee, and other Electricity Distributors and Transmission Licensees.
NIC Project	means a project undertaken by a licensee that appears to the Authority to satisfy those requirements of the NIC Governance Document as are necessary for the project to be funded under the NIC Funding Mechanism.
Non-intervention Risk Changes	means factors that result in changes to Long-term Monetised Risk that are unrelated to the licensee's asset interventions, but may impact the licensee's Outturn Network Risk Output.
Non-NARM Asset Interventions	means an intervention undertaken on a NARM Asset that is not classified as a NARM Asset Intervention, or an intervention on an asset that is not a NARM Asset.
Not Delivered	means where the licensee has not delivered the output as set out in the relevant special condition in full or in part by the relevant delivery date and does not intend to deliver the output in full or in part at a later date.

## Q

Off-Gas Grid Customers	means Customers with a single-phase connection to the Distribution System who are not connected to the Gas Distribution System.
Operational Performance	means a measure of returns which includes totex and output delivery incentive performance but excludes performance on debt, tax, and the Business Plan incentive. It also excludes the baseline allowed return on equity.
OT	means a licensee's operational technology network and information systems that interface with physical assets and processes of operations.
Other Exceptional Event	means a non-weather event that: (a) was a consequence of a cause external to the licensee including an Incident on a Transmission System or other connected network owned/operated by a third party, or from contact with a foreign object under the control or influence of a third party, terrorism or vandalism; and (b) contributes more than the threshold amount specified for the licensee in Appendix 11 to Special Condition 4.4 (Interruptions incentive scheme output delivery incentive) to CIIS or CMLIS in a three month period.
Out of Area Charges	means the Use of System Charges levied by the licensee in respect of its Distribution Business activities outside its Distribution Services Area.

Outturn Network Risk Output	means the Long-term Monetised Risk Benefit delivered during the Price Control Period through the licensee's NARM Asset Interventions.
Outturn Unit Cost of Risk	as derived in accordance with paragraph 3.1.39 in Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure).
Overall Expenditure Condition	means the requirement that totex expenditure over the RII0-1 Price Control Period exceeds the value specified in Appendix 2 to Charge Restriction Condition 3N (Arrangements to exclude Green Recovery Scheme Project Costs from the Totex Incentive Mechanism).

P

Partial Shutdown	has the meaning given to that term in the Grid Code.
Partially Delivered	means where the licensee has delivered some, but not all of the output specified in the relevant special condition.
Partially Delivered With Alternative Specification	means where the licensee has delivered a different specification to that set out in the relevant special condition, while achieving only part of the Consumer Outcome that would have been achieved if the licensee had delivered the output as set out in the relevant special condition.
Partner Licensee	means a Network Licensee that has agreed to accept or transfer responsibility for a CAM Activity.
PCB	has meaning given to that term by Regulation 2(1) of either of the PCB Regulations.
PCB Interventions	means work undertaken by the licensee on pole-mounted Transformers, associated poles and pole-mounted switchgear in order to comply with the PCBs Regulations, and work that may involve the installation of a ground-mounted Transformer in circumstances where the forecast load growth exceeds the capacity that can be supplied by a pole-mounted Transformer.
PCB Regulations	In the case of England and Wales, the Environmental Protection (Disposal of Polychlorinated Biphenyls and other Dangerous Substances) (England and Wales) Regulations 2000, and any amendment to it.

	In the case of Scotland, the Environmental Protection (Disposal of Polychlorinated Biphenyls and other Dangerous Substances) (Scotland) Regulations 2000, and any amendment to it.
PCFM Variable Value	means the values in the table of that name in the ED2 Price Control Financial Handbook.
Pension Scheme Established Deficit	means the difference between assets and liabilities, determined at any point in time, attributable to pensionable service up to the end of the 31 March 2010 and relating to the Distribution Business under the Authority's Price Control Pension Principles. The term applies equally if there is a subsequent surplus.
Physical Security	means the measures designed to ensure the physical protection of property and assets at Critical National Infrastructure site.
Physical Security Re-opener	means the Re-opener established by Part B of Special Condition 3.2 (Uncertain Costs Re-openers).
Physical Security Scope of Work	means the scope of work the licensee has agreed to undertake in order to comply with government policy, guidance or requirements, relating to Physical Security.
Pre-fault Availability	has the meaning given to that term in the RIGs.
Prescribed Rates	means: (a) business rates in England and Wales; and (b) non-domestic rates in Scotland or any equivalent tax or duty replacing or supplementing those rates that is levied on the licensee in respect of its Distribution Business.
Price Control Deliverable	means the outputs, delivery dates and associated allowances specified in Special Conditions 3.3 (Evaluative Price Control Deliverables), the Cyber Resilience OT PCD Table, the Cyber Resilience IT PCD Table, Special Condition 3.6 (Net Zero Re-opener and Price Control Deliverable) and other bespoke special conditions setting out Mechanistic Price Control Deliverables.
Price Control Deliverable Reporting Requirements and Methodology Document	means the document of that name issued by the Authority in accordance with Part C of Special Condition 9.3 (Evaluative Price Control Deliverable Reporting Requirements).
Price Control Pension Principles	means the principles set out in the Authority's guidance note on price control pension principles issued as Appendix 3 to the decision letter, "Decision on the Authority's policy for funding Pension Scheme Established Deficits" dated 7 April 2017.

Price Control Period	means the period of five Regulatory Years commencing on 1 April 2023.
Priority Services Register	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Priority Services Register Customers	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.
PSR Reach	means the total number of households registered on the licensee's Priority Services Register out of the total number of households in the licensee's Distribution Services Area that are eligible to be so registered in accordance with the criteria set out in the RII0-ED2 Consumer Vulnerability Guidance Document.

## Q

## R

Rail Electrification Costs	means costs incurred or expected to be incurred, other than those recoverable from a third party, associated with the diversion of electric lines or electrical plant to facilitate a Rail Electrification Project.
Rail Electrification Costs Re-opener	means the Re-opener established by Part C of Special Condition 3.2 (Uncertain Costs Re-openers).
Rail Electrification Project	means a project for the electrification of a rail route approved by the Secretary of State.
RAV	means regulatory asset value.
Rebased Baseline Network Risk Output	means a Baseline Network Risk Output that has been revised to give effect to a modified Common Network Asset Indices Methodology as approved under Part C of Special Condition 9.2 (Network Asset Risk Metric methodology) pending the Authority's approval. If approved by the Authority, the Rebased Baseline Network Risk Output will supersede the Baseline Network Risk Output for the purposes of Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure (NARM <sub>t</sub> )).
Rebasing	means the process of modifying the Baseline Network Risk Output as set out in Part D of Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure (NARM <sub>t</sub> )).
Recovered Revenue	has the meaning given to that term in Part B of Special Condition 2.1 (Revenue restriction).

Regulatory Financial Performance Reporting	means the reporting template and associated guidance of the same name that the licensee is required to submit to the Authority in accordance with the RIGs.
Regulatory Year	means a period of twelve months commencing on 1 April.
Related Undertaking	in relation to a person means an undertaking in which the person has a participating interest within the meaning of section 421A of the Financial Services and Markets Act 2000.
Relevant Assets	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Relevant Distributor	has the meaning given to that term in section 184 of the Energy Act 2004.
Relevant Market Segments	means the nine segments listed in Part D of Special Condition 9.10 (Margins on licensee's Connection Activities).
Relevant Network Licensees	has the meaning given to that term in Standard Condition 48A (Electricity Network Innovation Strategy).
Relevant Special Conditions	means Special Condition 2.1 (Revenue restriction), together with such of the Special Conditions of this licence as are ancillary to the operation of the provisions of Special Condition 2.1 to which a Disapplication Request under Special Condition 9.6 (Disapplication of Relevant Special Conditions) relates.
Relevant Valuation Agency	means: (a) the Valuation Office Agency in England and Wales; and (b) the Scottish Assessors Association in Scotland.
Remote Transmission Assets	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Renewable Energy Zone	means an area designated by Order in Council under section 84(4) of the Energy Act 2004.
Re-opener	means a mechanism created by Special Condition 3.2 (Uncertain Costs Re-openers), Part C of Special Condition 3.6 (Net Zero Re-opener and Price Control Deliverable) or Special Condition 3.7 (Coordinated Adjustment Mechanism Re-opener).
Re-opener Guidance and Application Requirements Document	means the document of that name issued by the Authority in accordance with Part A of Special Condition 9.4 (Re-opener Guidance and Application Requirements Document).
Repeat Complaints	means any Complaint in relation to which the complainant makes contact with the licensee to express dissatisfaction in respect of the same or substantially the same matter that was the subject of a previously Resolved Complaint within the previous 12 month period.

Resolved Complaint	<p>means a Complaint in respect of which there remains no outstanding action to be taken by the licensee because:</p> <p>(a) the Complaint been resolved to the satisfaction of the relevant Customer;</p> <p>(b) although the Customer is not openly satisfied with the outcome of the Complaint, the Customer has agreed that the licensee has taken all action reasonably expected; or</p> <p>(c) the Customer has not made further contact with the licensee within 28 calendar days of despatch by the licensee of its substantive response to the Complaint.</p> <p>For the avoidance of doubt, in the case of (iii), the date at which the Complaint should be treated as resolved is the date at which the response was despatched.</p>
Restoration	<p>means that the supply to any premises that has been interrupted, has been restored such that the Customer is able to use the supply to the premises in the same manner as the supply could have been used before the interruption occurred.</p>
Restoration Costs	<p>means any costs incurred by the licensee in respect of a 1-in-20 Severe Weather Event in order to restore supplies to any affected Customers. This includes:</p> <p>(a) staff-related and contractor-related costs in relation to the activities set out below, that are over and above those that the licensee incurs in the normal course of its business;</p> <p>(b) the carrying out of any necessary switching activity;</p> <p>(c) the provision of temporary supplies via, but not limited to, mobile generation and facilities for the storage of electricity that are not owned by the licensee;</p> <p>(d) undertaking work on faulted assets to return them to their Pre-fault Availability. This includes the repair or replacement of additional components or full replacement of the asset concerned even if repair of that asset would be possible; and</p> <p>(e) undertaking work on any associated asset that is required due to the circumstances of the faulted asset, including factors such as the configuration, location or access constraints associated with the faulted asset.</p>
Restoration Times	<p>means the time it would take to energise a part or parts of the National Electricity Transmission System following a Total Shutdown or Partial Shutdown.</p>
Retail Prices Index	<p>means the monthly values of the “RPI All Items Index”, series ID “CHAW”, published by the Office for National Statistics (or any other public body acquiring its functions).</p>

Returned LCN Fund Royalties	means the revenues earned from intellectual property generated through Second Tier LCN Fund projects (whether by the licensee or another Distribution Services Provider), less LCNF Directly Attributable Costs, and that are payable to Customers under the LCNF Second Tier and Discretionary Funding Mechanism, and is calculated in accordance with the provisions of the LCN Fund Governance Document.
Returned Project Revenues	means: (a) revenues received by the licensee from the GB System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where that Eligible NIC Project has been carried out in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction; and (b) revenues earned from Eligible NIC Projects by the licensee other than Returned Royalty Income, that the Authority determines are payable to Customers.
Returned Royalty Income	means revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any Transmission Licensees or any other holder of an Electricity Distribution Licence), less Directly Attributable Costs, that is payable to Customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
RIGs	means the document published by the Authority in accordance with Standard Condition 46 (Regulatory Instructions and Guidance).
RIIO-1 Allowed Pass-through	means any of the costs permitted to be passed through to users of the licensee's Distribution System under CRC 2B (Calculation of Allowed Pass-Through Items) of this licence as in force on 31 March 2023.
RIIO-1 Electricity Network Innovation Allowance	means the document of that name issued by the Authority in accordance with Part D of Charge Restriction Condition 2H (The Network Innovation Allowance) of this licence as in force



Governance Document	on 31 March 2023 and maintained under Part C of Special Condition 5.3 (Carry-over network innovation allowance).
RIIO-1 Network Innovation Allowance	means the network innovation allowance established by Charge Restriction Condition 2H (The Network Innovation Allowance) of this licence as in force on 31 March 2023.
RIIO-1 Price Control Period	means the price control that applied to the licensee for the period of eight years beginning on 1 April 2015.
RIIO-2 NIA Governance Document	means the document of that name issued by the Authority in accordance with Part B of Special Condition 5.2 (RIIO-2 network innovation allowance).
RIIO-2 NIA Projects	means those projects undertaken by the licensee that appear to the Authority to satisfy those requirements of the RIIO-2 NIA Governance Document as are necessary to enable the projects to be funded under the provisions of Special Condition 5.2 (RIIO-2 network innovation allowance).
RIIO-ED2 Consumer Vulnerability Guidance Document	means the document of that name issued by the Authority in accordance with Part H of Special Condition 4.6 (Consumer vulnerability output delivery incentive).
RIIO-ED2 Final Determinations	means the documents published by the Authority on 30 November 2022 setting out the Authority's decisions in relation to the Price Control Period.
RPEs	means Real Price Effects (RPEs) which are allowances for differences between price control inflation and specific input prices based on a range of indices.

## S

Second Tier LCN Fund	means the fund for high-value Innovation projects which was in operation during distribution price control review 5 Between 1 April 2010 and 31 March 2015 to incentivise the development of low carbon networks.
Secondary Network Visibility Outturn Performance Metric	has the meaning given to that term in the Distribution System Operation Incentive Governance Document.
Severe Weather Event	means a weather event that causes a number of Incidents at Distribution Higher Voltage in any 24-hour period, which is equal to or greater than the number specified in Appendix 10 to Special Condition 4.4 (Interruptions incentive scheme). The duration of the event is determined in accordance with the following: (a) the event starts at the beginning of a 24-hour period when the number of Incidents at Distribution Higher Voltage caused by the event in that period is equal to or greater than the number specified in Appendix 10; and (b) the event ends at a time determined by the Authority having regard to:



	<p>(i) such time as the licensee may have declared was the end of the Severe Weather Event in its statement of facts submitted under paragraph 4.4.14(b) of Special Condition 4.4;</p> <p>(ii) the time of Restoration of the last Customer off supply due to a Low Voltage Incident linked to the underlying cause of the severe weather (provided that all Customers off supply due to Incidents at Distribution Higher Voltage linked to the underlying cause of the event have been restored); and</p> <p>(iii) the end of a 48-hour period when the number of Customers off supply due to Incidents at Distribution Higher Voltage linked to the underlying cause of the Severe Weather Event has fallen to zero.</p>
Shetland Enduring Solution	means the various concurrent and related projects and ongoing arrangements to provide long-term security of supply to Shetland following completion of the project to construct and energise the Shetland HVDC Link.
Shetland Enduring Solution Re-opener	means the Re-opener established by Part P of Special Condition 3.2 (Uncertain Costs Re-openers).
Shetland Extension Fixed Energy Costs	<p>means the costs of:</p> <p>(a) third party contracts for Power Purchase Agreements with Sullom Voe Terminal and contingency arrangements if applicable;</p> <p>(b) capital and operating fixed costs for Lerwick power station; and</p> <p>(c) operating costs for the Shetland ANM System.</p>
Shetland Extension Fixed Energy Costs Re-opener	means the Re-opener established by Part Q of Special Condition 3.2 (Uncertain Costs Re-openers).
Shetland Extension Variable Energy Costs	<p>means costs the costs of:</p> <p>(a) fuel purchased for use by Lerwick power station, including any fuel costs for any use of temporary generation in the event of inability by Lerwick power station or Sullom Voe Terminal to meet the full demand on Shetland;</p> <p>(b) environmental permits in respect of generation on Shetland; and</p> <p>(c) less the costs of income from unit purchased by suppliers in respect of generation on Shetland.</p>
Shetland HVDC Link	has the meaning given to that term in Special Condition 1.1 of the Transmission Licence held by Scottish Hydro Electric Transmission plc.

Shetland Link Contribution	means a payment to be made by the licensee to Scottish Hydro Electric Transmission Limited for use of the Shetland Transmission Link.
Shetland Transmission Link	means the transmission link which connects the National Electricity Transmission System and the Shetland distribution system, owned and operated by Scottish Hydro Electric Transmission Limited.
SIF	means the strategic innovation fund established by Special Condition 9.9 (The strategic innovation fund).
SIF Directly Attributable Costs	means costs relating to the maintenance and management of intellectual property generated through Eligible SIF Projects undertaken by the licensee that have not been otherwise remunerated through Use of System Charges, Directly Remunerated Services or the SIF Funding Mechanism.
SIF Disallowed Expenditure	means any revenue received by the licensee from the GB System Operator under the SIF Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant SIF Project Direction.
SIF Funding	means the proportion (if any) of the total amount of funding raised by the GB System Operator in accordance with the SIF Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible SIF Projects, as adjusted by the amount of any SIF Funding Return.
SIF Funding Mechanism	means the mechanism by which the licensee receives the amount of authorised SIF Funding in any Regulatory Year from the GB System Operator, less any SIF Funding Return.
SIF Funding Return	means the total amount, in respect of the licensee, of any amounts arising under the SIF Funding Return Mechanism.

SIF Funding Return Mechanism	means the mechanism which provides for payments to be made by the licensee to the GB System Operator, as may be relevant in each of the following cases to the extent (if any) as may be relevant, of: (a) SIF Halted Project Revenues; (b) SIF Disallowed Expenditure; (c) SIF Returned Royalty Income; and (d) SIF Returned Project Revenues.
SIF Governance Document	means the document of that name issued by the Authority in accordance with Part C of Special Condition 9.9 (The strategic innovation fund).
SIF Halted Project Revenues	means any revenues received by the licensee from the GB System Operator under the SIF Funding Mechanism in respect of an Eligible SIF Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant SIF Project Direction.
SIF Project Direction	means a direction issued by the Authority pursuant to the SIF Governance Document setting out the terms to be followed in relation to an Eligible SIF Project as a condition of its funding under the SIF Funding Mechanism.
SIF Returned Project Revenues	means: (a) revenues received by the licensee from the GB System Operator under the SIF Funding Mechanism in respect of an Eligible SIF Project that the Authority determines have not been spent, and where that project has been carried out in accordance with the applicable provisions of the SIF Governance Document and/or the terms of the relevant SIF Project Direction; or (b) revenues earned from Eligible SIF Projects by the licensee other than SIF Returned Royalty Income, that the Authority determines are payable to Customers.
SIF Returned Royalty Income	means revenue earned from intellectual property generated through Eligible SIF Projects undertaken by the licensee, less SIF Directly Attributable Costs, and that is payable to Customers under the SIF Funding Mechanism, as calculated in accordance with the provisions of the SIF Governance Document.
Single-Rate	means a payment for the electricity consumed remains the same, regardless of time or day of the week.
Single-Phase Single-Rate Credit Electricity Meter	means an induction type (or electronic) alternating current single-phase two-wire single-rate credit Electricity Meter.

Smart Energy Code	has the meaning given to that term in Condition 1 of the Smart Meter Communication Licence.
Smart Meter Communication Licence	means a licence granted under section 6(1A) of the Act and or section 7AB(2) of the Gas Act 1986.
Smart Meter Communication Licensee	means the holder of a Smart Meter Communication Licence.
Smart Meter Communication Licensee Costs	means charges payable by the licensee (by virtue of the requirement for it to be a party to the Smart Energy Code) to the holder of the Smart Meter Communication Licence in accordance with section J of the Smart Energy Code, excluding any charges in respect of Elective Communication Services.
Smart Meter Information Technology Costs	has the meaning given to that term in the RIGs.
Smart Meters	has the meaning given to that term in Condition 1 of the Smart Meter Communication Licence.
Smart Optimisation Output	means the Collaboration Plan and System Visualisation Interface.
Smart Optimisation Output Guidance	means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.13 (Smart Optimisation Output).
Smart Street	means the voltage optimisation innovation project developed by Electricity North West Limited that aims to optimise and lower voltage within statutory limits with the goal of achieving energy and demand reductions for customers.
Smartcard Prepayment Electricity Meter	means an Electricity Meter that requires the use of a smartcard to enable information to be transferred to that meter from a point of sale for electricity credit, and vice versa.
Specific Customer Funded Reinforcement	means the element of a connection project that is subject to the apportionment rules under the Common Connection Charging Methodology and charged to the person requesting the connection within the Price Control Period.
Specific Customer Funded Reinforcement Percentage Band	means the interval between the upper and lower threshold percentages set out against the licensee's name in Appendix 1 to Special Condition 3.11 (Net to gross adjustment for Load Related Expenditure) where the relevant percentages represent the licensee's Specific Customer Funded Reinforcement expressed as a percentage of ex ante RIIO-ED2 Gross Load Related Expenditure.
Specified Amount	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Specified Area	means the area described as such in the Assistance Order.

Specified Lines	means telephone lines having any of the following numbers: (a) the safety and security of supplies enquiry service telephone number operated by the licensee or by its appointed agents (or contractors); (b) the power outage telephone number (and its equivalents) (if different to the above) operated by the licensee or by its appointed agents (or contractors); and (c) telephone numbers operated by contractors or agents of the licensee who provide an overflow or crisis management facility during peak periods.
Specified Street Works Costs	means costs directly incurred, or expected to be incurred, by the licensee as a result of complying with obligations or requirements arising under any orders or regulations made pursuant to Part 3 of the Traffic Management Act 2004 (or, in Scotland, the Transport (Scotland) Act 2019) or under any other streetworks legislation applicable to the licensee including: (a) one-off set-up costs; (b) permit fee costs; (c) administrative costs arising from the introduction of permit or lane rental schemes; (d) costs arising from the introduction of permit conditions; (e) costs arising from changes to working practices required by the introduction or alteration of any code of practice applicable to the licensee; (f) costs arising from lane rental charges levied on the licensee by highway or road authorities; (g) costs arising from changes to inspection fees payable by the licensee; (h) costs arising from changes to the requirements imposed on the licensee in respect of highway reinstatement; (i) costs arising from the introduction of new congestion charging schemes or changes to existing ones; and (j) costs arising from changes to the requirements imposed on the licensee in respect of the disposal of streetworks excavation waste material.
Specified Street Works Costs Re-opener	means the Re-opener established by Part F of Special Condition 3.2 (Uncertain Costs Re-openers).
Specified Supplier	means an Electricity Supplier who takes electricity from the GB Transmission System and supplies it to Customers in the Specified Area.
Storm Arwen Recommendations	means the recommendations made: (a) by the Authority, published in the document titled “Final report on the review into the networks’ response to Storm Arwen” published on 9 June 2022; and (b) by the Energy Emergencies Executive in the document

	titled “Energy Emergencies Executive Committee Storm Arwen Review” published on 9 June 2022.
Storm Arwen Re-opener	means the Re-opener established by Part J of special condition 3.2 (Uncertain Cost Re-openers).
Strategic Investment	means investment which enables enhanced capacity on the Distribution System to be deployed in the short term in anticipation of expected longer term need. This may be needed to ensure no future net zero pathway is foreclosed or to ensure deliverability in the future, helping to keep longer term costs as low as possible for Customers.
Subsidiary	means a subsidiary within the meaning of section 1159 of the Companies Act 2006.
Successful Delivery Reward	has the meaning given to that term in the NIC Governance Document.
Supplier of Last Resort	means an Electricity Supplier that has been given a direction under standard condition 8 (Obligations under Last Resort Supply Direction) of the standard conditions of the Electricity Suppliers' licences to supply electricity to the Customers of another Electricity Supplier.
Supply Interruptions Element	means the element of the Customer Satisfaction Survey that measures Customer satisfaction in relation to unplanned supply interruptions work carried out by the licensee for which the questions are prescribed in the RIGs.
System Visualisation Interface	means a section of the licensee's website or open data portal that provides access to a package of forward-looking, open and accessible, digital network tools, in accordance with Part A of Special Condition 9.13 (Smart Optimisation Strategy).

## T

Tax Reconciliation	means the reconciliation between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability as reported to the Authority as part of the ED2 Price Control Financial Model.
Token Prepayment Electricity Meter	means an Electricity Meter that requires the use of a token to enable information to be transferred to that meter from a point of sale for electricity credit, and vice versa.
Total NIA Expenditure	means expenditure that satisfies the requirements of the RII0-2 NIA Governance Document and is partly recovered by the licensee under Special Condition 5.2 (RIIO-2 network innovation allowance).
Total Shutdown	has the meaning given to that term in the Grid Code.

Totex Allowance	means the sum of values under the heading “Totex allowance” in the DNO input sheets of the ED2 Price Control Financial Model.
Totex Incentive Mechanism	means the mechanism within the ED2 Price Control Financial Model which provides for the licensee to bear a specified share of any overspend, or retain a specified share of any underspend, represented in either case by a difference between: (a) the licensee’s Totex Allowance; and (b) the licensee’s Actual Totex.
Totex Incentive Strength Rate	has the value specified for the licensee below: ENWL: 49.4% NPgN: 49.9% NPgY: 49.9% WMID: 50.0% EMID: 50.0% SWALES: 50.0% SWEST: 50.0% LPN: 50.0% SPN: 50.0% EPN: 50.0% SPD: 50.0% SPMW: 50.0% SSEH: 49.3% SSES: 49.3%
Transformer	means a device that is used to transform voltage from one level to another, usually from a higher voltage to a lower voltage.
Transmission Connection Point Charges	means the sum of: (a) charges payable by the licensee that are levied by a Transmission Licensee as Connection Charges by direct reference to the number or nature of connections between the licensee’s Distribution System and the GB Transmission System, and includes any associated Transmission Network Use of System Charges and any Remote Transmission Asset rentals payable by the licensee; and (b) charges payable by the licensee to another Electricity Distributor in respect of units transported from that Electricity Distributor’s Distribution System, less any charges under (a) or (b) that meet the definition of New Transmission Capacity Charges.
Transmission Licence	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Transmission Licensee	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).

Transmission Network Use of System Charges	has the meaning given to that term in Connection and Use of System Code (CUSC).
Transmission System	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).

## U

Uncertain Costs	means the PCFM Variable Values whose values may be adjusted under Special Condition 3.2 (Uncertain Costs Re-openers).
Unmetered	means, in relation to any quantity of electricity distributed, the estimated quantity of electricity entering or leaving the licensee's Distribution System in any case where that quantity is not measured by Metering Equipment.
Unregulated Margin	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Unresolved Complaints	means any Complaints that are not Resolved Complaints.
Unsuccessful Calls	means the calls that are terminated by the licensee or the Customer, once the Customer has called the Specified Lines, comprising of: (a) calls not reaching the Specified Lines where these are inside the licensees' control; (b) calls terminated by the licensee whilst the Customer is engaging with an interactive voice recognition or similar system operated by the licensee; (c) calls that are not allowed into or are removed from any call queuing system the licensee may operate; and (d) calls abandoned by the Customer in the queue.
Use It Or Lose It Allowance	means the PCFM Variable Values established by Special Condition 3.4 (Use It Or Lose It Allowances).
Use of System	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Use of System Charges	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Use of System Charging Statement	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).

## V

Valid Bad Debt Claim	has the meaning given to that term in Standard Condition 38C (Treatment of Valid Bad Debt Claims).
Valid Claim	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).



Visual Amenity Project	means any scheme for placing overhead distribution assets underground that is undertaken by the licensee, and that has been informed by stakeholder engagement, with a view to mitigating the impact of assets forming part of the licensee's Distribution System on 1 April 2023 on the visual amenity of areas that have a statutory designation as a 'national park' or 'area of outstanding natural beauty' under the National Parks and Access to the Countryside Act 1949 and areas that have a statutory designation as a 'national scenic area' under the Town and Country Planning (Scotland) Act 1997
Vulnerable Situation	has the meaning given to that term in Standard Condition 10AA (Treating Domestic Customers fairly).

## W

Wayleaves and Diversions Costs	means costs that could be reported in tables CV5 and C10 of the "Costs and Volumes Reporting Pack" in Annex B of the RIGs.
Wayleaves and Diversions Re-opener	means the Re-opener established by Part M of Special Condition 3.2 (Uncertain Costs Re-openers).
Website	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
West Coast of Cumbria Re-opener	means the Re-opener established by Part N of Special Condition 3.2 (Uncertain Costs Re-openers).
Working Day	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
Worst Served Customer	means a Customer of the licensee who experiences 12 or more unplanned Incidents of a duration of three minutes or longer at Distribution Higher Voltage over a three Regulatory Year period with a minimum of two such Incidents per Regulatory Year.
Writing	has the meaning given to that term in Standard Condition 1 (Definitions for the standard conditions).
WSC Governance Document	means the document of that name issued by the Authority in accordance with Part B of Special Condition 3.4 (Use It Or Lose It Allowances).
WSC Project	means a project that is expected to reduce the number of Incidents at Distribution Higher Voltage experienced by Worst Served Customers. This covers both capital investments and operational changes

X

Y

Z

## **Part B: References to the Electricity Distributors**

1.2.6 The following acronyms are used within the special conditions to refer to the following Electricity Distributors:

ENWL	refers to Electricity North West Ltd (registered number 2366949).
NPgN	refers to Northern Powergrid (Northeast) plc (registered number 2906593).
NPgY	refers to Northern Powergrid (Yorkshire) plc (registered number 4112320).
WMID	refers to National Grid Electricity Distribution (West Midlands) plc (registered number 3600574).
EMID	refers to National Grid Electricity Distribution (East Midlands) plc (registered number 2366923).
SWALES	refers to National Grid Electricity Distribution (South Wales) plc (registered number 2366985).
SWEST	refers to National Grid Electricity Distribution (South West) plc (registered number 2366894).
LPN	refers to London Power Networks plc (registered number 3929195).
SPN	refers to South Eastern Power Networks plc (registered number 3043097).
EPN	refers to Eastern Power Networks plc (registered number 2366906).
SPD	refers to SP Distribution plc (registered number SC189125).
SPMW	refers to SP Manweb plc (registered number 2366937).
SSEH	refers to Scottish Hydro Electric Power Distribution plc (registered number SC213460).
SSES	refers to Southern Electric Power Distribution plc (registered number 4094290).

## **Special Condition 1.3 Common procedure**

### **Introduction**

1.3.1 The purpose of this condition is to provide a common procedure for the following matters:

- (a) issuing and amending of Associated Documents;
- (b) the direction of additional Re-opener application windows; and

(c) derogations from submission deadlines for certain documents.

#### **Part A: Associated Documents**

- 1.3.2 The Authority may issue and amend Associated Documents by direction.
- 1.3.3 Before issuing or amending Associated Documents, the Authority must publish on the Authority's Website:
- (a) the text of the proposed or amended Associated Document;
  - (b) the date on which the Authority intends the Associated Document or amended Associated Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Associated Document, which must not be less than 28 days.
- 1.3.4 After issuing or amending an Associated Document, the Authority must:
- (a) publish the Associated Document on the Authority's Website; and
  - (b) ensure that any amendments to Associated Documents are promptly incorporated into a consolidated version maintained on the Authority's Website.
- 1.3.5 The steps required to issue or amend an Associated Document may be satisfied by action taken before, as well as by action taken after, this condition or the condition establishing the relevant Associated Document comes into effect.

#### **Part B: Direction of additional Re-opener application windows by the Authority**

- 1.3.6 Where the special conditions provide for the licensee to apply under a Re-opener during specified periods and for the Authority to direct additional periods for such applications, the Authority must consult with the licensee before making such a direction.

#### **Part C: Derogations from submission deadlines**

- 1.3.7 The licensee may apply to the Authority for a derogation relieving the licensee of its obligation to submit the following documents under the following conditions to such extent, for such period of time, and subject to such conditions as may be specified by the Authority by direction after consulting the licensee:
- (a) the Major Connections Annual Report under Part B of Special Condition 4.5 (Major connections output delivery incentive);
  - (b) the Annual Vulnerability Report under Part G of Special Condition 4.6 (Consumer vulnerability output delivery incentive);
  - (c) the Annual Environmental Report under Part A of Special Condition 9.1 (the Annual Environmental Report);
  - (d) the Digitalisation Strategy under Part A of Special Condition 9.5 (Digitalisation); and

(e) the Digitalisation Action Plan under Part B of Special Condition 9.5.

## Chapter 2: Revenue restriction

### Special Condition 2.1 Revenue restriction

#### Introduction

- 2.1.1 The purpose of this condition is to place obligations on the licensee in relation to the setting of Use of System Charges.
- 2.1.2 This condition also establishes the definition of Recovered Revenue ( $RR_t$ ) and provides the calculation for Allowed Revenue ( $AR_t$ ).

#### Part A: Licensee's obligation when setting Use of System Charges

- 2.1.3 The licensee must, when setting Use of System Charges, use its best endeavours to ensure that Recovered Revenue equals Allowed Revenue.
- 2.1.4 The licensee must, when calculating the value of Allowed Revenue, use the latest versions of the ED2 Price Control Financial Model and the ED2 Price Control Financial Handbook published by the Authority under Special Condition 8.1 (Governance of the ED2 Price Control Financial Instruments).
- 2.1.5 Accompanying its Use of System Charging Statement prepared in accordance with Standard Condition 14 (Charges for Use of System and connection), the licensee must publish on its Website, a copy of the ED2 Price Control Financial Model containing the value of Allowed Revenue it used when setting Use of System Charges for the Regulatory Year to which the relevant Use of System Charging Statement relates.
- 2.1.6 The licensee must ensure each copy of the ED2 Price Control Financial Model remains on its Website for at least five years from the start date of the period to which the ED2 Price Control Financial Model relates.

#### Part B: Recovered Revenue term ( $RR_t$ )

- 2.1.7 Recovered Revenue ( $RR_t$ ) means the revenue received by the licensee from Use of System Charges, made for the provision of Distribution Services in respect of a Regulatory Year, net of Bad Debt as derived in accordance with Part H.

#### Part C: Formula for calculating the Allowed Revenue term ( $AR_t$ )

- 2.1.8 The value of  $AR_t$  is derived in accordance with the following formula:

$$AR_t = R_t \frac{PI_t}{PI_{2020/21}} + K_t + FP_t + LAR_t$$

where:

- $R_t$  means Calculated Revenue and is derived in accordance with Part D;
- $PI_t$  means the price index term and is derived in accordance with Part E;

PI <sub>2020/21</sub>	means the price index term for the Regulatory Year commencing on 1 April 2020 and is derived in accordance with Part E;
K <sub>t</sub>	means the K correction term and is derived in accordance with Part F;
FP <sub>t</sub>	means the forecasting penalty and is derived in accordance with Part G; and
LAR <sub>t</sub>	means the legacy adjustments term and is derived in accordance with Special Condition 7.1 (Legacy adjustments to revenue).

## **Part D: Formula for calculating the Calculated Revenue term (R<sub>t</sub>)**

2.1.9 The value of R<sub>t</sub> is derived in accordance with the following formula:

$$R_t = FM_t + DPN_t + RTN_t + PT_t + RTNA_t + EIC_t + BPI_t + ODI_t + ORA_t + DRS_t + TAX_t + TAXA_t$$

where:

FM <sub>t</sub>	means fast money and has the value set out in the "Revenue" sheet of the ED2 Price Control Financial Model;
DPN <sub>t</sub>	means RAV depreciation and has the value set out in the "Revenue" sheet of the ED2 Price Control Financial Model;
RTN <sub>t</sub>	means return and has the value set out in the "Revenue" sheet of the ED2 Price Control Financial Model;
PT <sub>t</sub>	means the pass-through items term and is derived in accordance with Special Condition 6.1 (Pass-through items).
RTNA <sub>t</sub>	means return adjustment and is derived in accordance with Special Condition 2.3 (Return Adjustment);
EIC <sub>t</sub>	means the allowance for equity issuance costs and has the value set out in the "Revenue" sheet of the ED2 Price Control Financial Model;
BPI <sub>t</sub>	means the business plan incentive term and has the value set out in the "Revenue" sheet of the ED2 Price Control Financial Model, unless the Authority directs otherwise in accordance with Special Condition 4.7 (Consumer value proposition);
ODI <sub>t</sub>	means the total output delivery incentive term and is derived in accordance with Special Condition 4.1 (Total output delivery incentive performance);
ORA <sub>t</sub>	means total other revenue allowances and is derived in accordance with Special Condition 5.1 (Total other revenue allowances);
DRS <sub>t</sub>	equals the DRS Net Revenue of DRS15 (Miscellaneous);
TAX <sub>t</sub>	means the tax allowance and has the value set out in the "Revenue" sheet of the ED2 Price Control Financial Model and is further described in Chapter 6 of the ED2 Price Control Financial Handbook; and

$TAXA_t$  means the tax allowance adjustment term and has the value zero, unless the Authority directs otherwise in accordance with Special Condition 2.2 (Tax allowance adjustment).

### Part E: Formula for calculating the price index term ( $PI_t$ )

2.1.10 The value of  $PI_t$  is the arithmetic average of each of the twelve monthly values of  $PI_m$  from 1 April to 31 March within Regulatory Year  $t$ , derived in accordance with the following formula:

$$PI_m = \begin{cases} RPI_m, & \text{if } m < \text{April 2023} \\ PI_{m-1} \times \left( 0.5 \frac{CPIH_m}{CPIH_{m-1}} + 0.5 \frac{RPI_m}{RPI_{m-1}} \right), & \text{if } m = \text{April 2023} \\ PI_{m-1} \times \frac{CPIH_m}{CPIH_{m-1}}, & \text{if } m > \text{April 2023} \end{cases}$$

where:

$m$  refers to a year and month;

$RPI_m$  means the Retail Prices Index for the year and month  $m$ ; and

$CPIH_m$  means the Consumer Prices Index Including Owner Occupiers' Housing Costs for the year and month  $m$ .

### Part F: Correction term ( $K_t$ )

2.1.11 For Regulatory Years commencing prior to 1 April 2023, the value of  $K_t$  is zero.

2.1.12 For Regulatory Years commencing on or after 1 April 2023, the value of  $K_t$  is derived in accordance with the following formula:

$$K_t = (AR_{t-1} - RR_{t-1}) \times (1 + TVM_{t-1})$$

where:

$AR_t$  means Allowed Revenue. For Regulatory Years commencing on or after 1 April 2023  $AR_t$  is derived in accordance with Part C. For the Regulatory Year commencing on 1 April 2022  $AR_t$  has the value of Allowed Distribution Network Revenue derived in accordance with Part B of Charge Restriction Condition 2A (Restriction of Allowed Distribution Network Revenue) of this licence as in force on 31 March 2023;

$RR_t$  means Recovered Revenue. For Regulatory Years commencing on or after 1 April 2023,  $RR_t$  is derived in accordance with Part B. For the Regulatory Year commencing on 1 April 2022,  $RR_t$  has the value of Regulated Distribution Network Revenue derived in accordance with Part E of Charge Restriction Condition 2A (Restriction of Allowed Distribution Network Revenue) of this licence as in force on 31 March 2023; and

$TVM_t$  means a time value of money adjustment and is derived in accordance with paragraph 2.1.13.



2.1.13 The value of  $TVM_t$  is derived in accordance with the following formula:

$$TVM_t = (1 + WACC_t) \times \frac{PI_{t+1}}{PI_t} - 1$$

where:

$WACC_t$  means vanilla weighted average cost of capital. For Regulatory Years commencing on or after 1 April 2023 it is derived in accordance with Chapter 4 of the ED2 Price Control Financial Handbook. For the Regulatory Year commencing on 1 April 2022 it has the value of “vanilla WACC” derived in accordance with Chapter 4 of the ED1 Price Control Financial Handbook; and

$PI_t$  means the price index term derived in accordance with Part C.

2.1.14 The value of  $K_t$  is in nominal prices.

### **Part G: Forecasting penalty ( $FP_t$ )**

2.1.15 For Regulatory Years commencing prior to 1 April 2026, the value of  $FP_t$  is zero.

2.1.16 For Regulatory Years commencing on or after 1 April 2026, the value of  $FP_t$  is derived in accordance with the following formula:

$$FP_t = BRFP_t + RRF P_t$$

where:

$BRFP_t$  means the base revenue forecasting penalty and is derived in accordance with paragraph 2.1.17; and

$RRFP_t$  means the Recovered Revenue forecasting penalty and is derived in accordance with paragraph 2.1.19.

2.1.17 The value of  $BRFP_t$  is derived in accordance with the following formula:

$$BRFP_t = (BR_{t-1} - BR_{t-1}^*) \times \frac{PI_{t-1}}{PI_{2020/21}} \cdot BRFPA_{t-1} \times \begin{cases} 1.15\% & \text{if } BR_{t-1}^*/BR_{t-1} \geq 1.06 \\ -1.15\% & \text{if } BR_{t-1}^*/BR_{t-1} \leq 0.94 \\ 0, & \text{otherwise} \end{cases}$$

where:

$BR_t$  means the sum of the terms  $FM_t$ ,  $DPN_t$ ,  $RTN_t$  and  $PT_t$  set out in paragraph 2.1.9;

$BR_t^*$  means the sum of the terms  $FM_t$ ,  $DPN_t$ ,  $RTN_t$ ,  $PT_t$  set out in paragraph 2.1.9, as at the time they were published for Regulatory Year  $t$  by the licensee in accordance with paragraph 2.1.5; and

$BRFPA_t$  means the penalty adjustment and has the value of 1, unless the Authority directs otherwise in accordance with paragraph 2.1.18.

2.1.18 The Authority may direct a value for  $BRFPA_t$  which is not less than zero and not more than 1, if it is satisfied that differences between the values of  $BR_t$  and  $BR_t^*$

were for reasons outside the reasonable control of the licensee, following discussion with the licensee.

2.1.19 The value of  $RRFP_t$  is derived in accordance with the following formula:

$$RRFP_t = (RR_{t-1} - AR_{t-1}^*) \times RRFPA_{t-1} \times \begin{cases} 1.15\% & \text{if } AR_{t-1}^*/RR_{t-1} \geq 1.06 \\ -1.15\% & \text{if } AR_{t-1}^*/RR_{t-1} \leq 0.94 \\ 0, & \text{otherwise} \end{cases}$$

where:

$RR_t$  means Recovered Revenue as set out in Part B;

$AR_t^*$  means the value of Allowed Revenue published by the licensee in accordance with paragraph 2.1.5; and

$RRFPA_t$  means the penalty adjustment and has the value of 1, unless the Authority directs otherwise in accordance with paragraph 2.1.20.

2.1.20 The Authority may direct a value for  $RRFPA_t$  which is not less than zero and not more than 1, if it is satisfied that differences between the values of  $RR_t$  and  $AR_t^*$  were for reasons outside the reasonable control of the licensee, following discussion with the licensee.

2.1.21 The value of  $FP_t$  is in nominal prices.

#### **Part H: Formula for calculating the Bad Debt term ( $BD_t$ )**

2.1.22 The value of  $BD_t$  is derived in accordance with the following formula:

$$BD_t = BDA_t - RBD_t$$

where:

$BDA_t$  means the aggregate value of Bad Debt the licensee has incurred, with respect to Use of System Charges owed to the licensee by one or more Defaulting Electricity Suppliers, excluding any Valid Bad Debt Claims under Standard Condition 38C (Treatment of Valid Bad Debt Claims); and

$RBD_t$  means the aggregate value of Bad Debt previously recovered by the licensee via the  $BDA_t$  term, where the licensee has been paid by the Defaulting Electricity Supplier or been credited by the administrator or liquidator of a Defaulting Electricity Supplier.

## **Special Condition 2.2 Tax allowance adjustment (TAXA<sub>t</sub>)**

### **Introduction**

- 2.2.1 The purpose of this condition is to establish a process for setting the value of the term TAXA<sub>t</sub> (the tax allowance adjustment term), which contributes to Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 2.2.2 The effect is to adjust Calculated Revenue, if required following a review of material, unexplained differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability, in accordance with Chapter 6 of the ED2 Price Control Financial Handbook.
- 2.2.3 This condition also explains the process the Authority must follow when directing any change as a result of the tax review.

### **Part A: Undertaking a tax review**

- 2.2.4 The Authority may undertake a tax review in accordance with Chapter 6 of the ED2 Price Control Financial Handbook.
- 2.2.5 Where the Authority notifies the licensee that it has decided to undertake a tax review and gives the reasons for that decision, the Authority must procure the services of an Appropriately Qualified Independent Examiner to carry out the tax review. In this instance, the licensee must:
  - (a) provide the Authority and the Appropriately Qualified Independent Examiner with access to any relevant information that they may require to examine the differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability; and
  - (b) carry out any reasonable steps specified by the Authority or the Appropriately Qualified Independent Examiner for the purposes of the tax review.
- 2.2.6 Following the review, the Appropriately Qualified Independent Examiner must send its findings to the Authority and the Authority may:
  - (a) direct an adjustment to the value of the TAXA<sub>t</sub> term if required, in accordance with Chapter 6 of the ED2 Price Control Financial Handbook; and
  - (b) specify the Regulatory Years to which that adjustment relates.

### **Part B: What process will the Authority follow in making a direction?**

- 2.2.7 Before making a direction under paragraph 2.2.6, the Authority must send to the licensee and publish on the Authority's Website:
  - (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and

- (c) a statement setting out the period during which representations on the proposed direction may be made, which must not be less than 28 days.

