

## **Electricity Distribution Price Control Review**

### **Appendix – draft price control licence modifications**

December 2004

## **Summary**

This document sets out drafts of the standard and special licence conditions required to implement the proposals set out in the Price Control Final Proposals document published on 29 November 2004. Most of the draft text has been discussed with the distribution companies through an industry working group but none of these drafts have been agreed by the companies.

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# 1. Introduction

- 1.1. The existing price control framework is embodied in several standard and special licence conditions of the electricity distribution licences. These conditions prescribe how the revenue allowance may be adjusted for a range of factors, including a company's performance under various incentive mechanisms. The licence conditions also set out the obligations on Distribution Network Operators<sup>1</sup> (DNOs) to set distribution charges consistent with their revenue allowances.
- 1.2. In order to remove the existing price controls and implement the revised distribution price controls from 1 April 2005, Ofgem will propose amendments to relevant parts of the distribution licences.

## ***Purpose and structure of this document***

- 1.3. The purpose of this document is to set out the current drafts of the standard and special licence conditions considered necessary to implement the proposals set out in the Price Control Final Proposals document published on 29 November.
- 1.4. The structure of this document is as follows:
  - ◆ **Chapter 2** – sets out drafts of the legal text of the price control special conditions; and
  - ◆ **Chapter 3** – sets out drafts of the legal text for the modified standard conditions that Ofgem proposes for 1 April 2005.
- 1.5. Ofgem is also publishing three related documents:
  - (i) Distributed generation, innovation funding incentive and registered power zones: Regulatory instructions and guidance – version 1;
  - (ii) Information and incentive project: fifth draft of the regulatory instructions and guidance – version 5; and
  - (iii) Price control reporting framework: Regulatory Instructions and Guidance – version 1.

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<sup>1</sup> The fourteen licensed distributors that were separated from the public electricity suppliers

## ***Structure of proposed licence modifications***

### ***Special conditions***

- 1.6. To implement the revised price controls, Ofgem proposes to remove the following special licence conditions from the electricity distribution licences of the DNOs:

#### **In England and Wales:**

- ◆ **Special condition A** (Definitions and interpretation);
- ◆ **Special condition B** (Restriction of distribution charges);
- ◆ **Special condition C** (Restriction of distribution charges: adjustments);
- ◆ **Special condition D** (Information to be provided to the Authority in connection with the charge restriction conditions);
- ◆ **Special condition E** (Allowance in respect of security costs);
- ◆ **Special condition F** (Duration of charge restriction conditions);
- ◆ **Special condition G** (Incentive Scheme: Calculation of charge restriction adjustment); and
- ◆ **Schedule A** of the special licence conditions A to G;

#### **In Scotland:**

- ◆ **Special condition A** (Interpretation);
- ◆ **Special condition B** (Definitions)
- ◆ **Special condition C** (Restriction of distribution charges);
- ◆ **Special condition D** (Restriction of distribution charges: adjustments);
- ◆ **Special condition E** (Information to be provided to the Authority in connection with the charge restriction conditions);
- ◆ **Special condition F** (Allowance in respect of security costs);
- ◆ **Special condition G** (Duration of charge restriction conditions);
- ◆ **Special condition J** (Incentive Scheme: Calculation of charge restriction adjustment);
- ◆ **Schedule A** of the special licence conditions A to G; and
- ◆ **Schedule B** of the special licence conditions A to G.

- 1.7. The special licence conditions set out above will be replaced with the following:

- ◆ **Special condition A1** (Definitions and interpretation);

- ◆ **Special condition A2** (Scope of the charge restriction conditions);
- ◆ **Special condition A3** (Arrangements for the recovery of uncertain costs);
- ◆ **Special condition A4** (Duration of the charge restriction conditions);
- ◆ **Special condition B1** (Restriction of distribution charges: demand use of system charges);
- ◆ **Special Condition B2** (Restriction of distribution charges: allowable pass-through items);
- ◆ **Special condition B3** (Restriction of distribution charges: incentive revenue adjustment);
- ◆ **Special condition C1** (Incentive scheme: calculation of the charge restriction adjustments for distribution losses);
- ◆ **Special condition C2** (Incentive scheme: calculation of the charge restriction adjustments for quality of service performance);
- ◆ **Special condition C3** (Incentive scheme: calculation of the charge restriction adjustments for the Innovation Funding Incentive (IFI));
- ◆ **Special condition D1** (Restriction of distribution charges: generation use of system charges);
- ◆ **Special condition D2** (Incentive scheme: calculation of the charge restriction adjustments for the distributed generation and registered power zones incentives);
- ◆ **Special condition E1** (Restriction of distribution charges: supplementary restrictions);
- ◆ **Special condition F1** (Restriction of basic metering charges); and
- ◆ **Special condition G1** (Restriction of distribution charges outside the distribution services area).

### ***Standard conditions***

1.8. To implement the revised price controls, Ofgem proposes to modify the following standard licence conditions from the electricity distribution licences of the DNOs:

- ◆ **Standard condition 1** (Definitions and interpretation)
- ◆ **Standard condition 20** (Payments in relation to standards of performance);
- ◆ **Standard condition 42** (Regulatory accounts);
- ◆ **Standard condition 42A** (Change of financial year);
- ◆ **Standard condition 43** (Restriction on activity and financial ring fencing);
- ◆ **Standard condition 44** (Availability of resources);

- ◆ **Standard condition 46** (Credit rating of the licensee);
- ◆ **Standard condition 47** (Indebtedness); and
- ◆ **Standard condition 49** (Incentive scheme and associated information).

1.9. Ofgem proposes to remove the following standard licence conditions from the electricity distribution licences of the DNOs:

- ◆ **Standard condition 36** (Basis of charges for distributor metering and data services: Requirements for transparency);
- ◆ **Standard condition 36A** (Non-discrimination in the provision of distributor metering and data services);
- ◆ **Standard condition 36B** (Requirement to offer terms for the provision of distributor metering and data services); and
- ◆ **Standard condition 36C** (Functions of the Authority).

1.10. Ofgem proposes to introduce the following new standard licence conditions from the electricity distribution licences of the DNOs:

- ◆ **Standard condition 36** (Requirement to offer terms for the provision of basic metering service);
- ◆ **Standard condition 36A** (Requirement to offer terms for the provision of data services);
- ◆ **Standard condition 36B** (Non-discrimination in the provision of basic metering services and data services);
- ◆ **Standard condition 36C** (Basis of charges for basic metering services and data services: requirements for transparency);
- ◆ **Standard condition 36D** (Functions of the authority);
- ◆ **Standard condition 50** (Price control revenue reporting and associated information);
- ◆ **Standard condition 51** (Distributed generation, innovation funding incentive, and RPZ incentive schemes and associated information); and
- ◆ **Standard condition 52** (Price control review information).

## ***Responding to this document***

1.11. Ofgem would welcome any comments on these draft licence conditions.

- 1.12. Responses should be received by 17 January 2004 and should be sent to:

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- 1.13. Unless marked confidential all responses will be published by placing them in Ofgem's library or on the website. It would be helpful if responses could be submitted both electronically and in writing. Any questions on this document should, in the first instance, be directed to Colin Green, who can be contacted on 020 79017143 or by email at [colin.green@ofgem.gov.uk](mailto:colin.green@ofgem.gov.uk)
- 1.14. Ofgem expects to publish the statutory consultation on the licence modifications in early February 2005. If agreed, the new price controls would then come into effect from 1 April 2005.

## 2. Draft special licence conditions

- 2.1. This appendix sets out Ofgem’s drafting of the legal text of the price control special conditions that will give effect to the revised price controls. The legal text set out in this document reflects Ofgem’s present thinking after consideration of the views expressed by the industry working group. Nevertheless, the text does not represent an agreed position between Ofgem and the DNOs.

### ***SPECIAL CONDITION A1 – Definitions and interpretation***

1. Unless the context otherwise requires, words and expressions used in the standard conditions of this licence shall have the same meaning when used in these special conditions.
2. Special conditions A2 to F1 shall apply to the distribution services area (as defined in standard condition 1(Definitions and interpretation)) of the licence.
3. Special condition G1 shall apply outside the distribution services area
4. In special conditions A2 to G1:

“allowable demand revenue”	means the revenue calculated in accordance with the formula in paragraph 2 of special condition B1 (Restriction of distribution charges: demand use of system charges).
“allowable meter operation revenue”	means the revenue calculated in accordance with the formula set out in paragraph 8 of special condition F1 (Restriction of basic metering charges).
“allowable network generation revenue”	means the revenue calculated in accordance with the formula in paragraph 2 of special condition D1 (Restriction of distribution charges: generation use of system charges).
“allowable pass-through items”	means the items referred to in special condition B2 (Restriction of distribution charges: allowable pass-through items)
“average specified rate”	means the average of the daily base rates of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made.
“base demand revenue”	has the meaning given in paragraph 3 of special condition B1 (Restriction of distribution charges: demand use of system charges)

“basic meter asset provision charges”	means the charges levied by the licensee for basic meter asset provision in accordance with paragraph 4 of standard condition 36C (Basis of charges for basic metering services and data services: requirements for transparency).
“basic meter operation revenue”	means the revenue (measured on an accruals basis) derived by the licensee from charges levied in respect of basic meter operation services in accordance with paragraph 4 of standard condition 36C (Basis of charges for basic metering services and data services: requirements for transparency).
“charge restriction conditions”	means special conditions A2 to F1 inclusive as from time to time modified or replaced in accordance with the provisions of the Act.
“charging review date”	means the date from which modifications to the charge restriction conditions have effect: <ul style="list-style-type: none"> <li>(a) whether before or after the date upon which the modifications are made;</li> <li>(b) whether or not the same modifications are made in respect of each licensee; and</li> <li>(c) where such modifications have been proposed by the Authority following a review by the Authority of the charge restriction conditions (or that part to which the modifications relate) in relation to all distribution services providers.</li> </ul>
“combined allowable distribution network revenue”	means the total of allowable demand revenue and allowable network generation revenue.
“combined distribution network revenue”	means the total amount of regulated demand revenue and network generation revenue.
“customer numbers”	means the total number of demand customers calculated on 30 September of the relevant year t.
“demand customer”	means any energised or de-energised exit point to the licensee’s distribution system for which there is a valid meter point administration number (MPAN).
“demand use of system charges”	means charges levied by the licensee in accordance with paragraph 2 of standard condition 4A (Charges for Use of System) in respect of demand customers.

“distribution charges”	means charges levied by the licensee in respect of the provision of distribution services.
“distributed generation”	means an installation comprising any plant or apparatus for the production of electricity which is connected directly to the licensee’s distribution system or connected through an independent or private network (other than through a transmission system) directly connected to the licensee’s distribution system.
“distribution losses”	means the amount, in units, being the difference between the units entering the system and the units distributed.
“distribution services”	means all services provided by the licensee as part of its distribution business other than excluded services.
“distribution unit category”	means (as the case may be) HV units or LV1 units or LV2 units or LV3 units.
“EHV premises”	means: <ul style="list-style-type: none"> <li>(d) in relation to premises connected to the licensee’s distribution system at 31 March 2005, those EHV premises notified in writing to the Authority by the licensee by 31 July 2005 in accordance with paragraph 9 of special condition D (Restriction of distribution charges), or special condition E in Scotland, in force on 31 March 2005; and</li> <li>(e) in relation to premises connected to the licensee’s distribution system, which are either first connected or (having been previously connected) have had their connection materially altered, on or after 1 April 2005, those premises connected to the licensee’s distribution system at a voltage of 22 kilovolts or greater, or at a substation with a primary voltage of 66 kilovolts or higher.</li> </ul>
“EHV units”	means units distributed by the licensee which are transported to EHV premises.
“entry point”	means that point at which units, whether metered or unmetered, enter the licensee’s distribution system.

“excluded services”	means those services provided as part of its distribution business which in accordance with special condition A2 (Scope of the charge restriction conditions) fall to be treated as excluded services.
“exit point”	means that point at which units, whether metered or unmetered, leave the licensee’s distribution system (and, for the avoidance of doubt, includes points of connection to the licensee’s distribution system).
“generation use of system charges”	means charges levied by the licensee in accordance with paragraph 2 of standard condition 4A (Charges for Use of System), in respect of distributed generation.
“HV units”	means units (other than EHV units) distributed by the licensee which are delivered to exit points from the licensee’s distribution system at a voltage of 1000 volts or greater.
“incentive payment”	means the adjustment to allowable revenues, whether allowable demand revenue or allowable network generation revenue, representing the penalty or reward in respect of the licensee’s performance against the incentive schemes.
“incentive schemes”	means the arrangements set out in special conditions C1 to C3 inclusive, and D2 for adjusting allowable demand and allowable network generation revenue in respect of the licensee’s performance in meeting predetermined targets for specified outputs.
“LV units”	means units distributed by the licensee to exit points from the licensee’s distribution system at a voltage of less than 1000 volts.
“LV1 units”	means LV units distributed by the licensee at specified peak times to: <ul style="list-style-type: none"> <li>(a) demand customers’ premises connected to the licensee’s distribution system at a voltage of less than 1000 volts; and</li> <li>(b) where the appropriate demand use of system charges apply different rates in night-time periods as opposed to other times of day (and, for the avoidance of doubt, all such charges include those specified as falling within LV1 in the statements provided by the licensee in accordance with paragraphs 7 and 8 of special condition E1 (Restriction of distribution charges: supplementary restrictions).</li> </ul>

“LV2 units”	<p>means LV units distributed by the licensee to demand customers’ premises connected to the licensee’s distribution system at a voltage of less than 1000 volts:</p> <ul style="list-style-type: none"> <li>(a) during specified off-peak periods, where the appropriate use of system charges apply different rates in different periods; or</li> <li>(b) where the appropriate use of system charges are restricted to apply to specified off-peak periods,</li> </ul> <p>and, for the avoidance of doubt, such charges in either case include all those items specified in the statements provided by the licensee in accordance with paragraphs 7 and 8 of special condition E1 (Restriction of distribution charges: supplementary restrictions).</p>
“LV3 units”	<p>means LV units other than LV1 and LV2 units, for the avoidance of doubt including units distributed under the use of system charges specified in the statements provided by the licensee in accordance with paragraphs 7 and 8 of special condition E1 (Restriction of distribution charges: supplementary restrictions).</p>
“metered”	<p>means, in relation to any quantity of electricity distributed, as measured by a meter installed for such purpose.</p>
“network generation revenue”	<p>means the revenue (measured on an accruals basis) derived by the licensee from generation use of system charges made for the provision of distribution services to distributed generation in the relevant year, after deduction of:</p> <ul style="list-style-type: none"> <li>(a) an amount equal to such part of the total amount payable in that relevant year to the transmission licensee (measured on an accruals basis) in respect of transmission connection point charges and remote transmission asset rentals, and which has been recovered from distribution system users in that relevant year by the licensee in its generation use of system charges, as falls to be attributed to those users in that relevant year;</li> <li>(b) an amount equal to such part of the total amount payable in that relevant year to another authorised distributor (measured on an accruals basis) in respect of charges in respect of units transported from that person's</li> </ul>

	<p>network, and which would otherwise be included in network generation revenue by reason of being recovered from distribution system users in that relevant year by the licensee in its generation use of system charges, as falls to be attributed to those users in that relevant year; and</p> <p>(c) value added tax (if any) and any other taxes based directly on the amounts so derived.</p>
"non-domestic rates"	<p>means in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and in Scotland, the rates payable by the licensee in respect of [insert definition]</p>
"registered power zone"	<p>means a collection of contiguously connected distribution system assets having one or more terminal points which together describe in full the registered power zone's boundary with the total system that has been so registered with Ofgem in accordance with special condition D2 (Incentive scheme: calculation of charge restriction adjustments for distributed generation and registered power zone incentives).</p>
"regulated demand revenue"	<p>means the revenue (measured on an accruals basis) derived by the licensee from demand use of system charges made for the provision of distribution services to demand customers in the relevant year, after deduction of:</p> <p>(a) an amount equal to such part of the total amount payable in that relevant year to the transmission licensee (measured on an accruals basis) in respect of transmission connection point charges and remote transmission asset rentals, and which has been recovered from distribution system users in that relevant year by the licensee in its demand use of system charges, as falls to be attributed to those users in that relevant year;</p> <p>(b) an amount equal to such part of the total amount payable in that relevant year to another authorised distributor (measured on an accruals basis) in respect of charges in respect of units transported from that person's network, and which would otherwise be included in regulated demand revenue by</p>

	reason of being recovered from distribution system users in that relevant year by the licensee in its demand use of system charges, as falls to be attributed to those users in that relevant year; and
	(c) value added tax (if any) and any other taxes based directly on the amounts so derived.
"relevant year t"	means the year commencing 1 April.
"relevant year t-1"	means the relevant year preceding relevant year t and similar expressions shall be construed accordingly.
"remote transmission asset rental"	means any rent or other periodic payment payable by the licensee to a transmission licensee in respect of remote transmission assets forming part of the licensee's distribution system.
"transmission licensee"	means the holder of a transmission licence granted or treated as granted under section 6(1)(b) of the Act.
"transmission connection point charges"	means charges levied by the transmission licensee as connection charges by direct reference to the number or nature of the connections between the licensee's distribution system and the transmission system of a transmission licensee and which are payable by the distribution business of the licensee.
"unit"	means a kilowatt hour.
"units distributed"	means the aggregate quantity of units distributed by the licensee through its distribution system in relevant year t as measured on leaving that system, whether metered or unmetered.
"unmetered"	means the quantity of electricity measured on entering or leaving the licensee's distribution system, where no meter is installed and it is not reasonably practicable to measure the quantity of electricity by such a meter.

5. Any reference in these special conditions to –

- a provision thereof;
- a provision of the standard conditions of electricity distribution licences;
- a provision of the standard conditions of electricity supply licences;

- a provision of the standard conditions of electricity generation licences;
- a provision of the standard conditions of electricity transmission licences;

shall, if these or the standard conditions in question come to be modified, be construed, so far as the context permits, as a reference to the corresponding provision of these or the standard conditions in question as modified.

## ***SPECIAL CONDITION A2: Scope of the charge restriction conditions***

1. The purpose of this condition is to set out the principles under which services provided by the licensee may be treated as excluded services.
2. Excluded services are those services provided by the licensee as part of its distribution business in respect of which such charges as are or may be levied may be treated as falling outside the scope of the charge restrictions otherwise imposed by or under this licence.
3. Subject to paragraph 4, the services which by virtue of this condition are excluded services for the purposes of the charge restriction conditions are those set out in Appendix 1 below (which is part of this condition).
4. No service provided by the licensee, within its distribution services area, as part of its distribution business may be treated as an excluded service insofar as it consists of the provision of services remunerated either under charges made for the use of system in accordance with paragraph 2 of standard condition 4A (charges for use of system), or under charges made for the provision of basic metering and data services in accordance with paragraph 2 of standard condition 36C (Basis of charges for basic metering services and data services: requirement for transparency).
5. Where the Authority following consultation with the licensee and having particular regard to paragraph 4 and the matters set out in Appendix 1 is satisfied that any service treated by the licensee as an excluded service should not be so treated, it may issue a direction to that effect.
6. Where a direction is issued under paragraph 5, the service or services specified in the direction shall cease to be treated as excluded services by the licensee from the date of issue of the direction or such other date as may be specified therein.

## Appendix 1: Excluded services

- ES1. The service consisting of the distribution of units to EHV premises that were not connected to the licensee's distribution system before 1 April 2005, or premises connected before 1 April 2005 that become EHV premises by virtue of having their connection materially altered.
- ES2. The service consisting of the carrying out of works for the provision, installation, or maintenance of electric lines or of any switchgear or other electrical plant, but only insofar as such service is not remunerated through use of system charges or under charges made for the provision of basic metering and data services in accordance with paragraph 2 of standard condition 36C (Basis of charges for basic metering services and data services: requirement for transparency).
- ES3. The service consisting of the provision of connections to the licensee's distribution system, but only insofar as such service is not remunerated through use of system charges or under charges made for the provision of basic metering and data services in accordance with paragraph 2 of standard condition 36C (Basis of charges for basic metering services and data services: requirement for transparency).
- ES4. The service consisting of the provision of any revenue protection services pursuant to the terms of an agreement for use of system.
- ES5. The service consisting of the provision of any statement or report pursuant to:
- (a) paragraph 7 of standard condition 4
  - (b) paragraph 8 of standard condition 4A, or
  - (c) paragraph 13 or 15 of standard condition 4B.
- ES6. The service consisting of the relocation of electric lines or electrical plant (including the carrying out of any works associated therewith) pursuant to any statutory obligation (other than under section 9(1) or section 16 of the Act) imposed on the licensee.
- ES7. The service consisting of the moving of any mains, services, or meters forming part of the licensee's distribution system to accommodate the extension, redesign, or redevelopment of any premises on which the same are located or to which they are connected.
- ES8. The service consisting of the provision of electric lines and electrical plant insofar as the same are required:
- (a) for the specific purpose of enabling the provision of top-up or standby supplies or sales of electricity, or
  - (b) to provide a higher degree of security than is required for the purposes of complying with paragraph 1 of standard condition 5.
- ES9. The service consisting of the transport of reactive energy to premises with a power factor of less than 0.95, but only insofar as the charges for such services reflect the costs imposed on the licensee and are levied on the basis of the metered value of kVAr or kVArh transported to each premises.
- ES10. Any other service in relation to use of the licensee's distribution system insofar as it consists of the provision of a service (including electric lines or electrical plant) which is for the specific benefit of any third party who requests it and which is not made available by the licensee as a normal part of its distribution business remunerated by use of system charges, or under charges made for the provision of basic metering and data services in accordance with paragraph 2 of

standard condition 36C (Basis of charges for basic metering services and data services: requirement for transparency) , or under any other charge in respect of the excluded services set out in paragraphs ES1 to ES9, and ES11.

ES11 Any provision of a basic metering service (as set out at paragraph 3(b) of standard condition 36) insofar as it consists of a service (including one provided outside a contractual core time or timeband) that is not incorporated within the calculation of allowable meter operation revenue for the purposes of paragraph 8 of special condition F1 (restriction on basic metering services), or any provision of a metering service other than a basic metering service which is not remunerated by use of system charges or under any other charge in respect of an excluded service set out in paragraphs ES1 to ES10.

## ***SPECIAL CONDITION A3 – Arrangements for the recovery of uncertain costs***

1. The purposes of this condition are to enable the licensee to propose, and provide for the Authority to determine adjustments to the charge restriction conditions so as to enable the licensee to recover the efficient costs incurred as a consequence of its compliance with obligations or requirements imposed pursuant to:
  - (a) Regulations 17 and 18 of the Electricity Safety, Quality and Continuity Regulations 2002 as set out in paragraph 2 below;
  - (b) any regulations which amend or replace the Electricity Safety, Quality and Continuity Regulations 2002; and
  - (c) the Traffic Management Act 2004.

### **Part 1: Application of the Electricity Safety, Quality and Continuity Regulations 2002**

2. Where, in relation to costs incurred on or after 1 April 2005, the licensee reasonably believes that its efficiently incurred costs in any relevant year of complying with obligations under regulations 17 and 18 of the Electricity, Safety, Quality and Continuity Regulations 2002, where those obligations were not part of the Electricity Supply Regulation 1988 (as amended) and where, in respect of costs relating to regulation 18 of the Electricity, Safety, Quality and Continuity Regulations 2002 they are not required to avert an immediate danger to the public are, or are likely to be, a material amount, the licensee may, after 1 April 2008 by notice to the Authority, propose relevant adjustments to the charge restriction conditions.
3. A relevant adjustment under paragraph 2 is one which in the opinion of the licensee, would if made, have the effect of enabling the licensee to recover the efficient costs incurred or likely to be incurred in relation to the obligations or requirements referred to in paragraph 1.
4. A notice served by the licensee in accordance with paragraph 2 must:
  - (a) state the obligations or requirements to which the notice relates;
  - (b) set out by reference to each such obligation or requirement the basis on which the licensee has calculated the relevant adjustment; and
  - (c) state the date from which the licensee wishes the Authority to agree that the relevant adjustment shall have effect ("the adjustment request") not being earlier than 1 April 2008.
5. Where the licensee serves a notice under paragraph 2, the Authority:
  - (a) following consultation with the licensee;
  - (b) having particular regard to the purposes of this condition; and
  - (c) taking no account of the performance of the licensee under the charge restriction conditions,

may, within four months of receiving such notice, determine the relevant adjustment to the charge restriction conditions in such manner as it considers appropriate.

6. If the Authority has not determined the relevant adjustment within four months of receiving a notice from the licensee under paragraph 2, and such a notice has not been withdrawn, then the licensee may deliver a notice to the Authority that the relevant adjustment set out in the adjustment request shall take effect from the date stated in that request.

**Part 2: Application of any regulations made pursuant to section 29 of the Act which amend or replace the Electricity Safety, Quality and Continuity Regulations 2002**

7. Where, in relation to costs incurred after 1 April 2005, the licensee reasonably believes that its efficiently incurred costs in any relevant year of complying with the obligations or requirements of any regulations made pursuant to section 29 of the Act which amend or replace the Electricity Safety, Quality and Continuity Regulations 2002, are, or are likely to be, a material amount, the licensee may, by notice to the Authority, propose a relevant adjustment to the charge restriction conditions.
8. A relevant adjustment under paragraph 7 is one which in the opinion of the licensee, would if made, have the effect of enabling the licensee to recover the efficient costs incurred or likely to be incurred in relation to the obligations referred to in paragraph 1.
9. A notice served by the licensee in accordance with paragraph 7 must:
  - (a) specify those of the obligations to which the notice relates;
  - (b) set out by reference to each such obligation the basis on which the licensee has calculated the relevant adjustment; and
  - (c) state the date from which the licensee wishes the Authority to agree that the relevant adjustment shall have effect ("the adjustment request").
10. Where the licensee serves a notice under paragraph 7, the Authority:
  - (a) following consultation with the licensee;
  - (b) having particular regard to the purposes of this condition; and
  - (c) taking no account of the performance of the licensee under the charge restriction conditions,may, within four months of receiving such notice, determine the relevant adjustment to the charge restriction conditions in such manner as it considers appropriate.
11. If the Authority has not determined the relevant adjustment within four months of receiving a notice from the licensee under paragraph 7, and such a notice has not been withdrawn, then the licensee may deliver a notice to the Authority that the relevant adjustment set out in the adjustment request shall take effect from the date stated in that request.

### **Part 3: Application of the Traffic Management Act 2004**

12. Where, in relation to the costs incurred after 1 April 2005, the licensee reasonably believes that its efficiently incurred costs in any relevant year of complying with the requirements imposed (i) by regulations made under section 74A of the New Roads and Street Works Act 1991 introduced by the Traffic Management Act 2004 or (ii) pursuant to the Traffic Management Act 2004 are, or are likely to be, a material amount, the licensee may, by notice to the Authority, specify relevant adjustment to the charge restriction conditions.
13. A relevant adjustment under paragraph 12 is one which, in the opinion of the licensee, would, if made, have the effect of enabling the licensee to fully recover the efficient costs incurred or likely to be incurred in relation to the requirements referred to in paragraph 1.
14. A notice served by the licensee in accordance with paragraph 12 must:
  - (a) specify those of the requirements to which the notice relates;
  - (b) set out by reference to each such requirement the basis on which the licensee has calculated the relevant adjustment; and
  - (c) state the date from which the licensee wishes the Authority to agree that the relevant adjustment shall have effect ("the traffic management adjustment request").
15. Where the licensee serves a notice under paragraph 2, the Authority:
  - (a) following consultation with the licensee;
  - (b) having particular regard to the purposes of this condition; and
  - (c) taking no account of the performance of the licensee under the charge restriction conditions,may, within four months of receiving such notice, determine the relevant adjustment to the charge restriction conditions in such manner as it considers appropriate.
16. If the Authority has not determined the relevant adjustment within four months of receiving a notice from the licensee under paragraph 12, and such a notice has not been withdrawn, then the licensee may deliver a notice to the Authority that the relevant adjustment set out in the traffic management adjustment request shall take effect from the date stated in that request.

### **Part 4: General provisions**

17. For the purposes of this condition, all reference to the Traffic Management Act 2004 shall be interpreted as, in relation to England and Wales, the provisions of the Traffic Management Act 2004 and, in relation to Scotland, the Transport (Scotland) Act 2001 as may be amended from time to time.
18. In determining the relevant adjustment to the charge restriction conditions under paragraph 5, 10 or 15 of this condition, the Authority may determine adjustments in respect of those costs likely to be incurred by the licensee in subsequent relevant years. If the Authority determines adjustments in subsequent relevant years or adjustments made under paragraphs 6, 11 or 16 adjust the charge restriction conditions in subsequent years (other than through the normal operation of the

correction factor), then the licensee shall not make additional adjustment requests under paragraphs 2, 7 and 12 of this condition in respect of the same category of costs.

19. For the purposes of this condition, a “material amount” is an amount which exceeds, or is likely to exceed, 1 per cent of base demand revenue as determined in accordance with paragraph 3 of special condition B1 (Restriction of distribution charges: demand use of system charges) and which may arise under any of Parts 1, 2, and 3, or when taken together in any combination of such parts (in which case it shall be a material amount for the purposes of each relevant part).

## ***SPECIAL CONDITION A4: Duration of the charge restriction conditions***

1. The purpose of this condition is to set out the process for the general disapplication of the charge restriction conditions.
2. Special conditions B1 to F1 shall apply so long as this licence continues in force but shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 3 and:
  - (a) the Authority agrees in writing to the disapplication request; or
  - (b) the application of those conditions (in whole or in part) is terminated by notice given by the licensee in accordance with either paragraph 5 or paragraph 6.
3. A disapplication request pursuant to this condition shall:
  - (a) be in writing addressed to the Authority;
  - (b) specify those of the charge restriction conditions (or any part or parts thereof) to which the request relates; and
  - (c) state the date (being not earlier than the date specified in paragraph 4 of this condition) from which the licensee wishes the Authority to agree that the specified charge restriction conditions shall cease to have effect ("the disapplication date").
4. Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to this condition shall have effect earlier than that date which is the later of:
  - (a) in respect of special conditions B1 to E1:
    - (i) a date not less than six months after the delivery of the disapplication request; and
    - (ii) 1 April 2010; or
  - (b) in respect of special condition F1:
    - (i) a date not less than three months after the delivery of the disapplication request; and
    - (ii) 1 July 2005.
5. Where, for a disapplication request in respect of special conditions B1 to E1, If the Authority has not done both of the following:
  - (a) given notice to the licensee that it intends to make a reference to the Competition Commission under section 12 of the Act relating to the modification of special condition B1 to E1 within the later of:

- (aa) three months of receiving a disapplication request, and
- (bb) before the beginning of the six-month period that ends with the disapplication date;  
and
- (b) not made such a reference within six months of giving such notice,

the licensee may deliver a notice to the Authority terminating the application of such of the charge restriction conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.

6. Where, for a disapplication request in respect of special condition F1, if the Authority has not done both of the following:

- (a) given notice to the licensee that it intends to make a reference to the Competition Commission under section 12 of the Act relating to the modification of special condition F1 within three months of receiving a disapplication request, and
- (ii) made such a reference within three months of giving such notice,

the licensee may deliver notice to the Authority terminating the application of such of the charge restriction conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.

7. If the Competition Commission's report on a reference made by the Authority relating to the modification of the charge restriction conditions (or any part or parts thereof) specified in the disapplication request does not include a conclusion that the cessation of such conditions, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 13 of the Act deliver to the Authority notice terminating the application of such conditions with effect from the disapplication date or later.
8. A disapplication request or notice served under this condition may be served in respect of a specified geographic area.

## ***SPECIAL CONDITION B1 – Restriction of distribution charges: demand use of system charges***

1. The purposes of this condition are to establish the charge restrictions that determine the level of allowable demand revenue that may be recovered from demand use of system charges by the licensee and to state what the licensee must do to comply with those restrictions.

### Formula for allowable demand revenue ( $AD_t$ )

2. The licensee in setting its demand use of system charges shall take all appropriate steps within its power to ensure that in the relevant year  $t$  regulated demand revenue does not exceed allowable demand revenue calculated in accordance with the following formula:

$$AD_t = BR_t + PT_t + IP_t - KD_t$$

where

$AD_t$  means allowable demand revenue in the relevant year  $t$ .

$BR_t$  means the amount of base demand revenue in the relevant year  $t$  calculated in accordance with the formula given in paragraph 3 of this condition.

$PT_t$  means the revenue adjustment, whether of a positive or negative value, made in the relevant year  $t$  in respect of allowable pass-through items as derived in accordance with special condition B2 (Restriction of distribution charges: allowable pass-through items).

$IP_t$  means the amount of incentive revenue, whether of a positive or negative value, calculated for the relevant year  $t$  in accordance with special condition B3 (Restriction of distribution charges: incentive revenue adjustment).

$KD_t$  means the correction factor, whether of a positive or negative value, calculated for the relevant year  $t$  in accordance with the formula given in paragraph 4 of this condition.

### Formula for base demand revenue ( $BR_t$ )

3. For the purposes of paragraph 2,  $BR_t$  is derived from the following formula:

$$BR_t = (PU \times GR_t + PE) \times PIAD_t - MG_t$$

where:

$PU$  means the amount set against that term in the part of Annex A to this condition that applies to the licensee.

$PE$  means the amount set against that term in the part of Annex A to this condition that applies to the licensee.

$GR_t$  is the growth term and in the relevant year commencing 1 April 2005 has the value of 1 and then in the relevant year commencing 1 April 2006 and each subsequent relevant year is derived from the following formula:

$$GR_t = 0.5 \times \left[ \frac{\sum P_{0i} \cdot D_{it}}{\sum P_{0i} \cdot D_{it-1}} + \frac{C_t}{C_{t-1}} \right] \times GR_{t-1}$$

where:

$\sum$  means the summation across all distribution unit categories  $i$  as described in the definition of the term  $P_{0i}$ .

$P_{0i}$  means in respect of each distribution unit category  $i$  set out against the licensee's name in Annex B to this condition, the corresponding value of  $P_0$  that applies in respect of that category.

$D_{it}$  means the total number of units distributed in the relevant year  $t$ , which fall within the relevant distribution unit category  $i$ .

$C_t$  means the number of demand customers in the distribution services area of the licensee in the relevant year  $t$ .

$PIAD_t$  in the relevant year commencing 1 April 2005 has the value of 1 and in each subsequent relevant year is derived by the following formula:

$$PIAD_t = \left( 1 + \frac{RPI_t - X}{100} \right) \times PIAD_{t-1}$$

where:

$RPI_t$  means the percentage change (whether positive or negative) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months July to December (inclusive) in the relevant year  $t-1$  and the arithmetic average of the Retail Price Index numbers published or determined with respect to the same months in relevant year  $t-2$ .

$X$  shall in relation to the relevant year commencing 1 April 2006 and every subsequent relevant year take the value zero, except in respect of EDF Energy Networks (SPN) plc where in the relevant years commencing 1 April 2006 and every subsequent relevant year it shall take the value -2.

$MG_t$  is the merger adjustment which is derived from the following formula:

$$MG_t = MR_t \times PIAM_t$$

where:

$MR_t$  means the amount set against that term for each relevant year in the part of Annex C to this condition that applies to the licensee.

PIAM<sub>t</sub> in the year commencing 1 April 2001 equals 1 and in all subsequent years is derived using the following formula:

$$PIAM_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIAM_{t-1}$$

Formula for the correction factor (KD<sub>t</sub>)

4. For the purpose of paragraph 2, KD<sub>t</sub> is derived, subject to paragraph 4 of special condition E1 (Restriction of distribution charges: supplementary restrictions), from the following formula:

$$KD_t = (RD_{t-1} - AD_{t-1}) \times \left[ 1 + \frac{(I_t + PR_t)}{100} \right]$$

where:

RD<sub>t-1</sub> means the regulated demand revenue in the relevant year t-1 except in the relevant year commencing 1 April 2005 where RD<sub>t-1</sub> shall be the amount of distribution revenue recovered by the licensee in the relevant year commencing 1 April 2004.

AD<sub>t-1</sub> means allowable demand revenue in the relevant year t-1, except in the relevant year commencing 1 April 2005 where AD<sub>t-1</sub> shall be derived from the following formula:

$$AD_{t-1} = M_{dt-1} \times D_{t-1}$$

where:

M<sub>dt-1</sub> means the maximum average charge per unit distributed in the relevant year commencing 1 April 2004 arising from the application of the formula in paragraph 1 of the special condition B (restriction on distribution charges), or in Scotland special condition C, of this licence in the form in which it was in force at 1 April 2004.

D<sub>t-1</sub> means the regulated quantity distributed in the relevant year commencing 1 April 2004, calculated in accordance with special condition A (Definitions and interpretation), or in Scotland special condition B, of this licence in the form in which it was in force at 1 April 2004.

I<sub>t</sub> means the average specified rate in the relevant year t.

PR<sub>t</sub> means the rate of interest that is applicable in accordance with paragraph 2 of special condition E1 (Restriction of distribution charges: supplementary restrictions).

**Annex A to special condition B1 (Restriction of distribution charges: demand use of system charges)**

<b>Licensee</b>	<b>PU (£m)</b>	<b>PE (£m)</b>
Central Networks West plc		
Central Networks East plc		
United Utilities Electricity plc		
Northern Electric Distribution Limited		
Yorkshire Electricity Distribution plc		
Western Power Distribution (South West) plc		
Western Power Distribution (South Wales) plc		
EDF Energy Networks (LPN) plc		
EDF Energy Networks (SPN) plc		
EDF Energy Networks (EPN) plc		
SP Distribution Limited		
SP Manweb plc		
Scottish Hydro-Electric Power Distribution Limited		
Southern Electric Power Distribution plc		

**Annex B to special condition B1 (Restriction of distribution charges: demand use of system charges)**

Central Networks West plc

<b>Unit category <i>i</i></b>	<b>P<sub>0</sub></b>
LV1	1.0397
LV2	0.1220
LV3	0.9286
HV	0.2503

Central Networks East plc

<b>Unit category <i>i</i></b>	<b>P<sub>0</sub></b>
LV1	0.7512
LV2	0.1690
LV3	0.5537
HV	0.1960

United Utilities Electricity plc

<b>Unit category <i>i</i></b>	<b>P<sub>0</sub></b>
LV1	1.8789
LV2	0.2104
LV3	1.4180
HV	0.6297

Northern Electric Distribution Limited

<b>Unit category <i>i</i></b>	<b>P<sub>0</sub></b>
LV1	1.0512
LV2	0.1100
LV3	0.8205
HV	0.1580

Yorkshire Electricity Distribution plc

<b>Unit category <i>i</i></b>	<b>P<sub>0</sub></b>
LV1	0.7700
LV2	0.1200
LV3	0.6025
HV	0.1750

Western Power Distribution (South West) plc

<b>Unit category <i>i</i></b>	<b>P<sub>0</sub></b>
LV1	1.8800
LV2	0.4100
LV3	1.2734
HV	0.2350

Western Power Distribution (South Wales) plc

Unit category <i>i</i>	$P_0$
LV1	1.8600
LV2	0.2700
LV3	1.3852
HV	0.2415

EDF Energy Networks (LPN) plc

Unit category <i>i</i>	$P_0$
LV1	1.0970
LV2	0.1360
LV3	0.6988
HV	0.2580

EDF Energy Networks (SPN) plc

Unit category <i>i</i>	$P_0$
LV1	0.7456
LV2	0.0929
LV3	0.5076
HV	0.2376

EDF Energy Networks (EPN) plc

Unit category <i>i</i>	$P_0$
LV1	1.0252
LV2	0.3010
LV3	0.9072
HV	0.2503

SP Distribution Limited

Unit category <i>i</i>	$P_0$
LV1	2.3041
LV2	0.2849
LV3	1.3996
HV	0.2150

SP Manweb plc

Unit category <i>i</i>	$P_0$
LV1	1.5005
LV2	0.2636
LV3	1.4931
HV	0.1350

Scottish Hydro-Electric Power Distribution Limited

<b>Unit category <i>i</i></b>	<b>P<sub>0</sub></b>
LV1	1.8824
LV2	0.8819
LV3	1.9542
HV	0.4900

Southern Electric Power Distribution plc

<b>Unit category <i>i</i></b>	<b>P<sub>0</sub></b>
LV1	1.2118
LV2	0.1806
LV3	1.0334
HV	0.2842

**Annex C to special condition B1 (Restriction of distribution charges: demand use of system charges)**

**Central Networks West plc**

**MR<sub>t</sub>** (£m)

1 April 2005	3.120
1 April 2006	3.120
1 April 2007	3.120
1 April 2008	3.120
1 April 2009	0.000

thereafter zero

**Central Networks East plc**

**MR<sub>t</sub>** (£m)

1 April 2005	3.276
1 April 2006	3.276
1 April 2007	3.276
1 April 2008	3.276
1 April 2009	0.000

thereafter zero

**United Utilities Electricity plc**

**MR<sub>t</sub>** (£m)

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

**Northern Electric Distribution Limited**

**MR<sub>t</sub>** (£m)

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

**Yorkshire Electricity Distribution plc****MR<sub>t</sub>** (£m)

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

**Western Power Distribution (South West) plc****MR<sub>t</sub>** (£m)

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

**Western Power Distribution (South Wales) plc****MR<sub>t</sub>** (£m)

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

**EDF Energy Networks (LPN) plc****MR<sub>t</sub>** (£m)

1 April 2005	1.920
1 April 2006	1.920
1 April 2007	1.920
1 April 2008	0.000
1 April 2009	0.000

thereafter zero

**EDF Energy Networks (SPN) plc****MR<sub>t</sub> (£m)**

1 April 2005	1.703
1 April 2006	1.703
1 April 2007	1.703
1 April 2008	0.000
1 April 2009	0.000

thereafter zero

**EDF Energy Networks (EPN) plc****MR<sub>t</sub> (£m)**

1 April 2005	2.777
1 April 2006	2.777
1 April 2007	2.777
1 April 2008	0.000
1 April 2009	0.000

thereafter zero

**SP Distribution Limited****MR<sub>t</sub> (£m)**

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

**SP Manweb plc****MR<sub>t</sub> (£m)**

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

**Scottish Hydro-Electric Power Distribution Limited****MR<sub>t</sub>** (£m)

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

**Southern Electric Power Distribution plc****MR<sub>t</sub>** (£m)

1 April 2005	0.00
1 April 2006	0.00
1 April 2007	0.00
1 April 2008	0.00
1 April 2009	0.00

thereafter zero

## ***SPECIAL CONDITION B2 – Restriction of distribution charges: allowable pass-through items***

1. The purpose of this condition is to provide for adjustments to the charge restriction conditions to reflect certain costs that can be passed through to demand customers of the licensee's distribution system through allowable demand revenue.

### Formula for allowable pass through items ( $PT_t$ )

2. For the purposes of paragraph 2 of special condition B1 (Restriction of distribution charges: demand use of system charges),  $PT_t$  is derived from the following formula:

$$PT_t = LF_t + RB_t - HB_t + MPT_t + UNC_t$$

where:

- $LF_t$  means an amount (whether positive or negative), as derived from the formula in paragraph 3 of this condition, representing a licence fee adjustment
- $RB_t$  means an amount (whether positive or negative), as derived from the formula in paragraph 4 of this condition, representing a non-domestic rates adjustment.
- $HB_t$  means the amount received by the licensee, arising from any direction given by the Secretary of State in accordance with section 184 of the Energy Act 2004 in relation to assistance for high cost distributors.
- $MPT_t$  means an amount (whether positive or negative), as derived from the formula in paragraph 5 of this condition, representing an adjustment for other pass-through items.
- $UNC_t$  means an amount determined by the Authority in accordance with special condition A3.

### Formula for the licence fee adjustment ( $LF_t$ )

3. For the purposes of paragraph 2 of this condition,  $LF_t$  is an amount calculated in accordance with the following formula:

$$LF_t = LP_t - LA_t$$

where:

- $LP_t$  means an amount equal to the payments made by the licensee, in the relevant year  $t$ , in accordance with its obligations set out in standard licence condition 3.

- $LA_t$  is derived from the following formula:

$$LA_t = PF \times PIAB_t$$

where:

PF means the amount given in the table appearing under that term in the part of Annex A to this condition that applies to the licensee.

PIAB<sub>t</sub> shall in the relevant year commencing 1 April 2002, take the value of 1 and in each subsequent relevant year shall be derived from the following formula:

$$PIAB_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIAB_{t-1}$$

where RPI<sub>t</sub> is determined in accordance with paragraph 3 of special condition B1.

#### Formula for the business rates adjustment (RB<sub>t</sub>)

4. For the purposes of paragraph 2 of this condition, RB<sub>t</sub> is calculated in accordance with the following formula:

$$RB_t = RP_t - RA_t$$

where:

RP<sub>t</sub> is the amount payable by the licensee in respect of business rates.

RA<sub>t</sub> is derived from the following formula:

$$RA_t = RV_t \times PIAB_t$$

where:

RV<sub>t</sub> means the amount set against that term for each relevant year in the part of Annex B to this condition that applies to the licensee.

PIAB<sub>t</sub> shall in the relevant year commencing 1 April 2002, take the value of 1 and in each subsequent relevant year shall be derived from the formula set out in paragraph 3 to this condition.

Formula for the other pass-through items ( $MPT_t$ )

5. For the purposes of paragraph 2 of this condition,  $MPT_t$  is calculated in accordance with the following formula:

$$MPT_t = MPC_t + MPA_t$$

where:

$MPC_t$  is the amount payable by the licensee in respect of those costs incurred by the licensee in the relevant year  $t$  for items that the Authority has directed as being miscellaneous pass-through items not reflected in the term  $MPA_t$ .

$MPA_t$  is derived from the following formula:

$$MPA_t = (SRS_t + SA_t).PIAB_t$$

where:

$SRS_t$  means the allowance for settlement run-off costs in relation to the transition to BETTA and shall in the relevant year commencing 1 April 2005, take the value given in the table appearing under that term in Part 1 of Annex C to this condition that applies to the licensee, and thereafter shall be the value zero.

$SA_t$  means the allowance for Shetland balancing costs and is the amount derived under the formula for that term set out in Part 2 of Annex C to this condition that applies to the licensee.

**Annex A to special condition B2 (Restriction of distribution charges: allowable pass-through items)**

<b>Licensee</b>	<b>PF (£m)</b>
Central Networks West plc	
Central Networks East plc	
United Utilities Electricity plc	
Northern Electric Distribution Limited	
Yorkshire Electricity Distribution plc	
Western Power Distribution (South West) plc	
Western Power Distribution (South Wales) plc	
EDF Energy Networks (LPN) plc	
EDF Energy Networks (SPN) plc	
EDF Energy Networks (EPN) plc	
SP Distribution Limited	
SP Manweb plc	
Scottish Hydro-Electric Power Distribution Limited	
Southern Electric Power Distribution plc	

## **Annex B to special condition B2 (Restriction of distribution charges: allowable pass-through items)**

### **Central Networks West plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **Central Networks East plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **United Utilities Electricity plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **Northern Electric Distribution Limited**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **Yorkshire Electricity Distribution plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **Western Power Distribution (South West) plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **Western Power Distribution (South Wales) plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **EDF Energy Networks (LPN) plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **EDF Energy Networks (SPN) plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **EDF Energy Networks (EPN) plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **SP Distribution Limited**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **SP Manweb plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **