**Annex 3**

**SPT – Formulae proposals as detailed in Annex 1.**

**Formulae and notes in Annex 3 should be read alongside Annex 1 and SPT’s cover letter.**

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| --- | --- | --- |
| Condition number | Title | Pages |
| Special Condition 3.9 | Operational Transport Emissions Reduction Price Control Deliverable (OTEt) | 2 |
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**SpC 3.9 Operational Transport Emissions Reduction Price Control Deliverable (OTEt)**

**Part A: Formula for calculating the operational transport carbon reduction Price Control Deliverable term (OTEt)**

3.9.3 The value of OTEt is derived in accordance with the following formula:

where:

OTEA means the total Operational Transport Emissions Reduction allowance for the Price Control Period;

OTEVn means the target number of vehicles for each group n and set out in Appendix 2;

OTEDt,n means the number of vehicles for each group n the licensee delivers as in each year t;

OTEUn means the vehicles allowed unit costs for each group n, as set out in Appendix 2; and

n means the vehicle groups, as set out in Appendix 2.

**SpC 3.17 Load use it or lose it allowance (LIt)**

where:

LIEt means load expenditure related to this condition in year t; and

LIA means the total allowances set out in Appendix 1; and

LIAA means the positive adjustment to the total allowances set out in Appendix X, which has the value zero unless otherwise directed by the Authority in accordance with Part X; and

LIRt has the value zero unless otherwise directed by the Authority in accordance with Part C.

**SpC 4.7 Accelerated strategic transmission investment output delivery incentive (ASTIIt)**

* + 1. The purpose of this condition is to provide for the calculation of the term ASTIIADJt (the Accelerated Strategic Transmission Investment output delivery incentive revenue adjustment term). The ASTIIADJt term contributes to the licensee’s Allowed Revenue.

4.9.2 The effect of this incentive is to reward or penalise the licensee’s performance in relation to the ASTI ODI Target Date.

4.9.3 This condition also establishes a mechanism for the licensee to apply for a modification to the:

* + - 1. value of the ASTI ODI Penalty Exemption Period in Appendix 1 following a Delay Event; and
      2. the ASTI ODI Target Date in Appendix 1 following a material change to the scope of an ASTI Output.

**Formula for calculating the accelerated strategic transmission investment output delivery incentive revenue adjustment term (ASTIIADJt)**

4.9.4 The value of the term ASTIIADJt is derived in accordance with the following formula:

**ASTIIADJt** =

Where

*ASTIIPy is the total AnnualODIP for all projects in year y which represents the regulatory year in which a reward or penalty is* derived in accordance with *SpCx.x.x,* and is given by the formula:

*ASTIIPy* =

; and

*ASTIIRy is the total AnnualODIR for all projects in year y which represents the regulatory year in which a reward or penalty is* derived in accordance with *SpCx.x.x,* and is given by the formula:

*ASTIIRy* =

; and

where

;

and

*XPt* means number of years the ASTI ODI Penalty is spread over for each regulatory year t, and is given by the formula:

; and

*XRt* means number of years the ASTI ODI Reward is spread over for each regulatory year t, and is given by the formula:

; and

*WACCt* means the vanilla weighted average cost of capital for the licensee for regulatory year t as derived by the Authority in accordance with the ET3 Price Control Financial Handbook; and

*Capn* is the Aggregate ODI Cap for Project n set out in Appendix 1 of this condition; and

where:

|  |  |
| --- | --- |
| *Dn* | equals (Delivery Daten – ASTI ODI Target Date); |
| *Delivery Daten* | means the date on which Project n is delivered, or is expected to be delivered; |
| *PEn* | means the ASTI ODI Penalty Exemption Period in days for Project n as set out in Appendix 1; |
| *CalcD* | means the ASTI ODI Target Date plus ASTI ODI Penalty Exemption Period in days; |
| *Fn* | is the Daily Reward/Penalty for Project n set out in Appendix 1 of this condition; |
| *Capn* | is the ODI Cap for Project n set out in Appendix 1 of this condition; |
| *T*  *Y* | represents the Regulatory Year;  represents the regulatory year in which a reward or penalty is given under SpCx.x.x, which is then spread across regulatory year t under this condition;  and |
| *N* | represents each ASTI project |