## Special Condition 2.3 Return adjustment (RTNA<sub>t</sub>)

### Introduction

- 2.3.1 The purpose of this condition is to calculate the term RTNA<sub>t</sub> (the return adjustment term), which contributes to Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 2.3.2 The effect of this condition is to adjust Calculated Revenue following a review of Operational Performance after the Price Control Period.
- 2.3.3 It also explains the process the Authority will follow when directing any change as a result of the review.

### Part A: Formulae for calculating the return adjustment term (RTNA<sub>t</sub>)

- 2.3.4 The value of RTNA<sub>t</sub> is derived in accordance with the following formula:

$$RTNA_t = RTNR \times \frac{RAVL_t \times (1 - G)}{\sum_{t=2023/24}^{2027/28} RAVL_t \times (1 - G)}$$

where:

- RTNR means the return adjustment for the licensee over the Price Control Period, derived in accordance with paragraphs 2.3.5 and 2.3.6;
- RAVL<sub>t</sub> means the RAV value for the licensee and has the value derived in accordance with the ED2 Price Control Financial Model; and
- G means notional gearing and has the value of 60%.

- 2.3.5 Where Operational Performance is equal to or greater than zero, the value of RTNR is derived in accordance with the following formula:

$$RTNR = \sum_{t=2023/24}^{2027/28} RAVL_t \times (1 - G) \times$$

$$[-MAX(MIN(OPP, T2) - T1, 0) \times AR1 - MAX(OPP - T2, 0) \times AR2]$$

where:

- RAVL<sub>t</sub> means the RAV value for the licensee and has the value derived in accordance with the ED2 Price Control Financial Model;
- G means notional gearing and has the value of 60%;
- OPP means the Operational Performance value for the licensee, in percentage terms, over the Price Control Period and has the value derived in accordance with the ED2 Price Control Financial Model;

- T1 means threshold 1 and has the value of 3%;
- T2 means threshold 2 and has the value of 4%;
- AR1 means adjustment rate 1 and has the value of 50%; and
- AR2 means adjustment rate 2 and has the value of 90%.

- 2.3.6 When Operational Performance is less than zero, the value of RTNR is derived in accordance with the following formula:

$$RTNR = \sum_{t=2023/24}^{2027/28} RAVL_t \times (1 - G) \times [MAX (MIN(-OPP, T2) - T1, 0) \times AR1 + MAX(-OPP - T2, 0) \times AR2]$$

where each term has the meaning given in paragraph 2.3.5.

### **Part B: Undertaking a review of Operational Performance**

- 2.3.7 After the Price Control Period, the Authority may undertake a review of Operational Performance.
- 2.3.8 Following its review, the Authority may direct any adjustment to the value of the term  $RTNA_t$  in accordance with the method set out in Parts B and C and any further applicable explanation or elaboration within the ED2 Price Control Financial Handbook.

### **Part C: What process will the Authority follow in making a direction?**

- 2.3.9 Before making a direction under paragraph 2.3.5, the Authority must send to the licensee and publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations on the proposed direction may be made, which must not be less than 28 days.
- 2.3.10 A direction under paragraph 2.3.5 must set out the value of the  $RTNA_t$  term and the Regulatory Years to which that adjustment relates.

## Chapter 3: Allowance adjustments

### Special Condition 3.1 Allowed Network Asset Risk Metric expenditure ( $NARM_t$ )

#### Introduction

- 3.1.1 This condition provides for the calculation of the term  $NARM_t$  (the allowed NARM expenditure term), which contributes to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).
- 3.1.2 The purpose of this condition is also to:
- (a) set out the Baseline Network Risk Output that the licensee is funded to deliver;
  - (b) provide for the Rebasing of the Baseline Network Risk Output;
  - (c) establish the Network Asset Risk Workbook as a licence instrument;
  - (d) set out the requirements on the licensee in respect of a NARM Performance Report;
  - (e) provide for an assessment of the licensee's delivery against the Baseline Network Risk Output; and
  - (f) specify any funding adjustments or penalties that may be applicable based on the licensee's delivery against the Baseline Network Risk Output.

#### Part A: Formula for calculating the allowed NARM expenditure term ( $NARM_t$ )

- 3.1.3 The value of  $NARM_t$  is derived in accordance with the following formula:

$$NARM_t = NARM_{At} + NARM_{Rt}$$

where:

$NARM_{At}$  is the baseline allowed NARM expenditure set out in Appendix 1;  
and

$NARM_{Rt}$  has the value directed by the Authority in accordance with Parts F and G.

#### Part B: Baseline Network Risk Output

- 3.1.4 The licensee is funded to deliver, by the end of the Price Control Period, its Baseline Network Risk Output as set out in Appendix 2.

#### Part C: Network Asset Risk Workbook

- 3.1.5 The Network Asset Risk Workbook forms part of this condition.
- 3.1.6 The Authority must:
- (a) send to the licensee the Network Asset Risk Workbook; and
  - (b) publish the Network Asset Risk Workbook on the Authority's Website.

- 3.1.7 The Authority may make modifications under this Part at any time during the Price Control Period, but only when it becomes aware of modifications of the type set out in paragraph 3.1.8 that would improve the clarity or usefulness to users of the Network Asset Risk Workbook.
- 3.1.8 The following categories of modifications may be made under this Part:
- (a) formatting changes (such as re-numbering of paragraphs, capitalising defined terms, cell labelling, renaming or re-ordering of sections or worksheets);
  - (b) consequential changes required to reflect modifications made to the special conditions (such as amendments made to the Appendices to this condition); and
  - (c) correction of manifest errors.
- 3.1.9 Before amending the Network Asset Risk Workbook by direction, the Authority must send to the licensee and publish on the Authority's Website:
- (a) the amended Network Asset Risk Workbook;
  - (b) the date on which the Authority intends the amended Network Asset Risk Workbook to come into effect;
  - (c) the reasons for the amendments to the Network Asset Risk Workbook; and
  - (d) a period during which representations may be made on the amendments to the Network Asset Risk Workbook, which must not be less than 28 days.
- 3.1.10 The Authority must:
- (a) ensure that any modifications of the Network Asset Risk Workbook, whether under this Part or otherwise, are promptly incorporated into a consolidated version of the Network Asset Risk Workbook;
  - (b) send the consolidated version of the Network Asset Risk Workbook to the licensee; and
  - (c) maintain a consolidated version of the Network Asset Risk Workbook on the Authority's Website.

#### **Part D: Rebasing of the Baseline Network Risk Output**

- 3.1.11 The licensee must, when submitting a Rebased Baseline Network Risk Output in accordance with Special Condition 9.2 (Network Asset Risk Metric methodology), ensure that the Rebased Baseline Network Risk Output is:
- (a) calculated using the current version of the Common Network Asset Indices Methodology;
  - (b) representative of the same assumed volume and type of NARM Asset Intervention for each NARM Asset Register Category as assumed in the setting of the Baseline Network Risk Output;
  - (c) as Equally Challenging as the Baseline Network Risk Output; and



- (d) in the same format as the Network Asset Risk Workbook.
- 3.1.12 When submitting any Rebased Baseline Network Risk Output, the licensee must also submit a report providing supporting commentary, which includes:
- (a) an explanation of the processes undertaken in determining the proposed Rebased Baseline Network Risk Output;
  - (b) an explanation of any relevant new data, or changes in data, used in determining the proposed Rebased Baseline Network Risk Output; and
  - (c) detailed supporting evidence to support the licensee's view that the submitted Rebased Baseline Network Risk Output is as Equally Challenging as the Baseline Network Risk Output.
- 3.1.13 Where the licensee proposes a Rebased Baseline Network Risk Output in accordance with Special Condition 9.2, the Authority must consider the proposal and by direction:
- (a) approve it, in cases where the Rebased Baseline Network Risk Output meets the criteria in paragraph 3.1.11;
  - (b) approve it with adjustments, in cases where the adjustments are necessary to enable the Rebased Baseline Network Risk Output to meet the criteria in paragraph 3.1.11; or
  - (c) reject it, in cases where the Rebased Baseline Network Risk Output does not meet the criteria set out in paragraph 3.1.11 and the Authority is unable to adjust the Rebased Baseline Network Risk Output to make the Rebased Baseline Network Risk Output satisfy those criteria.
- 3.1.14 Before issuing a direction under paragraph 3.1.13, the Authority must send to the licensee and publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the date on which the Authority intends the proposed direction to come into effect;
  - (c) the reasons for the proposed direction; and
  - (d) a period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 3.1.15 Where the Authority approves the Rebased Baseline Network Risk Output under paragraph 3.1.13(a) or (b):
- (a) the Rebased Baseline Network Risk Output will supersede the Baseline Network Risk Output for the purposes of this condition; and
  - (b) the direction under paragraph 3.1.13(a) or (b) will modify Appendix 2 and the Network Risk Asset Workbook to reflect this.

## **Part E: Requirement to provide a NARM Performance Report**

- 3.1.16 On or before 31 July 2028, or such later date as the Authority may direct, the licensee must provide to the Authority a NARM Performance Report, together with detailed supporting evidence, setting out the following:
- (a) the licensee's Outturn Network Risk Output against the Baseline Network Risk Output and a breakdown of that Outturn Network Risk Output in the manner specified by the Authority by direction under Standard Condition 46 (Regulatory Instructions and Guidance);
  - (b) the costs incurred by the licensee in delivering its Outturn Network Risk Output and a breakdown of those costs in the manner specified by the Authority by direction under Standard Condition 46 (Regulatory Instructions and Guidance);
  - (c) details of any Non-NARM Asset Interventions or Non-intervention Risk Changes that the licensee considers relevant to its delivery against the Baseline Network Risk Output, including the associated impact on the Baseline Network Risk Output or Outturn Network Risk Output; and
  - (d) the licensee's initial justification for any portions of over-delivery or under-delivery against the Baseline Network Risk Output.

## **Part F: Authority's assessment of delivery against the Baseline Network Risk Output**

- 3.1.17 Following receipt of the NARM Performance Report, the Authority must assess the impact of any relevant Non-NARM Asset Interventions or Non-intervention Risk Changes upon delivery against the Baseline Network Risk Output and form an initial view of whether the licensee has:
- (a) delivered its Baseline Network Risk Output;
  - (b) over-delivered against its Baseline Network Risk Output; or
  - (c) under-delivered against its Baseline Network Risk Output
- by consideration of the Adjusted Outturn Network Risk Output in accordance with paragraph 3.1.28.
- 3.1.18 The Authority must publish its view on the Authority's Website together with:
- (a) the reasons for its view; and
  - (b) a period during which representations may be made, which must not be less than 28 days.
- 3.1.19 The Authority must then publish on the Authority's Website its decision on whether the licensee has:
- (a) delivered its Baseline Network Risk Output;
  - (b) over-delivered against its Baseline Network Risk Output; or
  - (c) under-delivered against its Baseline Network Risk Output

in accordance with paragraph 3.1.28.

3.1.20 Where the Authority's decision is that the licensee has over-delivered or under-delivered against its Baseline Network Risk Output, the licensee must within 56 days of the publication under paragraph 3.1.19 provide to the Authority a NARM Justification Report that:

(a) sets out the licensee's view of the justification for any variance between its Adjusted Outturn Network Risk Output and the Baseline Network Risk Output;

(b) includes:

- i. an explanation of the principal changes, compared with the Baseline Network Risk Output, that have made up the under-delivery or over-delivery, including changes within NARM Asset Register Categories or types of NARM Asset intervention;
- ii. where relevant, references to the relevant sections of the NARM Performance Report, or submissions made by the licensee as part of the annual reporting in accordance with the RIGs;
- iii. a proposed revision to the Adjusted Outturn Network Risk Output, together with an explanation and supporting information for the revision; and
- iv. such further information as the licensee considers relevant; and

(c) is set out in the form approved by the Authority.

3.1.21 Following receipt of the NARM Justification Report, the Authority must form a view on the proportion of under-delivery against the Baseline Network Risk Output that is Justified Under-Delivery or the proportion of over-delivery that is Justified Over-Delivery.

3.1.22 The Authority must publish its view under paragraph 3.1.21 on the Authority's Website together with:

(a) the reasons for its view; and

(b) a period during which representations may be made on its view, which must not be less than 28 days.

3.1.23 Where the licensee's delivery against the Baseline Network Risk Output is:

(a) on target;

(b) the subject of an under-delivery, where all of the under-delivery is Justified Under-Delivery; or

(c) the subject of an over-delivery, where none of the over-delivery is Justified Over-Delivery,

the value of  $NARM_{Rt}$  will be zero. In all other cases, the Authority must direct a value for  $NARM_{Rt}$  in accordance with Part G.

- 3.1.24 Before publishing a direction under paragraph 3.1.23, the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 3.1.25 The publication under paragraph 3.1.24 may be published alongside the publication required by paragraph 3.1.22.
- 3.1.26 A direction under paragraph 3.1.24 must set out the value of the  $NARM_{Rt}$  term and the Regulatory Years to which the adjustment relates.

**Part G: Formulae for calculating the  $NARM_{Rt}$  term**

- 3.1.27 The value of  $NARM_{Rt}$  is derived in accordance with the following formula:

$$NARM_{Rt} = NARM_{AD} \times \frac{NARM_{At}}{\sum_t NARM_{At}}$$

where:

$NARM_{AD}$  is derived in accordance with paragraph 3.1.34 or paragraph 3.1.36;

$NARM_{At}$  means the baseline allowed NARM expenditure for Regulatory Year  $t$  set out in Appendix 1; and

$\sum_t NARM_{At}$  means the total baseline allowed NARM expenditure for the Price Control Period set out in Appendix 1.

- 3.1.28 The Authority must compare the Adjusted Outturn Network Risk Output, as derived in accordance with paragraph 3.1.29, against the Baseline Network Risk Output to determine whether the licensee:
- (a) delivered on target, as set out in paragraph 3.1.30;
  - (b) under-delivered against its Baseline Network Risk Output, as set out in paragraph 3.1.31; or
  - (c) over-delivered against its Baseline Network Risk Output, as set out in paragraph 3.1.32.
- 3.1.29 The Adjusted Outturn Network Risk Output ( $NROOA$ ) is derived in accordance with the following formula:

$$NRO_{OA} = NRO_{OR} - NIR_{OD}$$

where:

$NRO_{OR}$  is the Outturn Network Risk Output (£risk); and

$NIR_{OD}$  is the total impact on the Outturn Network Risk Output (£risk) of any relevant Non-NARM Asset Interventions and Non-intervention Risk

Changes that have impacted the licensee's delivery of the Baseline Network Risk Output.

3.1.30 On-target delivery exists where:

$$(NRO_{BL} \times (1 + DB_L)) \geq NRO_{OA} \geq (NRO_{BL} \times (1 + DB_U))$$

where:

DB<sub>L</sub> is the lower deadband limit specified in paragraph 3.1.33(a);

DB<sub>U</sub> is the upper deadband limit specified in paragraph 3.1.33(b);

NRO<sub>BL</sub> is the Baseline Network Risk Output (£risk); and

NRO<sub>OA</sub> is the Adjusted Outturn Network Risk Output (£risk).

3.1.31 Under-delivery exists where:

$$NRO_{OA} > (NRO_{BL} \times (1 + DB_L))$$

where:

DB<sub>L</sub> is the lower deadband limit specified in paragraph 3.1.33(a);

NRO<sub>BL</sub> is the Baseline Network Risk Output (£risk); and

NRO<sub>OA</sub> is the Adjusted Outturn Network Risk Output (£risk).

3.1.32 Over-delivery exists where:

$$NRO_{OA} < (NRO_{BL} \times (1 + DB_U))$$

where:

DB<sub>U</sub> is the upper deadband limit specified in paragraph 3.1.33(b);

NRO<sub>BL</sub> is the Baseline Network Risk Output (£risk); and

NRO<sub>OA</sub> is the Adjusted Outturn Network Risk Output (£risk).

3.1.33 The following deadbands around the Baseline Network Risk Output apply:

(a) a lower limit of -5%; and

(b) an upper limit of +5%.

3.1.34 For under-delivery that is not a Justified Under-Delivery, the negative adjustment (NARMAD) made under Part F is derived in accordance with the following formula:

$$NARM_{AD} = (NRO_{OAD} - ((1 + DB_L) \times NRO_{BL})) \times UCR_{BL} \times (1 + PEN_{AR})$$

where:

DB<sub>L</sub> is the lower deadband limit specified in paragraph 3.1.33(a);

NRO<sub>BL</sub> is the Baseline Network Risk Output (£risk);

$NRO_{OAD}$  is the Determined Outturn Network Risk Output (£/risk), derived in accordance with paragraph 3.1.35;

$PEN_{AR}$  is the penalty adjustment rate of 2.5% per cent of the avoided costs associated with the under-delivery; and

$UCR_{BL}$  is the Baseline Unit Cost of Risk (£/£risk), derived in accordance with paragraph 3.1.38.

- 3.1.35 For under-delivery that is not a Justified Under-Delivery, the Determined Outturn Network Risk Output ( $NRO_{OAD}$ ) is derived in accordance with the following formula:

$$NRO_{OAD} = NRO_{OA} + NRO_{JUD}$$

where:

$NRO_{OA}$  is the Adjusted Outturn Network Risk Output (£risk); and

$NRO_{JUD}$  is the Long-term Monetised Risk Benefit (£risk) of any portion of the under-delivery that the Authority considers was Justified Under-Delivery.

- 3.1.36 Where the licensee has demonstrated Justified Over-Delivery, the positive adjustment ( $NARM_{AD}$ ) made under Part F is derived in accordance with the following formula:

$$NARM_{AD} = \left( NRO_{OAD} - ((1 + DB_U) \times NRO_{BL}) \right) \times UCR_{AD}$$

where:

$DB_U$  is the upper deadband limit specified in paragraph 3.1.33(b);

$NRO_{BL}$  is the Baseline Network Risk Output (£risk);

$NRO_{OAD}$  is the Determined Outturn Network Risk Output (£risk), as derived in accordance with paragraph 3.1.37; and

$UCR_{AD}$  is the adjusted unit cost of risk (£/£risk), which is either the Baseline Unit Cost of Risk ( $UCR_{BL}$ ), derived in accordance with 3.1.38, or the Outturn Unit Cost of Risk ( $UCR_{OR}$ ), derived in accordance with paragraph 3.1.39, whichever is closer to zero.

- 3.1.37 For over-delivery that is Justified Over-Delivery, the Determined Outturn Network Risk Output ( $NRO_{OAD}$ ) is derived in accordance with the following formula:

$$NRO_{OAD} = NRO_{OA} - NRO_{NJOD}$$

where:

$NRO_{OA}$  is the Adjusted Outturn Network Risk Output (£risk); and

$NRO_{NJD}$  is the Long-term Monetised Risk Benefit (£risk) of any portion of the over-delivery that is not Justified Over-Delivery.

3.1.38 The Baseline Unit Cost of Risk ( $UCR_{BL}$ ) is derived in accordance with the following formula:

$$UCR_{BL} = \frac{\sum_t NARM_{At}}{NRO_{BL}}$$

where:

$NRO_{BL}$  is the Baseline Network Risk Output (£risk); and

$\sum_t NARM_{At}$  is the total baseline allowed NARM expenditure (£) for the Price Control Period as set out in Appendix 1.

3.1.39 The Outturn Unit Cost of Risk ( $UCR_{OR}$ ) is derived in accordance with the following formula:

$$UCR_{OR} = \frac{NXP_{OR}}{NRO_{OA}}$$

where:

$NRO_{OA}$  is the Adjusted Outturn Network Risk Output (£risk); and

$NXP_{OR}$  is the Incurred NARM Expenditure (£) for the Price Control Period.

## Appendix 1

### Baseline allowed NARM expenditure excluding RPEs ( $NARM_{At}$ ) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28	Price Control Period Total
ENWL	34.97	36.12	37.39	35.88	33.50	177.86
NPgN	27.06	27.77	26.55	27.58	29.74	138.70
NPgY	33.82	32.18	28.35	35.54	31.10	160.99
WMID	29.82	41.97	45.83	31.06	53.55	202.23
EMID	42.90	41.76	42.94	44.44	38.17	210.21
SWALES	27.74	26.05	31.48	22.81	22.75	130.83
SWEST	39.70	39.59	41.06	44.93	42.58	207.86
LPN	28.95	30.46	44.35	37.60	29.53	170.89
SPN	34.40	37.31	38.37	36.01	36.99	183.08
EPN	45.64	50.49	50.97	46.80	40.25	234.15
SPD	30.88	33.01	24.84	25.69	25.63	140.05



SPMW	39.16	46.43	51.32	38.13	32.45	207.49
SSEH	25.68	17.62	15.08	25.68	12.45	96.51
SSES	32.65	40.15	37.14	36.33	33.26	179.53

## Appendix 2

### Baseline Network Risk Output (NRO<sub>BL</sub>) (£risk)

Licensee	RIIO-ED2 Total
ENWL	- 416,645,265
NPgN	- 391,091,627
NPgY	- 393,647,413
WMID	- 519,787,560
EMID	- 404,654,338
SWALES	- 362,711,582
SWEST	- 627,171,211
LPN	- 197,057,392
SPN	- 474,329,173
EPN	- 900,491,839
SPD	- 359,533,473
SPMW	- 454,515,554
SSEH	- 191,503,131
SSES	- 685,313,429

## Special Condition 3.2 Uncertain Costs Re-openers

### Introduction

3.2.1 The purpose of this condition is to:

- (a) set out the value of those Uncertain Costs terms that do not have a related Evaluative Price Control Deliverable, which contribute to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model); and
- (b) establish Re-openers triggered by the licensee or the Authority in relation to Uncertain Costs.

3.2.2 This condition also explains the process the Authority must follow when making changes as a result of these Re-openers.

3.2.3 The requirement to comply with the Re-opener Guidance and Application Requirements Document when submitting a Re-opener application is

established by Special Condition 9.4 (Re-opener Guidance and Application Requirements Document).

#### **Part A: The value of the Uncertain Costs terms**

3.2.4 The value of the following Uncertain Costs terms are set out in Appendix 1:

- (a) the Physical Security Re-opener term ( $PSUP_t$ );
- (b) the Rail Electrification Costs Re-opener term ( $REC_t$ );
- (c) the Electricity System Restoration Re-opener term ( $ESR_t$ );
- (d) the Environmental Re-opener term ( $EVR_t$ );
- (e) the Specified Street Works Costs Re-opener term ( $SWR_t$ );
- (f) the Digitalisation Re-opener term ( $DIGI_t$ );
- (g) the Storm Arwen Re-opener term ( $SAR_t$ );
- (h) the Load Related Expenditure Re-opener term ( $LRE_t$ );
- (i) the High Value Projects Re-opener term ( $HVP_t$ );
- (j) the Wayleaves and Diversions Re-opener term ( $WDV_t$ );
- (k) [not used];
- (l) the Hebrides and Orkney Re-opener term ( $HO_t$ );
- (m) the Shetland Enduring Solution Re-opener term ( $SES_t$ ); and
- (n) Shetland Extension Fixed Energy Costs Re-opener term ( $SEFEC_t$ ).

#### **Part B: Physical Security Re-opener ( $PSUP_t$ )**

3.2.5 This Part establishes the Physical Security Re-opener.

3.2.6 The Physical Security Re-opener may be used where there has been a change to the Physical Security Scope of Work and the licensee has incurred or expects to incur additional costs associated with such changes.

3.2.7 The licensee may only apply to the Authority for modifications to this licence under the Physical Security Re-opener:

- (a) Between 24 January 2024 and 31 January 2024;
- (b) Between 24 January 2026 and 31 January 2026; and
- (c) during such other periods as the Authority may direct.

3.2.8 The licensee must, when making an application under the Physical Security Re-opener, send to the Authority a written application that:

- (a) sets out the changes to the Physical Security Scope of Work, the associated costs and an explanation of how the circumstances in paragraph 3.2.6 are met;
- (b) sets out any modifications to the value of  $PSUP_t$  in Appendix 1 being sought;
- (c) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and

- (d) provides such detailed supporting evidence as is reasonable in the circumstances, including where available, any reports prepared by external auditors.
- 3.2.9 An application under this Part must:
- (a) relate to the circumstances set out in paragraph 3.2.6 that occurred on or after 1 December 2021;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of allowed expenditure which can be avoided as a result of the change to the Physical Security Scope of Work to which the application relates.
- 3.2.10 The Authority may also instigate this Re-opener in accordance with Part S.
- 3.2.11 The following modifications to this licence may be made under the Physical Security Re-opener:
- (a) modifications to the value of PSUP<sub>t</sub> set out in Appendix 1;
  - (b) modifications confined to allowances related to the circumstances set out in paragraph 3.2.6; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.12 The Authority may only make modifications to this licence under the Physical Security Re-opener by direction where:
- (a) the circumstances in paragraph 3.2.6 exist;
  - (b) the requirements in paragraphs 3.2.8 and 3.2.9 have been met; and
  - (c) the modification to allowances is efficient.

### **Part C: Rail Electrification Costs Re-opener (REC<sub>t</sub>)**

- 3.2.13 This Part establishes the Rail Electrification Costs Re-opener.
- 3.2.14 The Rail Electrification Costs Re-opener may be used where there has been a change in the Rail Electrification Costs the licensee has incurred or expects to incur, relative to any previous allowances for such costs, that exceed the Materiality Threshold.
- 3.2.15 The licensee may only apply to the Authority for modifications to this licence under the Rail Electrification Costs Re-opener:
- (a) Between 24 January 2024 and 31 January 2024;
  - (b) Between 24 January 2026 and 31 January 2026; and
  - (c) during such other periods as the Authority may direct.
- 3.2.16 The licensee must when making an application under the Rail Electrification Costs Re-opener, send to the Authority a written application that:

- (a) sets out the scope of work the licensee is or was required to carry out in relation to the Rail Electrification Costs to which the application relates;
  - (b) sets out any modifications to the value of  $REC_t$  in Appendix 1 being sought;
  - (c) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
  - (d) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.17 An application under this Part must:
- (a) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (b) take account of allowed expenditure which can be avoided as a result of the Rail Electrification Project that is the subject of the application.
- 3.2.18 The following modifications to this licence may be made under the Rail Electrification Costs Re-opener:
- (a) modifications to the value of  $REC_t$  set out in Appendix 1;
  - (b) modifications confined to allowances related to Rail Electrification Costs; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.19 The Authority may only make modifications to this licence under the Rail Electrification Costs Re-opener by direction where:
- (a) the circumstances in paragraph 3.2.14 exist;
  - (b) the requirements in paragraphs 3.2.16 and 3.2.17 have been met; and
  - (c) the modification to allowances is efficient.

#### **Part D: Electricity System Restoration Re-opener ( $ESR_t$ )**

- 3.2.20 This Part establishes the Electricity System Restoration Re-opener.
- 3.2.21 The Electricity System Restoration Re-opener may be used where there has been a change to the Electricity System Restoration Scope of Work and the licensee has incurred or expects to incur additional costs associated with such change.
- 3.2.22 The licensee may only apply to the Authority for modifications to this licence under the Electricity System Restoration Re-opener:
- (a) Between 24 June 2024 and 28 June 2024; and
  - (b) during such other periods as the Authority may direct.
- 3.2.23 The licensee must when making an application under the Electricity System Restoration Re-opener, send to the Authority a written application that:

- (a) sets out the changes to the Electricity System Restoration Scope of Work, to which the application relates;
  - (b) sets out any modifications to the value of  $ESR_t$  in Appendix 1 being sought;
  - (c) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances;
  - (d) sets out the engagement undertaken with the GB System Operator and other Relevant Network Licensees on the proposed scope of works; and
  - (e) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.24 An application under this Part must:
- (a) relate to changes to the Electricity System Restoration Scope of Work agreed on or after 1 December 2021;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of allowed expenditure which can be avoided as a result of the change to the Electricity System Restoration Scope of Work, to which the application relates.
- 3.2.25 The Authority may also instigate this Re-opener in accordance with Part S.
- 3.2.26 The following modifications to this licence may be made under the Electricity System Restoration Re-opener:
- (a) modifications to the value of  $ESR_t$  set out in Appendix 1;
  - (b) modifications confined to allowances related to the change to the Electricity System Restoration Scope of Work, that are the subject of the Re-opener; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.27 The Authority may only make modifications to this licence under the Electricity System Restoration Re-opener by direction where:
- (a) the circumstances in paragraph 3.2.21 exist;
  - (b) the requirements in paragraphs 3.2.23 and 3.2.24 have been met; and
  - (c) the modification to allowances is efficient.

## **Part E: Environmental Re-opener ( $EVR_t$ )**

- 3.2.28 This Part establishes the Environmental Re-opener.
- 3.2.29 The Environmental Re-opener may be used where the licensee has incurred or expects to incur costs caused by new or amended legislative requirements that relate to the licensee's impact on the environment that are contained within or could have been contained within the licensee's Environmental Action Plan.

- 3.2.30 The licensee may only apply to the Authority for modifications to this licence under the Environmental Re-opener:
- (a) Between 24 January 2024 and 31 January 2024;
  - (b) Between 24 January 2025 and 31 January 2025;
  - (c) Between 24 January 2026 and 31 January 2026; and
  - (d) Between 24 January 2027 and 31 January 2027.
- 3.2.31 The licensee must, when making an application under the Environmental Re-opener, send to the Authority a written application that:
- (a) states the new or amended legislative requirements that are the subject of the application and their relationship with the Environmental Action Plan;
  - (b) sets out any modifications to the value of  $EVR_t$  in Appendix 1 being sought;
  - (c) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
  - (d) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.32 An application under this Part must:
- (a) relate to new or amended legislative requirements described in paragraph 3.2.29 that arise on or after 1 April 2023;
  - (b) relate to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of allowed expenditure which can be avoided as a result of any changes to the licensee's activities related to the same change that is the subject of the application.
- 3.2.33 The following modifications to this licence may be made under the Environmental Re-opener:
- (a) modifications to the value of  $EVR_t$  set out in Appendix 1;
  - (b) modifications confined to allowances related to new or amended legislative requirements that relate to the licensee's impact on the environment that are contained within or could have been contained within the licensee's Environmental Action Plan; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.34 The Authority may only make modifications to this licence under the Environmental Re-opener by direction where:
- (a) the circumstances in paragraph 3.2.29 exist;
  - (b) the modification has been requested by the licensee under paragraph 3.2.30, and the requirements in 3.2.31 and 3.2.32 have been met; and
  - (c) the modification to allowances is efficient.

## **Part F: Specified Street Works Costs Re-opener (SWR<sub>t</sub>)**

- 3.2.35 This Part establishes the Specified Street Works Costs Re-opener.
- 3.2.36 The Specified Street Works Costs Re-opener may be used where there has been a change in the Specified Street Works Costs the licensee has incurred or expects to incur, relative to any previous allowances for such costs, that exceed the Materiality Threshold.
- 3.2.37 The licensee may only apply to the Authority for modifications to this licence under the Specified Street Works Costs Re-opener:
- (a) Between 24 January 2026 and 31 January 2026; and
  - (b) during such other periods as the Authority may direct.
- 3.2.38 The licensee must when making an application under the Specified Street Works Costs Re-opener, send to the Authority a written application that:
- (a) states the Specified Street Works Costs that are the subject of the application;
  - (b) sets out any modifications to the value of SWR<sub>t</sub> in Appendix 1 being sought;
  - (c) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
  - (d) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.39 An application under this Part must:
- (a) relate to Specified Street Works Costs that have been incurred or are expected to be incurred on or after 1 April 2023; and
  - (b) take account of allowed expenditure which can be avoided as a result of the cause of the changes to the Specified Street Works Costs which are the subject of the application.
- 3.2.40 The following modifications to this licence may be made under the Specified Street Works Costs Re-opener:
- (a) modifications to the value of SWR<sub>t</sub> set out in Appendix 1;
  - (b) modifications confined to allowances related to Specified Street Works Costs; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.41 The Authority may only make modifications to this licence under the Specified Street Works Costs Re-opener by direction where:
- (a) the circumstances in paragraph 3.2.36 exist;
  - (b) the requirements in paragraphs 3.2.38 and 3.2.39 have been met; and
  - (c) the modification to allowances is efficient.

## **Part G: Cyber Resilience OT Re-opener**

- 3.2.42 This Part establishes the Cyber Resilience OT Re-opener. The values of the related PCFM Variable Values are set out in Special Condition 3.3 (Evaluative Price Control Deliverables).
- 3.2.43 The Cyber Resilience OT Re-opener may be used where there are:
- (a) new activities, including new technology, capable of improving cyber resilience in relation to OT, including risk reduction and improved status of the licensee's OT network and information systems with respect to CAF Outcomes;
  - (b) changes to levels of risks or threats relating to cyber resilience in relation to OT, that take the licensee outside of its organisational risk appetite;
  - (c) changes to statutory or regulatory requirements relating to cyber resilience in relation to OT; or
  - (d) modifications required to be made to:
    - i. the outputs, delivery dates or allowances set as part of RIIO-ED2 Final Determinations; or
    - ii. other existing outputs, delivery dates or allowances;
    - iii. to correct errors or to make refinements to improve the licensee's cyber resilience in relation to OT.
- 3.2.44 The licensee may only apply to the Authority for modifications to this licence under the Cyber Resilience OT Re-opener:
- (a) Between 3 April 2023 and 10 April 2023;
  - (b) Between 1 April 2025 and 7 April 2025; and
  - (c) during such other periods as the Authority may direct.
- 3.2.45 The licensee must when making an application under the Cyber Resilience OT Re-opener, send to the Authority a written application that:
- (a) gives details of the circumstances referred to in paragraph 3.2.43 that exist;
  - (b) sets out any modifications to the Cyber Resilience OT Baseline Allowances Table, the Cyber Resilience OT Re-opener Allowances Table, and the Cyber Resilience OT PCD Table being sought;
  - (c) explains how any modifications requested would improve cyber resilience in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF Outcomes;
  - (d) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
  - (e) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.46 An application under this Part must:



- (a) relate to circumstances of the type referred to in paragraph 3.2.43 that have developed since 1 December 2021;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of allowed expenditure which can be avoided as a result of the modifications requested.
- 3.2.47 The Authority may also instigate this Re-opener in accordance with Part S.
- 3.2.48 The following modifications to this licence may be made under the Cyber Resilience OT Re-opener:
- (a) if the relevant circumstance is that set out in paragraph 3.2.43(d)(i), modifications to the Cyber Resilience OT Baseline Allowances Table and the Cyber Resilience OT PCD Table;
  - (b) if the relevant circumstance is that set out in paragraphs 3.2.43(a) to (c) or (d)(ii), modifications to the Cyber Resilience OT Re-opener Allowances Table and the Cyber Resilience OT PCD Table;
  - (c) modifications to the definitions of 'Cyber Resilience OT Baseline Allowances Table', 'Cyber Resilience OT Re-opener Allowances Table' and 'Cyber Resilience OT PCD Table' in Special Condition 1.2 (Definitions) to amend the date those tables were sent to the licensee;
  - (d) modifications confined to outputs, delivery dates and allowances related to the circumstances set out in paragraph 3.2.43 that are the subject of this Re-opener; and
  - (e) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.49 The Authority may only make modifications under the Cyber Resilience OT Re-opener by direction:
- (a) where a circumstance in paragraph 3.2.43 exists;
  - (b) if the relevant circumstance is that set out in paragraphs 3.2.43(a) or (b), where the addition of new outputs would improve the licensee's cyber resilience in relation to OT;
  - (c) if the relevant circumstance is that set out in paragraph 3.2.43(c), where the addition of new outputs would contribute to the licensee's compliance with the relevant statutory or regulatory requirements relating to cyber resilience in relation to OT;
  - (d) if the relevant circumstance is that set out in paragraph 3.2.43(d), where a change to an existing output is justified:
    - i. in order to correct an error; or
    - ii. because the refinement would improve the licensee's cyber resilience in relation to OT;

- (e) where the requirements in paragraphs 3.2.45 and 3.2.46 have been met; and
- (f) the modification to allowances is efficient.

## **Part H: Cyber Resilience IT Re-opener**

- 3.2.50 This Part establishes the Cyber Resilience IT Re-opener. The values of the related PCFM Variable Values are set out in Special Condition 3.3 (Evaluative Price Control Deliverables).
- 3.2.51 The Cyber Resilience IT Re-opener may be used where there are:
- (a) new activities, including new technology, capable of improving cyber resilience in relation to IT, including risk reduction in respect to the licensee's IT networks and systems with respect to CAF Outcomes;
  - (b) changes to levels of risks or threats relating to cyber resilience in relation to IT, that take the licensee outside of its organisational risk appetite;
  - (c) changes to statutory or regulatory requirements relating to cyber resilience in relation to IT; or
  - (d) modifications required to be made to:
    - i. the outputs, delivery dates or allowances set as part of RIIO-ED2 Final Determinations; or
    - ii. other existing outputs, delivery dates or allowances;
    - iii. to correct errors or to make refinements to improve the licensee's cyber resilience in relation to IT.
- 3.2.52 The licensee may only apply to the Authority for modifications to this licence under the Cyber Resilience IT Re-opener:
- (a) Between 3 April 2023 and 10 April 2023;
  - (b) Between 1 April 2025 and 7 April 2025; and
  - (c) during such other periods as the Authority may direct.
- 3.2.53 The licensee must when making an application under the Cyber Resilience IT Re-opener, send to the Authority a written application that:
- (a) gives details of the circumstances referred to in paragraph 3.2.51 that exist;
  - (b) sets out any modifications to the Cyber Resilience IT Baseline Allowances Table, the Cyber Resilience IT Re-opener Allowances Table, or the Cyber Resilience IT PCD Table being sought;
  - (c) explains how any modifications requested would improve cyber resilience in relation to IT, including risk reduction on the licensee's IT network and information systems;
  - (d) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and

- (e) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.54 An application under this Part must:
- (a) relate to circumstances of the type referred to in paragraph 3.2.51 that have developed since 1 December 2021;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of allowed expenditure which can be avoided as a result of the modifications requested.
- 3.2.55 The Authority may also instigate this Re-opener in accordance with Part S.
- 3.2.56 The following modifications may be made under the Cyber Resilience IT Re-opener:
- (a) if the relevant circumstance is that set out in paragraph 3.2.51(d)(i), modifications to the Cyber Resilience IT Baseline Allowances Table and the Cyber Resilience IT PCD Table;
  - (b) if the relevant circumstance is that set out in paragraphs 3.2.51(a) to (c) or (d)(ii), modifications to the Cyber Resilience IT Re-opener Allowances Table and the Cyber Resilience IT PCD Table;
  - (c) modifications to the definitions of 'Cyber Resilience IT Baseline Allowances Table', 'Cyber Resilience IT Re-opener Allowances Table' and 'Cyber Resilience IT PCD Table' in Special Condition 1.2 (Definitions) to amend the date those tables were sent to the licensee;
  - (d) modifications confined to outputs, delivery dates and allowances related to the circumstances set out in paragraph 3.2.51 that are the subject of this Re-opener; and
  - (e) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.57 The Authority may only make modifications under the Cyber Resilience IT Re-opener by direction:
- (a) where a circumstance in paragraph 3.2.51 exists;
  - (b) if the relevant circumstance is that set out in paragraphs 3.2.51(a) or (b), where the addition of new outputs would improve the licensee's cyber resilience in relation to IT;
  - (c) if the relevant circumstance is that set out in paragraph 3.2.51(c), where the addition of new outputs would contribute to the licensee's compliance with the relevant statutory or regulatory requirements relating to cyber resilience in relation to IT;
  - (d) if the relevant circumstance is that set out in paragraph 3.2.51(d), where a change to an existing output is justified:

- i. in order to correct an error; or
  - ii. because the refinement would improve the licensee's cyber resilience in relation to IT;
- (e) where the requirements in paragraphs 3.2.53 and 3.2.54 have been met; and
- (f) the modification to allowances is efficient.

## **Part I: Digitalisation Re-opener (DIGI<sub>t</sub>)**

3.2.58 This Part establishes the Digitalisation Re-opener.

3.2.59 The Digitalisation Re-opener may be used where the licensee incurs or expects to incur costs that exceed the Materiality Threshold as a result of:

- (a) a change in legislation, licences, regulatory requirements, or industry codes, where as a result there is a requirement for the licensee to provide new, or significantly altered, digital or Data Services, including but not limited to:
  - (i) government or the Authority implementing energy sector reforms that require new data or digital services to be delivered by the licensee;
  - (ii) a re-tendering of the smart metering system resulting in additional roles or responsibilities for the licensee with regards to the smart metering system;
- (b) the licensee retrofitting monitoring devices to unmonitored Distributed Generators as a result of the Authority deciding that there is net Customer benefit in doing so; or
- (c) the licensee implementing Mature Innovation related to data and Digitalisation to fulfil obligations in the conditions of this licence.

3.2.60 The licensee may only apply to the Authority for modifications to this licence under the Digitalisation Re-opener:

- (a) Between 24 January 2026 and 31 January 2026; and
- (b) during such other periods as the Authority may direct.

3.2.61 The licensee must when making an application under the Digitalisation Re-opener, send to the Authority a written application that:

- (a) gives details of how any of the conditions set out in paragraph 3.2.59 have been met
- (b) sets out any modifications to the value of DIGI<sub>t</sub> in Appendix 1 being sought;
- (c) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
- (d) provides such detailed supporting evidence as is reasonable in the circumstances.

3.2.62 An application under this Part must:

- (a) where the circumstance in paragraph 3.2.59(a) applies, relate to changes to the roles and responsibilities of the licensee introduced on or after 1 December 2021;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of allowed expenditure which can be avoided as a result of the modifications requested.
- 3.2.63 The Authority may also instigate this Re-opener in accordance with Part S.
- 3.2.64 The following modifications to this licence may be made under the Digitalisation Re-opener:
- (a) modifications to the value of DIGI<sub>t</sub> set out in Appendix 1;
  - (b) modifications confined to circumstances set out in paragraph 3.2.59 that are the subject of the Digitalisation Re-opener; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.65 The Authority may only make modifications to this licence under the Digitalisation Re-opener by direction where:
- (a) a circumstance in paragraph 3.2.59 exists;
  - (b) the requirements in paragraphs 3.2.61 and 3.2.62 have been met; and
  - (c) the modification to allowances is efficient.

#### **Part J: Storm Arwen Re-opener (SAR<sub>t</sub>)**

- 3.2.66 This Part establishes the Storm Arwen Re-opener.
- 3.2.67 The Storm Arwen Re-opener may be used where the costs incurred or expected to be incurred by the licensee in operating its Distribution Business have changed as a direct result of the Storm Arwen Recommendations, including actions taken as a result of those recommendations.
- 3.2.68 The licensee may only apply to the Authority for modifications to this licence under the Storm Arwen Re-opener:
- (a) Between 24 January 2024 and 31 January 2024; and
  - (b) during such other periods as the Authority may direct.
- 3.2.69 The licensee must, when making an application under the Storm Arwen Re-opener, send to the Authority a written application that:
- (a) sets out the changes to the way in which the licensee operates its Distribution Business and the associated costs, including an explanation of how the circumstances in paragraph 3.2.67 are met;
  - (b) sets out the modifications to the value of SAR<sub>t</sub> in Appendix 1 being sought;

- (c) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
  - (d) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.70 An application under this Part must:
- (a) relate to changes set out in paragraph 3.2.67 agreed on or after 1 December 2021;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of other allowed expenditure that could be avoided or reduced as a result of the circumstances set out in paragraph 3.2.67.
- 3.2.71 The Authority may also instigate this Re-opener in accordance with Part S.
- 3.2.72 The following modifications to this licence may be made under the Storm Arwen Re-opener:
- (a) modifications to the value of SAR<sub>t</sub> set out in Appendix 1;
  - (b) modifications confined to allowances related to the circumstances in paragraph 3.2.67; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.73 Any modifications made as a result of an application under paragraph 3.2.68 must be made under section 11A (modifications of conditions of licences) of the Act.

## **Part K: Load Related Expenditure Re-opener (LRE<sub>t</sub>)**

- 3.2.74 This Part establishes the Load Related Expenditure Re-opener.
- 3.2.75 The Load Related Expenditure Re-opener may be used where:
- (a) the licensee's Load Related Expenditure has increased or is expected to increase, as a result of an increase in:
    - i. current or forecast load-related constraints on the Distribution System that are in place at the time the licensee makes a Load Related Expenditure Re-opener application relative to the constraints associated with the forecast demand used by the Authority to set ex ante allowances for the Price Control Period; or
    - ii. the proportion of expenditure associated with load-related constraints on the Distribution System to be funded through Use of System Charges relative to the assumptions used by the Authority to set allowances that are in place at the time the licensee makes a Load Related Expenditure Re-opener application; or

- (b) there is a change in conditions on the Distribution System relative to the assumptions used to set allowances; and
  - (c) the increase or expected increase in Load Related Expenditure:
    - i. is not provided for by the sum of Load Related Expenditure ex ante non variant allowances specified in Appendix 2, and any previously directed values for  $LRE_t$  and  $SINV_t$ ;
    - ii. is not provided by the operation of Special Condition 3.9 (Load Related Expenditure Volume Drivers); and
    - iii. exceeds the Materiality Threshold.
- 3.2.76 The licensee may only apply to the Authority for modifications to this licence under the Load Related Expenditure Re-opener:
- (a) Between 24 and 31 January 2025;
  - (b) Between 24 and 31 January 2027; and
  - (c) during such other periods as the Authority may direct.
- 3.2.77 The licensee must when making an application under the Load Related Expenditure Re-opener, send to the Authority a written application that:
- (a) gives details of the circumstances under paragraph 3.2.75 that exist;
  - (b) sets out whether the licensee considers the application relates to Strategic Investment;
  - (c) sets out any modifications to the value of  $LRE_t$  in Appendix 1 being sought;
  - (d) sets out any modifications to the value of  $SINV_t$  in Appendix 1 to Special Condition 3.3 (Evaluative Price Control Deliverables) being sought;
  - (e) sets out any modifications to the outputs, delivery dates and allowances in Appendix 2 to Special Condition 3.3 being sought;
  - (f) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
  - (g) provides such detailed supporting evidence as is reasonable in the circumstances including, where available, evidence of the efficiency of the Load Related Expenditure.
- 3.2.78 An application under this Part must:
- (a) be confined to Load Related Expenditure costs incurred or expected to be incurred on or after 1 April 2023; and
  - (b) take account of allowed expenditure which can be avoided as a result of the modifications to the Load Related Expenditure requested.
- 3.2.79 The Authority may also instigate this Re-opener in accordance with Part S.
- 3.2.80 The following modifications to this licence may be made under the Load Related Expenditure Re-opener:

- (a) modifications to the value of  $LRE_t$  in Appendix 1, where those modifications do not relate to Strategic Investments;
  - (b) modifications to the value of  $SINV_t$  in Appendix 1 to Special Condition 3.3 and the outputs, delivery dates and allowances in Appendix 2 to Special Condition 3.3, where those modifications relate to Strategic Investments; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.81 Any modifications made as a result of an application under paragraph 3.2.76 must be made under section 11A (modifications of conditions of licences) of the Act.

#### **Part L: High Value Projects Re-opener (HVP<sub>t</sub>)**

- 3.2.82 This Part establishes the High Value Projects Re-opener.
- 3.2.83 The High Value Projects Re-opener may be used where the licensee has incurred or expects to incur costs on a High Value Project.
- 3.2.84 The licensee may only apply to the Authority for modifications to this licence under the High Value Projects Re-opener:
- (a) Between 24 January 2026 and 31 January 2026; and
  - (b) during such other periods as the Authority may direct.
- 3.2.85 The licensee must when making an application under the High Value Projects Re-opener, send to the Authority a written application that:
- (a) explains why the licensee considers it has incurred or expects to incur costs on a High Value Project;
  - (b) sets out the scope of work the licensee has carried out or proposes to carry out in relation to the High Value Project that is the subject of the application;
  - (c) sets out any modifications to the value of  $HVP_t$  in Appendix 1 being sought;
  - (d) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
  - (e) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.86 An application under this Part must:
- (a) be confined to costs incurred or expected to be incurred by the licensee that are not otherwise funded by the special conditions;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of allowed expenditure which can be avoided as a result of the modifications requested.



3.2.87 The following modifications to this licence may be made under the High Value Projects Re-opener:

- (a) modifications to the value of  $HVP_t$  set out in Appendix 1;
- (b) modifications confined to allowances related to High Value Projects; and
- (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.

3.2.88 The Authority may only make modifications to this licence under the High Value Projects Re-opener by direction where:

- (a) the circumstances in paragraph 3.2.843 exist;
- (b) the requirements in paragraphs 3.2.85 and 3.2.86 have been met; and
- (c) the modification to allowances is efficient.

**Part M: Wayleaves and Diversions Re-opener ( $WDV_t$ )**

3.2.89 This Part establishes the Wayleaves and Diversions Re-opener.

3.2.90 The Wayleaves and Diversions Re-opener may be used where there has been a change in the Wayleaves and Diversions Costs the licensee has incurred or expects to incur, relative to any previous allowances for such costs, that exceed the Materiality Threshold.

3.2.91 The licensee may only apply to the Authority for modifications to this licence under the Wayleaves and Diversions Re-opener:

- (a) Between 24 January 2026 and 31 January 2026; and
- (b) during such other periods as the Authority may direct.

3.2.92 The licensee must when making an application under the Wayleaves and Diversions Re-opener send to the Authority a written application that:

- (a) sets out how the criteria in paragraph 3.2.90 have been met;
- (b) sets out any options considered and discounted by the licensee, including the costs and benefits;
- (c) sets out any modifications to the value of  $WDV_t$  in Appendix 1 being sought;
- (d) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
- (e) provides such detailed supporting evidence as is reasonable in the circumstances.

3.2.93 An application under this Part must:

- (a) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
- (b) take account of allowed expenditure which can be avoided as a result of the work that is the subject of the application.

3.2.94 The following modifications to this licence may be made under the Wayleaves and Diversions Re-opener:

- (a) modifications to the value of  $WDV_t$  set out in Appendix 1;
- (b) modifications confined to allowances related to work that is the subject of the application; and
- (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.

3.2.95 The Authority may only make modifications to this licence under the Wayleaves and Diversions Re-opener by direction where:

- (a) the circumstances in paragraph 3.2.90 exist;
- (b) the requirements in paragraphs 3.2.92 and 3.2.93 have been met; and
- (c) the modification to allowances is efficient.

**Part N: [Not used]**

3.2.96 [Not used]

3.2.97 [Not used]

3.2.98 [Not used]

3.2.99 [Not used]

3.2.100 [Not used]

3.2.101 [Not used]

3.2.102 [Not used]

3.2.103 [Not used]

**Part O: Hebrides and Orkney Re-opener ( $HO_t$ )**

3.2.104 This Part establishes the Hebrides and Orkney Re-opener.

3.2.105 The Hebrides and Orkney Re-opener may be used where:

- (a) the licensee has incurred or expects to incur costs as a result of changes to the scope or timing of work relating to twelve sub-sea cables:
  - i. Skye to Uist (North route);
  - ii. Skye to Uist (South route);
  - iii. Pentland Firth West;
  - iv. Pentland Firth East;
  - v. Mainland Orkney – Hoy South;
  - vi. Orkney (additional 66kV circuit)
  - vii. Eriskay – Barra 2;
  - viii. South Uist – Eriskay;

- ix. Mull to Coll (double circuit);
  - x. Coll - Tiree (double circuit);
  - xi. Mainland - Jura (double circuit); and
  - xii. Jura - Islay (double circuit); or
- (b) the licensee has incurred costs associated with ensuring security of supply in the Scottish islands, and can demonstrate efficient whole systems considerations have been taken into account, including considering alternative activities to installing the cables listed in paragraph 3.2.105(a); or
- (c) the licensee has incurred or expects to incur costs associated with the outcomes of additional whole system analysis in the Scottish Islands to contribute to Net Zero Carbon Targets and ensure long-term security of supply, including any alternative activities to installing the cables outlined in 3.2.105(a); and
- (d) the change in those costs in paragraphs 3.2.105(a) or 3.2.105(b) exceeds the Materiality Threshold and are not otherwise funded by the special conditions.
- 3.2.106 The licensee may only apply to the Authority for modifications to this licence under the Hebrides and Orkney Re-opener:
- (a) Between 24 January 2024 and 31 January 2024;
  - (b) Between 24 January 2025 and 31 January 2025; and
  - (c) during such other periods as the Authority may direct.
- 3.2.107 The licensee must when making an application under the Hebrides and Orkney Re-opener, send to the Authority a written application that:
- (a) sets out how the criteria in paragraph 3.2.105 have been fulfilled;
  - (b) sets out the scope of work the licensee has carried out or proposes to carry out that is the subject of the application;
  - (c) sets out any modifications to the value of  $HO_t$  in Appendix 1 being sought;
  - (d) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
  - (e) provides such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.108 An application under this Part must:
- (a) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (b) take account of allowed expenditure which can be avoided as a result of work the licensee has carried out that is the subject of the application.
- 3.2.109 The following modifications to this licence may be made under the Hebrides and Orkney Re-opener:

- (a) modifications to the value of  $HO_t$  set out in Appendix 1;
  - (b) modifications confined to allowances related to work that is the subject of the application; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.110 The Authority may only make modifications to this licence under the Hebrides and Orkney Re-opener by direction where:
- (a) the circumstances in paragraph 3.2.105 exist;
  - (b) the requirements in paragraphs 3.2.107 and 3.2.108 have been met; and
  - (c) the modification to allowances is efficient.

**Part P: Shetland Enduring Solution Re-opener ( $SES_t$ )**

3.2.111 This Part establishes the Shetland Enduring Solution Re-opener.

3.2.112 The Shetland Enduring Solution Re-opener may be used where:

- (a) there has been a change in the costs the licensee has incurred or expects to incur related to the Shetland Enduring Solution, relative to any previous allowances for such costs, that exceed the Materiality Threshold; or
- (b) the licensee has incurred or expects to incur costs related to the Shetland Enduring Solution that are greater than 10% over or under the allowances set in response to an application under paragraph 3.2.112(a).

3.2.113 The licensee may only apply to the Authority for modifications to this licence under:

- (a) paragraph 3.2.112(a) Between 24 January 2024 and 31 January 2024 or during such other periods as the Authority may direct; and
- (b) paragraph 3.2.112(b) Between 24 January 2028 and 31 January 2028 or during such other periods as the Authority may direct.

3.2.114 The licensee must when making an application under the Shetland Enduring Solution Re-opener, send to the Authority a written application that:

- (a) sets out how the requirement in paragraph 3.2.112 has been fulfilled;
- (b) sets out the scope of work the licensee has carried out or proposes to carry out associated with the Shetland Enduring Solution;
- (c) sets out any modifications to the value of  $SES_t$  in Appendix 1 being sought;
- (d) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and
- (e) provides such detailed supporting evidence as is reasonable in the circumstances.

3.2.115 An application under this Part must:

- (a) be confined to costs incurred or expected to be incurred by the licensee that are not otherwise funded by the special conditions;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
  - (c) take account of allowed expenditure which can be avoided as a result of the Shetland Enduring Solution.
- 3.2.116 The following modifications to this licence may be made under the Shetland Enduring Solution Re-opener:
- (a) modifications to the value of  $SES_t$  set out in Appendix 1;
  - (b) modifications confined to allowances related to the Shetland Enduring Solution; and
  - (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.2.117 The Authority may only make modifications to this licence under the Shetland Enduring Solution Re-opener by direction where:
- (a) the circumstances in paragraph 3.2.112 exist;
  - (b) the requirements in paragraphs 3.2.114 and 3.2.115 have been met; and
  - (c) the modification to allowances is efficient.

**Part Q: Shetland Extension Fixed Energy Costs Re-opener (SEFEC<sub>t</sub>)**

- 3.2.118 This Part establishes the Shetland Extension Fixed Energy Costs Re-opener.
- 3.2.119 The Shetland Extension Fixed Energy Costs Re-opener may be used where the licensee has incurred or expects to incur Shetland Extension Fixed Energy Costs that in excess of the Materiality Threshold.
- 3.2.120 The licensee may only apply to the Authority for modifications to this licence under paragraph 3.2.119:
- (a) between 24 January 2028 and 31 January 2028; and
  - (b) during such other periods as the Authority may direct.
- 3.2.121 The licensee must when making an application under the Shetland Extension Fixed Energy Costs Re-opener, send to the Authority a written application that:
- (a) sets out how the criteria in paragraph 3.2.119 have been fulfilled;
  - (b) sets out the scope of work the licensee has carried out or proposes to carry out associated with the Shetland Extension Fixed Energy Costs;
  - (c) sets out any modifications to the value of SEFEC<sub>t</sub> in Appendix 1 being sought;
  - (d) explains the basis for calculating any modifications requested to allowances and the profiling of those allowances; and

- (e) provides such detailed supporting evidence as is reasonable in the circumstances.

3.2.122 An application under this Part must:

- (a) be confined to costs incurred or expected to be incurred by the licensee that are not otherwise funded by the special conditions;
- (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023; and
- (c) take account of allowed expenditure which can be avoided as a result of the work that led to the licensee incurring or expecting to incur Shetland Extension Fixed Energy Costs.

3.2.123 The following modifications to this licence may be made under the Shetland Extension Fixed Energy Costs Re-opener:

- (a) modifications to the value of SEFEC<sub>t</sub> set out in Appendix 1;
- (b) modifications confined to allowances related to Shetland Extension Fixed Energy Costs; and
- (c) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.

3.2.124 The Authority may only make modifications to this licence under the Shetland Extension Fixed Energy Costs Re-opener by direction where:

- (a) the circumstances in paragraph 3.2.119 exist;
- (b) the requirements in paragraphs 3.2.121 and 3.2.122 have been met; and
- (c) the modification to allowances is efficient.

#### **Part R: What process will the Authority follow in making a modification by direction?**

3.2.125 Before making a modification by direction under this licence condition the Authority must send to the licensee and publish on the Authority's Website:

- (a) the text of the proposed modifications;
- (b) the reasons for the proposed direction; and
- (c) a statement setting out the period during which representations may be made on the proposed direction, which must not be less than 28 days.

#### **Part S: Authority instigated Re-openers**

3.2.126 The Authority may also instigate the following Re-openers where the same circumstances that enable the licensee to make an application under the relevant Re-opener exist:

- (a) the Physical Security Re-opener;
- (b) the Electricity System Restoration Re-opener;
- (c) the Cyber Resilience OT Re-opener;

- (d) the Cyber Resilience IT Re-opener;
- (e) the Digitalisation Re-opener;
- (f) the Storm Arwen Re-opener; and
- (g) the Load Related Expenditure Re-opener.

3.2.127 Where a Re-opener is instigated by the Authority, any modifications to this licence will be made under section 11A (modifications of conditions of licences) of the Act.

## Appendix 1

### Uncertain Costs without Evaluative Price Control Deliverables allowances (£m)

	23/24	24/25	25/26	26/27	27/28	Total allowance (all years)
PSUP <sub>t</sub>	0	0	0	0	0	0
REC <sub>t</sub>	0	0	0	0	0	0
ESR <sub>t</sub>	0	0	0	0	0	0
EVR <sub>t</sub>	0	0	0	0	0	0
SWR <sub>t</sub>	0	0	0	0	0	0
DIGI <sub>t</sub>	0	0	0	0	0	0
SAR <sub>t</sub>	0	0	0	0	0	0
LRE <sub>t</sub>	0	0	0	0	0	0
HVP <sub>t</sub>	0	0	0	0	0	0
WDV <sub>t</sub>	0	0	0	0	0	0
HO <sub>t</sub>	0	0	0	0	0	0
SES <sub>t</sub>	0	0	0	0	0	0
SEFEC <sub>t</sub>	0	0	0	0	0	0

## Appendix 2

### Load Related Expenditure ex ante non variant allowance (£m)

Licensee	Value of Load Related Expenditure ex ante non variant allowance
ENWL	113.39
NPGN	79.27
NPGY	129.69
WMID	147.16
EMID	218.54

SWALES	122.07
SWEST	129.80
LPN	200.99
SPN	109.39
EPN	239.74
SPD	117.70
SPMW	102.70
SSEH	113.69
SSES	345.77

## Special Condition 3.3 Evaluative Price Control Deliverables

### Introduction

- 3.3.1 The purpose of this condition is to set out the Evaluative Price Control Deliverable terms, which contribute to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).
- 3.3.2 The effect of this condition is to specify the outputs, delivery dates and associated allowances for the Evaluative Price Control Deliverables. This condition also explains the assessment principles and the process the Authority must follow in assessing Evaluative Price Control Deliverables.
- 3.3.3 Reporting requirements for Evaluative Price Control Deliverables are established in Special Condition 9.3.

### Part A: The value of the Evaluative Price Control Deliverable terms

- 3.3.4 The following terms are Evaluative Price Control Deliverable terms:
- (a) the Cyber Resilience OT baseline term ( $CROT_t$ );
  - (b) the Cyber Resilience OT non-baseline term ( $CROTRE_t$ );
  - (c) the Cyber Resilience IT baseline term ( $CRIT_t$ );
  - (d) the Cyber Resilience IT non-baseline term ( $CRITRE_t$ );
  - (e) the Strategic Investment term ( $SINV_t$ );
  - (f) the New Control Room term ( $CTRL_t$ ); and
  - (g) [not used].
- 3.3.5 The value of  $CROT_t$  is derived in accordance with the following formula:

$$CROT_t = CROBA_t - CROPCD_t$$



where:

CROBA<sub>t</sub> has the value set out in the Cyber Resilience OT Baseline Allowances Table; and

CROPCD<sub>t</sub> has the value directed by the Authority in accordance with Part C.

3.3.6 The value of CROTRE<sub>t</sub> is derived in accordance with the following formula:

$$CROTRE_t = CROR_t - CROPCDR_t$$

where:

CROR<sub>t</sub> has the value set out in the Cyber Resilience OT Re-opener Allowances Table, in relation to which see Part G of Special Condition 3.2 (Uncertain Costs Re-openers); and

CROPCDR<sub>t</sub> has the value directed by the Authority in accordance with Part C.

3.3.7 The value of CRIT<sub>t</sub> is derived in accordance with the following formula:

$$CRIT_t = CRIBA_t - CRIPCD_t$$

where:

CRIBA<sub>t</sub> has the value set out in the Cyber Resilience IT Baseline Allowances Table; and

CRIPCD<sub>t</sub> has the value directed by the Authority in accordance with Part C.

3.3.8 The value of CRITRE<sub>t</sub> is derived in accordance with the following formula:

$$CRITRE_t = CRIR_t - CRIPCDR_t$$

where:

CRIR<sub>t</sub> has the value set out in the Cyber Resilience IT Re-opener Allowances Table, in relation to which see Part H of Special Condition 3.2 (Uncertain Costs Re-openers); and

CRIPCDR<sub>t</sub> has the value directed by the Authority in accordance with Part C.

3.3.9 The value of SINV<sub>t</sub> is derived in accordance with the following formula:

$$SINV_t = SINVA_t - SINVB_t$$

where:

SINVA<sub>t</sub> means the value of SINVA<sub>t</sub> set out in Appendix 1; and

SINVB<sub>t</sub> has the value zero unless the Authority directs otherwise in accordance with Part C.

3.3.10 The value of CTRL<sub>t</sub> is derived in accordance with the following formula:

$$CTRL_t = CTRLA_t - CTRLB_t$$

where:

$CTRLA_t$  means the value of  $CTRLA_t$  set out in Appendix 1; and

$CTRLB_t$  has the value zero unless the Authority directs otherwise in accordance with Part C.

3.3.11 [Not used]

**Part B: Requirement to deliver certain Evaluative Price Control Deliverables**

3.3.12 The licensee must take all reasonable steps to deliver the outputs specified in the Cyber Resilience OT PCD Table and the Cyber Resilience IT PCD Table in accordance with and by the delivery dates specified in those tables.

3.3.13 The licensee is also funded to deliver the outputs specified in Appendix 2 in accordance with and by the delivery dates specified in Appendix 2.

**Part C: Assessment of the Evaluative Price Control Deliverables**

3.3.14 The Authority may, in accordance with the assessment principles set out in this Part, direct an adjustment to allowances where the licensee has not Fully Delivered an output in the Cyber Resilience OT PCD Table, the Cyber Resilience IT PCD Table or Appendix 2.

3.3.15 In deciding whether to make a direction to adjust allowances where an Evaluative Price Control Deliverable has not been Fully Delivered and in deciding the contents of such a direction, the Authority must apply the following assessment principles:

- (a) where an output is Fully Delivered With An Alternative Specification and the licensee demonstrates that any underspends against the associated allowances are attributable to Efficiency or Innovation, the Authority may not make any adjustment to the associated allowance;
- (b) where an output is Not Delivered, the Authority may direct a reduction of the associated allowance up to the total amount of the allowance, save that the Authority must allow the licensee the costs of undertaking reasonable and necessary work until the decision to not deliver the output was made, where the licensee demonstrates that the costs were reasonable, necessary, incurred efficiently and not otherwise funded by the special conditions;
- (c) where an output is Delayed, the Authority may direct a re-profiling of the associated allowance to match the profile of the actual delivery of work or expenditure, where re-profiling would have a material impact on allowances; and
- (d) where the output is Partially Delivered or Partially Delivered With Alternative Specification, and
  - i. the licensee demonstrates that any underspend against the associated allowance is attributable to Efficiency or Innovation; and

- ii. the licensee provides a justified estimate of the proportion of the output or Consumer Outcome associated with the work delivered;
- the Authority may direct an adjustment to the associated allowance only in accordance with the following formula:

$$\text{adjustment to allowances} = ((1 - \text{proportion of output or Consumer Outcome delivered}) * \text{associated allowance})$$

- (e) where none of the circumstances described in sub-paragraphs (b) to (d) apply, the Authority may direct an adjustment to the associated allowances to allow only the efficient costs of any work carried out that contributes to the delivery of the output. When deciding on the value of any such adjustment, the Authority must:
  - i. have due regard to the particular characteristics of the output;
  - ii. have due regard to any factors that are outside of the licensee's control and that may have affected the ability of the licensee to Fully Deliver the output; and
  - iii. establish efficient costs using the following methods:
    - (AA) where these are available, using benchmarking against historical data; or
    - (BB) where historical cost data is not available, using bespoke engineering and cost assessment, employing qualitative techniques to supplement technical methods;
- (f) the Authority may not direct an increase to allowances for an Evaluative Price Control Deliverable that has not been Fully Delivered;
- (g) any adjustment to an associated allowance must allocate that allowance to Regulatory Years in accordance with the profile of actual expenditure reported by the licensee; and
- (h) the split between fast money and the RAV for any adjustments must be as set out in the ED2 Price Control Financial Model.

#### **Part D: What process will the Authority follow in making a direction?**

- 3.3.16 Before making a direction under this licence condition, the Authority must send to the licensee:
  - (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a statement setting out the period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 3.3.17 Where a direction relates to the PCFM Variable Values listed in paragraphs 3.3.4(e) and (f), the Authority must also publish the proposed direction on the Authority's Website.
- 3.3.18 The direction must set out:

- (a) the delivery status of the output that has not been Fully Delivered;
- (b) the value of the reduction to allowances and the Regulatory Years to which that adjustment relates, and
- (c) in relation to:
  - i. cyber resilience OT must specify the value of  $CROPCD_t$  and  $CROPCDR_t$ ; and
  - ii. cyber resilience IT must specify the value of  $CRIPCD_t$  and  $CRIPCDR_t$ ; and
- (d) the methodology and data that has been used to decide the matters required by sub-paragraphs (a) and (b).

## Appendix 1

### Evaluative Price Control Deliverables allowances (£m)

Term	2023/24	2024/25	2025/26	2026/27	2027/28	Total allowance (all years)
$SINVA_t$	0	0	0	0	0	0
$CTRLA_t$	0.00	1.37	3.38	6.68	1.98	13.41

## Appendix 2

### Evaluative Price Control Deliverables

Output	Delivery Date	2023/24	2024/25	2025/26	2026/27	2027/28	Total allowance (all years) £m
New Control Room	31 March 2028	0.00	1.37	3.38	6.68	1.98	13.41

## Special Condition 3.4 Use It Or Lose It Allowances

### Introduction

- 3.4.1 The purpose of this condition is to calculate the value of the Use It Or Lose It Allowance terms, which contribute to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).
- 3.4.2 These terms are incorporated into the ED2 Price Control Financial Model so as to receive neutral treatment by the Totex Incentive Mechanism.
- 3.4.3 This condition also establishes the WSC Governance Document.

## Part A: Value of the Use It Or Lose It Allowances terms

3.4.4 The following are Use It Or Lose It Allowance terms:

- (a) the Worst Served Customers term ( $WSC_t$ );
- (b) the Visual Amenity Projects term ( $VAP_t$ ); and
- (c) [not used].

## Part B: Formulae for calculating the Worst Served Customers term ( $WSC_t$ )

3.4.5 For the Regulatory Year commencing on 1 April 2023, the value of  $WSC_t$  is derived in accordance with the following formula:

$$WSC_t = \min(WSCCSE_t, WSCCSC)$$

where:

- $WSCCSE_t$  means the total expenditure on WSC Projects as reported in accordance with the RIGs; and
- $WSCCSC$  means the value of the licensee's expenditure cap for WSC Projects for the Price Control Period, as set out in Appendix 1.

3.4.6 For Regulatory Years commencing on or after 1 April 2024, the value of  $WSC_t$  is derived in accordance with the following formula:

$$WSC_t = \max \left[ \min \left( WSCCSE_t, WSCCSC - \sum_{k=2023/24}^{t-1} WSCCSE_k \right), 0 \right]$$

where:

- $WSCCSE_t$  has the meaning given in paragraph 3.4.5;
- $WSCCSC$  has the meaning given in paragraph 3.4.5; and
- $\sum_{k=2023/24}^{t-1} WSCCSE_k$  means the total expenditure during the Price Control Period on WSC Projects prior to Regulatory Year  $t$ .

3.4.7 The licensee must comply with the WSC Governance Document in its administration and delivery of its WSC Projects.

3.4.8 The WSC Governance Document may make provision for the governance and administration of the Worst Served Customers Use It Or Lose It Allowance, including:

- (a) the eligibility criteria that WSC Projects must meet; and
- (b) reporting requirements in respect of WSC Projects.

3.4.9 The procedure for issuing and amending the WSC Governance Document is provided in Special Condition 1.3 (Common procedures).

## Part C: Formulae for calculating the Visual Amenity Projects term (VAP<sub>t</sub>)

3.4.10 For the Regulatory Year commencing on 1 April 2023, the value of VAP<sub>t</sub> is derived in accordance with the following formula:

$$VAP_t = \min(VAPTE_t, VAPCAP)$$

where:

VAPTE<sub>t</sub> means the total expenditure on Visual Amenity Projects as reported in accordance with the RIGs; and

VAPCAP means the value of the licensee's expenditure cap for Visual Amenity Projects for the Price Control Period, as set out in Appendix 2.

3.4.11 For Regulatory Years commencing on or after 1 April 2024, the value of VAP<sub>t</sub> is derived in accordance with the following formula:

$$VAP_t = \max \left[ \min \left( VAPTE_t, VAPCAP - \sum_{k=2023/24}^{t-1} VAPTE_k \right), 0 \right]$$

where:

VAPTE<sub>t</sub> has the meaning given in paragraph 3.4.10;

VAPCAP has the meaning given in paragraph 3.4.10; and

$\sum_{k=2023/24}^{t-1} VAPTE_k$  means the total expenditure during the Price Control Period on Visual Amenity Projects prior to Regulatory Year *t*.

## Part D: [Not used]

3.4.12 [Not used]

3.4.13 [Not used]

## Appendix 1

### Worst Served Customers expenditure cap (WSCCSC) (£m)

Licensee	Value of cap (£m)
ENWL	20.86
NPGN	0.85
NPGY	2.97
WMID	1.49
EMID	0.10
SWALES	1.56
SWEST	0.95
LPN	0.00

SPN	11.28
EPN	16.54
SPD	5.79
SPMW	8.00
SSEH	20.92
SSES	3.03

## Appendix 2

### Visual Amenity Projects expenditure cap (VAPCAP) (£m)

Licensee	Value of cap (£m)
ENWL	6.55
NPGN	5.13
NPGY	4.65
WMID	4.52
EMID	3.00
SWALES	2.42
SWEST	4.90
LPN	0.00
SPN	8.16
EPN	7.21
SPD	2.64
SPMW	3.72
SSEH	4.50
SSES	10.55

## Appendix 3

[Not used]

### Special Condition 3.5 PCB Interventions volume driver ( $PCB_t$ )

#### Introduction

- 3.5.1 The purpose of this condition is to calculate the term  $PCB_t$  (the PCB volume driver term), which contributes to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).
- 3.5.2 The effect of this condition is to fund the licensee to carry out PCB Interventions during the Price Control Period. This is in addition to ex ante allowances.

### **Part A: Formula for calculating the PCB Interventions volume driver term (PCB<sub>t</sub>)**

3.5.3 The value of PCB<sub>t</sub> is derived in accordance with the following formula:

$$PCB_t = \frac{PCBV_t \times PCBU}{1,000,000}$$

where:

PCBV<sub>t</sub> means the total number of PCB Interventions; and

PCBU means the licensee's allowed unit cost of PCB Interventions and equals £4,026.

### **Special Condition 3.6 Net Zero Re-opener and Price Control Deliverable (NZ<sub>t</sub>)**

#### **Introduction**

3.6.1 The purpose of this condition is to calculate the term NZ<sub>t</sub> (the Net Zero Re-opener term), which contributes to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).

3.6.2 The effect of this condition is to:

(a) specify any Price Control Deliverable relating to Net Zero Developments;

(b) establish a Re-opener for the Authority to trigger amendments to any such Price Control Deliverable and the outputs, delivery dates and allowances established by the other special conditions; and

(c) provide for an assessment of the Price Control Deliverables specified in this condition.

3.6.3 This condition also explains the process the Authority will follow when making any changes under this condition.

#### **Part A: Formula for calculating the Net Zero Re-opener term (NZ<sub>t</sub>)**

3.6.4 The value of NZ<sub>t</sub> is derived in accordance with the following formula:

$$NZ_t = NZO_t - NZRO_t$$

where:

NZO<sub>t</sub> means the sum of allowances in Appendix 1; and

NZRO<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part D.



## **Part B: What is the licensee funded to deliver?**

- 3.6.5 Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances associated with those outputs.

## **Part C: Net Zero Re-opener**

- 3.6.6 This Part establishes the Net Zero Re-opener.
- 3.6.7 The Net Zero Re-opener may be used where:
- (a) a Net Zero Development has occurred or is expected to occur;
  - (b) the Net Zero Development has caused or is expected to cause the cost of Distribution Business to increase or decrease during the Price Control Period;
  - (c) the effect of the Net Zero Development on the cost of Distribution Business is not otherwise provided for in this licence;
  - (d) the effect of the Net Zero Development has not already been assessed under another Re-opener; and
  - (e) the effect, or estimated effect, of the Net Zero Development on the cost of Distribution Business exceeds the Materiality Threshold.
- 3.6.8 The Authority may make modifications under the Net Zero Re-opener at any time during the Price Control Period where the conditions in paragraph 3.6.7 are met.
- 3.6.9 The following modifications to the licence may be made under the Net Zero Re-opener:
- (a) modifications to the outputs, delivery dates and allowances in Appendix 1;
  - (b) modifications to the outputs, delivery dates and allowances in the other special conditions;
  - (c) modifications confined to outputs, delivery dates and allowances relevant to the Net Zero Development that is the subject of the Re-opener; and
  - (d) modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.
- 3.6.10 Any modifications made under the Net Zero Re-opener must be made under section 11A (modifications of conditions of licences) of the Act.

## **Part D: Assessment of the Price Control Deliverable (NZRO<sub>t</sub>)**

- 3.6.11 The Authority may, in accordance with the assessment principles set out in Part C of Special Condition 3.3 (Evaluative Price Control Deliverables), direct a value for NZRO<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 1.

## Part E: What process will the Authority follow in making a direction?

3.6.12 Before making a direction under paragraph 3.6.11, the Authority must send to the licensee and publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a statement setting out the period during which representations may be made on the proposed direction, which must not be less than 28 days.

3.6.13 A direction under paragraph 3.6.12 must set out:

- (a) the delivery status of the output that has not been Fully Delivered;
- (b) the value of the  $NZRO_t$  term and the Regulatory Years to which that adjustment relates; and
- (c) the methodology and data that has been used to decide the delivery status and value of any adjustments to the  $NZRO_t$  term.

## Appendix 1

### Net Zero Price Control Deliverables ( $NZO_t$ ) (£m)

Output	Delivery date	Regulatory Year	Regulatory Year	Regulatory Year	Regulatory Year	Regulatory Year	Total
		2023/24	2024/25	2025/26	2026/27	2027/28	

## Special Condition 3.7 Coordinated Adjustment Mechanism Re-opener ( $CAM_t$ )

### Introduction

- 3.7.1 The purpose of this condition is to establish a process for setting the value of the term  $CAM_t$  (the Coordinated Adjustment Mechanism Re-opener term), which contributes to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).
- 3.7.2 The effect of this condition is to establish a Re-opener which can be triggered by the licensee where an opportunity that delivers greater overall consumer value has been identified to reallocate responsibility for, and revenue associated with, a CAM Activity to or from a Partner Licensee.
- 3.7.3 This condition also sets out the process the Authority will follow when directing any changes as a result of the Re-opener.

### Part A: What is the scope of this Re-opener?

- 3.7.4 The licensee may apply to the Authority for a direction adjusting the value of the  $CAM_t$  term and any outputs, delivery dates and allowances within the special conditions relating to the CAM Activity for any Regulatory Year during

the Price Control Period as a result of reaching agreement to reallocate responsibility and associated revenue for a CAM Activity to or from a Partner Licensee.

## **Part B: When to make an application**

- 3.7.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.7.4 Between 23 May and 29 May in each of the Regulatory Years during the Price Control Period, or during such other periods as the Authority may direct.

## **Part C: How to make an application**

- 3.7.6 An application under paragraph 3.7.4 must:
- (a) give a description of the engagement between the licensee and the Partner Licensee which has led to the application;
  - (b) explain whether the licensee is applying to have the CAM Activity reallocated to the licensee from the Partner Licensee, or from the licensee to the Partner Licensee;
  - (c) explain why the original allocation of the CAM Activity no longer delivers greater overall consumer value, and why the reallocation does deliver greater overall consumer value;
  - (d) give a description of the CAM Activity and associated revenue that the licensee is applying to reallocate;
  - (e) set out any amendments requested to any outputs, delivery dates or allowances established by the special conditions of this licence and that of the Partner Licensee, relating to the CAM Activity;
  - (f) set out the adjustments to the value of the CAM<sub>t</sub> term for both the licensee and the Partner Licensee that the licensee is requesting and the Regulatory Years to which those adjustments relate;
  - (g) explain the basis of the calculation for the proposed adjustments to the value of the licensee and the Partner Licensee's CAM<sub>t</sub> terms or other allowances of the licensee and the Partner Licensee;
  - (h) provide such detailed supporting evidence including cost benefit analysis, impact assessments, risk mitigation, and engineering justification statements as is reasonable in the circumstances; and
  - (i) provide a copy of the agreement between the licensee and the Partner Licensee to transfer responsibility for and associated revenue of the CAM Activity.
- 3.7.7 An application under paragraph 3.7.4 must:
- (a) take account of any allowed expenditure by both the licensee and the Partner Licensee which can be avoided as a result of the change; and
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2023.

- 3.7.8 The requirement to comply with the Re-opener Guidance and Application Requirements Document when submitting a Re-opener application is established by Special Condition 9.4 (Re-opener Guidance and Application Requirements Document).

**Part D: What process will the Authority follow in making a direction?**

- 3.7.9 The Authority may only make modifications to this licence under this Re-opener by direction where the requirements of paragraphs 3.7.4, and 3.7.6 to 3.7.8 have been met.
- 3.7.10 Before making a direction under paragraph 3.7.9 the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a statement setting out the period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 3.7.11 The direction must set out:
- (a) any adjustments to the PCFM Variable Values of this licence and that of the Partner Licensee;
  - (b) the Regulatory Years to which those adjustments relate; and
  - (c) any amendments to the outputs and delivery dates established by the special conditions of this licence and that of the Partner Licensee.

**Special Condition 3.8 Carry-over Green Recovery Scheme Project Costs (CGRS<sub>t</sub>)**

**Introduction**

- 3.8.1 The purpose of this condition is to calculate the term CGRS<sub>t</sub> (the carry-over Green Recovery Scheme term). This contributes to the calculation of the Totex Allowance and is incorporated into the ED2 Price Control Financial Model so as to receive neutral treatment by the Totex Incentive Mechanism.
- 3.8.2 The effect of this condition is to carry-over remaining Green Recovery Scheme funding provided in the RII0-1 Price Control Period.

**Part A: Formulae for calculating the carry-over Green Recovery Scheme term (CGRS<sub>t</sub>)**

- 3.8.3 For the Regulatory Year commencing on 1 April 2023, the value of CGRS<sub>t</sub> is derived in accordance with the following formula:

$$CGRS_t = \min (GRE_t, EGRS)$$

where:

- GRE<sub>t</sub> means the amount incurred by the licensee on Green Recovery Scheme Project Costs; and
- EGRS means the RIIO-ED1 Green Recovery Scheme term and is derived in accordance with paragraph 3.8.5.

- 3.8.4 For Regulatory Years commencing on or after 1 April 2024, the value of CGRS<sub>t</sub> is derived in accordance with the following formula:

$$CGRS_t = \min \left( GRE_t, EGRS - \sum_{t=2023/24}^{t-1} CGRS_t \right)$$

where each term has the meaning given in paragraph 3.8.3.

- 3.8.5 The value of EGRS is derived in accordance with the following formula:

$$EGRS = \max \left( 0, TGRS - \sum_{t=2020/21}^{2022/23} GRS1_t \right)$$

where:

- TGRS means the licensee's total cap for the RIIO-1 Price Control Period and the Price Control Period as specified in Appendix 1; and
- GRS1<sub>t</sub> has the value of GRSR<sub>t</sub> as derived in accordance with Part A of Charge Restriction Condition 3N (Arrangements to exclude Green Recovery Scheme Project Costs from the Totex Incentive Mechanism) of the licence in force on 31 March 2023.

## Appendix 1

### Total Green Recovery Scheme cap (TGRS) (£m)

Licensee	TGRS (£m)
ENWL	24.40
NPgN	32.70
NPgY	31.10
WMID	21.60
EMID	20.00
SWALES	11.40
SWEST	18.00
LPN	10.10
SPN	14.70
EPN	54.70
SPD	40.80

SPMW	33.40
SSEH	17.40
SSES	31.70

### Special Condition 3.9 Load Related Expenditure volume drivers (SRVD<sub>t</sub> and LVSVD<sub>t</sub>)

#### Introduction

- 3.9.1 The purpose of this condition is to calculate the terms SRVD<sub>t</sub> (the secondary reinforcement volume driver term) and LVSVD<sub>t</sub> (the Low Voltage services volume driver term). These terms contribute to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).
- 3.9.2 The effect of this condition is to fund the licensee for Load Related Expenditure related to the activities listed at Appendix 1 and Appendix 2 during the Price Control Period.
- 3.9.3 This condition also establishes the Load Related Expenditure Volume Drivers Governance Document and the RIIO-ED2 LRE Volume Drivers Workbook as licence instruments.

#### Part A: Formulae for calculating the secondary reinforcement volume driver term (SRVD<sub>t</sub>)

- 3.9.4 The value of SRVD<sub>t</sub> is derived in accordance with the following formula:

$$SRVD_t = \frac{\sum_i SRUC_{t,i} \times SRCD_{t,i}}{1,000,000}$$

where:

SRUC<sub>t,i</sub> means the unit cost of activity type i, set out in Appendix 1; and  
 SRCD<sub>t,i</sub> means the volumes of activity delivered of type i, as set out in Appendix 1.

- 3.9.5 The value of SRVD across the Price Control Period cannot exceed the cap set out in Appendix 3.
- 3.9.6 The value of SRUC<sub>i</sub> for gross MVA or km deferred through the procurement of flexibility services is derived in accordance with the following formula:

$$SRUC_{t,i} \times \left( 1 - \left( \frac{1}{(1 + WACC_t)^n} \right) \right)$$

where:

SRUC<sub>t,i</sub> means the unit cost for secondary reinforcement activity type i, that is being deferred by flexibility;

- WACC<sub>t</sub> means vanilla weighted average cost of capital, derived in accordance with Chapter 4 of the ED2 Price Control Financial Handbook; and
- n means the forecast number of years of reinforcement deferral which cannot be more than five years.

**Part B: Formula for calculating the Low Voltage services volume driver term (LVSVD<sub>t</sub>)**

3.9.7 The value of LVSVD<sub>t</sub> is derived in accordance with the following formula:

$$LVSVD_t = \frac{\sum_i LVSUC_{t,i} \cdot LVSAR_{t,i}}{1,000,000}$$

where:

- LVSUC<sub>t,i</sub> means the unit cost of activity type i, set out in Appendix 2; and
- LVSAR<sub>t,i</sub> means the volumes of activity delivered of type i, as set out in Appendix 2.

3.9.8 The value of LVSVD across the Price Control Period cannot exceed the cap set out in Appendix 3.

**Part C: Load Related Expenditure Volume Drivers Governance Document**

3.9.9 The Load Related Expenditure Volume Drivers Governance Document forms part of this condition.

3.9.10 The Load Related Expenditure Volume Drivers Governance Document may make provision about the scope, governance, administration and review of the Load Related Expenditure volume drivers.

3.9.11 The licensee must comply with the Load Related Expenditure Volume Drivers Governance Document when:

- (a) incurring expenditure under these volume drivers; and
- (b) in relation to the review of the volume drivers.

3.9.12 The Authority may only direct modifications to the Load Related Expenditure Volume Drivers Governance Document where:

- (a) it becomes aware of modifications of the type set out in paragraph 3.9.14 that would improve the clarity or usefulness to users of the Load Related Expenditure Volume Drivers Governance Document; and
- (b) the modification will have no impact on the licensee's Allowed Revenue.

3.9.13 For the purposes of paragraph 3.9.12, it is to be presumed that a modification which serves to correct a manifest error will have no impact on the licensee's Allowed Revenue.

3.9.14 The following categories of modifications may be made under this Part:

- (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, cell labelling, renaming or re-ordering of sections or worksheets;
  - (b) deleting irrelevant material such as transitional provisions that have expired;
  - (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
  - (d) consequential changes required to reflect modifications made to the special conditions such as amendments made to the Appendices to this condition; and
  - (e) corrections of manifest errors such as discrepancies between the Load Related Expenditure Volume Drivers Governance Document and the other special conditions.
- 3.9.15 Before making a direction under paragraph 3.9.12, the Authority must send to the licensee and publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction, including why the Authority believes that the modifications meet the requirements of 3.9.12 and 3.9.14; and
  - (c) a period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 3.9.16 A direction under this Part must set out:
- (a) the modifications to the Load Related Expenditure Volume Drivers Governance Document; and
  - (b) the date from which it is to have effect of the mechanism by which that date is to be determined.
- 3.9.17 The Authority must:
- (a) ensure that any modifications of the Load Related Expenditure Volume Drivers Governance Document, whether under this Part or otherwise, are promptly incorporated into a consolidated version of the Load Related Expenditure Volume Drivers Governance Document;
  - (b) send the consolidated version to the licensee; and
  - (c) maintain a consolidated version on the Authority's Website.



## Appendix 1

### SRVD<sub>t</sub> unit cost by activity type (£)

<b>i</b>	<b>Activity delivered SRCD<sub>i</sub></b>	<b>SRUCR<sub>i</sub></b>
1	Gross MVA released by installing a ground mounted Transformer, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£63,250/MVA
2	Gross MVA released by installing a pole mounted Transformer, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£89,470/MVA
3	Gross kilometres (km) of Low Voltage underground cables installed, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£141,310/km
4	Gross kilometres (km) of high voltage underground cables installed, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£127,270/km
5	Gross kilometres (km) of Low Voltage overhead lines installed, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£49,770/km
6	Gross kilometres (km) of high voltage overhead lines installed, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£39,600/km
7	Gross MVA or km deferred through the procurement of flexibility services, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	Derived in accordance with paragraph 3.9.6

## Appendix 2

### LVSVD<sub>t</sub> unit cost by activity type (£)

<b>i</b>	<b>Activity delivered LVSARR<sub>i</sub></b>	<b>LVSUCR<sub>i</sub></b>
1	Overhead pole line – Low Voltage Service (overhead line) additions, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£350 each
2	Cable – Low Voltage Service (underground cable) additions, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£1,600 each
3	Switchgear - cut out (Metered) additions, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£300 each
4	Switchgear – fuse upgrade additions, determined in accordance with the Load Related Expenditure Volume Drivers Governance Document	£130 each

## Appendix 3

### SRVD and LVSVD – Ex ante allowances and caps for the Price Control Period (£m)

Licensee	SRVD (£m)		LVSVD (£m)	
	Ex ante allowance for RIIO-ED2	SRVD Cap	Ex ante allowance for RIIO-ED2	LVSVD Cap
ENWL	19.8	39.2	21.2	110.8
NPGN	53.9	80.9	28.3	49.7
NPGY	116.0	154.0	47.9	74.9
WMID	64.8	119.3	18.6	35.0
EMID	56.4	111.5	20.9	48.5
SWALES	39.2	65.0	6.5	22.4
SWEST	44.3	85.8	9.2	19.2
LPN	34.1	72.5	5.1	19.1
SPN	29.5	61.5	8.4	24.4
EPN	48.2	106.7	9.5	34.0
SPD	41.5	74.6	43.0	111.0
SPMW	27.8	50.6	24.7	60.2
SSEH	13.8	27.4	6.6	24.3
SSES	48.0	104.7	10.0	46.9

### Special Condition 3.10 Allowed Expenditure for 1-in-20 Severe Weather Events (OTSW<sub>t</sub>)

#### Introduction

- 3.10.1 The purpose of this condition is to calculate the 1-in-20 Severe Weather Event term (OTSW<sub>t</sub>), which contributes to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).
- 3.10.2 The effect of this condition is to provide additional allowances where the licensee has incurred Restoration Costs and Customer Support Costs as a result of a 1-in-20 Severe Weather Event.

#### Part A: Formula for calculating the 1-in-20 Severe Weather Event term (OTSW<sub>t</sub>)

- 3.10.3 The value of OTSW<sub>t</sub> is derived in accordance with the following formula:

$$OTSW_t = VAEF_t + VAEW_t$$

where:

- VAEF<sub>t</sub> means the Restoration Costs incurred by the licensee as a result of a 1-in-20 Severe Weather Event; and
- VAEW<sub>t</sub> means the Customer Support Costs incurred by the licensee as a result of a 1-in-20 Severe Weather Event.

## Appendix 1

### 1-in-20 Severe Weather Event thresholds

Licensee	Commencement threshold number (number of Distribution Higher Voltage weather related incidents in a 24 hour period)
ENWL	290
NPgN	194
NPgY	209
WMID	332
EMID	336
SWALES	217
SWEST	316
LPN	74
SPN	285
EPN	479
SPD	400
SPMW	359
SSEH	315
SSES	351

## Special Condition 3.11 Net to gross adjustment for Load Related Expenditure (NGLRE<sub>t</sub>)

### Introduction

- 3.11.1 The purpose of this condition is to establish a process for setting the value of the term NGLRE<sub>t</sub> (the net to Gross Load Related Expenditure term). This contributes to the calculation of the Totex Allowance and is incorporated into the ED2 Price Control Financial Model so as to receive neutral treatment by the Totex Incentive Mechanism.
- 3.11.2 The effect of this condition is to adjust allowances where the actual percentage of Gross Load Related Expenditure provided by Specific Customer Funded Reinforcement during the Price Control Period falls outside the Specific Customer Funded Reinforcement Percentage Band and either:

- (a) the licensee has not evidenced why the actual percentage of Gross Load Related Expenditure provided by Specific Customer Funded Reinforcement during the Price Control Period falls outside the Specific Customer Funded Reinforcement Percentage Band; or
- (b) the licensee has evidenced that an adjustment is required, unless this has already been funded by other Load Related Expenditure mechanisms in the Price Control Period.

3.11.3 This condition also sets out:

- (a) the baseline percentage of the Gross Load Related Expenditure that is expected to be funded through Specific Customer Funded Reinforcement charged to the Customer paying for the reinforcement during the Price Control Period;
- (b) reporting obligations on the licensee; and
- (c) how the Authority will make adjustments to allowances under this condition.

**Part A: Value of the net to Gross Load Related Expenditure term (NGLRE<sub>t</sub>)**

3.11.4 The value of NGLRE<sub>t</sub> is zero unless otherwise modified by the Authority in accordance with Part D.

**Part B: Baseline percentage of Gross Load Related Expenditure**

3.11.5 The baseline percentage of Gross Load Related Expenditure that it is anticipated the licensee will deliver via Specific Customer Funded Reinforcement is set out in Appendix 1.

**Part C: Reporting requirement**

3.11.6 The licensee must report to the Authority by 31 July 2028 whether:

- (a) its Actual Percentage of Gross Load Related Expenditure has fallen outside a Specific Customer Funded Reinforcement Percentage Band; and
- (b) if its Actual Percentage of Gross Load Related Expenditure has fallen outside the Specific Customer Funded Reinforcement Percentage Band, whether there is a justified reason for an adjustment to be made under Part D.

3.11.7 Where the licensee's Actual Percentage of Gross Load Related Expenditure has fallen outside its Specific Customer Funded Reinforcement Percentage Band, the licensee must use reasonable endeavours to include a detailed explanation of the following in the report required by paragraph 3.11.6:

- (a) reasons for any changes in the number of connection projects involving Specific Customer Funded Reinforcement relative to expectations at the start of the Price Control Period;

- (b) reasons why reinforcement that was forecast to be funded through Load Related Expenditure at the outset of the Price Control Period has in fact been delivered through Specific Customer Funded Reinforcement;
  - (c) reasons why reinforcement that was forecast to be funded through Specific Customer Funded Reinforcement at the outset of the Price Control Period has in fact been delivered through Load Related Expenditure;
  - (d) any changes in the licensee's use of contractors to deliver activities defined as Gross Load Related Expenditure during the Price Control Period;
  - (e) any changes in loading on the Distribution System that may be relevant to the Actual Percentage of Gross Load Related Expenditure falling outside the Specific Customer Funded Reinforcement Percentage Band; and
  - (f) any other factor relevant to the Actual Percentage of Gross Load Related Expenditure falling outside the Specific Customer Funded Reinforcement Percentage Band.
- 3.11.8 The licensee must provide such further analysis or information, in such manner and in accordance with such timescales, as the Authority may direct to enable it to undertake its assessment for the purposes of making its determination.

**Part D: Net to Gross Load Related Expenditure adjustment**

- 3.11.9 After the Price Control Period the Authority may, unless funding has already been provided for the relevant Load Related Expenditure under Part K of Special Condition 3.2 (Uncertain Costs Re-openers) or through Special Condition 3.9 (Load Related Expenditure volume drivers), modify the value of  $NGLRE_t$  where:
- (a) the Actual Percentage of Gross Load Related Expenditure has fallen outside a Specific Customer Funded Reinforcement Percentage Band; and
  - (b) either
    - i. the licensee has not evidenced why the actual percentage of Gross Load Related Expenditure provided by Specific Customer Funded Reinforcement during the Price Control Period falls outside the Specific Customer Funded Reinforcement Percentage Band; or
    - ii. the licensee has evidenced that an adjustment is justified.
- 3.11.10 Any modifications made under this Part must be made under section 11A (modifications of conditions of licences) of the Act.

## Appendix 1

### Baseline percentage of Gross Load Related Expenditure expected to be delivered via Specific Customer Funded Reinforcement

Licensee	Baseline percentage of Gross Load Related Expenditure expected to be delivered via Specific Customer Funded Reinforcement	Specific Customer Funded Reinforcement Percentage Band	Specific Customer Funded Reinforcement Percentage Band
		Upper threshold	Lower threshold
ENWL	13%	18%	8%
NPgN	4%	9%	0%
NPgY	4%	9%	0%
EMID	10%	15%	5%
WMID	13%	18%	8%
SWALES	11%	16%	6%
SWEST	10%	15%	5%
LPN	24%	29%	19%
SPN	20%	25%	15%
EPN	35%	40%	30%
SPD	4%	9%	0%
SPMW	9%	14%	4%
SSEH	24%	29%	19%
SSES	14%	19%	9%

### Special Condition 3.12 Indirects scaler ( $IS_t$ )

#### Introduction

- 3.12.1 The purpose of this condition is to calculate the term  $IS_t$  (the indirects scaler term), which contributes to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).
- 3.12.2 The effect of this condition is to provide an additional allowance for closely associated indirect costs incurred in operating expenditure where provision has been made for capital expenditure under specific PCFM Variable Values.

#### Part A: Formulae for calculating the Indirects scaler term ( $IS_t$ )

- 3.12.3 The value of  $IS_t$  is derived in accordance with following formula:

$$IS_t = UMTERM_t \times 0.108$$

where:

UMTERM<sub>t</sub> is derived in accordance with paragraph 3.12.4.

3.12.4 The value of UMTERM<sub>t</sub> is derived in accordance with the following formula:

$$UMTERM_t = LRE_t + SINVA_t + SRVD_t + LVSVD_t$$

where:

LRE<sub>t</sub> is set out in Appendix 1 of Special Condition 3.2 (Uncertain Costs Re-openers);

SINVA<sub>t</sub> is set out in Appendix 1 of Special Condition 3.3 (Evaluative Price Control Deliverables);

SRVD<sub>t</sub> is derived in accordance with Part A of Special Condition 3.9 (Load Related Expenditure volume drivers); and

LVSVD<sub>t</sub> is derived in accordance with Part B of Special Condition 3.9 (Load Related Expenditure volume drivers).

### **Special Condition 3.13 [Not used]**

### **Special Condition 3.14 [Not used]**

### **Special Condition 3.15 [Not used]**

### **Special Condition 3.16 Shetland Link Contribution**

3.16.1 The purpose of this condition is to establish a process for setting the value of the term SLKC<sub>t</sub> (the Shetland Link Contribution term), which contributes to the calculation of the Totex Allowance (in relation to which see the ED2 Price Control Financial Model).

3.16.2 The effect is to fund the licensee for the contribution the Authority decided the licensee should pay towards the cost of constructing the Shetland Transmission Link.

#### **Part A: Process for deciding the value of the Shetland Link Contribution term (SLKC<sub>t</sub>)**

3.16.3 Within one month of the Shetland Transmission Link becoming operational, the licensee must send to the Authority a written application that:

(a) states the date on which the Shetland Transmission Link became operational; and

(b) states the licensee's view on the appropriate value of the Shetland Link Contribution, which must be calculated in accordance with the Decision On SHEPD's Contribution To The Shetland Transmission Link.

3.16.4 The Authority must direct a value for SLKC<sub>t</sub> in accordance with the Decision On SHEPD's Contribution To The Shetland Transmission Link.

- 3.16.5 Within six months of the Authority making a direction under 3.16.5, the licensee must pay the Shetland Link Contribution.
- 3.16.6 The Shetland Transmission Link will be operational when it is made fully and freely available at full designed capacity to the System Operator.

**Part B: What process will the Authority follow in making a direction?**

- 3.16.7 Before making a direction under paragraph 3.16.5, the Authority must send to the licensee and publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a statement setting out the period during which representations may be made on the proposed direction, which must not be less than 28 days.



## Chapter 4: Output delivery incentives

### Special Condition 4.1 Total output delivery incentive performance (ODI<sub>t</sub>)

#### Introduction

- 4.1.1 The purpose of this condition is to calculate the term ODI<sub>t</sub> (the output delivery incentives term), which contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.1.2 The effect of this condition is to ensure that the licensee's Allowed Revenue reflects the licensee's performance in relation to the output delivery incentives.

#### Part A: Formula for calculating total output delivery incentive performance (ODI<sub>t</sub>)

- 4.1.3 The value of ODI<sub>t</sub> is derived in accordance with the following formula:

$$ODI_t = TTC_t + BMCS_t + IQ_t + MC_t + CVI_t + DSOI_t$$

where:

- TTC<sub>t</sub> is derived in accordance with Special Condition 4.2 (Time to connect output delivery incentive);
- BMCS<sub>t</sub> is derived in accordance with Special Condition 4.3 (Broad measure of customer service output delivery incentive);
- IQ<sub>t</sub> is derived in accordance with Special Condition 4.4 (Interruptions incentive scheme output delivery incentive);
- MC<sub>t</sub> is derived in accordance with Special Condition 4.5 (Major connections output delivery incentive);
- CVI<sub>t</sub> is derived in accordance with Special Condition 4.6 (Consumer vulnerability output delivery incentive); and
- DSOI<sub>t</sub> is derived in accordance with Special Condition 4.8 (Distribution System Operation output delivery incentive).

### Special Condition 4.2 Time to connect output delivery incentive (TTC<sub>t</sub>)

#### Introduction

- 4.2.1 The purpose of this condition is to calculate the term TTC<sub>t</sub> (the time to connect output delivery incentive term). This contributes to the calculation of the term ODI<sub>t</sub> (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).

- 4.2.2 The effect of this condition is to reward or penalise the licensee in relation to its performance under the time to connect output delivery incentive.

**Part A: Formula for calculating the time to connect output delivery incentive (TTC<sub>t</sub>)**

- 4.2.3 The value of TTC<sub>t</sub> is derived in accordance with the following formula:

$$TTC_t = TQA_t + TQB_t + TCA_t + TCB_t$$

where:

TQA<sub>t</sub> is the LVSSA time to quote term and is derived in accordance with Part B;

TQB<sub>t</sub> is the LVSSB time to quote term and is derived in accordance with Part C;

TCA<sub>t</sub> is the LVSSA time to connect term and is derived in accordance with Part D; and

TCB<sub>t</sub> is the LVSSB time to connect term and is derived in accordance with Part E.

**Part B: Formulae for calculating the LVSSA time to quote term (TQA<sub>t</sub>)**

- 4.2.4 The value of TQA<sub>t</sub> is derived in accordance with the following formulae:

If  $TQAP_t < TQALD_t$ ,

$$TQA_t = \min(TQARE_t, (TQALD_t - TQAP_t) \times TQAI_t)$$

If  $TQAP_t > TQAUD_t$ ,

$$TQA_t = \max(-TQARE_t, (TQAUD_t - TQAP_t) \times TQAI_t)$$

Otherwise,  $TQA_t = 0$

where:

TQARE<sub>t</sub> means the maximum adjustment to Calculated Revenue as specified for the licensee in Appendix 1;

TQAP<sub>t</sub> means the licensee's average time taken to produce a LVSSA quotation measured in Working Days;

TQAI<sub>t</sub> means the incentive rate for the LVSSA time to quote term and has the value specified for the licensee in Appendix 2;

TQALD<sub>t</sub> means the value of TQAP below which a reward must be applied, fixed at 3.26 Working Days; and

TQAUD<sub>t</sub> means the value of TQAP above which a penalty must be applied, fixed at 4.88 Working Days.

### Part C: Formulae for calculating the LVSSB time to quote term (TQB<sub>t</sub>)

4.2.5 The value of TQB<sub>t</sub> is derived in accordance with the following formulae:

If TQBP<sub>t</sub> < TQBLD<sub>t</sub>,

$$TQB_t = \min(TQBRE_t, (TQBLD_t - TQBP_t) \times TQBI_t)$$

If TQBP<sub>t</sub> > TQBUD<sub>t</sub>,

$$TQB_t = \max(-TQBRE_t, (TQBUD_t - TQBP_t) \times TQBI_t)$$

Otherwise,  $TQB_t = 0$

where:

TQBRE<sub>t</sub> means the maximum adjustment to Calculated Revenue as specified for the licensee in Appendix 3;

TQBP<sub>t</sub> means the licensee's average time taken to produce a LVSSB quotation measured in Working Days;

TQBI<sub>t</sub> means the incentive rate for the LVSSB time to quote term and has the value specified for the licensee in Appendix 4;

TQBLD<sub>t</sub> means the value of TQBP below which a reward must be applied, fixed at 5.47 Working Days; and

TQBUD<sub>t</sub> means the value of TQBP above which a penalty must be applied, fixed at 8.21 Working Days.

### Part D: Formulae for calculating the LVSSA time to connect term (TCA<sub>t</sub>)

4.2.6 The value of TCA<sub>t</sub> is derived in accordance with the following formulae:

If TCAP<sub>t</sub> < TCALD<sub>t</sub>,

$$TCA_t = \min(TCARE_t, (TCALD_t - TCAP_t) \times TCAI_t)$$

If TCAP<sub>t</sub> > TCAUD<sub>t</sub>,

$$TCA_t = \max(-TCARE_t, (TCAUD_t - TCAP_t) \times TCAI_t)$$

Otherwise,  $TCA_t = 0$

where:

TCARE<sub>t</sub> means the maximum adjustment to Calculated Revenue as specified for the licensee in Appendix 5;

TCAP<sub>t</sub> means the licensee's average time taken from acceptance of a LVSSA connection offer to completion of the connection measured in Working Days;

TCAI<sub>t</sub> means the incentive rate for the LVSSA time to connect term and has the value specified for the licensee in Appendix 6;

- TCALD<sub>t</sub> means the value of TCAP below which a reward must be applied, fixed at 28.54 Working Days; and
- TCAUD<sub>t</sub> means the value of TCAP above which a penalty must be applied, fixed at 42.80 Working Days.

#### **Part E: Formulae for calculating the LVSSB time to connect term (TCB<sub>t</sub>)**

4.2.7 The value of TCB<sub>t</sub> is derived in accordance with the following formulae:

If TCBP<sub>t</sub> < TCBLD<sub>t</sub>,

$$TCB_t = \min(TCBRE_t, (TCBLD_t - TCBP_t) \times TCBI_t)$$

If TCBP<sub>t</sub> > TCBUD<sub>t</sub>,

$$TCB_t = \max(-TCBRE_t, (TCBUD_t - TCBP_t) \times TCBI_t)$$

Otherwise,  $TCB_t = 0$

where:

- TCBRE<sub>t</sub> means the maximum adjustment to Calculated Revenue as specified for the licensee in Appendix 7;
- TCBP<sub>t</sub> means the licensee's average time taken from acceptance of a LVSSB connection offer to completion of the connection measured in Working Days;
- TCBI<sub>t</sub> means the incentive rate for the LVSSB time to connect term and has the value specified for the licensee in Appendix 8;
- TCBLD<sub>t</sub> means the value of TCBP below which a reward must be applied, fixed at 35.44 Working Days; and
- TCBUD<sub>t</sub> means the value of TCBP above which a penalty must be applied, fixed at 53.16 Working Days.

### **Appendix 1**

#### **Maximum revenue exposure adjustment for the LVSSA time to quote term (TQARE<sub>t</sub>) (£m)**

<b>Licensee</b>	<b>TQARE<sub>t</sub> (£m)</b>
ENWL	0.327
NPgN	0.243
NPgY	0.335
WMID	0.422
EMID	0.432
SWALES	0.216
SWEST	0.328

LPN	0.284
SPN	0.294
EPN	0.458
SPD	0.311
SPMW	0.347
SSEH	0.233
SSES	0.438

## Appendix 2

### Incentive rate for the LVSSA time to quote term (TQAI<sub>t</sub>) (£m)

Licensee	TQAI <sub>t</sub> (£m)
ENWL	0.26803
NPgN	0.19918
NPgY	0.27459
WMID	0.34590
EMID	0.35410
SWALES	0.17705
SWEST	0.26885
LPN	0.23279
SPN	0.24098
EPN	0.37541
SPD	0.25492
SPMW	0.28443
SSEH	0.19098
SSES	0.35902

## Appendix 3

### Maximum revenue exposure adjustment for the LVSSB time to quote term (TQBRE<sub>t</sub>) (£m)

Licensee	TQBRE <sub>t</sub> (£m)
ENWL	0.327
NPgN	0.243
NPgY	0.335
WMID	0.422
EMID	0.432
SWALES	0.216

SWEST	0.328
LPN	0.284
SPN	0.294
EPN	0.458
SPD	0.311
SPMW	0.347
SSEH	0.233
SSES	0.438

#### Appendix 4

##### Incentive rate for the LVSSB time to quote term (£m) (TQBI<sub>t</sub>)

Licensee	TQBI <sub>t</sub> (£m)
ENWL	0.15951
NPgN	0.11854
NPgY	0.16341
WMID	0.20585
EMID	0.21073
SWALES	0.10537
SWEST	0.16000
LPN	0.13854
SPN	0.14341
EPN	0.22341
SPD	0.15171
SPMW	0.16927
SSEH	0.11366
SSES	0.21366

#### Appendix 5

##### Maximum revenue exposure adjustment for the LVSSA time to connect term (TCARE<sub>t</sub>) (£m)

Licensee	TCARE <sub>t</sub> (£m)
ENWL	0.327

NPgN	0.243
NPgY	0.335
WMID	0.422
EMID	0.432
SWALES	0.216
SWEST	0.328
LPN	0.284
SPN	0.294
EPN	0.458
SPD	0.311
SPMW	0.347
SSEH	0.233
SSES	0.438

## Appendix 6

### Incentive rate for the LVSSA time to connect term (TCAI<sub>t</sub>) (£m)

Licensee	TCAI <sub>t</sub> (£m)
ENWL	0.03056
NPgN	0.02271
NPgY	0.03131
WMID	0.03944
EMID	0.04037
SWALES	0.02019
SWEST	0.03065
LPN	0.02654
SPN	0.02748
EPN	0.04280
SPD	0.02907
SPMW	0.03243
SSEH	0.02178
SSES	0.04093

## Appendix 7

### Maximum revenue exposure adjustment for the LVSSB time to connect term (TCBRE<sub>t</sub>) (£m)

Licensee	TCBRE <sub>t</sub> (£m)
ENWL	0.327
NPgN	0.243
NPgY	0.335
WMID	0.422
EMID	0.432
SWALES	0.216
SWEST	0.328
LPN	0.284
SPN	0.294
EPN	0.458
SPD	0.311
SPMW	0.347
SSEH	0.233
SSES	0.438

## Appendix 8

### Incentive rate for the LVSSB time to connect term (TCBI<sub>t</sub>) (£m)

Licensee	TCBI <sub>t</sub> (£m)
ENWL	0.02460
NPgN	0.01828
NPgY	0.02521
WMID	0.03175
EMID	0.03251
SWALES	0.01625
SWEST	0.02468
LPN	0.02137
SPN	0.02212
EPN	0.03446
SPD	0.02340
SPMW	0.02611



SSEH	0.01753
SSES	0.03296

### **Special Condition 4.3 Broad measure of customer service output delivery incentive (BMCS<sub>t</sub>)**

#### **Introduction**

- 4.3.1 The purpose of this condition is to calculate the term BMCS<sub>t</sub> (the broad measure of customer service output delivery incentive term). This contributes to the calculation of the term ODI<sub>t</sub> (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.3.2 The effect of this condition is to reward or penalise the licensee in relation to its performance under the broad measure of customer service output delivery incentive, where such performance falls above or below the deadband.

#### **Part A: Formula for calculating the broad measure of customer service output delivery incentive term (BMCS<sub>t</sub>)**

- 4.3.3 The value of BMCS<sub>t</sub> is derived in accordance with the following formula:

$$BMCS_t = CSA_t + CSB_t + CSC_t + CM_t$$

where:

- CSA<sub>t</sub> means the supply interruptions customer satisfaction term and is derived in accordance with Part B;
- CSB<sub>t</sub> means the connections customer satisfaction term and is derived in accordance with Part C;
- CSC<sub>t</sub> means the general enquiries customer satisfaction term and is derived in accordance with Part D; and
- CM<sub>t</sub> means the Complaints Metric term and is derived in accordance with Part E.

#### **Part B: Formulae for calculating the supply interruptions customer satisfaction term (CSA<sub>t</sub>)**

- 4.3.4 The value of CSA<sub>t</sub> is derived in accordance with the following formulae:

If  $SIDL_t \leq SIAS_t \leq SIDU_t$  then:

$$CSA_t = \max(-SIMP_t, -(PUC_t \times 100) \times UCPIR_t)$$

If  $SIAS_t > SIDU_t$ , then:

$$CSA_t = \min(SIMR_t, \max(-SIMP_t, ((SIAS_t - SIDU_t) \times SIRIR_t) - ((PUC_t \times 100) \times UCPIR_t)))$$

If  $SIAS_t < SIDL_t$ , then:

$$CSA_t = \max(-SIMP_t, ((SIAS_t - SIDL_t) \times SIPIR_t) - ((PUC_t \times 100) \times UCPIR_t))$$

where:

- $SIDL_t$  means the lower deadband value for the Supply Interruptions Element of the Customer Satisfaction Survey and equals 8.90;
- $SIAS_t$  means the licensee's actual performance for the Supply Interruptions Element of the Customer Satisfaction Survey, as measured in accordance with the RIGs;
- $SIDU_t$  means the upper deadband value for the Supply Interruptions Element of the Customer Satisfaction Survey and equals 9.12;
- $SIMR_t$  means the maximum reward in respect of the Supply Interruptions Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 1;
- $SIRIR_t$  means the licensee's reward incentive rate for the Supply Interruptions Element of the Customer Satisfaction Survey, as specified in Appendix 2;
- $SIMP_t$  means the maximum penalty in respect of the Supply Interruptions Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 3;
- $SIPIR_t$  means the licensee's penalty incentive rate for the Supply Interruptions Element of the Customer Satisfaction Survey, as specified in Appendix 4;
- $PUC_t$  is derived in accordance with the following formula:

$$\frac{\text{total number of Unsuccessful Calls to the licensee's Specified Lines}}{\text{total number of calls to the licensee's Specified Lines}}$$

and

- $UCPIR_t$  means the licensee's penalty incentive rate for the number of Unsuccessful Calls to the licensee's Specified Lines, as specified in Appendix 5.

### **Part C: Formulae for calculating the connections customer satisfaction term (CSB<sub>t</sub>)**

4.3.5 The value of  $CSB_t$  is derived in accordance with the following formulae:

If  $CDL_t \leq CAS_t \leq CDU_t$  then:

$$CSB_t = 0$$

If  $CAS_t > CDU_t$  then:

$$CSB_t = \min(CMR_t, ((CAS_t - CDU_t) \times CRIR_t))$$

If  $CAS_t < CDL_t$  then:

$$CSB_t = \max(-CMP_t, ((CAS_t - CDL_t) \times CPIR_t))$$

where:

- CDL<sub>t</sub> means the lower deadband value for the Connections Element of the Customer Satisfaction Survey and equals 8.90;
- CAS<sub>t</sub> means the licensee's actual performance for the Connections Element of the Customer Satisfaction Survey, as measured in accordance with the RIGs;
- CDU<sub>t</sub> means the upper deadband value for the Connections Element of the Customer Satisfaction Survey and equals 9.12;
- CMR<sub>t</sub> means the maximum reward in respect of the Connections Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 6;
- CRIR<sub>t</sub> means the licensee's reward incentive rate for the Connections Element of the Customer Satisfaction Survey, as specified in Appendix 7;
- CMP<sub>t</sub> means the maximum penalty in respect of the Connections Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 8; and
- CPIR<sub>t</sub> means the licensee's penalty incentive rate for the Connections Element of the Customer Satisfaction Survey, as specified in Appendix 9.

#### **Part D: Formulae for calculating the general enquiries customer satisfaction term (CSC<sub>t</sub>)**

4.3.6 The value of CSC<sub>t</sub> is derived in accordance with the following formulae:

If  $GEDL_t \leq GEAS_t \leq GEDU_t$  then:

$$CSC_t = 0$$

If  $GEAS_t > GEDU_t$  then:

$$CSC_t = \min(GEMR_t, ((GEAS_t - GEDU_t) \times GERIR_t))$$

If  $GEAS_t < GEDL_t$  then:

$$CSC_t = \max(-GEMP_t, ((GEAS_t - GEDL_t) \times GEPIR_t))$$

where:

- GEDL<sub>t</sub> means the lower deadband value for the General Enquiries Element of the Customer Satisfaction Survey and equals 8.90;
- GEAS<sub>t</sub> means the licensee's actual performance for the General Enquiries Element of the Customer Satisfaction Survey, as measured in accordance with the RIGs;

GEDU <sub>t</sub>	means the upper deadband value for the General Enquiries Element of the Customer Satisfaction Survey and equals 9.12;
GEMR <sub>t</sub>	means the maximum reward in respect of the General Enquiries Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 10;
GERIR <sub>t</sub>	means the licensee's reward incentive rate for the General Enquiries Element of the Customer Satisfaction Survey, as specified in Appendix 11;
GEMP <sub>t</sub>	means the maximum penalty in respect of the General Enquiries Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 12; and
GEPIR <sub>t</sub>	means the licensee's penalty incentive rate for the General Enquiries Element of the Customer Satisfaction Survey, as specified in Appendix 13.

#### **Part E: Formulae for calculating the Complaints Metric term (CM<sub>t</sub>)**

4.3.7 The value of CM<sub>t</sub> is derived in accordance with the following formulae:

If  $CMAS_t \leq CMT_t$ , then:

$$CM_t = 0$$

If  $CMAS_t > CMT_t$  then:

$$CM_t = \max(-CMMP_t, (CMT_t - CMAS_t) \times IRCM_t)$$

where:

CMAS <sub>t</sub>	means the licensee's actual performance in relation to the Complaints Metric and is derived in accordance with paragraph 4.3.8;
CMT <sub>t</sub>	means the target for the Complaints Metric and equals 2.80;
CMMP <sub>t</sub>	means the maximum penalty in respect of the Complaints Metric for the licensee, as specified in Appendix 14; and
IRCM <sub>t</sub>	means the licensee's incentive rate for the Complaints Metric, as specified in Appendix 15.

4.3.8 The value of CMAS<sub>t</sub> is derived in accordance with the following formula:

$$CMAS_t = (PURCD_t \times 0.1) + (PURCM_t \times 0.3) + (PRC_t \times 0.5) + (POF_t \times 0.1)$$

where:

PURCD <sub>t</sub>	means the number of Unresolved Complaints by the end of the first Working Day after the day on which the Complaint was first received, expressed as a percentage of total Complaints;
PURCM <sub>t</sub>	means the number of Unresolved Complaints after the end of 31 calendar days from the end of the first Working Day after the day

- on which the Complaint was first received, expressed as a percentage of total Complaints;
- PRC<sub>t</sub> means the number of Repeat Complaints, expressed as a percentage of total Complaints; and
- POF<sub>t</sub> means the number of Energy Ombudsman Findings Against the Licensee, expressed as a percentage of total Complaints.

## Appendix 1

### Maximum reward in respect of the Supply Interruptions Element of the Customer Satisfaction Survey (SIMR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.047	1.047	1.047	1.047	1.047
NPgN	0.778	0.778	0.778	0.778	0.778
NPgY	1.073	1.073	1.073	1.073	1.073
WMID	1.351	1.351	1.351	1.351	1.351
EMID	1.383	1.383	1.383	1.383	1.383
SWALES	0.691	0.691	0.691	0.691	0.691
SWEST	1.049	1.049	1.049	1.049	1.049
LPN	0.908	0.908	0.908	0.908	0.908
SPN	0.939	0.939	0.939	0.939	0.939
EPN	1.467	1.467	1.467	1.467	1.467
SPD	0.997	0.997	0.997	0.997	0.997
SPMW	1.109	1.109	1.109	1.109	1.109
SSEH	0.744	0.744	0.744	0.744	0.744
SSES	1.403	1.403	1.403	1.403	1.403

## Appendix 2

### Reward incentive rate for the Supply Interruptions Element of the Customer Satisfaction Survey (SIRIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	3.148	3.148	3.148	3.148	3.148
NPgN	2.339	2.339	2.339	2.339	2.339
NPgY	3.226	3.226	3.226	3.226	3.226
WMID	4.062	4.062	4.062	4.062	4.062
EMID	4.158	4.158	4.158	4.158	4.158
SWALES	2.078	2.078	2.078	2.078	2.078
SWEST	3.154	3.154	3.154	3.154	3.154

LPN	2.730	2.730	2.730	2.730	2.730
SPN	2.823	2.823	2.823	2.823	2.823
EPN	4.411	4.411	4.411	4.411	4.411
SPD	2.998	2.998	2.998	2.998	2.998
SPMW	3.334	3.334	3.334	3.334	3.334
SSEH	2.237	2.237	2.237	2.237	2.237
SSES	4.218	4.218	4.218	4.218	4.218

### Appendix 3

#### Maximum penalty in respect of the Supply Interruptions Element of the Customer Satisfaction Survey (SIMP<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.047	1.047	1.047	1.047	1.047
NPgN	0.778	0.778	0.778	0.778	0.778
NPgY	1.073	1.073	1.073	1.073	1.073
WMID	1.351	1.351	1.351	1.351	1.351
EMID	1.383	1.383	1.383	1.383	1.383
SWALES	0.691	0.691	0.691	0.691	0.691
SWEST	1.049	1.049	1.049	1.049	1.049
LPN	0.908	0.908	0.908	0.908	0.908
SPN	0.939	0.939	0.939	0.939	0.939
EPN	1.467	1.467	1.467	1.467	1.467
SPD	0.997	0.997	0.997	0.997	0.997
SPMW	1.109	1.109	1.109	1.109	1.109
SSEH	0.744	0.744	0.744	0.744	0.744
SSES	1.403	1.403	1.403	1.403	1.403

### Appendix 4

#### Penalty incentive rate for the Supply Interruptions Element of the Customer Satisfaction Survey (SIPIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	3.148	3.148	3.148	3.150	3.150
NPgN	2.340	2.340	2.340	2.340	2.340
NPgY	3.230	3.230	3.230	3.230	3.230
WMID	4.060	4.060	4.060	4.060	4.060
EMID	4.160	4.160	4.160	4.160	4.160
SWALES	2.080	2.080	2.080	2.080	2.080

SWEST	3.150	3.150	3.150	3.150	3.150
LPN	2.730	2.730	2.730	2.730	2.730
SPN	2.820	2.820	2.820	2.820	2.820
EPN	4.410	4.410	4.410	4.410	4.410
SPD	3.000	3.000	3.000	3.000	3.000
SPMW	3.330	3.330	3.330	3.330	3.330
SSEH	2.240	2.240	2.240	2.240	2.240
SSES	4.220	4.220	4.220	4.220	4.220

### Appendix 5

#### Penalty incentive rate for the number of Unsuccessful Calls to the licensee's Specified Lines (UCPIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.078	0.078	0.078	0.078	0.078
NPgN	0.055	0.055	0.055	0.055	0.055
NPgY	0.072	0.072	0.072	0.072	0.072
WMID	0.084	0.084	0.084	0.084	0.084
EMID	0.085	0.085	0.085	0.085	0.085
SWALES	0.042	0.042	0.042	0.042	0.042
SWEST	0.061	0.061	0.061	0.061	0.061
LPN	0.074	0.074	0.074	0.074	0.074
SPN	0.072	0.072	0.072	0.072	0.072
EPN	0.111	0.111	0.111	0.111	0.111
SPD	0.078	0.078	0.078	0.078	0.078
SPMW	0.082	0.082	0.082	0.082	0.082
SSEH	0.043	0.043	0.043	0.043	0.043
SSES	0.110	0.110	0.110	0.110	0.110

### Appendix 6

#### Maximum reward in respect of the Connections Element of the Customer Satisfaction Survey (CMR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.745	1.745	1.745	1.745	1.745
NPgN	1.296	1.296	1.296	1.296	1.296
NPgY	1.789	1.789	1.789	1.789	1.789
WMID	2.252	2.252	2.252	2.252	2.252
EMID	2.305	2.305	2.305	2.305	2.305

SWALES	1.152	1.152	1.152	1.152	1.152
SWEST	1.749	1.749	1.749	1.749	1.749
LPN	1.513	1.513	1.513	1.513	1.513
SPN	1.566	1.566	1.566	1.566	1.566
EPN	2.445	2.445	2.445	2.445	2.445
SPD	1.661	1.661	1.661	1.661	1.661
SPMW	1.849	1.849	1.849	1.849	1.849
SSEH	1.240	1.240	1.240	1.240	1.240
SSES	2.338	2.338	2.338	2.338	2.338

### Appendix 7

#### Reward incentive rate for the Connections Element of the Customer Satisfaction Survey (CRIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	5.246	5.246	5.246	5.246	5.246
NPgN	3.896	3.896	3.896	3.896	3.896
NPgY	5.379	5.379	5.379	5.379	5.379
WMID	6.771	6.771	6.771	6.771	6.771
EMID	6.930	6.930	6.930	6.930	6.930
SWALES	3.464	3.464	3.464	3.464	3.464
SWEST	5.258	5.258	5.258	5.258	5.258
LPN	4.549	4.549	4.549	4.549	4.549
SPN	4.708	4.708	4.708	4.708	4.708
EPN	7.351	7.351	7.351	7.351	7.351
SPD	4.994	4.994	4.994	4.994	4.994
SPMW	5.559	5.559	5.559	5.559	5.559
SSEH	3.728	3.728	3.728	3.728	3.728
SSES	7.029	7.029	7.029	7.029	7.029

### Appendix 8

#### Maximum penalty in respect of the Connections Element of the Customer Satisfaction Survey (CMP<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.745	1.745	1.745	1.745	1.745



NPgN	1.296	1.296	1.296	1.296	1.296
NPgY	1.789	1.789	1.789	1.789	1.789
WMID	2.252	2.252	2.252	2.252	2.252
EMID	2.305	2.305	2.305	2.305	2.305
SWALES	1.152	1.152	1.152	1.152	1.152
SWEST	1.749	1.749	1.749	1.749	1.749
LPN	1.513	1.513	1.513	1.513	1.513
SPN	1.566	1.566	1.566	1.566	1.566
EPN	2.445	2.445	2.445	2.445	2.445
SPD	1.661	1.661	1.661	1.661	1.661
SPMW	1.849	1.849	1.849	1.849	1.849
SSEH	1.240	1.240	1.240	1.240	1.240
SSES	2.338	2.338	2.338	2.338	2.338

## Appendix 9

### Penalty incentive rate for the Connections Element of the Customer Satisfaction Survey (CPIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	5.246	5.246	5.246	5.246	5.246
NPgN	3.896	3.896	3.896	3.896	3.896
NPgY	5.379	5.379	5.379	5.379	5.379
WMID	6.771	6.771	6.771	6.771	6.771
EMID	6.930	6.930	6.930	6.930	6.930
SWALES	3.464	3.464	3.464	3.464	3.464
SWEST	5.258	5.258	5.258	5.258	5.258
LPN	4.549	4.549	4.549	4.549	4.549
SPN	4.708	4.708	4.708	4.708	4.708
EPN	7.351	7.351	7.351	7.351	7.351
SPD	4.994	4.994	4.994	4.994	4.994
SPMW	5.559	5.559	5.559	5.559	5.559
SSEH	3.728	3.728	3.728	3.728	3.728
SSES	7.029	7.029	7.029	7.029	7.029

## Appendix 10

### Maximum reward in respect of the General Enquiries Element of the Customer Satisfaction Survey (GEMR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.698	0.698	0.698	0.698	0.698
NPgN	0.519	0.519	0.519	0.519	0.519
NPgY	0.716	0.716	0.716	0.716	0.716
WMID	0.901	0.901	0.901	0.901	0.901
EMID	0.922	0.922	0.922	0.922	0.922
SWALES	0.461	0.461	0.461	0.461	0.461
SWEST	0.700	0.700	0.700	0.700	0.700
LPN	0.605	0.605	0.605	0.605	0.605
SPN	0.626	0.626	0.626	0.626	0.626
EPN	0.978	0.978	0.978	0.978	0.978
SPD	0.665	0.665	0.665	0.665	0.665
SPMW	0.739	0.739	0.739	0.739	0.739
SSEH	0.496	0.496	0.496	0.496	0.496
SSES	0.935	0.935	0.935	0.935	0.935

## Appendix 11

### Reward incentive rate for the General Enquiries Element of the Customer Satisfaction Survey (GERIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	2.099	2.099	2.099	2.099	2.099
NPgN	1.560	1.560	1.560	1.560	1.560
NPgY	2.153	2.153	2.153	2.153	2.153
WMID	2.709	2.709	2.709	2.709	2.709
EMID	2.772	2.772	2.772	2.772	2.772
SWALES	1.386	1.386	1.386	1.386	1.386
SWEST	2.105	2.105	2.105	2.105	2.105
LPN	1.819	1.819	1.819	1.819	1.819
SPN	1.882	1.882	1.882	1.882	1.882
EPN	2.940	2.940	2.940	2.940	2.940
SPD	1.999	1.999	1.999	1.999	1.999
SPMW	2.222	2.222	2.222	2.222	2.222
SSEH	1.491	1.491	1.491	1.491	1.491

SSES	2.811	2.811	2.811	2.811	2.811
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## Appendix 12

### Maximum penalty in respect of the General Enquiries Element of the Customer Satisfaction Survey (GEMP<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.698	0.698	0.698	0.698	0.698
NPgN	0.519	0.519	0.519	0.519	0.519
NPgY	0.716	0.716	0.716	0.716	0.716
WMID	0.901	0.901	0.901	0.901	0.901
EMID	0.922	0.922	0.922	0.922	0.922
SWALES	0.461	0.461	0.461	0.461	0.461
SWEST	0.700	0.700	0.700	0.700	0.700
LPN	0.605	0.605	0.605	0.605	0.605
SPN	0.626	0.626	0.626	0.626	0.626
EPN	0.978	0.978	0.978	0.978	0.978
SPD	0.665	0.665	0.665	0.665	0.665
SPMW	0.739	0.739	0.739	0.739	0.739
SSEH	0.496	0.496	0.496	0.496	0.496
SSES	0.935	0.935	0.935	0.935	0.935

## Appendix 13

### Penalty incentive rate for the General Enquiries Element of the Customer Satisfaction Survey (GEPIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	2.099	2.099	2.099	2.099	2.099
NPgN	1.560	1.560	1.560	1.560	1.560
NPgY	2.153	2.153	2.153	2.153	2.153
WMID	2.709	2.709	2.709	2.709	2.709
EMID	2.772	2.772	2.772	2.772	2.772
SWALES	1.386	1.386	1.386	1.386	1.386
SWEST	2.105	2.105	2.105	2.105	2.105
LPN	1.819	1.819	1.819	1.819	1.819
SPN	1.882	1.882	1.882	1.882	1.882
EPN	2.940	2.940	2.940	2.940	2.940
SPD	1.999	1.999	1.999	1.999	1.999

SPMW	2.222	2.222	2.222	2.222	2.222
SSEH	1.491	1.491	1.491	1.491	1.491
SSES	2.811	2.811	2.811	2.811	2.811

#### Appendix 14

##### Maximum penalty in respect of the Complaints Metric (CMMP<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.745	1.745	1.745	1.745	1.745
NPgN	1.296	1.296	1.296	1.296	1.296
NPgY	1.789	1.789	1.789	1.789	1.789
WMID	2.252	2.252	2.252	2.252	2.252
EMID	2.305	2.305	2.305	2.305	2.305
SWALES	1.152	1.152	1.152	1.152	1.152
SWEST	1.749	1.749	1.749	1.749	1.749
LPN	1.513	1.513	1.513	1.513	1.513
SPN	1.566	1.566	1.566	1.566	1.566
EPN	2.445	2.445	2.445	2.445	2.445
SPD	1.661	1.661	1.661	1.661	1.661
SPMW	1.849	1.849	1.849	1.849	1.849
SSEH	1.240	1.240	1.240	1.240	1.240
SSES	2.338	2.338	2.338	2.338	2.338

#### Appendix 15

##### Incentive rate for the Complaints Metric (IRCM<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.554	0.554	0.554	0.554	0.554
NPgN	0.411	0.411	0.411	0.411	0.411
NPgY	0.568	0.568	0.568	0.568	0.568
WMID	0.714	0.714	0.714	0.714	0.714
EMID	0.731	0.731	0.731	0.731	0.731
SWALES	0.365	0.365	0.365	0.365	0.365
SWEST	0.555	0.555	0.555	0.555	0.555
LPN	0.480	0.480	0.480	0.480	0.480
SPN	0.497	0.497	0.497	0.497	0.497
EPN	0.776	0.776	0.776	0.776	0.776
SPD	0.527	0.527	0.527	0.527	0.527

SPMW	0.587	0.587	0.587	0.587	0.587
SSEH	0.393	0.393	0.393	0.393	0.393
SSES	0.742	0.742	0.742	0.742	0.742

## **Special Condition 4.4 Interruptions incentive scheme output delivery incentive ( $IQ_t$ )**

### Introduction

- 4.4.1 The purpose of this condition is to calculate the term  $IQ_t$  (the interruptions incentive scheme output delivery incentive term). This contributes to the calculation of the term  $ODI_t$  (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.4.2 The effect of the condition is to reward or penalise the licensee in relation to its performance under the interruptions incentive scheme output delivery incentive.

### **Part A: Formula for calculating the interruptions incentive scheme output delivery incentive term ( $IQ_t$ )**

- 4.4.3 The value of  $IQ_t$  is derived in accordance with the following formula:

$$IQ_t = (QZ_t + QC_t + QD_t)$$

where:

- $QZ_t$  is the interruptions term and is derived in accordance with Part B;
- $QC_t$  is the severe weather supply Restoration term and is derived in accordance with Part E; and
- $QD_t$  is the normal weather supply Restoration term and is derived in accordance with Part F.

### **Part B: Formulae for calculating the interruptions term ( $QZ_t$ )**

- 4.4.4 The value of  $QZ_t$  is derived in accordance with the following formula:

$$QZ_t = \max\left(\min(RCAP_t, QA_t + QB_t), -PCAP_t\right)$$

provided that:

$$QZ_t + SWE_t \geq -TRIIS_t$$

and where that is not the case,  $QZ_t$  is derived in accordance with the following formula:

$$QZ_t = -TRIIS_t - SWE_t$$

where:

RCAP <sub>t</sub>	is the reward cap for the Customer interruptions and minutes lost term and has the value specified for the licensee in Appendix 1;
PCAP <sub>t</sub>	is the penalty cap for the Customer interruptions and minutes lost term and has the value specified for the licensee in Appendix 2;
QA <sub>t</sub>	is the Customer interruptions term and is derived in accordance with Part C;
QB <sub>t</sub>	is the duration of Customer interruptions term and is derived in accordance with Part D;
SWE <sub>t</sub>	is derived in accordance with the following formula, with all the terms defined in Part E: $SWE_t = QC_t - \min((SWPM_t - SWPD_t) \times (FPPR - 1), 0) - \min(SWPM_t, SWPD_t)$ and
TRIIS <sub>t</sub>	means the maximum amount of revenue that is exposed to penalties under all elements of IQ <sub>t</sub> and has the value specified for the licensee in Appendix 3.

### **Part C: Formulae for calculating the Customer interruptions term (QA<sub>t</sub>)**

4.4.5 The value of QA<sub>t</sub> is derived in accordance with the following formula:

$$QA_t = (TA_t - CIIS_t) \times IRA_t \times TIS_t$$

where:

TA <sub>t</sub>	means the target for the number of Customers interrupted and is derived in accordance with paragraph 4.4.6;
CIIS <sub>t</sub>	means the performance of the licensee in respect of the number of Customers interrupted and is derived in accordance with paragraph 4.4.7;
IRA <sub>t</sub>	means the incentive rate for the number of Customers interrupted as specified for the licensee in Appendix 5; and
TIS <sub>t</sub>	means the Totex Incentive Strength Rate.

4.4.6 The value of TA<sub>t</sub> is derived in accordance with the following formula:

$$TA_t = TAP_t + TAU_t$$

where:

TAP<sub>t</sub> means the target for the number of Customers interrupted per year arising from pre-arranged Incidents and is derived in accordance with the following formula:

$$TAP_t = \frac{CIB_{t-4} + CIB_{t-3} + CIB_{t-2}}{3} \times 0.5$$

where:

CIB<sub>t</sub> has the meaning given in paragraph 4.4.7; and

TAU<sub>t</sub> means the target for the number of Customers interrupted per year arising from unplanned Incidents as specified for the licensee in Appendix 4.

4.4.7 The value of CIIS<sub>t</sub> is derived in accordance with the following formula:

$$CIIS_t = CIA_t + (A \times CIB_t) + (B \times CIC_t) + CID_t + (C \times CIE_t)$$

where:

A has the value of 0.5;

B has the value of zero;

C has the value of zero;

CIA<sub>t</sub> is the number of Customers interrupted per year arising from unplanned Incidents on the licensee's Distribution System and is derived from the relevant formula in the RIGs;

CIB<sub>t</sub> is the number of Customers interrupted per year arising from pre-arranged Incidents on the licensee's Distribution System and is derived from the relevant formula in the RIGs;

CIC<sub>t</sub> is the number of Customers interrupted per year arising from Incidents on the systems of the Transmission Licensees and is derived from the relevant formula in the RIGs;

CID<sub>t</sub> is the number of Customers interrupted per year arising from Incidents on the systems of Distributed Generators connected to the licensee's Distribution System and is derived from the relevant formula in the RIGs; and

CIE<sub>t</sub> is the number of Customers interrupted per year arising from Incidents on any other connected systems and is derived from the relevant formula in the RIGs.

#### **Part D: Formulae for calculating the duration of Customer interruptions term (QB<sub>t</sub>)**

4.4.8 The value of QB<sub>t</sub> is derived in accordance with the following formula:

$$QB_t = (TB_t - CMLIS_t) \times IRB_t \times TIS_t$$

where:

$TB_t$  is derived in accordance with paragraph 4.4.9;

$CMLIS_t$  means the performance in respect of the duration of Customer interruptions and is derived in accordance with the formula in paragraph 4.4.10;

$IRB_t$  means the incentive rate for the licensee for the duration of Customer interruptions as specified in Appendix 7; and

$TIS_t$  means the Totex Incentive Strength Rate.

4.4.9 The value of  $TB_t$  is derived in accordance with the following formula:

$$TB_t = TBP_t + TBU_t$$

where:

$TBP_t$  means the target for the duration of Customers interrupted per year arising from pre-arranged Incidents and is derived in accordance with the formula:

$$TBP_t = \frac{CMLB_{t-4} + CMLB_{t-3} + CMLB_{t-2}}{3} \times 0.5$$

where:

$CMLB_t$  has the meaning given in paragraph 4.4.10; and

$TBU_t$  means the target for the duration of Customers interrupted per year arising from unplanned Incidents as specified in Appendix 6.

4.4.10 The value of  $CMLIS_t$  is derived in accordance with the following formula:

$$CMLIS_t = CMLA_t + (D \times CMLB_t) + (E \times CMLC_t) + CMLD_t + (F \times CMLE_t)$$

where:

D has the value of 0.5;

E has the value of 0.10;

F has the value of 0.10;

$CMLA_t$  is the duration of Customer interruptions arising from unplanned Incidents on the licensee's Distribution System and is derived from the relevant formula in the RIGs;

$CMLB_t$  is the duration of Customer interruptions arising from pre-arranged Incidents on the licensee's Distribution System and is derived from the relevant formula in the RIGs;



- CMLC<sub>t</sub> is the duration of Customer interruptions arising from Incidents on the systems of the Transmission Licensees and is derived from the relevant formula in the RIGs;
- CMLD<sub>t</sub> is the duration of Customer interruptions arising from Incidents on the systems of Distributed Generators connected to the licensee's Distribution System and is derived from the relevant formula in the RIGs; and
- CMLE<sub>t</sub> is the duration of Customer interruptions arising from Incidents on any other connected systems and is derived from the relevant formula in the RIGs.

**Part E: Formula for calculating the severe weather supply Restoration term (QC<sub>t</sub>)**

4.4.11 The value of QC<sub>t</sub> is derived in accordance with the following formula:

$$QC_t = \min((SWPM_t - SWPD_t) \times FPPR, 0) + \max(SWPD_t - RLF_t, 0)$$

where:

- SWPM<sub>t</sub> is the total amount of severe weather payments that the licensee:
- (a) has made to Customers for failures to meet the standard of performance for Restoration under severe weather conditions imposed on the licensee under Regulation 7 of the Electricity (Standards of Performance) Regulations 2015; or
  - (b) has made to Customers in the form of ex gratia payments for a Severe Weather Event (provided that, in calculating SWPM<sub>t</sub>, no more than a total of £700 of payments per Customer for any given Severe Weather Event are taken into account);
- SWPD<sub>t</sub> is the total amount of the payments that either have been paid to Customers or, where not paid, that Customers would have been entitled to claim for the licensee's failure to meet the standard of performance for supply Restoration under severe weather conditions imposed on the licensee under Regulation 7 of the Electricity (Standards of Performance) Regulations 2015;
- FPPR is the additional penalty applied on top of any unpaid payments for the Regulation 7 of the Electricity (Standards of Performance) Regulations 2015 and has the value of 1.2; and
- RLF<sub>t</sub> means the maximum amount of revenue exposed to the severe weather arrangements and has the value specified for the licensee in Appendix 8.

**Part F: Formula for calculating the normal weather supply Restoration term (QD<sub>t</sub>)**

4.4.12 The value of QD<sub>t</sub> is derived in accordance with the following formula:

$$QD_t = \min((NCPM_t - NCPD_t) \times FPPR, 0) + \max(NCPD_t - RLG_t, 0) + OOE_t$$

where:

- NCPM<sub>t</sub> is the total amount of payments that the licensee has made to Customers for failures to meet the standards of performance for supply Restoration imposed on the licensee under Regulations 5, 6, and 8 of the Electricity (Standards of Performance) Regulations 2015 or that has been made to Customers in the form of ex gratia payments in respect of such failure;
- NCPD<sub>t</sub> is the total amount of the payments that either have been paid to Customers or, where not paid, that Customers would have been entitled to claim for the licensee's failures to meet the standards of performance for supply Restoration imposed on the licensee under Regulations 5, 6, and 8 of the Electricity (Standards of Performance) Regulations 2015;
- FPPR is the additional penalty applied on top of any unpaid payments for the relevant Regulation and has the value of 1.2;
- OOEE<sub>t</sub> means payments made under Regulations 5, 6 or 8 of the Electricity (Standards of Performance) Regulations 2015 by the licensee to Customers in respect of one or more Other Exceptional Event, and in respect of which the requirements set out in paragraph 4.4.17 have been met; and
- RLG<sub>t</sub> means the maximum amount of revenue exposed to the normal weather arrangements and has the value as specified for the licensee in Appendix 9.

## **Part G: Adjustments for Severe Weather Events**

- 4.4.13 Where the licensee considers that its performance in respect of any matter used for calculating CIIS<sub>t</sub> or CMLIS<sub>t</sub> (as provided for respectively under Parts C and D of this condition) has been affected by a Severe Weather Event, it may apply to the Authority for a direction adjusting the value of CIIS<sub>t</sub> or CMLIS<sub>t</sub>.
- 4.4.14 When making an application under this Part, the licensee must:
- (a) notify the Authority of the Severe Weather Event in Writing, within whichever is the earlier of the following periods:
    - i. 14 days of the date on which the licensee considers that the effect of the Severe Weather Event has ceased; or
    - ii. 14 days of the end of the relevant Regulatory Year;
  - (b) except where the Authority otherwise consents, submit to the Authority a statement of facts (in a format specified for the purpose by the Authority) with respect to the Severe Weather Event, within the period of 56 days beginning with the date of the notification under sub-paragraph (a); and
  - (c) provide such further information, if any, as the Authority may reasonably require.
- 4.4.15 The Authority may only make a direction under this Part where:

- (a) it relates to a Severe Weather Event;
- (b) the licensee has complied with the requirements in paragraph 4.4.14;
- (c) the Authority, or an Appropriate Auditor, nominated by the Authority under Standard Condition 46 (Regulatory Instructions and Guidance), has verified the impact of the Severe Weather Event on the licensee's performance; and
- (d) the adjustment reflects the impact of the Severe Weather Event, in accordance with the report of the Appropriate Auditor under paragraph 4.4.15(c), or as determined by the Authority, based on the information submitted by the licensee.

#### **Part H: Adjustments for Other Exceptional Events**

- 4.4.16 Where the licensee considers that its performance in respect of any matter used for calculating  $CIIS_t$  or  $CMLIS_t$  (as provided for respectively under Parts C and D of this condition) has been affected by an Other Exceptional Event, it may apply to the Authority for a direction under this Part.
- 4.4.17 A direction under this Part may:
- (a) specify a value for the OOE term; and
  - (b) direct the licensee to exclude from the calculation of  $CIIS_t$  and  $CMLIS_t$ , all or part of the impact of the Other Exceptional Event that is in excess of the threshold specified for the licensee in Appendix 11 in successive three month periods from the start of the Other Exceptional Event until its effect has ceased.
- 4.4.18 When making an application under this Part, the licensee must:
- (a) notify the Authority of the Other Exceptional Event in Writing, within whichever is the earlier of the following periods:
    - i. 14 days of the date on which the licensee considers that the effect of the Other Exceptional Event has ceased; or
    - ii. 14 days of the end of the relevant Regulatory Year;
  - (b) except where the Authority otherwise consents, submit to the Authority a statement of facts (in a format specified for the purpose by the Authority) with respect to the Other Exceptional Event within the period of 56 days beginning with the date of the notification under sub-paragraph (a); and
  - (c) provide such further information, if any, as the Authority may reasonably require.
- 4.4.19 The Authority may only make a direction under this Part where:
- (a) it relates to an Other Exceptional Event;
  - (b) the licensee has complied with the requirements in paragraph 4.4.18;
  - (c) the licensee has demonstrated that it has taken all reasonable steps to ensure that its actions or lack of actions were not contributory factors to the occurrence of the Other Exceptional Event;

- (d) the licensee has demonstrated that it took all appropriate steps within its power to:
  - i. limit the number of Customers interrupted by the event; and
  - ii. restore Customers' supplies quickly and efficiently, having due regard to safety and other legal obligations;
- (e) the Authority, or an Appropriate Auditor nominated by the Authority under Standard Condition 46 (Regulatory Instructions and Guidance), has verified the event and its effect; and
- (f) directing a value for the OOOE term, the Authority considers it appropriate that payments by the licensee to Customers under Regulations 5, 6 and 8 of the Electricity (Standards of Performance) Regulations 2015 should be recovered by the licensee via the OOOE term.

### **Part I: Process the Authority will follow in making a direction under Part G or H**

4.4.20 Before issuing a direction under Part G or H the Authority must send to the licensee and publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a statement setting out the period during which representations may be made on the proposed direction, which must not be less than 28 days.

4.4.21 A direction under Part G or H must set out the value of CIIS<sub>t</sub> and CMLIS<sub>t</sub> and the Regulatory Years to which that adjustment relates.

## **Appendix 1**

### **Reward cap for customer interruptions and minutes lost term (RCAP<sub>t</sub>) (£m)**

<b>Licensee</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
ENWL	13.087	13.087	13.087	13.087	13.087
NPgN	9.724	9.724	9.724	9.724	9.724
NPgY	13.416	13.416	13.416	13.416	13.416
WMID	16.891	16.891	16.891	16.891	16.891
EMID	17.289	17.289	17.289	17.289	17.289
SWALES	8.637	8.637	8.637	8.637	8.637
SWEST	13.116	13.116	13.116	13.116	13.116
LPN	11.349	11.349	11.349	11.349	11.349
SPN	11.744	11.744	11.744	11.744	11.744
EPN	18.336	18.336	18.336	18.336	18.336
SPD	12.460	12.460	12.460	12.460	12.460
SPMW	13.864	13.864	13.864	13.864	13.864
SSEH	9.303	9.303	9.303	9.303	9.303

SSES	17.537	17.537	17.537	17.537	17.537
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## Appendix 2

### Penalty cap for customer interruptions and minutes lost term (PCAP<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	21.811	21.811	21.811	21.811	21.811
NPgN	16.206	16.206	16.206	16.206	16.206
NPgY	22.361	22.361	22.361	22.361	22.361
WMID	28.152	28.152	28.152	28.152	28.152
EMID	28.815	28.815	28.815	28.815	28.815
SWALES	14.394	14.394	14.394	14.394	14.394
SWEST	21.860	21.860	21.860	21.860	21.860
LPN	18.915	18.915	18.915	18.915	18.915
SPN	19.573	19.573	19.573	19.573	19.573
EPN	30.560	30.560	30.560	30.560	30.560
SPD	20.766	20.766	20.766	20.766	20.766
SPMW	23.106	23.106	23.106	23.106	23.106
SSEH	15.505	15.505	15.505	15.505	15.505
SSES	29.228	29.228	29.228	29.228	29.228

## Appendix 3

### Revenue exposure to interruptions incentive scheme term (TRIIS<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	36.032	36.032	36.032	36.032	36.032
NPgN	26.773	26.773	26.773	26.773	26.773
NPgY	36.940	36.940	36.940	36.940	36.940
WMID	46.507	46.507	46.507	46.507	46.507
EMID	47.603	47.603	47.603	47.603	47.603
SWALES	23.779	23.779	23.779	23.779	23.779
SWEST	36.113	36.113	36.113	36.113	36.113
LPN	31.248	31.248	31.248	31.248	31.248
SPN	32.334	32.334	32.334	32.334	32.334
EPN	50.484	50.484	50.484	50.484	50.484
SPD	34.306	34.306	34.306	34.306	34.306
SPMW	38.172	38.172	38.172	38.172	38.172
SSEH	25.614	25.614	25.614	25.614	25.614

SSES	48.285	48.285	48.285	48.285	48.285
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#### Appendix 4

##### Number of unplanned customer interruptions term targets (TAU<sub>t</sub>)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	28.71	28.56	28.42	28.28	28.14
NPgN	46.32	45.39	44.49	43.60	42.72
NPgY	46.71	44.84	43.05	42.19	41.35
WMID	46.74	45.80	45.58	45.35	45.12
EMID	38.60	37.83	37.07	36.33	36.15
SWALES	39.22	39.03	38.83	38.64	38.44
SWEST	48.35	48.11	47.87	47.63	47.39
LPN	13.45	13.38	13.31	13.25	13.18
SPN	42.08	41.87	41.66	41.46	41.25
EPN	40.99	40.79	40.58	40.38	40.18
SPD	41.81	40.97	40.15	39.35	38.56
SPMW	31.41	31.25	31.10	30.94	30.79
SSEH	58.03	57.74	57.45	57.16	56.88
SSES	45.55	44.64	43.75	42.87	42.66

#### Appendix 5

##### Customer interruptions term incentive rate (IRA<sub>t</sub>) (£m per CI)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.291	0.291	0.291	0.291	0.291
NPgN	0.195	0.195	0.195	0.195	0.195
NPgY	0.280	0.280	0.280	0.280	0.280
WMID	0.303	0.303	0.303	0.303	0.303
EMID	0.324	0.324	0.324	0.324	0.324
SWALES	0.139	0.139	0.139	0.139	0.139
SWEST	0.199	0.199	0.199	0.199	0.199
LPN	0.288	0.288	0.288	0.288	0.288
SPN	0.281	0.281	0.281	0.281	0.281
EPN	0.444	0.444	0.444	0.444	0.444
SPD	0.243	0.243	0.243	0.243	0.243
SPMW	0.184	0.184	0.184	0.184	0.184
SSEH	0.095	0.095	0.095	0.095	0.095

SSES	0.377	0.377	0.377	0.377	0.377
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## Appendix 6

### Duration of unplanned customer interruptions term targets (TBU<sub>t</sub>)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	24.90	24.40	23.91	23.43	22.96
NPgN	39.38	38.59	37.82	37.06	36.32
NPgY	37.95	37.19	36.45	35.72	35.00
WMID	25.37	25.24	25.12	24.99	24.87
EMID	21.50	21.39	21.28	21.17	21.07
SWALES	19.65	19.55	19.45	19.36	19.26
SWEST	31.51	31.36	31.20	31.04	30.89
LPN	13.61	13.54	13.48	13.41	13.34
SPN	30.40	29.79	29.20	28.61	28.04
EPN	28.31	27.75	27.19	26.65	26.12
SPD	28.15	27.59	27.04	26.50	25.97
SPMW	27.47	26.37	25.31	24.30	23.81
SSEH	45.44	43.62	41.88	41.04	40.22
SSES	40.15	38.55	37.78	37.02	36.28

## Appendix 7

### Duration of customer interruptions term incentive rate (IRB<sub>t</sub>) (£m per CML)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.915	0.915	0.915	0.915	0.915
NPgN	0.613	0.613	0.613	0.613	0.613
NPgY	0.881	0.881	0.881	0.881	0.881
WMID	0.955	0.955	0.955	0.955	0.955
EMID	1.019	1.019	1.019	1.019	1.019
SWALES	0.437	0.437	0.437	0.437	0.437
SWEST	0.625	0.625	0.625	0.625	0.625
LPN	0.905	0.905	0.905	0.905	0.905
SPN	0.883	0.883	0.883	0.883	0.883
EPN	1.396	1.396	1.396	1.396	1.396
SPD	0.765	0.765	0.765	0.765	0.765
SPMW	0.580	0.580	0.580	0.580	0.580
SSEH	0.299	0.299	0.299	0.299	0.299

SSES	1.187	1.187	1.187	1.187	1.187
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## Appendix 8

### Severe weather revenue exposure term (RLF<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	18.059	18.059	18.059	18.059	18.059
NPgN	13.419	13.419	13.419	13.419	13.419
NPgY	18.515	18.515	18.515	18.515	18.515
WMID	23.310	23.310	23.310	23.310	23.310
EMID	23.859	23.859	23.859	23.859	23.859
SWALES	11.918	11.918	11.918	11.918	11.918
SWEST	18.100	18.100	18.100	18.100	18.100
LPN	15.662	15.662	15.662	15.662	15.662
SPN	16.206	16.206	16.206	16.206	16.206
EPN	25.303	25.303	25.303	25.303	25.303
SPD	17.194	17.194	17.194	17.194	17.194
SPMW	19.132	19.132	19.132	19.132	19.132
SSEH	12.838	12.838	12.838	12.838	12.838
SSES	24.201	24.201	24.201	24.201	24.201

## Appendix 9

### Normal weather revenue exposure term (RLG<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	13.523	13.523	13.523	13.523	13.523
NPgN	10.048	10.048	10.048	10.048	10.048
NPgY	13.864	13.864	13.864	13.864	13.864
WMID	17.454	17.454	17.454	17.454	17.454
EMID	17.865	17.865	17.865	17.865	17.865
SWALES	8.924	8.924	8.924	8.924	8.924
SWEST	13.553	13.553	13.553	13.553	13.553
LPN	11.728	11.728	11.728	11.728	11.728
SPN	12.135	12.135	12.135	12.135	12.135
EPN	18.947	18.947	18.947	18.947	18.947
SPD	12.875	12.875	12.875	12.875	12.875
SPMW	14.326	14.326	14.326	14.326	14.326
SSEH	9.613	9.613	9.613	9.613	9.613



SSES	18.122	18.122	18.122	18.122	18.122
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## Appendix 10

### Exceptionality requirement for a Severe Weather Events

Licensee	Severe weather exceptionality threshold (number of weather related Incidents at Distribution Higher Voltage in a 24-hour period)
ENWL	55
NPgN	37
NPgY	40
WMID	63
EMID	64
SWALES	41
SWEST	60
LPN	14
SPN	54
EPN	91
SPD	76
SPMW	68
SSEH	60
SSES	67

## Appendix 11

### Exceptionality requirements for an Other Exceptional Event

Licensee	CIIS threshold amount	CMLIS threshold amount
ENWL	1.04	0.83
NPgN	1.55	1.24
NPgY	1.08	0.86
WMID	0.99	0.80
EMID	0.93	0.74
SWALES	2.17	1.74
SWEST	1.52	1.21
LPN	1.05	0.84
SPN	1.07	0.86
EPN	0.68	0.54
SPD	1.24	0.99

SPMW	1.64	1.31
SSEH	3.17	2.54
SSES	0.80	0.64

## **Special Condition 4.5 Major connections output delivery incentive (MC<sub>t</sub>)**

### **Introduction**

- 4.5.1 The purpose of this condition is to calculate the term MC<sub>t</sub> (the major connections output delivery incentive term). This contributes to the calculation of the term ODI<sub>t</sub> (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.5.2 The effect of the condition is to penalise the licensee where its score, for the Major Connections Customer Satisfaction Survey, in Relevant Market Segments where the licensee is not entitled to charge an Unregulated Margin, falls below the target score set out in paragraph 4.5.4.
- 4.5.3 This condition also establishes the RIIO-ED2 Major Connections Governance Document.

### **Part A: Formulae for calculating the major connections output delivery incentive term (MC<sub>t</sub>)**

- 4.5.4 Subject to paragraph 4.5.5, the value of MC<sub>t</sub>, is derived in accordance with the following formulae:

If  $MCSAS_t \geq MCSAT_t$ , then

$$MC_t = 0$$

If  $MCSAS_t < MCSAT_t$ , then

$$MC_t = \max \left( -MCAD_t, ((MCSAS_t - MCSAT_t) \times MCIR_t) \right)$$

where:

- MCSAS<sub>t</sub> means the licensee's actual performance for the Major Connections Customer Satisfaction Survey, as measured in accordance with the RIIO-ED2 Major Connections Incentive Guidance Document;
- MCSAT<sub>t</sub> means the target score for the Major Connections Customer Satisfaction Survey and equals 7.41.
- MCAD<sub>t</sub> means the maximum penalty as specified in Appendix 1; and
- MCIR<sub>t</sub> means the licensee's penalty incentive rate as specified in Appendix 2.

- 4.5.5 The Authority may direct a positive adjustment to calculated  $MC_i$  to reduce the level of penalty in accordance with the Major Connections Incentive Guidance Document. In doing so, the value of  $MC_i$  must not exceed zero.
- 4.5.6 Before making a direction under paragraph 4.5.5 the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which must not be less than 28 days.

#### **Part B: Requirement to prepare a Major Connections Annual Report**

- 4.5.7 With effect from the Regulatory Year beginning on 1 April 2024, the licensee must provide a Major Connections Annual Report to the Authority in accordance with the RIIO-ED2 Major Connections Governance Document.
- 4.5.8 The licensee must publish a Major Connections Annual Report for the preceding Regulatory Year on, or before, the date specified in the RIIO-ED2 Major Connections Governance Document.
- 4.5.9 The licensee must publish its Major Connections Annual Report on the licensee's Website where it is readily accessible to the public.

#### **Part C: RIIO-ED2 Major Connections Governance Document**

- 4.5.10 The RIIO-ED2 Major Connections Governance Document may make provision about the administration of the major connections output delivery incentive and the requirements for the Major Connections Annual Report, including:
- (a) the requirements for the structure of and content to be included in the Major Connections Annual Report, including expectations about the level of explanatory text; and
  - (b) the Major Connections Customer Satisfaction Survey script to be used to derive the licensee's actual performance for the Major Connections Customer Satisfaction Survey.
- 4.5.11 The licensee must comply with the RIIO-ED2 Major Connections Incentive Guidance Document.
- 4.5.12 The procedure for amending or modifying the RIIO-ED2 Major Connections Incentive Guidance Document is set out in Special Condition 1.3 (Common procedure).

## Appendix 1

### Maximum penalty for calculating the major connections output delivery incentive term (MCAD) (£m)

Licensee	MCAD (£m)
ENWL	0.339
NPgN	1.765
NPgY	2.435
WMID	0.876
EMID	0.896
SWALES	1.343
SWEST	2.040
LPN	0.588
SPN	0.609
EPN	0.951
SPD	1.615
SPMW	2.516
SSEH	1.930
SSES	1.364

## Appendix 2

### Incentive rate for calculating the major connections output delivery incentive (MCIR<sub>i</sub>) (£m)

Licensee	MCIR (£m)
ENWL	0.679
NPgN	3.529
NPgY	4.870
WMID	1.752
EMID	1.793
SWALES	2.687
SWEST	4.081
LPN	1.177
SPN	1.218
EPN	1.901
SPD	3.230
SPMW	5.032
SSEH	3.859

SSES	2.728
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## Special Condition 4.6 Consumer vulnerability output delivery incentive (CVI<sub>t</sub>)

### Introduction

- 4.6.1 The purpose of this condition is to calculate the term CVI<sub>t</sub> (the consumer vulnerability output delivery incentive term). This contributes to the calculation of the ODI<sub>t</sub> term (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.6.2 The effect of this incentive is to reward or penalise the licensee for its performance in providing services to Domestic Customers in Vulnerable Situations unless such performance falls within the deadband.
- 4.6.3 This condition also establishes the RII0-ED2 Consumer Vulnerability Guidance Document.

### Part A: Formula for calculating the Consumer vulnerability output delivery incentive (CVI<sub>t</sub>)

- 4.6.4 For Regulatory Years commencing on 1 April 2023, 1 April 2025 and 1 April 2026, the value of CVI<sub>t</sub> is zero.
- 4.6.5 For Regulatory Years commencing on 1 April 2024 and 1 April 2027, the value of CVI<sub>t</sub> is derived in accordance with the following formula:

$$CVI_t = (PSR_t + VFP_t + VLCT_t + CSFP_t + CSLCT_t)$$

where:

- PSR<sub>t</sub> means the PSR Reach term and is derived in accordance with Part B;
- VFP<sub>t</sub> means the value of the Fuel Poverty Services Delivered term and is derived in accordance with Part C;
- VLCT<sub>t</sub> means the value of the Low Carbon Transition Services Delivered term and is derived in accordance with Part D;
- CSFP<sub>t</sub> means the Fuel Poverty Customer Satisfaction Survey term and is derived in accordance with Part E; and
- CSLCT<sub>t</sub> means the Low Carbon Transition Customer Satisfaction Survey term and is derived in accordance with Part F.

### Part B: Formulae for calculating the PSR Reach term (PSR<sub>t</sub>)

- 4.6.6 For Regulatory Years commencing on 1 April 2024 and 1 April 2027, the value of PSR<sub>t</sub> is derived in accordance with the following formula:

If  $PSRTL_t \leq PSRA_t \leq PSRTU_t$ , then:

$$PSR_t = 0$$

If  $PSRA_t > PSRTU_t$ , and the minimum requirement for PSR Reach has been met, in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document, then:

$$PSR_t = \min (PSRAU_t ((PSRA_t - PSRTU_t) \times PSRIRR_t))$$

If  $PSRA_t > PSRTU_t$ , and the minimum requirement for PSR Reach has not been met, in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document, then:

$$PSR_t = 0$$

If  $PSRA_t < PSRTL_t$ , then:

$$PSR_t = \max (-PSRAD_t ((PSRA_t - PSRTL_t) \times PSRIRP_t))$$

where:

- PSRA<sub>t</sub> means the licensee's actual performance for the PSR Reach term as measured in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document;
- PSRTL<sub>t</sub> means the lower deadband value for the PSR Reach term and equals 0.6;
- PSRTU<sub>t</sub> means the upper deadband value for the PSR Reach term and equals 0.75;
- PSRAU<sub>t</sub> means the maximum reward in respect of the PSR Reach term for the licensee as specified in Appendix 1, which is made when PSRA<sub>t</sub> is 0.9 or higher;
- PSRIRR<sub>t</sub> means the licensee's reward incentive rate for the PSR Reach term as specified in Appendix 2;
- PSRAD<sub>t</sub> means the maximum penalty in respect of the PSR Reach term for the licensee as specified in Appendix 3, which is applied when PSRA<sub>t</sub> is 0.45 or lower; and
- PSRIRP<sub>t</sub> means the licensee's penalty incentive rate for the PSR Reach term as specified in Appendix 4.

### **Part C: Formulae for calculating the value of the Fuel Poverty Services Delivered term (VFP<sub>t</sub>)**

4.6.7 For Regulatory Years commencing on 1 April 2024 and 1 April 2027 the value of VFP<sub>t</sub> is derived in accordance with the following formulae:

If  $VFPTL_t \leq VFPA_t \leq VFPTU_t$ , then:

$$VFP_t = 0$$

If  $VFPA_t > VFPTU_t$ , and the minimum requirement for the value of Fuel Poverty Services Delivered term has been met, in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document, then:

$$VFP_t = \min (VFPAU_t ((VFPA_t - VFPTU_t) \times VFPIRR_t))$$

If  $VFPA_t > VFPTU_t$  and the minimum requirement for the value of Fuel Poverty Services Delivered term has not been met, in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document, then:

$$VFP_t = 0$$

If  $VFPA_t < VFPTL_t$  then:

$$VFP_t = \max (-VFPAD_t, ((VFPA_t - VFPTL_t) \times VFPIRP_t))$$

where:

- $VFPA_t$  means the licensee's actual performance for the value of the Fuel Poverty Services Delivered term as measured in accordance with the RIGs;
- $VFPTL_t$  means the lower deadband value for the Fuel Poverty Services Delivered term for the licensee, as specified in Appendix 5;
- $VFPTU_t$  means the upper deadband value for the Fuel Poverty Services Delivered term for the licensee, as specified in Appendix 6;
- $VFPAU_t$  means the maximum reward in respect of the value of the Fuel Poverty Services Delivered term for the licensee as specified in Appendix 7;
- $VFPIRR_t$  means the licensee's reward incentive rate for the value of the Fuel Poverty Services Delivered term as specified in Appendix 8;
- $VFPAD_t$  means the maximum penalty in respect of the value of the Fuel Poverty Services Delivered term for the licensee as specified in Appendix 9; and
- $VFPIRP_t$  Means the licensee's penalty incentive rate for value of the Fuel Poverty Services Delivered term as specified in Appendix 10.

#### **Part D: Formulae for calculating the value of the Low Carbon Transition Services Delivered term ( $VLCT_t$ )**

4.6.8 For Regulatory Years commencing on 1 April 2024 and 1 April 2027, the value of  $VLCT_t$  is derived in accordance with the following formulae:

If  $VLCTTL_t \leq VLCTA_t \leq VLCTTU_t$  then:

$$VLCT_t = 0$$

If  $VLCTA_t > VLCTTU_t$  and the minimum requirement for the value of the Low Carbon Transition Services Delivered has been met, in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document, then:

$$VLCT_t = \min (VLCTAU_t, ((VLCTA_t - VLCTTU_t) \times VLCTIRR_t))$$

- 4.6.9 If  $VLCTA_t > VLCTTU_t$  and the minimum requirement for the value of the Low Carbon Transition Services Delivered has not been met, in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document, then:

$$VLCT_t = 0$$

If  $VLCTA_t < VLCTTL_t$ , then:

$$VLCT_t = \max (-VLCTAD_t ((VLCTA_t - VLCTTL_t) \times VLCTIRP_t))$$

where:

$VLCTA_t$	means the licensee's actual performance for the value of the Low Carbon Transition Services Delivered term as measured in accordance with the RIGs;
$VLCTTL_t$	means the lower deadband value for the Low Carbon Transition Services Delivered term for the licensee as specified in Appendix 11;
$VLCTTU_t$	means the upper deadband value for the Low Carbon Transition Services Delivered term for the licensee as specified in Appendix 12;
$VLCTAU_t$	means the maximum reward in respect of the value of the Low Carbon Transition Services Delivered term for the licensee as specified in Appendix 13;
$VLCTIRR_t$	means the licensee's reward incentive rate for the value of the Low Carbon Transition Services Delivered term as specified in Appendix 14;
$VLCTAD_t$	means the maximum penalty in respect of the value of the Low Carbon Transition Services Delivered term for the licensee as specified in Appendix 15; and
$VLCTIRP_t$	Means the licensee's penalty incentive rate for the value of the Low Carbon Transition Services Delivered term, as specified in Appendix 16.

#### **Part E: Formulae for calculating the Fuel Poverty Customer Satisfaction Survey term (CSFP<sub>t</sub>)**

- 4.6.10 Subject to paragraph 4.6.11, for Regulatory Years commencing on 1 April 2024 and 1 April 2027, the value of CSFP<sub>t</sub> is derived in accordance with the following formulae:

If  $CSFPA_t \geq CSFPT_t$ , then:

$$CSFP_t = \min (CSFPAU_t ((CSFPA_t - CSFPT_t) \times CSFIRR_t))$$

If  $CSFPA_t < CSFPT_t$ , then:

$$CSFP_t = \max (-CSFPAD_t ((CSFPA_t - CSFPT_t) \times CSFPIRP_t))$$

where:



CSFPA <sub>t</sub>	means the licensee's actual performance for the Fuel Poverty Customer Satisfaction Survey term as measured in accordance with the RIGs;
CSFPT <sub>t</sub>	means the target score for the Fuel Poverty Customer Satisfaction Survey term and equals 9;
CSFPAU <sub>t</sub>	means the maximum reward in respect of the Fuel Poverty Customer Satisfaction Survey term, as specified in Appendix 17, which is awarded when CSFPA <sub>t</sub> is 9.5 or higher;
CSFIRR <sub>t</sub>	means the licensee's reward incentive rate for the Fuel Poverty Customer Satisfaction Survey term as specified in Appendix 18;
CSFPAD <sub>t</sub>	means the maximum penalty in respect of the Fuel Poverty Customer Satisfaction Survey term as specified in Appendix 19, which is applied when CSFPA <sub>t</sub> is 8.5 or lower; and
CSFPIRP <sub>t</sub>	means the licensee's penalty incentive rate for the Fuel Poverty Customer Satisfaction Survey term, as specified in Appendix 20.

4.6.11 The Authority may direct an adjustment to calculated CSFP<sub>t</sub> to amend the level of reward or penalty in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document.

#### **Part F: Formulae for calculating the Low Carbon Transition Customer Satisfaction Survey term (CSLCT<sub>t</sub>)**

4.6.12 Subject to paragraph 4.6.13, for Regulatory Years commencing on 1 April 2024 and 1 April 2027, the value of CSLCT<sub>t</sub> is derived in accordance with the following formulae:

If  $CSLCTA_t \geq CSLCTT_t$ , then:

$$CSLCT_t = \min (CSLCTAU_t ((CSLCTA_t - CSLCTT_t) \times CSLCTIRR_t))$$

If  $CSLCTA_t < CSLCTT_t$ , then:

$$CSLCT_t = \max (-CSLCTAD_t ((CSLCTA_t - CSLCTT_t) \times CSLCTIRP_t))$$

where:

CSLCTAU <sub>t</sub>	means the maximum reward in respect of the Low Carbon Transition Customer Satisfaction Survey term, as specified in Appendix 21, which is awarded when CSLCTA <sub>t</sub> is 9.5 or higher;
CSLCTA <sub>t</sub>	means the licensee's actual performance for the Low Carbon Transition Customer Satisfaction Survey term as measured in accordance with the RIGs;

- CSLCTT<sub>t</sub> means the target score for the Low Carbon Transition Customer Satisfaction Survey term and equals 9;
- CSLCTIRR<sub>t</sub> means the licensee's reward incentive rate for the Low Carbon Transition Customer Satisfaction Survey term as specified in Appendix 22;
- CSLCTAD<sub>t</sub> means the maximum penalty in respect of the Low Carbon Transition Customer Satisfaction Survey term, as specified in Appendix 23, which is applied when CSLCT<sub>t</sub> is 8.5 or lower; and
- CSLCTIRP<sub>t</sub> means the licensee's penalty incentive rate for the Low Carbon Transition Customer Satisfaction Survey term as specified in Appendix 24.

- 4.6.13 The Authority may direct an adjustment to calculated CSLCT<sub>t</sub> to amend the level of reward or penalty in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document.

### **Part G: Annual Vulnerability Report**

- 4.6.14 With effect from the Regulatory Year beginning on 1 April 2024, the licensee must provide an Annual Vulnerability Report to the Authority in accordance with the RIIO-ED2 Consumer Vulnerability Guidance Document.
- 4.6.15 The licensee must publish an Annual Vulnerability Report for the preceding Regulatory Year on, or before, the date specified in the RIIO-ED2 Consumer Vulnerability Guidance Document.
- 4.6.16 The licensee must publish its Annual Vulnerability Report on the licensee's Website where it is readily accessible to the public.

### **Part H: RIIO-ED2 Consumer Vulnerability Guidance Document**

- 4.6.17 The RIIO-ED2 Consumer Vulnerability Guidance Document may make provision about the administration of the consumer vulnerability output delivery incentive and the requirements for the Annual Vulnerability Report, including:
- (a) the requirements for the structure of and content to be included in the Annual Vulnerability Report, including expectations about the level of explanatory text;
  - (b) the minimum requirements process for the consumer vulnerability output delivery incentive; and
  - (c) the Customer satisfaction survey script to be used to derive the licensee's actual performance for the Customer satisfaction terms set out in Part E and Part F of this condition.
- 4.6.18 The licensee must comply with the RIIO-ED2 Consumer Vulnerability Guidance Document in its reporting of the minimum requirements relevant to the

consumer vulnerability output delivery incentive and in relation to preparing and publishing the Annual Vulnerability Report.

- 4.6.19 The procedure the Authority will follow when issuing and amending the RIIO-ED2 Consumer Vulnerability Guidance Document is set out in Special Condition 1.3 (Common procedure).

### Appendix 1

#### Maximum reward in respect of the PSR Reach term (PSRAU<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	1.396	2.094
NPgN	1.037	1.556
NPgY	1.431	2.147
WMID	1.802	2.703
EMID	1.844	2.766
SWALES	0.921	1.382
SWEST	1.399	2.099
LPN	1.211	1.816
SPN	1.253	1.879
EPN	1.956	2.934
SPD	1.329	1.994
SPMW	1.479	2.218
SSEH	0.992	1.488
SSES	1.871	2.806

### Appendix 2

#### Reward incentive rate for the PSR Reach term (PSRIRR<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	9.306	13.959
NPgN	6.915	10.372
NPgY	9.541	14.311
WMID	12.011	18.017
EMID	12.294	18.442
SWALES	6.142	9.212
SWEST	9.327	13.990
LPN	8.071	12.106

SPN	8.351	12.527
EPN	13.039	19.558
SPD	8.860	13.290
SPMW	9.859	14.788
SSEH	6.615	9.923
SSES	12.471	18.706

### Appendix 3

#### Maximum penalty in respect of the PSR Reach term (PSRAD<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	1.396	2.094
NPgN	1.037	1.556
NPgY	1.431	2.147
WMID	1.802	2.703
EMID	1.844	2.766
SWALES	0.921	1.382
SWEST	1.399	2.099
LPN	1.211	1.816
SPN	1.253	1.879
EPN	1.956	2.934
SPD	1.329	1.994
SPMW	1.479	2.218
SSEH	0.992	1.488
SSES	1.871	2.806

### Appendix 4

#### Penalty incentive rate for the PSR Reach term (PSRIRP<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	9.306	13.959
NPgN	6.915	10.372
NPgY	9.541	14.311
WMID	12.011	18.017
EMID	12.294	18.442
SWALES	6.142	9.212
SWEST	9.327	13.990

LPN	8.071	12.106
SPN	8.351	12.527
EPN	13.039	19.558
SPD	8.860	13.290
SPMW	9.859	14.788
SSEH	6.615	9.923
SSES	12.471	18.706

### Appendix 5

#### Lower deadband for the value of Fuel Poverty Services Delivered term (VFPTL<sub>t</sub>)

Licensee	2024/25	2027/28
ENWL	6.858	23.418
NPgN	3.332	3.974
NPgY	4.786	5.710
WMID	3.949	10.270
EMID	4.217	10.966
SWALES	1.809	4.704
SWEST	2.581	6.711
LPN	1.911	7.998
SPN	1.865	7.809
EPN	2.947	12.336
SPD	2.919	4.368
SPMW	2.211	3.309
SSEH	0.016	0.082
SSES	0.065	0.323

### Appendix 6

#### Upper deadband for the value of Fuel Poverty Services Delivered term (VFPTU<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	8.382	28.622
NPgN	4.072	4.858
NPgY	5.850	6.978
WMID	4.827	12.553
EMID	5.154	13.403
SWALES	2.211	5.749

SWEST	3.154	8.203
LPN	2.335	9.775
SPN	2.280	9.544
EPN	3.602	15.077
SPD	3.568	5.339
SPMW	2.702	4.044
SSEH	0.020	0.100
SSES	0.079	0.395

### Appendix 7

#### Maximum reward in respect of the value of Fuel Poverty Services Delivered term (VFPAU<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.698	1.047
NPgN	0.519	0.778
NPgY	0.716	1.073
WMID	0.901	1.351
EMID	0.922	1.383
SWALES	0.461	0.691
SWEST	0.700	1.049
LPN	0.605	0.908
SPN	0.626	0.939
EPN	0.978	1.467
SPD	0.665	0.997
SPMW	0.739	1.109
SSEH	0.496	0.744
SSES	0.935	1.403

### Appendix 8

#### Reward incentive rate for the value of Fuel Poverty Services Delivered term (VFPIRR<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.916	0.402
NPgN	1.401	1.762
NPgY	1.345	1.692
WMID	2.053	1.184
EMID	1.968	1.135

SWALES	2.292	1.322
SWEST	2.440	1.407
LPN	2.851	1.022
SPN	3.022	1.083
EPN	2.987	1.070
SPD	2.049	2.054
SPMW	3.010	3.017
SSEH	273.500	82.050
SSES	130.159	39.048

### Appendix 9

#### Maximum penalty in respect of the Fuel Poverty Services Delivered term (VFPAD<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.698	1.047
NPgN	0.519	0.778
NPgY	0.716	1.073
WMID	0.901	1.351
EMID	0.922	1.383
SWALES	0.461	0.691
SWEST	0.700	1.049
LPN	0.605	0.908
SPN	0.626	0.939
EPN	0.978	1.467
SPD	0.665	0.997
SPMW	0.739	1.109
SSEH	0.496	0.744
SSES	0.935	1.403

### Appendix 10

#### Penalty incentive rate for value of Fuel Poverty Services Delivered term (VFPIRP<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.916	0.402
NPgN	1.401	1.762
NPgY	1.345	1.692
WMID	2.053	1.184

EMID	1.968	1.135
SWALES	2.292	1.322
SWEST	2.440	1.407
LPN	2.851	1.022
SPN	3.022	1.083
EPN	2.987	1.070
SPD	2.049	2.054
SPMW	3.010	3.017
SSEH	273.500	82.050
SSES	130.159	39.048

### Appendix 11

**Lower deadband for the value of Low Carbon Transition Services Delivered term (VLCTTL<sub>t</sub>)**

Licensee	2024/25	2027/28
ENWL	-0.410	-0.539
NPgN	1.256	2.467
NPgY	1.804	3.545
WMID	0.164	0.561
EMID	0.175	0.599
SWALES	0.075	0.257
SWEST	0.107	0.366
LPN	0.836	4.929
SPN	0.817	4.812
EPN	1.290	7.602
SPD	1.004	5.915
SPMW	0.760	4.480
SSEH	0.009	0.093
SSES	0.036	0.366

### Appendix 12

**Upper deadband for the value of Low Carbon Transition Services Delivered term (VLCTTU<sub>t</sub>) (£m)**

Licensee	2024/25	2027/28
ENWL	-0.360	-0.441
NPgN	1.535	3.016
NPgY	2.205	4.332



WMID	0.201	0.685
EMID	0.214	0.732
SWALES	0.092	0.314
SWEST	0.131	0.448
LPN	1.022	6.024
SPN	0.998	5.882
EPN	1.577	9.291
SPD	1.227	7.229
SPMW	0.929	5.476
SSEH	0.011	0.113
SSES	0.044	0.448

### Appendix 13

#### Maximum reward in respect of Low Carbon Transition Services Delivered term (VLCTAU<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.698	1.047
NPgN	0.519	0.778
NPgY	0.716	1.073
WMID	0.901	1.351
EMID	0.922	1.383
SWALES	0.461	0.691
SWEST	0.700	1.049
LPN	0.605	0.908
SPN	0.626	0.939
EPN	0.978	1.467
SPD	0.665	0.997
SPMW	0.739	1.109
SSEH	0.496	0.744
SSES	0.935	1.403

### Appendix 14

#### Reward incentive rate for the value of Low Carbon Transition Services Delivered term (VLCTIRR<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	17.449	21.366
NPgN	3.716	2.837

NPgY	3.570	2.725
WMID	49.379	21.697
EMID	47.335	20.799
SWALES	55.128	24.223
SWEST	58.679	25.783
LPN	6.513	1.658
SPN	6.903	1.757
EPN	6.823	1.737
SPD	5.959	1.517
SPMW	8.753	2.228
SSEH	492.301	72.397
SSES	234.286	34.454

### Appendix 15

#### Maximum penalty in respect of Low Carbon Transition Services Delivered term (VLCTAD<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.698	1.047
NPgN	0.519	0.778
NPgY	0.716	1.073
WMID	0.901	1.351
EMID	0.922	1.383
SWALES	0.461	0.691
SWEST	0.700	1.049
LPN	0.605	0.908
SPN	0.626	0.939
EPN	0.978	1.467
SPD	0.665	0.997
SPMW	0.739	1.109
SSEH	0.496	0.744
SSES	0.935	1.403

### Appendix 16

#### Penalty incentive rate for the value of Low Carbon Transition Services Delivered term (VLCTIRP<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	17.449	21.366

NPgN	3.716	2.837
NPgY	3.570	2.725
WMID	49.379	21.697
EMID	47.335	20.799
SWALES	55.128	24.223
SWEST	58.679	25.783
LPN	6.513	1.658
SPN	6.903	1.757
EPN	6.823	1.737
SPD	5.959	1.517
SPMW	8.753	2.228
SSEH	492.301	72.397
SSES	234.286	34.454

### Appendix 17

#### Maximum reward in respect of the Fuel Poverty Customer Satisfaction Survey term (CSFPAU<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.349	0.523
NPgN	0.259	0.389
NPgY	0.358	0.537
WMID	0.450	0.676
EMID	0.461	0.692
SWALES	0.230	0.345
SWEST	0.350	0.525
LPN	0.303	0.454
SPN	0.313	0.470
EPN	0.489	0.733
SPD	0.332	0.498
SPMW	0.370	0.555
SSEH	0.248	0.372
SSES	0.468	0.701

## Appendix 18

### Reward incentive rate for the Fuel Poverty Satisfaction Survey term (CSFIRR<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.698	1.047
NPgN	0.519	0.778
NPgY	0.716	1.073
WMID	0.901	1.351
EMID	0.922	1.383
SWALES	0.461	0.691
SWEST	0.700	1.049
LPN	0.605	0.908
SPN	0.626	0.939
EPN	0.978	1.467
SPD	0.665	0.997
SPMW	0.739	1.109
SSEH	0.496	0.744
SSES	0.935	1.403

## Appendix 19

### Maximum penalty in respect of the Fuel Poverty Customer Satisfaction Survey term (CSFPAD<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.349	0.523
NPgN	0.259	0.389
NPgY	0.358	0.537
WMID	0.450	0.676
EMID	0.461	0.692
SWALES	0.230	0.345
SWEST	0.350	0.525
LPN	0.303	0.454
SPN	0.313	0.470
EPN	0.489	0.733
SPD	0.332	0.498
SPMW	0.370	0.555
SSEH	0.248	0.372

SSES	0.468	0.701
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## Appendix 20

### Penalty incentive rate for the Fuel Poverty Satisfaction Survey term (CSFPIRP<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.698	1.047
NPgN	0.519	0.778
NPgY	0.716	1.073
WMID	0.901	1.351
EMID	0.922	1.383
SWALES	0.461	0.691
SWEST	0.700	1.049
LPN	0.605	0.908
SPN	0.626	0.939
EPN	0.978	1.467
SPD	0.665	0.997
SPMW	0.739	1.109
SSEH	0.496	0.744
SSES	0.935	1.403

## Appendix 21

### Maximum reward in respect of the Low Carbon Transition Customer Satisfaction Survey term (CSLCTAU<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.349	0.523
NPgN	0.259	0.389
NPgY	0.358	0.537
WMID	0.450	0.676
EMID	0.461	0.692
SWALES	0.230	0.345
SWEST	0.350	0.525
LPN	0.303	0.454
SPN	0.313	0.470
EPN	0.489	0.733
SPD	0.332	0.498
SPMW	0.370	0.555

SSEH	0.248	0.372
SSES	0.468	0.701

## Appendix 22

### Reward incentive rate for the Low Carbon Transition Customer Satisfaction Survey term (CSLCTIRR<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.698	1.047
NPgN	0.519	0.778
NPgY	0.716	1.073
WMID	0.901	1.351
EMID	0.922	1.383
SWALES	0.461	0.691
SWEST	0.700	1.049
LPN	0.605	0.908
SPN	0.626	0.939
EPN	0.978	1.467
SPD	0.665	0.997
SPMW	0.739	1.109
SSEH	0.496	0.744
SSES	0.935	1.403

## Appendix 23

### Maximum penalty in respect of the Low Carbon Transition Customer Satisfaction Survey term (CSLCTAD<sub>t</sub>) (£m)

Licensee	2024/25	2027/28
ENWL	0.349	0.523
NPgN	0.259	0.389
NPgY	0.358	0.537
WMID	0.450	0.676
EMID	0.461	0.692
SWALES	0.230	0.345
SWEST	0.350	0.525
LPN	0.303	0.454
SPN	0.313	0.470
EPN	0.489	0.733
SPD	0.332	0.498

SPMW	0.370	0.555
SSEH	0.248	0.372
SSES	0.468	0.701

## Appendix 24

### Penalty incentive rate for the Low Carbon Transition Customer Satisfaction Survey term (CSLCTIRP<sub>t</sub>) (£m)

Licensee	Regulatory Year	Regulatory Year
	2024/25	2027/28
ENWL	0.698	1.047
NPgN	0.519	0.778
NPgY	0.716	1.073
WMID	0.901	1.351
EMID	0.922	1.383
SWALES	0.461	0.691
SWEST	0.700	1.049
LPN	0.605	0.908
SPN	0.626	0.939
EPN	0.978	1.467
SPD	0.665	0.997
SPMW	0.739	1.109
SSEH	0.496	0.744
SSES	0.935	1.403

## Special Condition 4.7 Consumer value proposition

### Introduction

- 4.7.1 The purpose of this condition is to:
- (a) specify the CVP Outputs and associated CVP Rewards; and
  - (b) allow for the adjustment of the term BPI<sub>t</sub> (the business plan incentive term), which contributes to the calculation of Calculated Revenue in Special condition 2.1 (Revenue restriction).
- 4.7.2 This condition also explains the process the Authority will follow when assessing the delivery of the CVP Outputs and directing an adjustment to the BPI<sub>t</sub> term.

## **Part A: What is the licensee expected to deliver?**

- 4.7.3 Appendix 1 specifies the CVP Outputs that the licensee is expected to deliver, the delivery dates for those outputs and the rewards provided.

## **Part B: Reporting requirements**

- 4.7.4 The licensee must submit a report to the Authority:
- (a) demonstrating how the licensee has delivered its CVP Outputs;
  - (b) where it has not delivered a CVP Output, an explanation of the reasons why it has not done so; and
  - (c) such detailed supporting evidence as is reasonable in the circumstances.
- 4.7.5 The report must be submitted on or before a date directed by the Authority, which must be after the Price Control Period ends in a format prescribed by the Authority.

## **Part C: Authority assessment and direction**

- 4.7.6 The Authority may direct an adjustment to BPI<sub>t</sub> after the Price Control Period where the licensee has not demonstrated CVP Full Delivery.
- 4.7.7 Any adjustment to BPI<sub>t</sub> will be assessed on a proportionate basis relative to the CVP Outputs delivered during the Price Control Period as specified in Appendix 1 and the information the licensee reports to the Authority in accordance with Part B.
- 4.7.8 Before making a direction under paragraph 4.7.6 the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 4.7.9 A direction under paragraph 4.7.6 must set out the value of the BPI<sub>t</sub> term and the Regulatory Year to which it relates.

## **Appendix 1**

### Consumer value propositions

<b>Licensee</b>	<b>CVP</b>	<b>CVP Output</b>	<b>Delivery date</b>	<b>Reward (£m)</b>
SSEH	Protecting marine biodiversity: life below water	Plant a minimum of 14 hectares of seagrass beds within coastal licence areas	31 March 2028	£0.595m



SSEH	Personal resilience plans	Provide 131,142 Personal Resilience Plans to Medically Dependent Customers and all new Priority Services Register sign ups.  Provide and ensure 7,000 battery packs are installed for Medically Dependent Customers.	31 March 2028	£0.64m
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## Special Condition 4.8 Distribution System Operation output delivery incentive (DSOI<sub>t</sub>)

### Introduction

- 4.8.1 The purpose of this condition is to calculate the term DSOI<sub>t</sub> (the Distribution System Operation output delivery incentive term). This contributes to the calculation of the term ODI<sub>t</sub> (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.8.2 The effect of this condition is to reward or penalise the licensee's performance of its Distribution System Operation functions, unless such performance falls within the deadband.
- 4.8.3 This condition also establishes the Distribution System Operation Incentive Governance Document.

### Part A: Formula for calculating the Distribution System Operation output delivery incentive term (DSOI<sub>t</sub>)

- 4.8.4 The value of the term DSOI<sub>t</sub> is derived in accordance with the following formula:

$$DSOI_t = DSOS_t + DSOP_t + DSOM_t$$

where:

- DSOS<sub>t</sub> means the Distribution System Operation Stakeholder Satisfaction Survey term and is derived in accordance with Part B;
- DSOP<sub>t</sub> means the Distribution System Operation Performance Panel assessment term and is derived in accordance with Part C; and

DSOM<sub>t</sub> means the Distribution System Operation outturn performance metrics term and is derived in accordance with Part D.

**Part B: Formulae for calculating the Distribution System Operation Stakeholder Satisfaction Survey term (DSOS<sub>t</sub>)**

4.8.5 The value of DSOS<sub>t</sub> is derived in accordance with the following formulae:

If  $DSOSDL_t \leq DSOSAS_t \leq DSOSDU_t$  then:

$$DSOS_t = 0$$

If  $DSOSAS_t > DSOSDU_t$  then:

$$DSOS_t = \min(DSOSAU_t, ((DSOSAS_t - DSOSDU_t) \times DSOSRIR_t))$$

If  $DSOSAS_t < DSOSDL_t$  then:

$$DSOS_t = \max(-DSOSAD_t, ((DSOSAS_t - DSOSDL_t) \times DSOSPIR_t))$$

where:

$DSOSAS_t$	means the licensee's actual performance for the Distribution System Operation Stakeholder Satisfaction Survey term, as measured in accordance with the Distribution System Operation Incentive Governance Document;
$DSOSDL_t$	means the lower deadband for the Distribution System Operation Stakeholder Satisfaction Survey term and equals 7.50;
$DSOSDU_t$	means the upper deadband for the Distribution System Operation Stakeholder Satisfaction Survey term and equals 7.90;
$DSOSAU_t$	means the maximum reward in respect of the Distribution System Operation Stakeholder Satisfaction Survey term for the licensee, as specified in Appendix 1, which is awarded when $DSOSAS_t$ is greater than or equal to 9.00;
$DSOSRIR_t$	means the licensee's reward incentive rate for the Distribution System Operation Stakeholder Satisfaction Survey term, as specified in Appendix 2;
$DSOSAD_t$	means the maximum penalty in respect of the Distribution System Operation Stakeholder Satisfaction Survey term for the licensee, as specified in Appendix 3, which is awarded when $DSOSAS_t$ is less than or equal to 6.40; and
$DSOSPIR_t$	means the licensee's penalty incentive rate for the Distribution System Operation Stakeholder Satisfaction Survey term, as specified in Appendix 4.

4.8.6 The Authority may keep  $DSOSDL_t$  and  $DSOSDU_t$  under review and any modifications must be made under section 11A (modifications of conditions of licences) of the Act.

## Part C: Formulae for calculating the Distribution System Operation Performance Panel assessment term (DSOP<sub>t</sub>)

4.8.7 The value of DSOP<sub>t</sub> is derived in accordance with the following formulae:

If  $DSOPDL_t \leq DSOPAS_t \leq DSOPDU_t$ , then:

$$DSOP_t = 0$$

If  $DSOPAS_t > DSOPDU_t$  then:

$$DSOP_t = \min(DSOPAU_t, ((DSOPAS_t - DSOPDU_t) \times DSOPRIR_t))$$

If  $DSOPAS_t < DSOPDL_t$  then:

$$DSOP_t = \max(-DSOPAD_t, ((DSOPAS_t - DSOPDL_t) \times DSOPPIR_t))$$

where:

$DSOPAS_t$	means the licensee's Distribution System Operation Performance Panel actual score as determined by the Authority in accordance with the Distribution System Operation Incentive Governance Document;
$DSOPDL_t$	means the lower deadband for the Distribution System Operation Performance Panel term and equals 5;
$DSOPDU_t$	means the upper deadband for the Distribution System Operation Performance Panel term and equals 6;
$DSOPAU_t$	means the maximum reward in respect of the Distribution System Operation Performance Panel term for the licensee, as specified in Appendix 5, which is awarded when $DSOPAS_t$ is greater than or equal to 8;
$DSOPRIR_t$	means the licensee's reward incentive rate for the Distribution System Operation Performance Panel term, as specified in Appendix 6;
$DSOPAD_t$	means the maximum penalty in respect of the Distribution System Operation Performance Panel term for the licensee, as specified in Appendix 7, which is awarded when $DSOPAS_t$ is less than or equal to 3; and
$DSOPPIR_t$	means the licensee's penalty incentive rate for the Distribution System Operation Performance Panel term, as specified in Appendix 8.

## Part D: Formula for calculating the Distribution System Operation outturn performance metrics term (DSOM<sub>t</sub>)

4.8.8 The value of DSOM<sub>t</sub> is derived in accordance with the following formula:

$$DSOM_t = FD_t + NV_t + CE_t$$

where:

$FD_t$	means the Flexibility Reinforcement Deferral Outturn Performance Metric term;
$NV_t$	means the Secondary Network Visibility Outturn Performance Metric term; and
$CE_t$	means the Curtailment Efficiency Outturn Performance Metric term.

- 4.8.9 The value of  $FD_t$ ,  $NV_t$  and  $CE_t$  is zero, unless the Authority modifies the licence under section 11A (modifications of conditions of licences) of the Act to specify otherwise for any Regulatory Year.

#### **Part E: Requirement to prepare and publish a Distribution System Operation Performance Panel Submission**

- 4.8.10 With effect from the Regulatory Year beginning on 1 April 2024, the licensee must provide a Distribution System Operation Performance Panel Submission in accordance with the Distribution System Operation Incentive Governance Document.
- 4.8.11 The licensee must prepare and publish a Distribution System Operation Performance Panel Submission for the preceding Regulatory Year on, or before, the date specified in the Distribution System Operation Incentive Governance Document.
- 4.8.12 The licensee must publish its Distribution System Operation Performance Panel Submission on the licensee's Website where it is readily accessible to the public.

#### **Part F: The Distribution System Operation Incentive Governance Document**

- 4.8.13 The licensee must comply with the Distribution System Operation Incentive Governance Document in relation to the Distribution System Operation output delivery incentive.
- 4.8.14 The Distribution System Operation Incentive Governance Document may make provision about the governance of this output delivery incentive, including:
- (a) the criteria against which the performance of the licensee will be assessed;
  - (b) the process and procedures that will be in place for assessing the performance of the licensee;
  - (c) the requirements the licensee must fulfil as part of the assessment process, including the information the licensee must provide to determine the value of  $DSOS_t$ ,  $FD_t$ ,  $NV_t$  and  $CE_t$ , and its attendance at Distribution System Operation Performance Panel meetings;
  - (d) the information that will be used for the performance assessment, including how reporting will be used in that evaluation;
  - (e) the methodology the Authority will use to determine an incentive reward or penalty, including the manner and process by which the licensee's

Distribution System Operation Performance Panel Submission will be used by the Authority to determine the value of DSOP<sub>t</sub>;

(f) the role of the Distribution System Operation Performance Panel; and

(g) the process for the appointment, by the Authority, of persons who will make up the Distribution System Operation Performance Panel.

4.8.15 The procedure for issuing and amending the Distribution System Operation Incentive Governance Document is provided in Special Condition 1.3 (Common procedure).

## Appendix 1

### Maximum reward for the Distribution System Operation Stakeholder Satisfaction Survey term (DSOSAU<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.396	1.396	1.396	1.396	1.396
NPgN	1.037	1.037	1.037	1.037	1.037
NPgY	1.431	1.431	1.431	1.431	1.431
WMID	1.802	1.802	1.802	1.802	1.802
EMID	1.844	1.844	1.844	1.844	1.844
SWALES	0.921	0.921	0.921	0.921	0.921
SWEST	1.399	1.399	1.399	1.399	1.399
LPN	1.211	1.211	1.211	1.211	1.211
SPN	1.253	1.253	1.253	1.253	1.253
EPN	1.956	1.956	1.956	1.956	1.956
SPD	1.329	1.329	1.329	1.329	1.329
SPMW	1.479	1.479	1.479	1.479	1.479
SSEH	0.992	0.992	0.992	0.992	0.992
SSES	1.871	1.871	1.871	1.871	1.871

## Appendix 2

### Reward incentive rate for the Distribution System Operation Stakeholder Satisfaction Survey term (DSOSRIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.269	1.269	1.269	1.269	1.269
NPgN	0.943	0.943	0.943	0.943	0.943
NPgY	1.301	1.301	1.301	1.301	1.301

WMID	1.638	1.638	1.638	1.638	1.638
EMID	1.677	1.677	1.677	1.677	1.677
SWALES	0.837	0.837	0.837	0.837	0.837
SWEST	1.272	1.272	1.272	1.272	1.272
LPN	1.101	1.101	1.101	1.101	1.101
SPN	1.139	1.139	1.139	1.139	1.139
EPN	1.778	1.778	1.778	1.778	1.778
SPD	1.208	1.208	1.208	1.208	1.208
SPMW	1.344	1.344	1.344	1.344	1.344
SSEH	0.902	0.902	0.902	0.902	0.902
SSES	1.701	1.701	1.701	1.701	1.701

### Appendix 3

#### Maximum penalty for the Distribution System Operation Stakeholder Satisfaction Survey term (DSOSAD<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.698	0.698	0.698	0.698	0.698
NPgN	0.519	0.519	0.519	0.519	0.519
NPgY	0.716	0.716	0.716	0.716	0.716
WMID	0.901	0.901	0.901	0.901	0.901
EMID	0.922	0.922	0.922	0.922	0.922
SWALES	0.461	0.461	0.461	0.461	0.461
SWEST	0.700	0.700	0.700	0.700	0.700
LPN	0.605	0.605	0.605	0.605	0.605
SPN	0.626	0.626	0.626	0.626	0.626
EPN	0.978	0.978	0.978	0.978	0.978
SPD	0.665	0.665	0.665	0.665	0.665
SPMW	0.739	0.739	0.739	0.739	0.739
SSEH	0.496	0.496	0.496	0.496	0.496
SSES	0.935	0.935	0.935	0.935	0.935

### Appendix 4

#### Penalty incentive rate for the Distribution System Operation Stakeholder Satisfaction Survey term (DSOSPIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.634	0.634	0.634	0.634	0.634

NPgN	0.471	0.471	0.471	0.471	0.471
NPgY	0.650	0.650	0.650	0.650	0.650
WMID	0.819	0.819	0.819	0.819	0.819
EMID	0.838	0.838	0.838	0.838	0.838
SWALES	0.419	0.419	0.419	0.419	0.419
SWEST	0.636	0.636	0.636	0.636	0.636
LPN	0.550	0.550	0.550	0.550	0.550
SPN	0.569	0.569	0.569	0.569	0.569
EPN	0.889	0.889	0.889	0.889	0.889
SPD	0.604	0.604	0.604	0.604	0.604
SPMW	0.672	0.672	0.672	0.672	0.672
SSEH	0.451	0.451	0.451	0.451	0.451
SSES	0.850	0.850	0.850	0.850	0.850

### Appendix 5

#### Maximum reward for the Distribution System Operation Performance Panel term (DSOPAU<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.396	1.396	1.396	1.396	1.396
NPgN	1.037	1.037	1.037	1.037	1.037
NPgY	1.431	1.431	1.431	1.431	1.431
WMID	1.802	1.802	1.802	1.802	1.802
EMID	1.844	1.844	1.844	1.844	1.844
SWALES	0.921	0.921	0.921	0.921	0.921
SWEST	1.399	1.399	1.399	1.399	1.399
LPN	1.211	1.211	1.211	1.211	1.211
SPN	1.253	1.253	1.253	1.253	1.253
EPN	1.956	1.956	1.956	1.956	1.956
SPD	1.329	1.329	1.329	1.329	1.329
SPMW	1.479	1.479	1.479	1.479	1.479
SSEH	0.992	0.992	0.992	0.992	0.992
SSES	1.871	1.871	1.871	1.871	1.871

## Appendix 6

### Reward incentive rate for the Distribution System Operation Performance Panel assessment term (DSOPRIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.698	0.698	0.698	0.698	0.698
NPgN	0.519	0.519	0.519	0.519	0.519
NPgY	0.716	0.716	0.716	0.716	0.716
WMID	0.901	0.901	0.901	0.901	0.901
EMID	0.922	0.922	0.922	0.922	0.922
SWALES	0.461	0.461	0.461	0.461	0.461
SWEST	0.700	0.700	0.700	0.700	0.700
LPN	0.605	0.605	0.605	0.605	0.605
SPN	0.626	0.626	0.626	0.626	0.626
EPN	0.978	0.978	0.978	0.978	0.978
SPD	0.665	0.665	0.665	0.665	0.665
SPMW	0.739	0.739	0.739	0.739	0.739
SSEH	0.496	0.496	0.496	0.496	0.496
SSES	0.935	0.935	0.935	0.935	0.935

## Appendix 7

### Maximum penalty in respect of the Distribution System Operation Performance Panel assessment term (DSOPAD<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.698	0.698	0.698	0.698	0.698
NPgN	0.519	0.519	0.519	0.519	0.519
NPgY	0.716	0.716	0.716	0.716	0.716
WMID	0.901	0.901	0.901	0.901	0.901
EMID	0.922	0.922	0.922	0.922	0.922
SWALES	0.461	0.461	0.461	0.461	0.461
SWEST	0.700	0.700	0.700	0.700	0.700
LPN	0.605	0.605	0.605	0.605	0.605
SPN	0.626	0.626	0.626	0.626	0.626
EPN	0.978	0.978	0.978	0.978	0.978
SPD	0.665	0.665	0.665	0.665	0.665
SPMW	0.739	0.739	0.739	0.739	0.739



SSEH	0.496	0.496	0.496	0.496	0.496
SSES	0.935	0.935	0.935	0.935	0.935

## Appendix 8

### Penalty incentive rate for the Distribution System Operation Performance Panel assessment term (DSOPPIR<sub>t</sub>) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.349	0.349	0.349	0.349	0.349
NPgN	0.259	0.259	0.259	0.259	0.259
NPgY	0.358	0.358	0.358	0.358	0.358
WMID	0.450	0.450	0.450	0.450	0.450
EMID	0.461	0.461	0.461	0.461	0.461
SWALES	0.230	0.230	0.230	0.230	0.230
SWEST	0.350	0.350	0.350	0.350	0.350
LPN	0.303	0.303	0.303	0.303	0.303
SPN	0.313	0.313	0.313	0.313	0.313
EPN	0.489	0.489	0.489	0.489	0.489
SPD	0.332	0.332	0.332	0.332	0.332
SPMW	0.370	0.370	0.370	0.370	0.370
SSEH	0.248	0.248	0.248	0.248	0.248
SSES	0.468	0.468	0.468	0.468	0.468

**Special Condition 4.9 [Not used]**

**Special Condition 4.10 [Not used]**

## Chapter 5: Other revenue allowances

### Special Condition 5.1 Total other revenue allowances ( $ORA_t$ )

#### Introduction

- 5.1.1 The purpose of this condition is to calculate the term  $ORA_t$  (the other revenue allowance term). This contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.1.2 The effect is to produce a total of individual other revenue allowance terms.

#### Part A: Formula for calculating total other revenue allowances ( $ORA_t$ )

- 5.1.3 The value of  $ORA_t$  is derived in accordance with the following formula:

$$ORA_t = NIA_t + CNIA_t + CGSRA_t + AUM_t + PAD_t + TPAD_t$$

where:

- $NIA_t$  is derived in accordance with Special Condition 5.2 (RIIO-2 network innovation allowance);
- $CNIA_t$  is derived in accordance with Special Condition 5.3 (Carry-over Network Innovation Allowance);
- $CGSRA_t$  is derived in accordance with Special Condition 5.4 (Revenue adjustments in respect of connection performance failures);
- $AUM_t$  means the aggregate amount notified to the Authority in accordance with paragraph 9.10.13 of Special Condition 9.10 (Margins on licensee's Connection Activities);
- $PAD_t$  means the initial profile adjustment and has the value set out in the ED2 Price Control Financial Model; and
- $TPAD_t$  means the time value of money profile adjustment and has the value set out in the ED2 Price Control Financial model.

### Special Condition 5.2 RIIO-2 network innovation allowance ( $NIA_t$ )

#### Introduction

- 5.2.1 The purpose of this condition is to calculate the term  $NIA_t$  (the network innovation allowance term). This contributes to the calculation of the term  $ORA_t$  (the other revenue allowances term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.2.2 The effect of this condition is to fund investment in innovation by means of the NIA.
- 5.2.3 This condition also establishes the RIIO-2 NIA Governance Document.

## Part A: Formulae for calculating the network innovation allowance (NIA<sub>t</sub>)

- 5.2.4 Subject to the cap in paragraph 5.2.5, the value of NIA<sub>t</sub> is derived in accordance with the following formula:

$$NIA_t = 90\% \times NIAE_t - UNIA_t$$

where:

*NIAE<sub>t</sub>* means the Total NIA Expenditure; and

*UNIA<sub>t</sub>* means an amount of unrecoverable NIA in relation to the licensee's failure to comply with the RIIO-2 NIA Governance Document, and has the value zero unless otherwise modified by the Authority under Part C.

- 5.2.5 The total value of the NIA over the Price Control Period is subject to the following cap:

$$\sum_{t=2023/24}^{2027/28} (NIA_t) \leq (TNIA)$$

where:

*NIA<sub>t</sub>* is derived in accordance with paragraph 5.2.4; and

*TNIA* means the value of the licensee's NIA as set out in Appendix 1.

- 5.2.6 The licensee must not spend more than 25% of Total NIA Expenditure on internal resources over the Price Control Period, except insofar as the Authority directs.

## Part B: The RIIO-2 NIA Governance Document

- 5.2.7 The licensee must comply with the RIIO-2 NIA Governance Document when acting in relation to the NIA.

- 5.2.8 The RIIO-2 NIA Governance Document may make provision about the governance and administration of the NIA, including:

- (a) the eligibility criteria, which RIIO-2 NIA Projects must meet;
- (b) the information that is to be published by the licensee before RIIO-2 NIA Projects can begin;
- (c) the circumstances in which the licensee must seek approval from the Authority before beginning a RIIO-2 NIA Project, and the processes and procedures for that approval;
- (d) arrangements for ensuring that learning from RIIO-2 NIA Projects can be captured and disseminated by the licensee to other Electricity Distributors and Transmission Licensees;
- (e) the nature of the reporting obligations on compliance with the provisions of the RIIO-2 NIA Governance Document in respect of RIIO-2 NIA Projects,

which may include reporting in respect of the funding and the completion of such projects; and

(f) arrangements relating to the treatment of intellectual property rights in respect of RIIO-2 NIA Projects.

5.2.9 The procedure for issuing and amending the RIIO-2 NIA Governance Document is set out in Special Condition 1.3 (Common procedures).

### **Part C: Unrecoverable NIA expenditure**

5.2.10 The Authority may only modify the value of UNIA<sub>t</sub>:

(a) where the licensee has not complied with the RIIO-2 NIA Governance Document; and

(b) in order to disallow NIA expenditure in relation to that failure to comply with the RIIO-2 NIA Governance Document.

5.2.11 In reaching a decision on a value for UNIA<sub>t</sub>, the Authority must consider the impact that the licensee's non-compliance with provisions of the RIIO-2 NIA Governance Document is likely to have on consumers.

5.2.12 Any modifications to the value of UNIA<sub>t</sub> must be made under section 11A (modifications of conditions of licences) of the Act.

## **Appendix 1**

### **Value of the licensee's NIA (TNIA) (£m)**

<b>Licensee</b>	<b>Value of TNIA (£m)</b>
ENWL	8.4
NPgN	3.2
NPgY	4.3
WMID	5.6
EMID	5.6
SWALES	2.8
SWEST	4
LPN	4.7
SPN	4
EPN	6.3
SPD	5.9
SPMW	5.2
SSEH	3
SSEN	5.4

## Special Condition 5.3 Carry-over Network Innovation Allowance (CNIA<sub>t</sub>)

### Introduction

- 5.3.1 The purpose of this condition is to calculate the term CNIA<sub>t</sub> (the Carry-over Network Innovation Allowance term). This contributes to the calculation of the term ORA<sub>t</sub> (the other revenue allowances term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.3.2 The effect of this condition is to extend RIIO-1 Network Innovation Allowance funding into the Regulatory Year commencing on 1 April 2023.
- 5.3.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the Carry-over Network Innovation Allowance.

### Part A: Formula for calculating the Carry-over Network Innovation Allowance term (CNIA<sub>t</sub>)

- 5.3.4 For the Regulatory Year commencing on 1 April 2023, the value of CNIA<sub>t</sub> is derived in accordance with the following formula:

$$CNIA_t = (\min [0.9 \times ECNIA_t, CNIAV] - CNIAR_t) \times \frac{PI_{2020/21}}{PI_t}$$

where:

- ECNIA<sub>t</sub> means the expenditure incurred by the licensee in respect of Eligible CNIA Projects as calculated by the licensee in accordance with the RIIO-1 Electricity Network Innovation Allowance Governance Document and reported to the Authority in accordance with Standard Condition 46 (Regulatory Instructions and Guidance) expressed in 2023/24 prices;
- CNIAV is derived in accordance with Part B;
- CNIAR<sub>t</sub> means an amount expressed in 2023/24 prices, recovered by the licensee in relation to Regulatory Year t or a previous Regulatory Year which is unrecoverable in accordance with the RIIO-1 Electricity Network Innovation Allowance Governance Document and has the value zero unless otherwise modified by the Authority under Part D; and
- PI<sub>t</sub> is the price index derived in accordance with Part E of Special Condition 2.1.

- 5.3.5 For Regulatory Years commencing on or after 1 April 2024, the value of CNIA<sub>t</sub> is zero.
- 5.3.6 Eligible CNIA Internal Expenditure may not exceed 25% of the total Eligible CNIA, unless the Authority otherwise consents.

## **Part B: Formula for calculating the Carry-over Network Innovation Allowance value term (CNIIV)**

5.3.7 The value of CNIIV is derived in accordance with the following formula:

$$CNIIV = \max ((NIAV \times BR_{2022/23}) - (ENIA_{2022/23} \times 0.9), 0) \times \frac{PI_t}{PI_{2022/23}}$$

where:

NIAV	has the value set out in the Appendix to Charge Restriction Condition 2H (The Network Innovation Allowance) of this licence as in force on 31 March 2023;
BR <sub>2022/23</sub>	has the value of BR <sub>t</sub> derived in accordance with Part B of Charge Restriction Condition 2H (The Network Innovation Allowance) of this licence as in force on 31 March 2023, expressed in 2022/23 prices; and
ENIA <sub>2022/23</sub>	has the value of ENIA <sub>t</sub> derived in accordance with Part B of Charge Restriction Condition 2H (The Network Innovation Allowance) of this licence as in force on 31 March 2023, expressed in 2022/23 prices.

## **Part C: The RIIO-1 Electricity Network Innovation Allowance Governance Document**

- 5.3.8 The licensee must comply with the RIIO-1 Electricity Network Innovation Allowance Governance Document when acting in relation to the Carry-over Network Innovation Allowance.
- 5.3.9 The RIIO-1 Electricity Network Innovation Allowance Governance Document makes and may continue to make additional provision in respect of:
- (a) arrangements for ensuring that relevant learning from Eligible CNIA Projects can be captured and disseminated by the licensee to Transmission Licensees and other holders of an Electricity Distribution Licence;
  - (b) the nature of the reporting obligations in respect of Eligible CNIA Projects, which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the RIIO-1 Electricity Network Innovation Allowance Governance Document;
  - (c) arrangements relating to the treatment of intellectual property rights in respect of Eligible CNIA Projects; and
  - (d) any other matters relating to the regulation, governance or administration of the Carry-over Network Innovation Allowance.
- 5.3.10 The procedure for amending the RIIO-1 Electricity Network Innovation Allowance Governance Document is set out in Special Condition 1.3 (Common procedure).

## Part D: Unrecoverable CNIA

- 5.3.11 The Authority may only modify the value of CNIAR:
- (a) where the licensee has not complied with the RIIIO-1 Electricity Network Innovation Allowance Governance Document; and
  - (b) in order to disallow NIA expenditure in relation to that failure to comply with the RIIIO-1 Electricity Network Innovation Allowance Governance Document.
- 5.3.12 In reaching a decision on a value for CNIAR, the Authority must consider the impact that the licensee's non-compliance with provisions of the RIIIO-1 Electricity Network Innovation Allowance Governance Document is likely to have on consumers.
- 5.3.13 Any modifications to the value of CNIAR must be made under section 11A (modifications of conditions of licences) of the Act.

## Special Condition 5.4 Revenue adjustments in respect of connection performance failures

### Introduction

- 5.4.1 The purpose of this condition is to calculate the term  $CGSRA_t$  (the Connections Regulations term). This contributes to the calculation of the term  $ORA_t$  (the other revenue allowances term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.4.2 The effect of this condition is to adjust Calculated Revenue where the sum of payments made by the licensee under Connection Regulations and Distributed Generation Connection Standards exceeds the licensee's revenue exposure cap as specified for the licensee in Appendix 1.

### Part A: Formula for calculating the connection guaranteed standards revenue adjustment term ( $CGSRA_t$ )

- 5.4.3 The value of  $CGSRA_t$  is derived in accordance with the following formula.

$$\text{If } CGSPM_t > TCGSR_t$$

$$CGSRA_t = CGSPM_t - TCGSR_t$$

and if not, then the value of  $CGSRA_t$  is zero.

where:

$CGSPM_t$  means the total amount of payments made by the licensee to Customers in respect of failures to meet the requirements of the Connection Regulations and Distributed Generation Connection Standards; and

TCGSR<sub>t</sub> means the maximum amount of Calculated Revenue that the licensee is exposed to in each Regulatory Year as a result of the requirements of the Connection Regulations and any Distributed Generation Connection Standards, and has the value specified for the licensee in the Appendix 1.

## Appendix 1

### Total RIIO-ED2 revenue exposure to payments under the Connection Regulations and any Distributed Generation Connection Standards (TCGSR) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	8.72	8.72	8.72	8.72	8.72
NPgN	6.48	6.48	6.48	6.48	6.48
NPgY	8.94	8.94	8.94	8.94	8.94
WMID	11.26	11.26	11.26	11.26	11.26
EMID	11.53	11.53	11.53	11.53	11.53
SWALES	5.76	5.76	5.76	5.76	5.76
SWEST	8.74	8.74	8.74	8.74	8.74
LPN	7.57	7.57	7.57	7.57	7.57
SPN	7.83	7.83	7.83	7.83	7.83
EPN	12.22	12.22	12.22	12.22	12.22
SPD	8.31	8.31	8.31	8.31	8.31
SPMW	9.24	9.24	9.24	9.24	9.24
SSEH	6.20	6.20	6.20	6.20	6.20
SSES	11.69	11.69	11.69	11.69	11.69



## Chapter 6: Pass-through expenditure

### Special Condition 6.1 Pass-through items (PT<sub>t</sub>)

#### Introduction

- 6.1.1 The purpose of this condition is to calculate the term PT<sub>t</sub> (the pass-through items term). This contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 6.1.2 The effect of this condition is to ensure that the licensee's Allowed Revenue reflects that certain costs can be passed through to users of the licensee's Distribution System.

#### Part A: Formula for calculating the pass-through items term (PT<sub>t</sub>)

- 6.1.3 The PT<sub>t</sub> term is derived in accordance with the following formula:

$$PT_t = (LF_t + RB_t + TB_t + SMC_t + SMIT_t + RF_t + SLR_t + IBDA_t + EDE_t + SEC_t) - (SRC_t + HB_t)$$

where:

LF <sub>t</sub>	means the net payments made by the licensee under Standard Condition 5 (Licensee's payments to the Authority);
RB <sub>t</sub>	means the amount levied on the licensee in respect of the Prescribed Rates or an amount directed under Part B;
TB <sub>t</sub>	means the value of the Transmission Connection Point Charges incurred by the licensee;
SMC <sub>t</sub>	means the value of the Smart Meter Communication Licensee Costs incurred by the licensee;
SMIT <sub>t</sub>	means the value of the Smart Meter Information Technology Costs incurred by the licensee;
RF <sub>t</sub>	means the amount of the incremental costs necessarily incurred by the licensee as a direct result of complying with the additional regulatory requirements referred to in the Authority's letter dated 1 February 2013 entitled "Modifications to the ring fence conditions in network operator licences" and published on the Authority's Website, provided that those costs: (a) have been reported in accordance with the RIGs; and (b) have not been otherwise remunerated under the special conditions;
SLR <sub>t</sub>	means the aggregate Specified Amount of the Valid Claims requiring payment in accordance with the licensee's obligations under Standard Condition 38B (Last Resort Supply: Payment Claims);
IBDA <sub>t</sub>	means the aggregate amount of Valid Bad Debt Claims requiring payment in accordance with the licensee's obligations under Standard Condition 38C (Treatment of Valid Bad Debt Claims);

$EDE_t$	means the payments in relation to the Pension Scheme Established Deficit repair expenditure, as set in the triennial review of Pension Scheme Established Deficit provided for in the ED2 Price Control Financial Handbook; and
$SRC_t$	means payments received by the licensee from an Affiliate or Related Undertaking of a Former Electricity Supplier or a trustee or escrow agent holding funds received from such a person, which relates to a Valid Claim that required payment in accordance with the licensee's obligations under Standard Condition 38B (Last Resort Supply: Payment Claims).
$SEC_t$	means the Shetland Variable Energy Costs, derived in accordance with Part C; and
$HB_t$	means the sum of High-cost Distribution Payments received by the licensee.

## **Part B: Review of Prescribed Rates pass-through term ( $RB_t$ )**

- 6.1.4 As part of any periodic revaluation, the licensee must:
- (a) engage with the Relevant Valuation Agency; and
  - (b) use reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.
- 6.1.5 The Authority may review the licensee's engagement with the Relevant Valuation Agency with respect to a revaluation.
- 6.1.6 If, after reviewing the licensee's engagement with the Relevant Valuation Agency and requesting any further information required from the licensee with respect to a particular revaluation, the Authority considers that the licensee has not complied with paragraph 6.1.4, the Authority may adjust the value of  $RB_t$  by direction.
- 6.1.7 Before making a direction under paragraph 6.1.6 the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 6.1.8 A direction under paragraph 6.1.6:
- (a) may not specify a different value for  $RB_t$  for the Regulatory Year following the Regulatory Year in which the revaluation took place or for any earlier Regulatory Year; and
  - (b) may not specify a different value for  $RB_t$  that is less than zero.

## **Part C: Shetland Variable Energy Costs**

- 6.1.9 The value of  $SEC_t$  is derived in accordance with the following formula:

$$SEC_t = LPSF_t + EP_t - SH_t$$

where:

- LPSF<sub>t</sub> means the cost of fuel purchased for use by Lerwick power station, any fuel costs for any use of temporary generation in the event of inability by Lerwick power station or Sullom Voe terminal to meet the full demand on Shetland;
- EP<sub>t</sub> means the cost of environmental permits in respect of generation on Shetland; and
- SH<sub>t</sub> means the income from units purchased by Electricity Suppliers in respect of generation on Shetland.

## Chapter 7: Legacy

### Special Condition 7.1 Legacy adjustments to revenue ( $LAR_t$ )

#### Introduction

- 7.1.1 The purpose of this condition is to calculate the term  $LAR_t$  (the legacy adjustments term), which in turn contributes to Allowed Revenue in Special Condition 2.1 (Revenue restriction).

#### Part A: Formula for calculating total legacy adjustments ( $LAR_t$ )

- 7.1.2 The value of the  $LAR_t$  term is derived in accordance with the following formula:

$$LAR_t = LMOD_t + LIP_t + LPT_t + LK_t + LTRU_t + LCN_t + LCGSRA_t$$

where:

- $LMOD_t$  is derived in accordance with Special Condition 7.2 (Legacy MOD);
- $LIP_t$  is derived in accordance with Special Condition 7.4 (Legacy Incentive Performance);
- $LPT_t$  is derived in accordance with Special Condition 7.5 (Legacy pass-through items);
- $LK_t$  is derived in accordance with Special Condition 7.6 (Legacy K correction);
- $LTRU_t$  is derived in accordance with Special Condition 7.7 (Legacy TRU Term);
- $LCN_t$  is derived in accordance with Special Condition 7.8 (Low Carbon Networks Fund); and
- $LCGSRA_t$  is derived in accordance with Part B.

- 7.1.3 Where a component value required to calculate  $LAR_t$  refers to the special conditions of this licence in force on 31 March 2023, the price base of that component is as specified in that version of the licence. Otherwise  $LAR_t$  and its components are in nominal prices.

#### Part B: Formula for calculating the legacy revenue adjustments in respect of performance failures term ( $LCGSRA_t$ )

- 7.1.4 For Regulatory Years commencing on 1 April 2023 and 1 April 2024,  $LCGSRA_t$  has the value of  $CGSRA_t$  derived in accordance with Part A of Charge Restriction Condition 2L (Revenue adjustments in respect of performance failures) of this licence as in force on 31 March 2023.
- 7.1.5 For Regulatory Years commencing on or after 1 April 2025, the value of  $LCGSRA_t$  is zero.

## Special Condition 7.2 Legacy MOD ( $LMOD_t$ )

### Introduction

- 7.2.1 The purpose of this condition is to calculate the term  $LMOD_t$  (the legacy MOD term). This contributes to the calculation of the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.2.2 The effect of this condition is to close out those aspects of the ED1 Price Control Financial Model that require a direction by the Authority.
- 7.2.3 This condition also explains the process the Authority will follow when making a direction.

### Part A: Formula for calculating the legacy MOD term ( $LMOD_t$ )

- 7.2.4 The value of  $LMOD_t$  is derived in accordance with the following formula:

$$LMOD_t = \frac{MOD}{YRS} \times CWACC_t \times \frac{PI_t}{PI_{2012/13}}$$

where:

- $MOD$  means the value derived from the ED1 Legacy Price Control Financial Model, calculated and directed by the Authority in accordance with General Financial Adjustment Methodology in Chapter 8 of the ED2 Price Control Financial Handbook;
- $YRS$  has the value 5;
- $CWACC_t$  means compound WACC and has the value derived in accordance with Part B;
- $PI_t$  is the price index derived in accordance with Part E of Special Condition 2.1; and
- $PI_{2012/13}$  has the value of  $PI_t$  derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

### Part B: Compound WACC

- 7.2.5 For the Regulatory Year commencing on 1 April 2023,  $CWACC_t$  has the value of 1.
- 7.2.6 For Regulatory Years commencing on or after 1 April 2024,  $CWACC_t$  is derived in accordance with the following formula:

$$CWACC_t = \prod_{t=2023/24}^{t-1} (1 + WACC_t)$$

where:

- $WACC_t$  means vanilla weighted average cost of capital, derived in accordance with Chapter 4 of the ED2 Price Control Financial Handbook.

### **Part C: What procedure will the Authority follow in making a direction?**

- 7.2.7 Before making a direction under Part A the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which must not be less than 28 days.

## **Special Condition 7.3 Legacy net RAV additions and tax pool balances**

### **Introduction**

- 7.3.1 The purpose of this condition is to explain the process the Authority will follow when directing opening balances for the legacy net RAV additions and tax pool balances.
- 7.3.2 The effect is to reflect the close out of the ED1 Legacy Price Control Financial Model in respect of legacy net RAV additions and tax pool balances.

### **Part A: The legacy net RAV additions term ( $LRAV_t$ )**

- 7.3.3 The Authority must direct the value of  $LRAV_t$  in accordance with the General Financial Adjustment Methodology in Chapter 8 of the ED2 Price Control Financial Handbook.

### **Part B: Carry over of tax pool balances**

- 7.3.4 The Authority must direct the value of the terms  $OGP_t$ ,  $OSRP_t$ ,  $OSBP_t$ ,  $ODRP_t$ ,  $LODRP_t$  and  $OTL_t$  in accordance with the General Financial Adjustment Methodology in Chapter 8 of the ED2 Price Control Financial Handbook.

### **Part C: What procedure will the Authority follow in making a direction?**

- 7.3.5 Before making a direction under this condition the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which must not be less than 28 days.

## **Special Condition 7.4 Legacy incentive performance ( $LIP_t$ )**

### **Introduction**

- 7.4.1 The purpose of this condition is to calculate the  $LIP_t$  term (the legacy incentive performance term). This contributes to the calculation of the term  $LAR_t$  (the

legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).

