

## Special Condition 5.4 Vulnerability and carbon monoxide allowance (VCM<sub>t</sub>)

### Introduction

- 5.4.1 The purpose of this condition is to calculate the term VCM<sub>t</sub> (the vulnerability and carbon monoxide term). This contributes to the calculation of the term ORA<sub>t</sub> (the other revenue allowance), which in turns feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.4.2 This condition also makes appropriate provision for the regulation, administration and governance of the vulnerability and carbon monoxide allowance.

### Part A: Formula for calculating the vulnerability and carbon monoxide allowance

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

$$VCM_t = VCMCS_t + VCMCL_t$$

where:

- $VCMCS_t$  means the Company Specific VCMA Project allowance that relates to the licensee; and
- $VCMCL_t$  means the Collaborative VCMA Project allowance that relates to the licensee.

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

$$VCMCS_t = \max \left[ \min \left( VCMCSE_t, VCMCSC - \sum_{k=2021/22}^{t-1} VCMCSE_k \right), 0 \right]$$

where:

- $VCMCSE_t$  means the total expenditure on Company Specific VCMA Projects;
- $VCMCSC$  means the value of the licensee's expenditure cap for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1; and

$\sum_{k=2021/22}^{t-1} VCMCSE_k$  means the total expenditure on Company Specific VCMA Projects prior to Regulatory Year t.

5.4.5 The value of  $VCML_t$  is derived in accordance with the following formula:

$$VCML_t = \max \left[ \min \left( VCMCLE_t, VCMCLC + VCMCSC - \sum_{t=2021/22}^{2025/26} VCMCS_t - \sum_{k=2021/22}^{t-1} VCMCLE_k \right), 0 \right]$$

where:

$VCMCLE_t$  means the total expenditure on Collaborative VCMA Projects;

$VCMLC$  means the value of the licensee's expenditure cap for Collaborative VCMA Projects for the Price Control Period as set out in Appendix 1;

$VCMCSC$  means the value of the licensee's expenditure cap for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1;

$\sum_{t=2021/22}^{2025/26} VCMCS_t$  means the total Company Specific VCMA Project allowance for RIIO-2 that relates to the licensee; and

$\sum_{k=2021/22}^{t-1} VCMCLE_k$  means the total expenditure on Collaborative VCMA Projects prior to Regulatory Year t.

## Part B: The VCMA Governance Document

- 5.4.6 The licensee must comply with the VCMA Governance Document in its administration and delivery of the VCMA Projects, associated learning dissemination requirements and reporting requirements.
- 5.4.7 The Authority will issue and amend the VCMA Governance Document by direction.
- 5.4.8 The Authority will publish the VCMA Governance Document on the Authority's Website.
- 5.4.9 The VCMA Governance Document will make provision about:
- (a) the eligibility criteria that VCMA Projects must meet;
  - (b) the information that is to be published by the licensee prior to starting any VCMA Project;
  - (c) arrangements for ensuring that relevant learning from VCMA Projects can be captured and disseminated to all other DN Operators; and
  - (d) the nature of the reporting obligations in respect of VCMA Projects.

- 5.4.10 Before issuing the VCMA Governance Document the Authority will publish on the Authority's Website:
- (a) the proposed text of the VCMA Governance Document;
  - (b) the date on which the Authority intends the VCMA Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the VCMA Governance Document, which will not be less than 28 days.
- 5.4.11 Before directing an amendment to the VCMA Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended VCMA Governance Document;
  - (b) the date on which the Authority intends the amended VCMA Governance Document to come into effect;
  - (c) the reasons for the amendment to the VCMA Governance Document; and
  - (d) a period during which representations may be made on the amendment to the VCMA Governance Document, which will not be less than 28 days.

## **Appendix 1**

### **VCMA Expenditure Cap (£m)**

<b>GDN</b>	<b>Allowance</b>	<b>Total</b>
EoE	Company Specific VCMA Project allowance	23.50
	Collaborative VCMA Project allowance	7.83
Lon	Company Specific VCMA Project allowance	13.14
	Collaborative VCMA Project allowance	4.38
NW	Company Specific VCMA Project allowance	15.67
	Collaborative VCMA Project allowance	5.22
WM	Company Specific VCMA Project allowance	11.43
	Collaborative VCMA Project allowance	3.81
Northern Gas Networks Ltd	Company Specific VCMA Project allowance	14.75
	Collaborative VCMA Project allowance	4.92
Scotland Gas Networks plc	Company Specific VCMA Project allowance	10.77
	Collaborative VCMA Project allowance	3.59
Southern Gas Networks plc	Company Specific VCMA Project allowance	24.07
	Collaborative VCMA Project allowance	8.02
Wales & West Utilities Ltd	Company Specific VCMA Project allowance	15.27
	Collaborative VCMA Project allowance	5.09