**SpC 4.8 Major Projects output delivery incentive (MPIt)**

**Part A: Formulae for calculating the Major Projects ODI-F term (MPIt)**

* + 1. The value of the term MPIt is derived in accordance with the following formula:

where:

where:

and

and

where:

and

and

and

where:

CalcDDn equals (TDDn + PEn);

DDn means the Major Projects ODI-F Delivered Date for project n;

Dn equals (DDn – TDDn);

DayRaten means the daily amount associated with 30% of constraint costs associated with one year of delay (within 2-5% of ProjectTotexn), or nil if constraint costs are unknown, as listed in Appendix X.

n represents a project with a Major Projects ODI-F incentive, as listed in Appendix X and Appendix X;

ODDn means the Optimal Delivery Date for project n, as listed in Appendix X;

P50n means the P50 Delivery Date for project n, as listed sin Appendix X;

PEn means the Major Projects ODI-F Penalty Exemption Period in days for project n as set out in Appendix X or Appendix X;

PotentialLSn represents the potential maximum Major Projects ODI-F lump sum reward available for project n, given as 1% of ProjectTotexn, as set out in Appendix 1 or Appendix 2;

ProjectTotexn mean the total expenditure for each project n, as listed in Appendix X;

t represents the Regulatory Year; and

TDDn represents the Major Projects ODI-F Target Delivery Date for project n, equal to P50n, or ODDn where ODDn > P50n;

**SpC 5.2 RIIO-3 Network Innovation Allowance (NIAt)**

**Introduction**

The purpose of this condition is to calculate the term NIAt (the Network Innovation Allowance term). This contributes to the calculation of the term ORAt (the other revenue allowances term), which in turn feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).

The effect of this condition is to fund investment in innovation by means of the NIA.

This condition also establishes a framework for the governance and administration of the NIA.

**Part A: Formula for calculating the Network Innovation Allowance term (NIAt)**

Subject to paragraph 5.2.5, the value of the NIAt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
|  | means the Total NIA Expenditure. |

~~The total value of the NIA over the RIIO-3 Price Control Period is subject to the following cap:~~

where:

|  |  |
| --- | --- |
|  | ~~is derived in accordance with paragraph 5.2.4.~~ |
|  | means the value of the licensee’s Network Innovation Allowance as set out in Appendix 1. |

The licensee must not spend more than 25% of Total NIA Expenditure on internal resources over the Price Control Period.

**SpC 5.4 Landscape Enhancement Initiative Projects allowance (LEIPt)**

* + 1. The purpose of this condition is to specify the term LEIP (Landscape Enhancement Initiative Projects). This contributes to the calculation of ORAt (the other revenue allowances term), which feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
    2. The effect of this condition is to:

1. calculate the LEIP term;
2. specify the reporting requirements for the LEIP; and
3. specify the expenditure cap for LEIP for the price control period.

**Part A: Formula for calculating the LEIP term**

* + 1. The total amount of the licensee’s allowance for LEIP is calculated in accordance with the following formula:

where:

LEIC means the total value of the licensee’s expenditure cap for Landscape Enhancement Initiative Projects for the Price Control Period set out in Appendix 1; and

LEIAEt means the licensee's expenditure on Landscape Enhancement Initiative Projects that the licensee reports to the Authority it has incurred that Regulatory Year in accordance with the licensee’s Annual Environmental Reports; and

LEIPt means the licensee’s expenditure on Landscape Enhancement Initiative Projects that the licensee has reported to the Authority for previous Regulatory Years.

* + 1. The licensee must provide, as part of the Annual Environmental Report, information on any LEIP project for each preceding Regulatory Year in accordance with requirements specified in the Environmental Reporting Guidance. Such information must include:

1. the Designated Area for each project;
2. the benefits each project is seeking to achieve; and
3. the expected beneficiaries of each project
   * 1. The licensee must provide, as part of the Regulatory Reporting Pack, information on any LEIP expenditure for each preceding Regulatory Year in accordance with requirements specified in the Environmental Reporting Guidance. Such information must include:
4. the total amount spent in relation to the Landscape Enhancement Initiative projects for the preceding regulatory year;
5. the amount of funding allocated to each project; and
6. any additional funding it expects to be allocated to each project.