- 7.4.2 The effect of this condition is to close out certain RII01 Price Control Period incentives.

**Part A: Formula for calculating the legacy incentive performance term ( $LIP_t$ ) term**

- 7.4.3 The value of  $LIP_t$  is derived in accordance with the following formula:

$$LIP_t = LBM_t + LIQ_t + LICE_t + LTTC_t$$

where:

- $LBM_t$  means the legacy broad measure of customer service adjustment term and is derived in accordance with Part B;
- $LIQ_t$  means the legacy interruptions-related quality of service incentive term and is derived in accordance with Part C;
- $LICE_t$  means the legacy incentive on connections engagement term and is derived in accordance with Part D; and
- $LTTC_t$  means the legacy time to connect incentive term and is derived in accordance with Part E.

**Part B: Formula for calculating the legacy broad measure of customer service adjustment term ( $LBM_t$ )**

- 7.4.4 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LBM_t$  is derived in accordance with the following formula:

$$LBM_t = [CS_{t-2} + CM_{t-2} + SE_{t-2}] \times RPIA_{t-2}$$

where:

- $CS_{t-2}$  has the value of the  $CS_{t-2}$  as derived in accordance with Part A of Charge Restriction Condition 2C (Broad measure of customer service adjustment) of this licence as in force on 31 March 2023;
- $CM_{t-2}$  has the value of the  $CM_{t-2}$  as derived in accordance with Part A of Charge Restriction Condition 2C of this licence as in force on 31 March 2023;
- $SE_{t-2}$  has the value of the  $SE_{t-2}$  as derived in accordance with Part A of Charge Restriction Condition 2C of this licence as in force on 31 March 2023; and
- $RPIA_{t-2}$  has the meaning given in Part C of Charge Restriction Condition 2A (Restriction of Allowed Distribution Network Revenue) of this licence as in force on 31 March 2023.

- 7.4.5 For Regulatory Years commencing on or after 1 April 2025, the value of  $LBM_t$  is zero.

**Part C: Formulae for calculating the legacy interruptions-related quality of service incentive term (LIQ<sub>t</sub>)**

7.4.6 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of LIQ<sub>t</sub> is derived in accordance with the following formula:

$$LIQ_t = [QZ_{t-2} + QC_{t-2} + QD_{t-2}] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

- QZ<sub>t-2</sub> has the value of the QZ<sub>t-2</sub> as derived in accordance with Part A of Charge Restriction Condition 2D (Adjustment of licensee's revenues to reflect interruptions-related quality of service performance) of this licence as in force on 31 March 2023;
- QC<sub>t-2</sub> has the value of the QC<sub>t-2</sub> as derived in accordance with Part A of Charge Restriction Condition 2D of this licence as in force on 31 March 2023;
- QD<sub>t-2</sub> has the value of the QD<sub>t-2</sub> as derived in accordance with Part A of Charge Restriction Condition 2D of this licence as in force on 31 March 2023;
- LPVF<sub>t</sub> is derived in accordance with paragraph 7.4.7;
- PI<sub>t</sub> is the price index derived in accordance with Part E of Special Condition 2.1; and
- PI<sub>2012/13</sub> has the value of PI<sub>t</sub> derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.4.7 The value of LPVF<sub>t</sub> is derived in accordance with the following formula:

$$LPVF_t = 1 + WACC_t$$

where:

- WACC<sub>t</sub> for the Regulatory Year commencing on or after 1 April 2023 means vanilla weighted average cost of capital, derived in accordance with the ED2 Price Control Financial Handbook. For the Regulatory Year commencing Between 1 April 2015 and 1 April 2022, it has the value of "vanilla WACC" derived in accordance with Chapter 5 of the ED1 Price Control Financial Handbook.

7.4.8 For Regulatory Years commencing on or after 1 April 2025, the value of LIQ<sub>t</sub> is zero.

**Part D: Formula for calculating the legacy incentive on connections engagement term (LICE<sub>t</sub>)**

7.4.9 For Regulatory Years commencing on 1 April 2023 to 1 April 2025, the value of LICE<sub>t</sub> is derived in accordance with the following formula:

$$LICE_t = ICEO_{t-3} \times RPIA_{t-3}$$



where:

- $ICEO_{t-3}$  has the value of  $ICEO_{t-3}$  as derived in accordance with Part B of Charge Restriction Condition 2E (Incentive on connections engagement) of this licence as in force on 31 March 2023; and
- $RPIA_{t-3}$  has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023.

- 7.4.10 For Regulatory Years commencing on or after 1 April 2026, the value of  $LICE_t$  is zero.
- 7.4.11 The Incentive on Connections Engagement Guidance may continue to make provision in relation to the  $ICEO_{t-3}$  term. The licensee must comply with the Incentive on Connections Engagement Guidance.
- 7.4.12 The procedure for amending the Incentive on Connections Engagement Guidance is set out in Special Condition 1.3 (Common procedure).

**Part E: Formula for calculating the legacy time to connect incentive term ( $LTTC_t$ )**

- 7.4.13 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LTTC_t$  is derived in accordance with the following formula:

$$LTTC_t = [TQA_{t-2} + TQB_{t-2} + TCA_{t-2} + TCB_{t-2}] \times RPIA_{t-2}$$

where:

- $TQA_{t-2}$  has the value of the  $TQA_{t-2}$  as derived in accordance with Part A of Charge Restriction Condition 2F (Time to connect incentive) of this licence as in force on 31 March 2023;
- $TQB_{t-2}$  has the value of the  $TQB_{t-2}$  as derived in accordance with Part A of Charge Restriction Condition 2F of this licence as in force on 31 March 2023;
- $TCA_{t-2}$  has the value of the  $TCA_{t-2}$  as derived in accordance with Part A of Charge Restriction Condition 2F of this licence as in force on 31 March 2023;
- $TCB_{t-2}$  has the value of the  $TCB_{t-2}$  as derived in accordance with Part A of Charge Restriction Condition 2F of this licence as in force on 31 March 2023; and
- $RPIA_{t-2}$  has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023.

- 7.4.14 For Regulatory Years commencing on or after 1 April 2025, the value of  $LTTC_t$  is zero.

## Special Condition 7.5 Legacy pass-through items term ( $LPT_t$ )

### Introduction

- 7.5.1 The purpose of this condition is to calculate the  $LPT_t$  term (the legacy pass-through items term). This contributes to the calculation of the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.5.2 The effect of this condition is to close out certain RIIO-1 Allowed Pass-through items, such that Allowed Revenue in the Regulatory Years commencing on 1 April 2023 to 1 April 2025 reflects the specified pass-through costs relating to the Regulatory Years commencing on 1 April 2020 through to 1 April 2022.

### Part A: Formula for calculating the RIIO-1 Allowed Pass-through items term ( $LPT_t$ )

- 7.5.3 For the Regulatory Years commencing on 1 April 2023 to 1 April 2025, the value of  $LPT_t$  is derived in accordance with the following formula:

$$LPT_t = LLF_t + LRB_t + LTB_t + LSMC_t + LSMIT_t + LRF_t + LSLR_t + LEBD_t + LCBD_t + LSEC_t + LSEVEC_t + LSNE SRC_t$$

where:

- $LLF_t$  means the legacy licence fee adjustment term and is derived in accordance with Part B;
- $LRB_t$  means the legacy business rates adjustment term and is derived in accordance with Part C;
- $LTB_t$  means the legacy Transmission Connection Point Charges term and is derived in accordance with Part D;
- $LSMC_t$  means the legacy Smart Meter Communication Licensee Costs adjustment term and is derived in accordance with Part E;
- $LSMIT_t$  means the legacy Smart Meter Information Technology Costs adjustment term and is derived in accordance with Part F;
- $LRF_t$  means the legacy ring fence costs adjustment term and is derived in accordance with Part G;
- $LSLR_t$  means the legacy Supplier of Last Resort adjustment term and is derived in accordance with Part H;
- $LEBD_t$  means the legacy eligible bad debt adjustment term and is derived in accordance with Part I;
- $LCBD_t$  means the legacy COVID-19 bad debt adjustment term and is derived in accordance with Part J;

LSEC<sub>t</sub> means the legacy Shetland Variable Energy Costs pass-through items adjustment term and is derived in accordance with Part K;

LSEVEC<sub>t</sub> means the legacy Shetland Extension Variable Energy Costs adjustment term and is derived in accordance with Part L;

LSNESRC<sub>t</sub> means the legacy Shetland new energy solution residual costs adjustment term and is derived in accordance with Part M.

7.5.4 For Regulatory Years commencing on or after 1 April 2026 the value of LPT<sub>t</sub> is zero.

**Part B: Formula for calculating the legacy licence fee adjustment term (LLF<sub>t</sub>)**

7.5.5 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of LLF<sub>t</sub> is derived in accordance with the following formula:

$$LLF_t = \left[ \frac{LFA_{t-2}}{RPIA_{t-2}} - LFE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

LFA<sub>t-2</sub> has the value of LFA<sub>t-2</sub> as derived in accordance with Part B of Charge Restriction Condition 2B (Calculation of Allowed Pass-Through Items) of this licence as in force on 31 March 2023;

LFE<sub>t-2</sub> has the value of the LFE<sub>t-2</sub> as derived in accordance with Part B of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

RPIA<sub>t-2</sub> has the meaning given in Part C of Charge Restriction Condition 2A (Restriction of Allowed Distribution Network Revenue) of this licence as in force on 31 March 2023;

LPVF<sub>t</sub> is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);

PI<sub>t</sub> is the price index derived in accordance with Part E of Special Condition 2.1; and

PI<sub>2012/13</sub> has the value of PI<sub>t</sub> derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.5.6 For Regulatory Years commencing on or after 1 April 2025, the value of LLF<sub>t</sub> is zero.

**Part C: Formula for calculating the legacy business rate adjustment term (LRB<sub>t</sub>)**

7.5.7 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of LRB<sub>t</sub> is derived in accordance with the following formula:

$$LRB_t = \left[ \frac{RBA_{t-2}}{RPIA_{t-2}} - RBE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

$RBA_{t-2}$	has the value of $RBA_{t-2}$ as derived in accordance with Part C of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
$RBE_{t-2}$	has the value of the $RBE_{t-2}$ as derived in accordance with Part C of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
$RPIA_{t-2}$	has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
$LPVF_t$	is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
$PI_t$	is the price index derived in accordance with Part E of Special Condition 2.1 (Revenue restriction); and
$PI_{2012/13}$	has the value of $PI_t$ derived in accordance with Part E of Special Condition 2.1 (Revenue restriction) for the Regulatory Year commencing on 1 April 2012.

7.5.8 For Regulatory Years commencing on or after 1 April 2025, the value of  $LRB_t$  is zero.

**Part D: Formula for calculating the legacy Transmission Connection Point Charges adjustment term ( $LTB_t$ )**

7.5.9 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LTB_t$  is derived in accordance with the following formula:

$$LTB_t = \left[ \frac{PTPA_{t-2}}{RPIA_{t-2}} - PTPE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

$PTPA_{t-2}$	has the value of $PTPA_{t-2}$ as derived in accordance with Part D of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
$PTPE_{t-2}$	has the value of the $PTPE_{t-2}$ as derived in accordance with Part D of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
$RPIA_{t-2}$	has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
$LPVF_t$	has the value derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
$PI_t$	is the price index derived in accordance with Part E of Special Condition 2.1; and
$PI_{2012/13}$	has the value $PI_t$ derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.5.10 For Regulatory Years commencing on or after 1 April 2025, the value of  $LTB_t$  is zero.

**Part E: Formula for calculating the legacy Smart Meter Communication Licensee adjustment term ( $LSMC_t$ )**

7.5.11 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LSMC_t$  is derived in accordance with the following formula:

$$LSMC_t = \left[ \frac{SMCA_{t-2}}{RPIA_{t-2}} - SMCE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

$SMCA_{t-2}$  has the value of  $SMCA_{t-2}$  as derived in accordance with Part E of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

$SMCE_{t-2}$  has the value of the  $SMCE_{t-2}$  as derived in accordance with Part E of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

$RPIA_{t-2}$  has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;

$LPVF_t$  is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);

$PI_t$  is the price index derived in accordance with Part E of Special Condition 2.1; and

$PI_{2012/13}$  has the value of  $PI_t$  derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.5.12 For Regulatory Years commencing on or after 1 April 2025, the value of  $LSMC_t$  is zero.

**Part F: Formula for calculating the legacy Smart Meter Information Technology Costs adjustment term ( $LSMIT_t$ )**

7.5.13 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LSMIT_t$  is derived in accordance with the following formula:

$$LSMIT_t = \left[ \frac{SMIA_{t-2}}{RPIA_{t-2}} - SMIE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

$SMIA_{t-2}$  has the value of  $SMIA_{t-2}$  as derived in accordance with Part F of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

$SMIE_{t-2}$  has the value of the  $SMIE_{t-2}$  as derived in accordance with Part F of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

$RPIA_{t-2}$	has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
$LPVF_t$	is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
$PI_t$	is the price index derived in accordance with Part E of Special Condition 2.1; and
$PI_{2012/13}$	has the value of $PI_t$ derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.5.14 For Regulatory Years commencing on or after 1 April 2025, the value of  $LSMIT_t$  is zero.

**Part G: Formula for calculating the legacy ring fence costs adjustment term ( $LRF_t$ )**

7.5.15 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LRF_t$  is derived in accordance with the following formula:

$$LRF_t = \left[ \frac{RFA_{t-2}}{RPIA_{t-2}} - RFE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

$RFA_{t-2}$	has the value of $RFA_{t-2}$ as derived in accordance with Part G of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
$RFE_{t-2}$	has the value of the $RFE_{t-2}$ as derived in accordance with Part G of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
$RPIA_{t-2}$	has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
$LPVF_t$	is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
$PI_t$	is the price index derived in accordance with Part E of Special Condition 2.1; and
$PI_{2012/13}$	has the value of $PI_t$ derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.5.16 For Regulatory Years commencing on or after 1 April 2025, the value of  $LRF_t$  is zero.

**Part H: Formula for calculating the legacy Supplier of Last Resort adjustment term ( $LSLR_t$ )**

7.5.17 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LSLR_t$  is derived in accordance with the following formula:

$$LSLR_t = \frac{SLRA_{t-2}}{RPIA_{t-2}} \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

- SLRA<sub>t-2</sub> has the value of SLRA<sub>t-2</sub> as derived in accordance with Part K of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
- RPIA<sub>t-2</sub> has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
- LPVF<sub>t</sub> is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
- PI<sub>t</sub> is the price index derived in accordance with Part E of Special Condition 2.1; and
- PI<sub>2012/13</sub> has the value of PI<sub>t</sub> derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.5.18 For Regulatory Years commencing on or after 1 April 2025, the value of LSLR<sub>t</sub> is zero.

#### **Part I: Formula for calculating the legacy eligible bad debt adjustment term (LEBD<sub>t</sub>)**

7.5.19 For Regulatory Years commencing on 1 April 2023, 1 April 2024 and 1 April 2025, the value of LEBD<sub>t</sub> is derived in accordance with the following formula:

$$LEBD_t = \frac{[EBDA_{t-3} - RBD_{t-3}]}{RPIA_{t-3}} \times LPVF_{t-3} \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

- EBDA<sub>t-3</sub> has the value of EBDA<sub>t-3</sub> as derived in accordance with Part L of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
- RBD<sub>t-3</sub> has the value of RBD<sub>t-3</sub> as derived in accordance with Part L of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
- RPIA<sub>t-3</sub> has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
- LPVF<sub>t</sub> is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
- PI<sub>t</sub> is the price index derived in accordance with Part E of Special Condition 2.1; and
- PI<sub>2012/13</sub> has the value of PI<sub>t</sub> derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.5.20 For Regulatory Years commencing on or after 1 April 2026, the value of  $LEBD_t$  is zero.

**Part J: Formula for calculating the legacy COVID-19 bad debt adjustment term ( $LCBD_t$ )**

7.5.21 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LCBD_t$  is derived in accordance with the following formula:

$$LCBD_t = \frac{[CBDA_{t-2} - PCBD_{t-2} - RCBD_{t-2}]}{RPIA_{t-2}} \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

$CBDA_{t-2}$  has the value of  $CBDA_{t-2}$  as derived in accordance with Part M of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

$PCBD_{t-2}$  has the value of  $PCBD_{t-2}$  as derived in accordance with Part M of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

$RCBD_{t-2}$  has the value of  $RCBD_{t-2}$  as derived in accordance with Part M of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

$RPIA_{t-2}$  has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;

$LPVF_t$  is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);

$PI_t$  is the price index derived in accordance with Part E of Special Condition 2.1; and

$PI_{2012/13}$  has the value of  $PI_t$  derived in accordance with Part E of Special Condition 2.1 (Revenue Restriction) for the Regulatory Year commencing on 1 April 2012.

7.5.22 For Regulatory Years commencing on or after 1 April 2025, the value of  $LEBD_t$  is zero.

**Part K: [Not used]**

7.5.23 [Not used]

7.5.24 [Not used]

**Part L: [Not used]**

7.5.25 [Not used]

7.5.26 [Not used]

**Part M: [Not used]**

7.5.27 [Not used]



7.5.28 [Not used]

### **Special Condition 7.6 Formula for calculating the legacy Shetland variable energy costs pass-through items adjustment term (LSEC<sub>t</sub>)**

7.6.1 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of LSEC<sub>t</sub> is derived in accordance with the following formula:

$$LSEC_t = \left[ \frac{SECA_{t-2}}{RPIA_{t-2}} - SECE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

SECA<sub>t-2</sub> has the value of SECA<sub>t-2</sub> as derived in accordance with Part H of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

SECE<sub>t-2</sub> has the value of SECE<sub>t-2</sub> as derived in accordance with Part H of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

RPIA<sub>t-2</sub> has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;

LPVF<sub>t</sub> is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);

PI<sub>t</sub> is the price index derived in accordance with Part E of Special Condition 2.1; and

PI<sub>2012/13</sub> has the value of PI<sub>t</sub> derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.6.2 For Regulatory Years commencing on or after 1 April 2025, the value of LSEC<sub>t</sub> is zero.

### **Part A: Formula for calculating the legacy Shetland Extension Variable Energy Costs adjustment term (LSEVEC<sub>t</sub>)**

7.6.3 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of LSEVEC<sub>t</sub> is derived in accordance with the following formula:

$$LSEVEC_t = \left[ \frac{SEVECA_{t-2}}{RPIA_{t-2}} - SEVECE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

SEVECA<sub>t-2</sub> has the value of SEVECA<sub>t-2</sub> as derived in accordance with Part I of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

SEVECE<sub>t-2</sub> has the value of SEVECE<sub>t-2</sub> as derived in accordance with Part I of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;

$RPIA_{t-2}$	has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
$LPVF_t$	is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
$PI_t$	is the price index derived in accordance with Part E of Special Condition 2.1; and
$PI_{2012/13}$	has the value of $PI_t$ derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.6.4 For Regulatory Years commencing on or after 1 April 2025, the value of  $LSEVEC_t$  is zero.

**Part B: Formula for calculating the legacy Shetland new energy solution residual costs adjustment term ( $LSNESRC_t$ )**

7.6.5 For Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of  $LSNESRC_t$  is derived in accordance with the following formula:

$$LSNESRC_t = \left[ \frac{SNESRCA_{t-2}}{RPIA_{t-2}} - SNESRCE_{t-2} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times \frac{PI_t}{PI_{2012/13}}$$

where:

$SNESRCA_{t-2}$	has the value of $SNESRCA_{t-2}$ as derived in accordance with Part J of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
$SNESRCE_{t-2}$	has the value of $SNESRCE_{t-2}$ as derived in accordance with Part J of Charge Restriction Condition 2B of this licence as in force on 31 March 2023;
$RPIA_{t-2}$	has the meaning given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
$LPVF_t$	is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
$PI_t$	is the price index derived in accordance with Part E of Special Condition 2.1; and
$PI_{2012/13}$	has the value of $PI_t$ derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

7.6.6 For Regulatory Years commencing on or after 1 April 2025, the value of  $LSNESRC_t$  is zero.

## Special Condition 7.7 Legacy K correction (LK<sub>t</sub>)

### Introduction

- 7.7.1 The purpose of this condition is to calculate the term LK<sub>t</sub> (the legacy K correction term). This contributes to the calculation of the term LAR<sub>t</sub> (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.7.2 The effect of this condition is to close out the RII0-1 Price Control Period correction term such that Allowed Revenue in the Regulatory Year commencing on 1 April 2023 reflects the correction value relating to the Regulatory Year commencing on 1 April 2021.
- 7.7.3 The correction value relating to the Regulatory Year commencing on 1 April 2022 is set out in Part F of Special Condition 2.1.

### Part A: Formula for calculating the legacy K correction term (LK<sub>t</sub>)

- 7.7.4 For the Regulatory Year commencing on 1 April 2023, the value of LK<sub>t</sub> is derived in accordance with the following formula:

$$LK_t = -1 \times (RD_{t-2} - AR_{t-2}) \times \left(1 + \left(\frac{I_{t-2} + PR_{t-2}}{100}\right)\right) \times \left(1 + \left(\frac{I_{t-1} + 1.5}{100}\right)\right)$$

where:

- RD<sub>t-2</sub> has the value of RD<sub>t-2</sub> as derived in accordance with Part E of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
- AR<sub>t-2</sub> has the value of AR<sub>t-2</sub> as derived in accordance with Part E of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
- I<sub>t</sub> has the definition of “Average Specified Rate” for Regulatory Year t provided in Charge Restriction Condition 1B (Interpretation of Part 4) of this licence as in force on 31 March 2023; and
- PR<sub>t-2</sub> has the value of PR<sub>t-2</sub> as derived in accordance with Part F of Charge Restriction Condition 2A of this licence as in force on 31 March 2023.
- 7.7.5 The value of LK<sub>t</sub> for Regulatory Years commencing on or after 1 April 2024 is zero.

## Special Condition 7.8 Legacy TRU term (LTRU<sub>t</sub>)

### Introduction

- 7.8.1 The purpose of this condition is to calculate the term LTRU<sub>t</sub> (the legacy TRU term). This contributes to the calculation of the term LAR<sub>t</sub> (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).

- 7.8.2 The effect of this condition is to close out the RIIO-1 Price Control Period TRU term such that revenue in Regulatory Years commencing on 1 April 2023 and 1 April 2024 reflects TRU adjustments relating to inflation forecasts used in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 respectively.

### **Part A: Formula for calculating the legacy TRU term (LTRU<sub>t</sub>)**

- 7.8.3 For Regulatory Years commencing on 1 April 2023 to 1 April 2024, the value of LTRU<sub>t</sub> is derived in accordance with the following formula:

$$LTRU_t = \left[ \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right] \times LPVF_{t-2} \times LPVF_{t-1} \times REV_{t-2} \times \frac{PI_t}{PI_{2012/13}}$$

where:

REV <sub>t-2</sub>	has the value of REV <sub>t-2</sub> as derived in accordance with Part C of Charge Restriction Condition 2A (Restriction of Allowed Distribution Network Revenue) of this licence as in force on 31 March 2023;
RPIA <sub>t-2</sub>	has the value given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
RPIF <sub>t-2</sub>	has the value given in Part C of Charge Restriction Condition 2A of this licence as in force on 31 March 2023;
LPVF <sub>t</sub>	is derived in accordance with paragraph 7.4.7 of Special Condition 7.4 (Legacy incentive performance);
PI <sub>t</sub>	is the price index derived in accordance with Part E of Special Condition 2.1; and
PI <sub>2012/13</sub>	has the value of PI <sub>t</sub> derived in accordance with Part E of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2012.

- 7.8.4 For Regulatory Years commencing on or after 1 April 2025, the value of LTRU<sub>t</sub> is zero.

## **Special Condition 7.9 Low Carbon Networks Fund (LCN<sub>t</sub>)**

### **Part A: Introduction**

- 7.9.2 The purpose of this condition is to calculate the value of the term LCN<sub>t</sub> (the Low Carbon Networks Fund term). This contributes to the calculation of the LAR<sub>t</sub> term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.9.3 Although no new Low Carbon Networks Fund projects have been funded since 31 March 2015, this condition makes provision for the maintenance of the Low Carbon Networks Fund arrangements that will enable the Authority to decide the value of LCN<sub>t</sub> and for the arrangements relating to the governance and administration of the Low Carbon Networks Fund.

## **Part B: Formula for calculating the Low Carbon Networks Fund term (LCN<sub>t</sub>)**

7.9.4 The value of LCN<sub>t</sub> is derived in accordance with the following formula:

$$LCN_t = LCN2_t - LCN1_t$$

where:

LCN2<sub>t</sub> is an amount determined under the LCNF Second Tier and Discretionary Funding Mechanism in accordance with Part C and the LCN Fund Governance Document; and

LCN1<sub>t</sub> is an amount recovered by the licensee in a previous Regulatory Year under the LCNF First Tier Funding Mechanism that the Authority has determined, in accordance with the provisions set out in the LCN Fund Governance Document, to be unrecoverable.

## **Part C: The LCNF Second Tier and Discretionary Funding Mechanism**

7.9.5 The Authority may direct either:

- (a) how the relevant revenues under LCNF Second Tier Funding and LCNF Discretionary Funding should be recovered from or paid to Customers through the LCNF Second Tier and Discretionary Funding Mechanism; or
- (b) where the Authority considers it to be appropriate, whether they should be retained by the licensee.

7.9.6 LCN2<sub>t</sub> is the amount specified that is to be recovered by each Distribution Services Provider as directed by the Authority under paragraph 7.8.5 in relation to:

- (a) the LCNF Second Tier Funding specified for Regulatory Year t;
- (b) any LCNF Discretionary Funding specified for Regulatory Year t;
- (c) any LCNF Halted Project Revenues specified for Regulatory Year t;
- (d) any LCNF Disallowed Expenditure specified for Regulatory Year t;
- (e) any Returned LCN Fund Royalties specified for Regulatory Year t; and
- (f) any LCN Fund Returned Project Revenues specified for Regulatory Year t.

7.9.7 In each Regulatory Year t, as provided for by the LCN Fund Governance Document, the Authority may calculate and, by direction given to all of the Distribution Services Providers, specify in accordance with the appropriate provisions set out in the LCN Fund Governance Document:

- (a) the value for LCN2<sub>t</sub> for each Distribution Services Provider (being the amount to be recovered by each Distribution Services Provider through Use of System Charges in order to contribute to its own or another Distribution Services Provider's LCNF Second Tier Funding and LCNF Discretionary Funding for that Regulatory Year);

- (b) the net amounts to be transferred between Distribution Services Providers in order to ensure that each Distribution Services Provider receives an amount (if any) equal to the proportion of the LCNF Second Tier Funding and LCNF Discretionary Funding for that Regulatory Year that is attributable to the licensee's Eligible LCN Fund Projects (adjusted to take into account any LCNF Halted Project Revenue, Returned LCN Fund Royalties, LCNF Disallowed Expenditure and LCN Fund Returned Project Revenues); and
  - (c) the manner in which and the timescale over which the net amounts referred to in 7.8.7(b) are to be transferred.
- 7.9.8 The licensee must comply with any direction issued by the Authority under paragraph 7.8.7.

**Part D: Unrecoverable expenditure**

- 7.9.9 In any Regulatory Year  $t$ , the Authority may set, by direction given to the licensee, an amount for  $LCN1_t$  that will reduce the licensee's Allowed Revenue by the amount that the Authority has determined to be unrecoverable, in accordance with the provisions set out in the LCN Fund Governance Document.

**Part E: The LCN Fund Governance Document**

- 7.9.10 The licensee must comply with the LCN Fund Governance Document when acting in relation to the Low Carbon Networks Fund.
- 7.9.11 The LCN Fund Governance Document makes and may continue to make provision about or impose requirements in respect of:
- (a) the arrangements for ensuring that relevant matters learnt from the implementation of Eligible LCN Fund Projects can be captured and disseminated;
  - (b) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the LCN Fund Governance Document);
  - (c) arrangements relating to intellectual property rights, including Returned LCN Fund Royalties, in respect of Eligible LCN Fund Projects; and
  - (d) any other matters related to the regulation, governance, or administration of the Low Carbon Networks Fund.
- 7.9.12 The procedure for amending the LCN Fund Governance Document is set out in Special Condition 1.3 (Common procedures).

## **Special Condition 7.10 RIIO-ED1 network innovation competition**

### **Introduction**

- 7.10.1 The NIC was in operation during the RIIO-1 Price Control Period to fund innovative low carbon or environmental projects. Although there is no provision for new NIC projects from 1 April 2023, this condition makes provision for arrangements relating to the regulation, administration, and governance of the NIC.
- 7.10.2 Parts A and C are supplemented by the relevant provisions of the Electricity Network Innovation Competition Governance Document. The Electricity Network Innovation Competition Governance Document provides fuller details on the process for the Funding Return Mechanism and Successful Delivery Reward.

### **Part A: The Funding Return Mechanism**

- 7.10.3 The Authority may direct, in accordance with the Electricity Network Innovation Competition Governance Document, either:
- (a) how any relevant revenues should be paid to the GB System Operator through the Funding Return Mechanism; or
  - (b) where the Authority considers it to be appropriate, that any relevant revenues should be retained by the licensee.
- 7.10.4 In each Regulatory Year, in accordance with the appropriate provisions of the Electricity Network Innovation Competition Governance Document, the Authority may calculate and then, by direction given to the licensee, specify:
- (a) the amount of any Funding Return that the licensee must pay to the GB System Operator; and
  - (b) the manner in which and the timescale over which that amount is to be so paid.

### **Part B: The Electricity Network Innovation Competition Governance Document**

- 7.10.5 The licensee must comply with the Electricity Network Innovation Competition Governance Document when acting in relation to the NIC.
- 7.10.6 The Electricity Network Innovation Competition Governance Document makes and may continue to make provision about:
- (a) the process and procedures that will be in place for the assessment, approval, and financing of project funding (where necessary);
  - (b) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Electricity Distributors and Transmission Licensees;
  - (c) the nature of the reporting obligations in respect of Eligible NIC Projects (which may include reporting in respect of their funding and completion, as

- well as reporting on compliance with this condition and the provisions of the Electricity Network Innovation Competition Governance Document);
- (d) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
  - (e) any other matters relating to the governance of the NIC.
- 7.10.7 The procedure for amending the Electricity Network Innovation Competition Governance Document is set out in Special Condition 1.3 (Common procedure).

**Part C: Successful Delivery Reward**

- 7.10.8 The Authority may direct that the GB System Operator pay the licensee a Successful Delivery Reward, in accordance with the provisions of the Electricity Network Innovation Competition Governance Document.



## **Chapter 8: Governance**

### **Special Condition 8.1 Governance of the ED2 Price Control Financial Instruments**

#### **Introduction**

8.1.1 The purpose of this condition is to establish:

- (a) the ED2 Price Control Financial Instruments; and
- (b) a robust and transparent change control framework for the ED2 Price Control Financial Instruments.

#### **Part A: The ED2 Price Control Financial Instruments**

8.1.2 Each of the following ED2 Price Control Financial Instruments forms part of this condition:

- (a) the ED2 Price Control Financial Handbook; and
- (b) the ED2 Price Control Financial Model.

#### **Part B: Modification of the ED2 Price Control Financial Instruments**

8.1.3 The Authority may direct modifications to the ED2 Price Control Financial Instruments under this Part at any time during the Price Control Period where:

- (a) it becomes aware of a modification that will improve the functionality or clarity of the ED2 Price Control Financial Instruments; and
- (b) the modification will have no impact on the licensee's Allowed Revenue.

8.1.4 For the purposes of paragraph 8.1.3(b), it is to be presumed that a modification which serves to correct a manifest error will have no impact on the licensee's Allowed Revenue. This is without prejudice to the licensee's right to make representations to the Authority that a particular modification will have an impact on the licensee's Allowed Revenue.

8.1.5 The following categories of modifications may be made under this Part:

- (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, cell labelling, re-naming or re-ordering of sections or worksheets;
- (b) deleting irrelevant material such as transitional provisions that have expired;
- (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
- (d) consequential changes required to reflect modifications made to the special conditions such as the addition or removal of PCFM Variable Values; and

- (e) corrections of manifest errors, such as discrepancies between the ED2 Price Control Financial Instruments and between the ED2 Price Control Financial Instruments and the other special conditions.

### **Part C: Circumstances in which a modification may be made**

- 8.1.6 Before making a direction under paragraph 8.1.3, the Authority must:
- (a) consider any views expressed and representations made by the ED2 Price Control Financial Model Working Group in relation to modifications of the type set out in paragraphs 8.1.5(a) to (e); and
  - (b) publish on the Authority's Website:
    - i. the text of the proposed direction;
    - ii. the reasons for the proposed direction, including why the Authority believes that the modification meets the requirements of paragraphs 8.1.3 and 8.1.5; and
    - iii. a period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 8.1.7 A direction under paragraph 8.1.3 must set out:
- (a) the modifications to the ED2 Price Control Financial Instruments; and
  - (b) the date from which it is to have effect or the mechanism by which that date is to be determined.
- 8.1.8 The following do not constitute a modification of the ED2 Price Control Financial Model:
- (a) entering a PCFM Variable Value into the ED2 Price Control Financial Model;
  - (b) changing the filename of the spreadsheet containing the ED2 Price Control Financial Model; and
  - (c) changing the "publication date" on the "Cover" sheet of the ED2 Price Control Financial Model.

### **Part D: Availability and updating of the ED2 Price Control Financial Instruments**

- 8.1.9 The Authority must maintain on the Authority's Website an up to date copy of the ED2 Price Control Financial Instruments for Regulatory Years commencing on or after 1 April 2023.
- 8.1.10 The Authority must ensure that any modifications of the ED2 Price Control Financial Instruments, whether under this condition or otherwise, are promptly incorporated into consolidated versions maintained on the Authority's Website.
- 8.1.11 The Authority must publish on the Authority's Website a consolidated version of the ED2 Price Control Financial Model containing the updated value of  $AR_t$  for all Distribution Services Providers following each Annual Iteration Process.

## **Chapter 9: General obligations**

### **Special Condition 9.1 Annual Environmental Report**

#### **Introduction**

- 9.1.1 This condition requires the licensee to prepare and publish an Annual Environmental Report.
- 9.1.2 The purpose of an Annual Environmental Report is to increase the public transparency and accountability of the licensee in relation to the impact of its Distribution Business on the environment, and in relation to the licensee's progress against its Environmental Action Plan Commitments.
- 9.1.3 This condition also establishes the Environmental Reporting Guidance.

#### **Part A: Requirement to prepare and publish an Annual Environmental Report**

- 9.1.4 The licensee must prepare an Annual Environmental Report in accordance with the Environmental Reporting Guidance.
- 9.1.5 The licensee must publish an Annual Environmental Report for the preceding Regulatory Year on, or before, the date specified in the Environmental Reporting Guidance.
- 9.1.6 The licensee must publish its Annual Environmental Report on the licensee's Website where it is readily accessible to the public.

#### **Part B: Environmental Reporting Guidance**

- 9.1.7 The Environmental Reporting Guidance may set out how the licensee must prepare its Annual Environmental Report, including the following:
  - (a) the engagement the licensee is required to undertake with stakeholders to help inform the development of its Annual Environmental Report;
  - (b) the requirements for the structure and level of detail to be included in the Annual Environmental Report, including some of the data metrics to be used, as well as expectations about the level of explanatory text to be included; and
  - (c) the environmental impacts, relevant Environmental Action Plan Commitments, business practices, existing obligations and activities that must be covered in the Annual Environmental Report.
- 9.1.8 The procedure for issuing and amending the Environmental Reporting Guidance is set out in Special Condition 1.3 (Common procedure).

## **Special Condition 9.2 Network Asset Risk Metric methodology**

### **Introduction**

- 9.2.1 The purpose of this condition is to set out the requirements on the licensee in respect of the NARM Methodology.
- 9.2.2 It also sets out:
  - (a) the process for modifying the NARM Methodology; and
  - (b) the requirements on the licensee in respect of the Information Gathering Plan.

### **Part A: Requirement to have a NARM Methodology**

- 9.2.3 The licensee must have in place and act in accordance with a NARM Methodology which is comprised of:
  - (a) a Common Network Asset Indices Methodology that complies with the requirements of paragraph 9.2.4; and
  - (b) a Network Asset Indices Methodology that complies with the requirements of paragraph 9.2.6.
- 9.2.4 The licensee must use best endeavours to work in co-operation with all other Distribution Services Providers to develop and maintain a Common Network Asset Indices Methodology that facilitates the achievement of the NARM Objectives.
- 9.2.5 The licensee must at all times keep the Common Network Asset Indices Methodology under review and modify it as necessary to ensure that it continues to facilitate the achievement of the NARM Objectives.
- 9.2.6 The licensee's Network Asset Indices Methodology must:
  - (a) enable the licensee to:
    - i. assess its NARM Assets against the Network Asset Risk Metric;
    - ii. report in accordance with the RIGs; and
    - iii. assess its performance against the Baseline Network Risk Output; and
  - (b) be consistent with the Common Network Asset Indices Methodology.
- 9.2.7 The licensee must at all times keep its Network Asset Indices Methodology under review and modify it as necessary to ensure it complies with the requirements of paragraph 9.2.6.

### **Part B: The NARM Objectives**

- 9.2.8 The NARM Objectives are:
  - (a) to enable the robust estimation of Long-term Monetised Risk of condition-based asset failure for each NARM Asset through the Network Asset Indices;

- (b) to enable the robust estimation of the Long-term Monetised Risk Benefits delivered, or expected to be delivered, through NARM Asset Interventions on specific assets or groups of assets;
- (c) to enable the Authority to establish the licensee's Baseline Network Risk Output and to undertake an objective assessment of the licensee's delivery against the Baseline Network Risk Output;
- (d) to provide inputs to help explain and justify:
  - i. the licensee's investment plans for managing and renewing its NARM Assets through NARM Asset Interventions; and
  - ii. the licensee's outturn delivery of NARM Asset Intervention investment options;
- (e) to enable the identification and quantification of drivers leading to changes in Long-term Monetised Risk over time;
- (f) to enable the comparative analysis of Network Asset performance between Distribution Services Providers over time; and
- (g) to enable the communication to the Authority and other interested parties of relevant information affecting the Baseline Network Risk Output in an accessible and transparent manner.

**Part C: Modifications to the Common Network Asset Indices Methodology that have a material impact on the Baseline Network Risk Output**

- 9.2.9 This Part applies where the licensee proposes to make modifications to the Common Network Asset Indices Methodology that would have an impact on the Baseline Network Risk Output.
- 9.2.10 Where the licensee proposes to modify the Common Network Asset Indices Methodology under this Part, it must:
- (a) consult with all other interested parties, allowing them a period of at least 28 days within which to make written representations with respect to the licensee's modification proposal; and
  - (b) submit to the Authority and to all other Distribution Services Providers a report containing all of the matters listed in paragraph 9.2.12.
- 9.2.11 The requirements of paragraph 9.2.10 may be satisfied:
- (a) by another Distribution Services Provider on behalf of the licensee; or
  - (b) jointly by the licensee and another Distribution Services Provider.
- 9.2.12 The matters to which paragraph 9.2.10(b) refers are:
- (a) a statement of the proposed modification to the Common Network Asset Indices Methodology, including a copy of the draft Common Network Asset Indices Methodology which shows the proposed modifications;
  - (b) a full and fair summary of any representations that were made to the licensee pursuant to paragraph 9.2.10(a) and not withdrawn;

- (c) an explanation of any changes that the licensee has made to its modification proposal as a consequence of such representations;
  - (d) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NARM Objectives;
  - (e) the data and other relevant information, including historical data, that the licensee has used for the purpose of developing the proposed modification; and
  - (f) a timetable for the implementation of the proposed modification, including an implementation date.
- 9.2.13 Within 28 days of a submission under paragraph 9.2.10(b), the licensee must notify the Authority as to whether it expects that the proposed modification, if implemented, would require:
- (a) a change to the licensee's Network Asset Indices Methodology;
  - (b) a change to the licensee's Network Asset Risk Workbook; or
  - (c) a restatement of data previously reported for historical years.
- 9.2.14 The Authority must by direction:
- (a) approve the proposed modification;
  - (b) approve the proposed modification with amendments;
  - (c) reject the proposed modification; or
  - (d) reject the proposed modification and direct the licensee to make a further submission under this Part.
- 9.2.15 The licensee must implement a modification approved under paragraph 9.2.14(a) or (b) by the date specified by the Authority in the direction approving the modification, which must not be earlier than three months after the date of the direction.
- 9.2.16 Where the Authority makes a direction under paragraph 9.2.14(a) or (b), the Authority may also direct the date by which the licensee must submit any Rebased Baseline Network Risk Output in accordance with Part D of Special Condition 3.1 (Allowed Network Asset Risk Metric expenditure), which must not be earlier than the date of implementation directed in accordance with paragraph 9.2.15.
- 9.2.17 Before issuing a direction under paragraph 9.2.14, the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the date on which the Authority intends the proposed direction to come into effect;
  - (c) the reasons why it proposes to issue the direction; and

- (d) a period during which representations may be made on the proposed direction, which must not be less than 28 days.
- 9.2.18 If any modification of the Common Network Asset Indices Methodology under this Part results in a change to the basis on which the licensee's progress against its Baseline Network Risk Output is reported, the licensee must within six months of implementation of the modification, or such later date as the Authority may direct, submit to the Authority a restatement of data for the preceding years of the Price Control Period on the basis of the modified Common Network Asset Indices Methodology.

**Part D: Modifications to the Common Network Asset Indices Methodology that do not have a material impact on the Baseline Network Risk Output**

- 9.2.19 The licensee may make modifications under this Part of the type set out in paragraph 9.2.20 where:
  - (a) the modification would improve the clarity of the Common Network Asset Indices Methodology;
  - (b) it has obtained the agreement of all Distribution Services Providers; and
  - (c) the modification will have no material impact on the licensee's or any other Distribution Services Provider's:
    - i. Baseline Network Risk Output; or
    - ii. delivery against its Baseline Network Risk Output.
- 9.2.20 The following categories of modifications may be made under this Part:
  - (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, cell labelling, renaming, or re-ordering of sections or appendices;
  - (b) deleting irrelevant material such as transitional provisions that have expired;
  - (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
  - (d) consequential changes required to reflect modifications made to the special conditions such as the addition, removal or modification of defined terms; and
  - (e) corrections of manifest errors.
- 9.2.21 Where the licensee proposes a modification under this Part, it must send to the Authority and all other Distribution Services Providers a statement that sets out:
  - (a) the proposed modification to the Common Network Asset Indices Methodology;

- (b) how, in the licensee's opinion, the proposed modification, if made, would improve the clarity of the Common Network Asset Indices Methodology; and
  - (c) the materiality of the proposed modification on the licensee's and all other Distribution Services Providers' Baseline Network Risk Output.
- 9.2.22 The Authority must by direction:
  - (a) approve the proposed modification;
  - (b) approve the proposed modification with amendments;
  - (c) reject the proposed modification; or
  - (d) reject the proposed modification and direct the licensee to make a further submission under this Part or Part C.
- 9.2.23 A direction under paragraph 9.2.22 will likely be insufficiently significant to warrant publication or formal consultation, but the Authority will consider this on a case-by-case basis.

## **Part E: Information Gathering Plan**

- 9.2.24 The licensee must provide the Authority with an Information Gathering Plan:
  - (a) by 30 September 2023; and
  - (b) within 3 months of a direction under paragraph 9.2.14(a) or (b).
- 9.2.25 The Information Gathering Plan must:
  - (a) set out how the licensee will gather and record the information required for its implementation of the Common Network Asset Indices Methodology; and
  - (b) include the scope and form of the data that the licensee collects and will collect and the frequency with which data will be collected to enable the licensee to report on progress against its Baseline Network Risk Output in accordance with the Common Network Asset Indices Methodology annually, in accordance with the RIGs.
- 9.2.26 The licensee must:
  - (a) keep the Information Gathering Plan under review and in particular must conduct a review when directed to do so by the Authority; and
  - (b) modify the Information Gathering Plan, where necessary to ensure that it complies with the requirements of paragraph 9.2.25.



## **Special Condition 9.3 Evaluative Price Control Deliverable reporting requirements**

### **Introduction**

- 9.3.1 The purpose of this condition is to require the licensee to report to the Authority on the delivery of its Evaluative Price Control Deliverables. Outputs, delivery dates and allowances associated with Evaluative Price Control Deliverables are set out in Special Condition 3.3, and Special Condition 3.6.
- 9.3.2 This condition also establishes the Price Control Deliverable Reporting Requirements and Methodology Document.

### **Part A: Evaluative Price Control Deliverable Reporting requirement**

- 9.3.3 The licensee must by 31 July of each Regulatory Year, or such later date directed by the Authority, send to the Authority a Basic PCD Report on each Evaluative Price Control Deliverable output:
  - (a) for which the delivery date specified in Special Condition 3.3 (Evaluative Price Control Deliverables) was in the previous Regulatory Year; and
  - (b) for which, in the case of a Delayed Evaluative Price Control Deliverable, delivery was completed in the previous Regulatory Year.
- 9.3.4 On receipt of a Basic PCD Report, the Authority may decide whether to direct the licensee to submit to it a Full PCD Report.
- 9.3.5 The Authority may not direct the submission of a Full PCD Report where the Basic PCD Report clearly demonstrates that the relevant output has been Fully Delivered.
- 9.3.6 Where directed to do so by the Authority the licensee must send to the Authority a Full PCD Report.
- 9.3.7 The Authority must use the Basic PCD Report, Full PCD Report, responses to supplementary questions and any other relevant information to decide the delivery status of the outputs for the purposes of Special Condition 3.3 (Evaluative Price Control Deliverables) and Special Condition 3.6 (Net Zero Re-opener and Price Control Deliverable). The Authority may assign more than one delivery status to any output.

### **Part B: Cyber resilience reporting**

- 9.3.8 The licensee must send a report to the Authority, in a form approved by the Authority that includes:
  - (a) a summary of progress, against key milestones and developments, against the outputs in the Cyber Resilience OT PCD Table;
  - (b) the licensee's assessment of the impact of the progress and developments referred to in sub-paragraph (a) on improving cyber resilience in relation to

- OT, including risk reduction and improved status of the licensee's OT network and information systems with respect to CAF Outcomes;
- (c) a summary of progress against key milestones and developments against the outputs in the Cyber Resilience IT PCD Table;
  - (d) the licensee's assessment of the impact of the progress and developments referred to in sub-paragraph (c) on improving cyber resilience in relation to IT, including risk reduction and improved status of the licensee's IT network and information systems with respect to CAF Outcomes;
  - (e) a description of how the licensee has considered any relevant guidance provided by the Authority; and
  - (f) such detailed supporting evidence as is reasonable in the circumstances.
- 9.3.9 Unless the Authority otherwise directs, the licensee must send reports under paragraph 9.3.8 by no later than the dates, and in relation to the periods, set out in Appendix 1.

### **Part C: Price Control Deliverable Reporting Requirements and Methodology Document**

- 9.3.10 The licensee must comply with the Price Control Deliverable Reporting Requirements and Methodology Document when preparing a report required by Parts A and B.
- 9.3.11 The Price Control Deliverable Reporting Requirements and Methodology Document may set out:
- (a) how the licensee must prepare the reports required by Part A and B;
  - (b) further guidance about Evaluative Price Control Deliverables and Mechanistic Price Control Deliverables; and
  - (c) worked examples of the methodology the Authority will use when deciding:
    - i. whether to direct a value to reduce allowances for Evaluative Price Control Deliverables that have not been Fully Delivered; and
    - ii. the value to direct.
- 9.3.12 The procedure for issuing and amending the Price Control Deliverable Reporting Requirements and Methodology Document is set out in Special Condition 1.3 (Common procedure).

## **Appendix 1**

### **Report submission dates and the associated periods to be reported on in relation to cyber resilience OT and IT**

<b>Dates each year by which reports must be submitted from 31 July 2024 to 31 July 2028</b>	<b>Associated periods to be reported on</b>
31 July	1 April to 31 March

## **Special Condition 9.4 Re-opener Guidance and Application Requirements Document**

### **Introduction**

- 9.4.1 The purpose of this condition is to require the licensee to prepare any applications for Re-openers in accordance with the Re-opener Guidance and Application Requirements Document.
- 9.4.2 This condition also establishes the Re-opener Guidance and Application Requirements Document.

### **Part A: Requirement to comply with the Re-opener Guidance and Application Requirements Document**

- 9.4.3 The licensee must prepare any applications for Re-openers in accordance with the applicable provisions of the Re-opener Guidance and Application Requirements Document.
- 9.4.4 The Re-opener Guidance and Application Requirements Document may:
  - (a) provide guidance on the process to be followed by the licensee and the Authority in relation to:
    - i. establishing a Re-opener application pipeline log for prospective applications;
    - ii. pre-application engagement between the licensee and the Authority;
    - iii. pre-acceptance screening of applications;
    - iv. a process for supplementary questions;
    - v. a proportionate approach to using assessment tiers with differing levels of scrutiny for individual applications; and
    - vi. how the Authority would instigate a Re-opener; and
  - (b) set out how the licensee must prepare its applications for Re-openers, including the following:
    - i. the Re-openers to which the document applies;
    - ii. the level of detail required in the application;
    - iii. any requirement to publish the application; and
    - iv. when it is appropriate to make redactions in published applications.
- 9.4.5 The procedure for issuing and amending the Re-opener Guidance and Application Requirements Document is set out in Special Condition 1.3 (Common procedure).

## **Special Condition 9.5 Digitalisation**

### **Introduction**

- 9.5.1 The purpose of this condition is to set out the licensee's obligations to:

- (a) have a Digitalisation Strategy;
- (b) have a Digitalisation Action Plan;
- (c) update its Digitalisation Strategy and its Digitalisation Action Plan;
- (d) comply with DSAP Guidance; and
- (e) comply with Data Best Practice Guidance.

#### **Part A: Requirements of the Digitalisation Strategy**

- 9.5.2 The licensee must publish its Digitalisation Strategy on, or before, 1 April 2023.
- 9.5.3 The licensee must review the progress it has made against its Digitalisation Strategy and update its Digitalisation Strategy at intervals specified in the DSAP Guidance.
- 9.5.4 The licensee must:
  - (a) publish its Digitalisation Strategy, and updates to its Digitalisation Strategy, on the licensee's Website where they are readily accessible to the public;
  - (b) maintain an archive of all published versions of its Digitalisation Strategy on the licensee's Website where they are readily accessible to the public; and
  - (c) notify the Authority of any updates to the Digitalisation Strategy, by sending an electronic copy, or a link to the live version, of the updated Digitalisation Strategy to the email address specified in the DSAP Guidance.

#### **Part B: Requirements of the Digitalisation Action Plan**

- 9.5.5 The licensee must publish its Digitalisation Action Plan on, or before, 30 June 2023.
- 9.5.6 The licensee must review the progress it has made against and update its Digitalisation Action Plan at intervals specified in the DSAP Guidance.
- 9.5.7 The licensee must:
  - (a) publish its Digitalisation Action Plan, and each update to its Digitalisation Action Plan, on the licensee's Website where they are readily accessible to the public;
  - (b) maintain an archive of all published versions of its Digitalisation Action Plan on the licensee's Website where they are readily accessible to the public; and
  - (c) notify the Authority of any updates to the Digitalisation Action Plan, by sending an electronic copy, or a link to the live version, of the updated Digitalisation Action Plan to the email address specified in the DSAP Guidance.

#### **Part C: DSAP Guidance**

- 9.5.8 The licensee must comply with the DSAP Guidance when:
  - (a) preparing and updating its Digitalisation Strategy; and

- (b) preparing and updating its Digitalisation Action Plan.
- 9.5.9 The DSAP Guidance may make provision about:
- (a) how the licensee should work towards Digitalisation;
  - (b) how the licensee should set out in its Digitalisation Strategy and Digitalisation Action Plan how it intends to use Energy System Data to generate benefits for consumers and stakeholders and the specific actions it will take to achieve that outcome;
  - (c) the form of the Digitalisation Strategy and the Digitalisation Action Plan, including:
    - i. the structure, content, and level of detail of each;
    - ii. the types of activities that should be covered in each; and
    - iii. any required information associated with those activities; and
  - (d) the engagement the licensee is required to undertake with stakeholders to help inform the development of its Digitalisation Strategy and its Digitalisation Action Plan.
- 9.5.10 The procedure for issuing and amending the DSAP Guidance is set out in Special Condition 1.3 (Common procedure).

#### **Part D: Requirement to employ Data Best Practice**

- 9.5.11 The licensee must, when conducting work that involves working with or making decisions about the use of Energy System Data, use its best endeavours to act in accordance with Data Best Practice Guidance.
- 9.5.12 Data Best Practice Guidance may make provision about how the Authority expects the licensee to comply with Data Best Practice to generate benefits for consumers and stakeholders, including ensuring services that involve Energy System Data are designed to meet the needs of consumers and those who directly use the services.
- 9.5.13 The procedure for issuing and amending Data Best Practice Guidance is set out in Special Condition 1.3 (Common procedure).

### **Special Condition 9.6 Disapplication of Relevant Special Conditions**

#### **Introduction**

- 9.6.1 The purpose of this condition is to enable the licensee to make a formal request for the disapplication (in whole or in part) of the Relevant Special Conditions, in the circumstances specified in this condition.
- 9.6.2 The effect is for those such provisions consequently to be disapplied:
- (a) with the consent of the Authority;
  - (b) after the expiration of a specified period of time; or
  - (c) on the direction of the Competition and Markets Authority.

## **Part A: Continuation of Relevant Special Conditions subject to disapplication**

9.6.3 The Relevant Special Conditions apply for as long as this licence continues in force but cease to have effect (in whole or in part, as the case may be) if the licensee makes a Disapplication Request to the Authority in accordance with Parts B and C of this condition and:

- (a) the Authority consents; or
- (b) the provisions that are the subject of the Disapplication Request are disapplied by a Disapplication Notice given by the licensee in accordance with Part D of this condition.

## **Part B: Disapplication Date**

9.6.4 Except where the Authority otherwise consents, the Disapplication Date is:

- (a) in respect of Special Condition 9.11 (Restriction on charges for the provision of Legacy Metering Equipment), a date no earlier than three months after the making of the Disapplication Request;
- (b) in respect of Special Condition 9.12 (Charging outside the Distribution Services areas), a date no earlier than 18 months after the making of the Disapplication Request; and
- (c) in respect of all other Relevant Special Conditions, the later of:
  - i. 1 April 2028; and
  - ii. six months after the making of the Disapplication Request.

## **Part C: Procedure for making a Disapplication Request**

9.6.5 The licensee may ask the Authority to consent to the disapplication of all or part of the Relevant Special Conditions by making a Disapplication Request to the Authority.

9.6.6 A Disapplication Request must:

- (a) be in Writing and addressed to the Authority;
- (b) specify the provisions to which it relates;
- (c) provide a full statement of the licensee's reasons for making the request;
- (d) contain such other information or analysis as the licensee considers sufficient to enable the Authority fully to assess the Disapplication Request; and
- (e) state the Disapplication Date that is proposed by the licensee.

9.6.7 A Disapplication Request may apply to a specified geographic area.

9.6.8 If, within 28 days of receipt of a Disapplication Request, the Authority gives notice to the licensee:

- (a) specifying further information or analysis that is required to assess the Disapplication Request; and

- (b) requesting the licensee to provide that information or analysis,
  - (c) then the Disapplication Request must be treated for the purposes of this condition as not made until that further information or analysis is provided.
- 9.6.9 The giving of notice under paragraph 9.6.8 does not prevent the Authority from making such further requests for information or analysis, or for the reformatting of information or analysis already provided, as required to assess the proposal.
- 9.6.10 The licensee may withdraw a Disapplication Request at any time.

#### **Part D: Licensee's right to disapply under a Disapplication Request**

- 9.6.11 If the licensee has made a Disapplication Request that complies with the requirements of Parts B and C, and the circumstances described in Part E or Part F apply, it may subsequently serve a Disapplication Notice on the Authority disapplying some or all of the provisions that are the subject of the Disapplication Request.

#### **Part E: Disapplication without involvement of the Competition and Markets Authority**

- 9.6.12 The licensee may serve a Disapplication Notice on the Authority if, by the Disapplication Date specified in the relevant Disapplication Request, the Authority has not responded to the request by publishing a decision under section 11A(7) of the Act to modify the special conditions in either of the ways described in paragraph 9.6.13.
- 9.6.13 The ways referred to in paragraph 9.6.12 are ways that would:
- (a) modify any of the provisions referred to in the Disapplication Request; or
  - (b) modify this condition so as to remove the licensee's right to serve a Disapplication Notice on the Authority in respect of the relevant Disapplication Request.

#### **Part F: Disapplication after involvement of the Competition and Markets Authority**

- 9.6.14 The licensee may also serve a Disapplication Notice on the Authority if the Authority has published a decision described in Part E of this Condition but:
- (a) the licensee has exercised its right to appeal to the Competition and Markets Authority against that decision of the Authority as provided for by section 11C of the Act;
  - (b) the Competition and Markets Authority has quashed the Authority's decision and directed the licensee to serve such a Disapplication Notice on the Authority; and

- (c) no more than 30 days have elapsed since the date from which the licensee may serve a Disapplication Notice on the Authority under the Competition and Markets Authority's direction.
- 9.6.15 A Disapplication Notice under this Part must also comply with any terms or conditions specified in the Competition and Markets Authority's direction.

## **Special Condition 9.7 Directly Remunerated Services**

### **Introduction**

- 9.7.1 The purpose of this condition is to set out the basis on which services provided by the licensee will be treated as Directly Remunerated Services.
- 9.7.2 The effect of this condition is that revenue derived by the licensee from the provision of Directly Remunerated Services is not included in the calculation of Recovered Revenue.
- 9.7.3 This condition also explains the process that the Authority will follow when directing that services provided by the licensee should be treated, or should not be treated, as Directly Remunerated Services.

### **Part A: Licensee's obligation to not include Directly Remunerated Services**

- 9.7.4 Subject to:
  - (a) paragraph 9.7.11, which sets out the treatment of revenue derived from Directly Remunerated Services in categories DRS10 and DRS16; and
  - (b) paragraph 2.1.9 of Special Condition 2.1 (Revenue Restriction), which sets out the treatment of revenue derived from Directly Remunerated Services in category DRS15,
  - (c) the licensee must exclude revenue derived from Directly Remunerated Services from Calculated Revenue.
- 9.7.5 Directly Remunerated Services are:
  - (a) services that comply with the general principle set out in Part B; or
  - (b) the services listed in Part C to the extent that they comply with the general principle in Part B; or
  - (c) services that the Authority directs are to be treated as Directly Remunerated Services to the extent that such direction complies with the general principle in Part B.
- 9.7.6 The licensee must start or cease treating services as Directly Remunerated Services if the Authority so directs, to the extent that such direction complies with the general principle in Part B.



## **Part B: Statement of general principle**

- 9.7.7 The general principle is that a service provided by the licensee as part of the normal activities of its Distribution Business is to be treated as a Directly Remunerated Service if and to the extent that the service so provided is not already remunerated under any of the charges listed in paragraph 9.7.8.
- 9.7.8 The charges referred to in paragraph 9.7.7 are:
- (a) Use of System Charges;
  - (b) charges arising from any activity carried out under the provisions of Special Condition 7.9 (RIIO-ED1 network innovation competition) or Special Condition 9.9 (The strategic innovation fund), which results in Returned Royalty Income for the licensee;
  - (c) charges levied in respect of Metering Point Administration Services, in accordance with the MPAS Charging Statement; and
  - (d) charges levied in respect of the provision of Legacy Metering Equipment and Data Services, in each case in accordance with the relevant statement prepared and published by the licensee under standard condition 36 (Charges for the provision of Legacy Metering Equipment and Data Services).

## **Part C: Categories of Directly Remunerated Service**

- 9.7.9 The descriptions of categories of Directly Remunerated Services set out in Appendix 1 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGs.
- 9.7.10 The licensee must ensure that charges levied in respect of Directly Remunerated Services in categories DRS1, DRS2, DRS3, DRS11 and DRS14 are at a level that will allow the licensee to recover:
- (a) its reasonable costs;
  - (b) a reasonable rate of return on the capital outlay represented by any expenditure incurred by the licensee during the period before payment is received of any amounts due by the person requiring the service in question; and
  - (c) in respect of DRS1, a Margin, where that is consistent with the provisions of Special Condition 9.10 (Margins on licensee's Connection Activities).
- 9.7.11 The DRS Net Revenue from charges levied in respect of Directly Remunerated Services in category DRS10 and DRS16 during any Regulatory Year must be included by the licensee as a negative component of its Actual Totex for the same Regulatory Year.
- 9.7.12 The licensee must ensure that charges levied in respect of Directly Remunerated Services in categories DRS12 and DRS15 (as set out in Part C) are set at a level that will allow the licensee to recover its reasonable costs and a reasonable margin in providing the service in question.

## **Part D: Procedure for issuing directions**

9.7.13 Before issuing a direction under Part A, the Authority must send to the licensee and publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the date on which the licensee must start or cease treating services as Directly Remunerated Services;
- (c) its consideration of the general principle in Part B; and
- (d) a period during which representations may be made on the proposed direction, which must not be less than 28 days.

## **Appendix 1**

### **List of Directly Remunerated Services**

**DRS1. Connection services:** This category consists of the carrying out of works (including any necessary reinforcement works or diversionary works) for the purposes of providing, installing, operating, repairing, or maintaining electric lines or electrical plant (but only to the extent that the service is not already remunerated under one of the charges mentioned in paragraph 9.7.8).

**DRS2. Diversionary works under an obligation:** This category consists of the relocating of any electric line or electrical plant (including the carrying out of any Associated Works) pursuant to any statutory obligation other than one imposed on the licensee under section 9(1) (general duties of licence holders) or section 16 (duty to connect on request) of the Act.

**DRS3. Works required by any alteration of premises:** This category consists of the moving of any electric line, electrical plant, or Electricity Meter that forms part of the licensee's Distribution System to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.

**DRS4. Telecommunications and information technology infrastructure services:**  
(Not used)

**DRS5. Outage Changes:** (Not used)

**DRS6. Emergency Services:** (Not used)

**DRS7. PARCA Activities:** (Not used)

**DRS8. Independent System operation:** (Not used)

**DRS9. Network Innovation Funding:** (Not used)

**DRS10. Value Added Services:** This category consists of services that utilise Relevant Assets under commercial arrangements between the licensee and another person (who must not be an Affiliate or Related Undertaking of the licensee), involving:

the installation of equipment for the purpose of electronic communications or data transfer;

the display of any advertising or promotional material; or

any service specified in a direction given by the Authority for the purposes of this condition that, in the absence of such a direction, would be included in category DRS15 (Miscellaneous).

**DRS11. Top-up, standby, and enhanced system security:** This category consists of the provision of electric lines and electrical plant to the extent required by any user of the licensee's Distribution System:

for the specific purpose of enabling the delivery of top-up or standby supplies of electricity; or

to provide a higher degree of security than is required for the purposes of complying with paragraph 24.1 of Standard Condition 24 (Distribution System planning standard and quality of performance reporting),

to the extent that they are provided under an agreement that provides for the licensee to recover its costs from the user concerned.

**DRS12. Revenue protection services:** This category consists of the provision, at the request of any third party (which could include an Affiliate or a Related Undertaking of the licensee), of services relating to the prevention of Electricity Meter interference and other forms of illegal abstraction of electricity.

**DRS13. Metering Services:** This category consists of the provision of any Metering Service (other than the provision of Legacy Metering Equipment) that is not already remunerated under any other charge in respect of a Directly Remunerated Service.

**DRS14. Smart Meter Roll-out rechargeable services:** This category consists of services provided directly or indirectly to Electricity Suppliers, and associated with the roll-out of Smart Meters, that:

are provided under the provisions of the service level agreement that is appended to the Distribution Connection and Use of System Agreement; and

are not remunerated under one of the charges mentioned in paragraph 9.7.8 or under any other charge for a Directly Remunerated Service.

**DRS15. Miscellaneous:** This category consists of the provision of any other service (including electric lines or electrical plant) that:

is for the specific benefit of any third party who requests it; and

is not remunerated under one of the charges mentioned in paragraph 9.7.8 or under any other charge for a Directly Remunerated Service.

**DRS16. Distribution Network Voltage Control Services:** This category consists of Distribution Network Voltage Control Services that utilise Relevant Assets and are

procured by the GB System Operator for the purposes of its GB System Operator activity.

## **Special Condition 9.8 Tax Reconciliation assurance statement**

### **Introduction**

- 9.8.1 This condition requires the licensee to send to the Authority an annual assurance statement in relation to the Tax Reconciliation template and sets out the form of that statement.

### **Part A: Assurance statement**

- 9.8.2 The licensee must by 31 July of each Regulatory Year starting on or after 1 April 2025, send to the Authority an assurance statement, relating to Regulatory Year  $t-2$  that:

- (a) has been approved by a resolution of the licensee's board of directors;
- (b) is signed by a director of the licensee pursuant to the resolution in subparagraph (a); and
- (c) is set out in the form prescribed in paragraph 9.8.3 or where paragraph 9.8.4 applies, in the form prescribed in paragraph 9.8.5.

- 9.8.3 Where this paragraph applies, the prescribed form for the assurance statement is as follows:

"In accordance with the requirements of paragraph 9.8.2 of Special Condition 9.8 (Tax Reconciliation assurance statement), the directors of [licensee] ("the licensee") hereby certify that for the Regulatory Year [Regulatory Year  $t-2$ ], in their opinion:

- (a) the values reported in the Tax Reconciliation template accurately reflect the adjustments captured in the reconciliation of the licensee's adjusted Actual Corporation Tax Liability as shown in the Company Tax Return (CT600) to the adjusted Calculated Tax Allowance;
- (b) the Tax Reconciliation will be submitted to the Authority along with a copy of:
  - i. the most recent CT600 as submitted to His Majesty's Revenue and Customs;
  - ii. the most recently submitted Senior Accounting Officer (SAO2) certificate as per paragraph i.; and
  - iii. the published tax strategy;
- (c) where appropriate, further information has also been provided to support and explain reconciling items in accordance with the RIIO-2 Regulatory Financial Performance Reporting RIGs;
- (d) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary; and

- (e) reconciling differences have been appropriately explained and any remaining, unexplained differences are considered immaterial, in aggregate."
- 9.8.4 Where the licensee anticipates a material, unexplained variance to arise in the Tax Reconciliation as described in Chapter 6 of the ED2 Price Control Financial Handbook it must submit the assurance statement in accordance with paragraph 9.8.5.
- 9.8.5 Where this paragraph applies, the prescribed form for the assurance statement is as follows:
- "In accordance with the requirements of paragraph 9.8.2 of Special Condition 9.8 (Tax Reconciliation assurance statement), the directors of [licensee] ("the licensee") hereby certify that for the Regulatory Year [Regulatory Year  $t-2$ ], in their opinion:
- (a) The values reported in the Tax Reconciliation template have resulted in a material, unexplained variance in the reconciliation of the licensee's adjusted Actual Corporation Tax Liability as shown in the Company Tax Return (CT600) to the adjusted Calculated Tax Allowance;
  - (b) the Tax Reconciliation will be submitted to the Authority along with a copy of:
    - i. the most recent CT600 as submitted to His Majesty's Revenue and Customs;
    - ii. the most recently submitted Senior Accounting Officer (SAO2) certificate as per paragraph i; and
    - iii. the published tax strategy;
  - (c) where appropriate, further information has also been provided to support and explain reconciling items in accordance with the RIIO-2 Regulatory Financial Performance Reporting RIGs;
  - (d) adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary, however there remain unexplained differences, which are considered material; and
  - (e) a notification to the Authority has been made in Writing under Chapter 6 of the ED2 Price Control Financial Handbook."

## **Special Condition 9.9 The strategic innovation fund (SIF<sub>t</sub>)**

### **Introduction**

- 9.9.1 The purpose of this condition is to establish arrangements for the SIF and to provide for the calculation of the term SIF<sub>t</sub>.
- 9.9.2 The effect of this condition is to provide funding for Eligible SIF Projects by means of payments received from the GB System Operator (as adjusted, where

appropriate, by the SIF Funding Return Mechanism) in accordance with the determination process in Part A.

- 9.9.3 This condition also establishes the SIF Governance Document.

**Part A: Determination of the value of SIF<sub>t</sub>**

- 9.9.4 The value of SIF<sub>t</sub> is SIF Funding less any SIF Funding Return for the Regulatory Year that is to be paid to the licensee by the GB System Operator, or vice versa, in accordance with the direction issued for that purpose by the Authority pursuant to the provisions of Part A of Special Condition 3.4 (The strategic innovation fund) in the Transmission Licence held by the GB System Operator.
- 9.9.5 In each Regulatory Year, in accordance with the SIF Governance Document and the appropriate provisions of the GB System Operator's Transmission Licence, the Authority must calculate and then, by direction given to the licensee, specify:
- (a) the value of the SIF<sub>t</sub>;
  - (b) how the amount of that term has been calculated, taking account of any SIF Funding Return; and
  - (c) the manner in which and the timescale over which the GB System Operator is required to pay that amount to the licensee or vice versa.

**Part B: The SIF Funding Return Mechanism**

- 9.9.6 The Authority may direct how SIF Returned Project Revenues should:
- (a) be paid to the GB System Operator through the SIF Funding Return Mechanism; or
  - (b) where the Authority considers it to be appropriate, retained by the licensee.
- 9.9.7 In each Regulatory Year, in accordance with the appropriate provisions of the SIF Governance Document, the Authority must calculate and then, by direction given to the licensee, specify:
- (a) the amount of any SIF Funding Return that the licensee must pay to the GB System Operator; and
  - (b) the manner in which and the timescale over which that amount is to be paid.
- 9.9.8 The licensee must comply with any direction that is issued by the Authority under paragraph 9.9.7.

**Part C: The SIF Governance Document**

- 9.9.9 The licensee must comply with the SIF Governance Document when acting in relation to the SIF.
- 9.9.10 The SIF Governance Document may make provision about the regulation, governance and administration of the SIF, including:

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed SIF projects;
  - (b) the evaluation criteria against which the funding of such proposed SIF projects will be assessed and approved;
  - (c) the process and procedures that will be in place for the assessment, approval, and financing of Eligible SIF Projects, including the SIF Funding Mechanism and SIF Funding Return Mechanism;
  - (d) arrangements to ensure that relevant matters the licensee learned from the implementation of Eligible SIF Projects can be captured and disseminated by the licensee to other licensees including Electricity Distributors and Transmission Licensees;
  - (e) the nature of the reporting obligations in respect of such Eligible SIF Projects, which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the SIF Governance Document; and
  - (f) arrangements relating to the treatment of intellectual property rights including SIF Returned Royalty Income in respect of Eligible SIF Projects.
- 9.9.11 The procedure for issuing and amending the SIF Governance Document is set out in Special Condition 1.3 (Common procedure).

## **Special Condition 9.10 Margins on licensee's Connection Activities**

### **Introduction**

- 9.10.1 The purpose of this condition is to set out the charging arrangements for the licensee relating to any Connection Activities.
- 9.10.2 The effect of this condition is to:
- (a) prohibit the licensee from charging a Margin in a Connection Charge that relates to any of its Connection Activities in an Excluded Market Segment of the Local Connections Market;
  - (b) provide for the level of Margin that a licensee may charge in a Connection Charge that relates to any of its Connection Activities in Relevant Market Segments of the Local Connections Market where the Authority has determined that there is not effective competition;
  - (c) except where the Authority directs otherwise, permit the licensee to charge an Unregulated Margin in a Connection Charge that relates to any of its Connection Activities in Relevant Market Segments of the Local Connections Market where the Authority has determined that there is effective competition; and
  - (d) provide a mechanism for the Authority to direct the licensee to repay such part of the Margin charged in a Connection Charge that relates to any of its Connection Activities.



- 9.10.3 Part D sets out the Relevant Market Segments for the purposes of this condition.

**Part A: Margins on Excluded Market Segments**

- 9.10.4 The licensee must not charge a Margin in a Connection Charge that relates to any of its Connection Activities in an Excluded Market Segment of the Local Connections Market.

**Part B: Margins on Relevant Market Segments**

- 9.10.5 This Part is subject to the provisions of Part C.
- 9.10.6 Unless directed to do otherwise by the Authority, the licensee must charge a Margin of four per cent in a Connection Charge that relates to any of its Connection Activities in a Relevant Market Segment of the Local Connections Market where the Authority has determined that there is not effective competition.
- 9.10.7 The licensee may charge an Unregulated Margin in a Connection Charge that relates to any of its Connection Activities in Relevant Market Segment of the Local Connections Market where the Authority has determined that there is effective competition.

**Part C: Provisions where the Legal Requirements Test is not satisfied**

- 9.10.8 Where the Authority at any time determines that the Legal Requirements Test is not satisfied, it may:
- (a) issue a direction specifying the level of Margin that the licensee must charge in a Connection Charge that relates to any of its Connection Activities in Relevant Market Segments of the Local Connections Market in such cases and until such time as are specified in or determined under the direction; and
  - (b) issue to the licensee a Clawback Direction in accordance with paragraphs 9.10.9 to 9.10.16.
- 9.10.9 A Clawback Direction must specify:
- (a) the period of time to which it relates; and
  - (b) the proportion of the Margin that the Authority requires the licensee to repay, which should be limited to the difference (which may not be less than zero) between the Unregulated Margin and the level of Margin specified by the Authority in the Clawback Direction.
- 9.10.10 The period of time referred to in paragraph 9.10.9(a) may not commence earlier than the date that the Authority determines to be the earliest date on which the Legal Requirements Test was not satisfied.
- 9.10.11 For the purposes of a Clawback Direction, a Margin is treated as having been charged during a period of time if it:



- (a) became due to the licensee under a connection agreement entered into during that period; and
  - (b) was paid to and received by the licensee under that agreement.
- 9.10.12 Where a Clawback Direction is issued the licensee must take all reasonable steps to:
  - (a) identify all those persons who were charged the Margin to which the Clawback Direction relates; and
  - (b) repay to each such person, as soon as is practicable, a sum equivalent to the proportion of the Margin that that person paid to the licensee.
- 9.10.13 Where, within one year of the date of the Clawback Direction and despite having taken all reasonable steps to do so, the licensee has been unable to repay any sums under paragraph 9.10.12, it must notify the Authority of the aggregate amount of the sums remaining unpaid.
- 9.10.14 The aggregate amount notified to the Authority constitutes the value of the AUM<sub>t</sub> term for the purposes of Special Condition 5.1 (Total other revenue allowances).
- 9.10.15 Where a Margin became due to the licensee under a connection agreement entered into during a period of time specified in a Clawback Direction, but has not been paid to and received by the licensee at the date of the direction, the licensee must waive its right to recover such proportion of that Margin as is specified in the Clawback Direction.
- 9.10.16 Before issuing a direction under this Part, the Authority must send to the licensee and publish on the Authority's Website:
  - (a) the text of the proposed direction;
  - (b) the date on which the Authority intends the proposed direction to come into effect;
  - (c) the reasons why it proposes to issue the direction; and
  - (d) a period during which representations may be made on the proposed direction, which must not be less than 28 days.

#### **Part D: Local Connections Market Segments**

- 9.10.17 In respect of Metered premises owned or occupied by Demand Customers, the following are Relevant Market Segments:
  - (a) Low Voltage work: low voltage Connection Activities involving only Low Voltage work, other than in respect of Excluded Market Segments;
  - (b) high voltage work: Low Voltage or high voltage Connection Activities involving high voltage work, including where that work is required in respect of Connection Activities within an Excluded Market Segment;

- (c) high voltage and extra high voltage work: Low Voltage or high voltage Connection Activities involving extra high voltage work; and
  - (d) extra high voltage work and above: extra high voltage work and 132kV Connection Activities.
- 9.10.18 In respect of Metered premises in which the connection involves the connection of Distributed Generation, the following are Relevant Market Segments:
- (a) Low Voltage work: Low Voltage Connection Activities involving only Low Voltage work; and
  - (b) high voltage and extra high voltage work: any Connection Activities involving work at high voltage or above.
- 9.10.19 In respect of Unmetered premises, the following are Relevant Market Segments:
- (a) local authority work: new Connection Activities in respect of local authority premises;
  - (b) private finance initiative work: new Connection Activities under private finance initiatives; and
  - (c) other work: all other non-local authority and non-private finance initiative Unmetered connections work.

## **Part E: Excluded Relevant Market Segments**

- 9.10.20 For the purposes of this condition, the Excluded Market Segment comprises the following market segments relating to Metered premises that are owned or occupied by Demand Customers:
- (a) Excluded Market Segment 1: LVSSA connections; and
  - (b) Excluded Market Segment 2: LVSSB connections.

## **Special Condition 9.11 Restriction on charges for the provision of Legacy Metering Equipment**

### **Introduction**

- 9.11.1 The purpose of this condition is to establish the restrictions on charges for the provision of Legacy Metering Equipment and to set out the obligations of the licensee in respect of those restrictions.

### **Part A: Licensee's obligation**

- 9.11.2 The licensee, in setting charges for the provision of Legacy Metering Equipment in accordance with Standard Condition 34 (Requirement to offer terms for the provision of Legacy Metering Equipment), must ensure that those charges for the relevant Regulatory Year do not exceed the limits imposed by Parts B to F.

## Part B: Charges for Single-Phase Single-Rate Credit Electricity Meters

- 9.11.3 The total charge set by the licensee in respect of the provision of a Single-Phase Single-Rate Credit Electricity Meter must at no time exceed the value derived from the following formula:

$$SRCM_t = £1.12 \times PIT_t + AF_t$$

where:

$SRCM_t$  is the maximum amount that the licensee may charge for the provision of a Single-Phase Single-Rate Credit Electricity Meter;

$PIT_t$  is the price index adjustment derived in accordance with Part G; and

$AF_t$  is the adjustment factor (if any) derived in accordance with Part H.

## Part C: Charges for Single-Rate Token Prepayment Electricity Meters

- 9.11.4 The total charge set by the licensee in respect of the provision of a Single-Rate Token Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

$$TPPM_t = \left( \left( \left( \frac{TPPMAV}{LT_t} \right) \times \left[ 1 + \left[ (1 + LTW_t) \times \left( \frac{6.9}{100} - \frac{6.9}{200} \times \frac{LTW_t}{LT_t} \right) \right] \right] + £0.242 \right) \times PIT_t + AF_t \right)$$

where:

$TPPM_t$  is the maximum amount that the licensee may charge for the provision of a Single-Rate Token Prepayment Electricity Meter;

$TPPMAV$  means the modern equivalent asset value of a Single-Rate Token Prepayment Electricity Meter, and has the value of £59;

$LT_t$  is the current expected life (in years) of a Single-Rate Token Prepayment Electricity Meter, and has the value of 9.72;

$LTW_t$  is the value of  $LT_t$  rounded down to the nearest integer, and hence has the value of 9;

$PIT_t$  is the price index adjustment derived in accordance with Part G; and

$AF_t$  is the adjustment factor (if any), derived in accordance with Part H.

## Part D: Charges for Single-Rate Key Prepayment Electricity Meters

- 9.11.5 The total charge set by the licensee in respect of the provision of a Single-Rate Key Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

$$KPPM_t = \left( \left( \left( \frac{KPPMAV}{LK_t} \right) \times \left[ 1 + \left[ (1 + LKW_t) \times \left( \frac{6.9}{100} - \frac{6.9}{200} \times \frac{LKW_t}{LK_t} \right) \right] \right] + £0.242 \right) \times PIT_t + AF_t \right)$$

where:

$KPPM_t$  is the maximum amount that the licensee may charge for the provision of a Single-Rate Key Prepayment Electricity Meter;

$KPPMAV$  means the modern equivalent asset value of a Single-Rate Key Prepayment Electricity Meter, and has the value of £60.31;

$LK_t$  is the current expected life (in years) of a Single-Rate Key Prepayment Electricity Meter, and has the value of 9.34;

$LKW_t$  is the value of  $LK_t$  rounded down to the nearest integer, and hence has the value of 9;

$PIT_t$  is the price index adjustment derived in accordance with Part G; and

$AF_t$  is the adjustment factor (if any) derived in accordance with Part H.

#### **Part E: Charges for Single-Rate Smartcard Prepayment Electricity Meters**

9.11.6 The total charge set by the licensee in respect of the provision of a Single-Rate Smartcard Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

$$SPPM_t = \left( \left( \left( \frac{SPPMAV}{LS_t} \right) \times \left[ 1 + \left[ (1 + LSW_t) \times \left( \frac{6.9}{100} - \frac{6.9}{200} \times \frac{LSW_t}{LS_t} \right) \right] \right] + £0.242 \right) \times PIT_t + AF_t \right)$$

where:

$SPPM_t$  is the maximum amount that the licensee may charge for the provision of a Single-Rate Smartcard Prepayment Electricity Meter;

$SPPMAV$  means the modern equivalent asset value of a Single-Rate Smartcard Prepayment Electricity Meter, and has the value of £62.77;

$LS_t$  is the current expected life (in years) of a Single-Rate Smartcard Prepayment Electricity Meter, and has the value of 7;

$LSW_t$  is the value of  $LS_t$  rounded down to the nearest integer, and hence has the value of 7;

$PIT_t$  is the price index adjustment derived in accordance with Part G; and

$AF_t$  is the adjustment factor (if any) derived in accordance with Part H.

## **Part F: Charges for all other types of Electricity Meter provided under Standard Condition 34**

9.11.7 The total charge set by the licensee in respect of the provision under Standard Condition 34 of any type of Electricity Meter not provided for by Parts B to E must at no time exceed the value derived from the following formula:

$$\text{MAPPC}_t = \left[ \frac{\text{MEAP}_i}{\text{ELA}_i} + \text{MEAP}_i \times \frac{6.9}{200} + 0.242 \right] \times \text{PIT}_t + \text{AF}_t$$

where:

$\text{MAPPC}_t$  is the maximum amount that the licensee may charge for the provision of a type of Electricity Meter not provided for by Parts B to E;

$\text{MEAP}_i$  is the Modern Equivalent Asset Purchase Price of the Electricity Meter type  $i$  as at 1 June 2003 or the nearest determinable date after 1 June 2003;

$\text{ELA}_i$  is the current expected economic life (in years) of the Electricity Meter type  $i$ ;

$\text{PIT}_t$  is the price index adjustment derived in accordance with Part G;

$\text{AF}_t$  is the adjustment factor (if any), derived in accordance with Part H; and

$i$  means an Electricity Meter of a type listed in paragraph 9.11.8 and not provided for by Parts B to E.

9.11.8 The types of Electricity Meter (without limitation, and subject to the licensee's right to subdivide any such type in order to facilitate cost-reflective charging) provided for by this condition are:

- (a) multi-rate single-phase credit Electricity Meters;
- (b) multi-rate single-phase prepayment Electricity Meters;
- (c) poly-phase Single-Rate whole-current Electricity Meters;
- (d) poly-phase multi-rate whole-current Electricity Meters; and
- (e) non-half-hourly current-transformer Electricity Meters.

## **Part G: Calculation of the price index adjustment**

9.11.9 For the purposes of Parts B to F the price index adjustment is calculated in accordance with the following formula:

$$\text{PIT}_t = \left( 1 + \frac{\text{RPI}_t}{100} \right) \times \text{PIT}_{t-1}$$

where:

- PIT<sub>t</sub> has the value of 1 in the Regulatory Year beginning on 1 April 2002, and then in each subsequent Regulatory Year has the value derived from the formula itself; and
- RPI<sub>t</sub> means the percentage change (whether positive or negative) between the arithmetic average of the Retail Prices Index numbers published or determined with respect to each of the six months from July to December (inclusive) in Regulatory Year <sub>t-2</sub> and the arithmetic average of the Retail Prices Index numbers published or determined with respect to the same months in Regulatory Year <sub>t-1</sub>.

#### **Part H: Determination and application of the adjustment factor (AF)**

- 9.11.10 This paragraph applies where the licensee considers that the expected asset life of a type of Electricity Meter specified in paragraph 9.11.11 has fallen below the level assumed for the purposes of establishing the relevant charge restriction under this condition because of a decision by an Electricity Supplier to replace the technology associated with that type of Electricity Meter with technology associated with another type of Electricity Meter specified in paragraph 9.11.11.
- 9.11.11 The types of Electricity Meter to which paragraph 9.11.10 refers are:
- (a) a Token Prepayment Electricity Meter (whether Single-Rate or multi-rate);
  - (b) a Key Prepayment Electricity Meter (whether Single-Rate or multi-rate);
  - (c) a Smartcard Prepayment Electricity Meter (whether Single-Rate or multi-rate); and
  - (d) a Single-Phase Single-Rate Credit Electricity Meter.
- 9.11.12 If paragraph 9.11.10 applies, the licensee may, by notice to the Authority, propose a relevant adjustment factor (AF<sub>t</sub>) to be applied uniformly to each of the formulae set out in Parts B to F in respect of the charging restrictions established by this condition.
- 9.11.13 A relevant adjustment factor is one which, in the licensee's opinion, would have the effect of enabling the licensee to recover 30 per cent of the efficient costs incurred or likely to be incurred as a consequence of the Electricity Supplier's decision to which paragraph 9.11.10 refers.
- 9.11.14 The notice served by the licensee under paragraph 9.11.12 must:
- (a) set out the basis (including by reference to the effects of the Electricity Supplier's decision) on which the licensee has calculated the relevant adjustment factor; and
  - (b) state both the start date and the end date of the period in respect of which the licensee seeks the Authority's consent for the relevant adjustment to have effect.

- 9.11.15 In giving that notice, the licensee must have regard to any relevant guidelines published by the Authority for the purposes of this condition.
- 9.11.16 The Authority may, within 28 days of receiving the notice from the licensee in accordance with this Part, determine both the relevant adjustment factor and the period during which that adjustment will apply in such manner as it considers appropriate, subject to paragraph 9.11.17.
- 9.11.17 In making its determination, the Authority must:
- (a) consult with the licensee; and
  - (b) have particular regard both to the purposes of this condition and to any relevant guidelines published by the Authority under it.
- 9.11.18 If the Authority has not determined the relevant adjustment factor within 28 days of receiving the licensee's notice, and that notice has not been withdrawn, the licensee may apply the relevant adjustment factor in the manner specified in its notice.

## **Special Condition 9.12 Charging outside the Distribution Services areas**

### **Introduction**

- 9.12.1 The purpose of this condition is to impose requirements on the licensee only in relation to Out of Area Charges.

### **Part A: Setting and restriction of Out of Area Charges**

- 9.12.2 The licensee must make Out of Area Charges available, in accordance with the requirements of this condition, for the provision of Use of System to any Electricity Supplier that uses or wishes to use the licensee's Distribution System to supply electricity to Domestic Customers at Domestic Premises outside the licensee's Distribution Services area.
- 9.12.3 The licensee's Out of Area Charges in relation to Domestic Customers may vary according to the Distribution Services area of the Electricity Distributor within which Domestic Premises are connected to the licensee's Distribution System.
- 9.12.4 The licensee must set those Out of Area Charges so that, except with the Authority's consent, the standing charge, unit rate, and any other component of the charges (taken together) does not exceed the Equivalent Charges.

## **Special Condition 9.13 Smart Optimisation Output**

### **Introduction**

- 9.13.1 The purpose of this condition is to set out obligations on the licensee to deliver the Smart Optimisation Output.
- 9.13.2 This condition also establishes the Smart Optimisation Output Guidance.

## **Part A: Requirement to deliver the Smart Optimisation Output**

- 9.13.3 The licensee must deliver the Smart Optimisation Output in accordance with the Smart Optimisation Output Guidance.
- 9.13.4 The Smart Optimisation Output consists of:
- (a) a Collaboration Plan; and
  - (b) a System Visualisation Interface.
- 9.13.5 The licensee must deliver the Collaboration Plan and System Visualisation Interface on, or before, the dates specified in the Smart Optimisation Output Guidance.
- 9.13.6 The licensee must publish its Smart Optimisation Output, and any updates to the Smart Optimisation Output, on the licensee's Website.

## **Part B: Smart Optimisation Output Guidance**

- 9.13.7 The Smart Optimisation Output Guidance may make provision about how the licensee must prepare its Smart Optimisation Output, including the following:
- (a) the engagement the licensee is required to undertake with stakeholders to inform the development of its Smart Optimisation Output;
  - (b) what the licensee must include in its Collaboration Plan; and
  - (c) what the licensee must include in its System Visualisation Interface.
- 9.13.8 The procedure for issuing and amending the Smart Optimisation Output Guidance is set out in Special Condition 1.3 (Common procedure).

## **Special Condition 9.14 Assistance for high-cost distribution areas**

### **Introduction**

- 9.14.1 The purpose of this condition is to set out obligations on the licensee in relation to High-cost Distribution Payments.
- 9.14.2 The effect is to ensure the licensee does not unduly discriminate between Specified Suppliers so as to show undue preference to any Affiliate or Related Undertaking.

### **Part A: Application of payments**

- 9.14.3 The licensee must apply the benefit of any High-cost Distribution Payments so as to reduce its Use of System Charges to Specified Suppliers in a manner that does not unduly discriminate between them and does not show undue preference to any Affiliate or Related Undertaking of the licensee.
- 9.14.4 In particular, the licensee must allocate the benefit of High-cost Distribution Payments so as to ensure that the level of the benefit received by a Specified Supplier is directly proportionate to the expected level of demand attributable



to the requirements of those (and only those) of that supplier's Customers who will be located in the Specified Area in the forthcoming year of demand.

- 9.14.5 When deciding the level of the benefit to be allocated to a Specified Supplier under paragraph 9.14.3, the licensee must apply the same or equivalent factors that it applies when considering the level of the benefit to be allocated to any Affiliate or Related Undertaking of the licensee.

**Part B: Provision of information**

- 9.14.6 The licensee must give the Authority any information that the Authority reasonably requires for the purpose of establishing whether the licensee is or has been in compliance with its obligations under this condition.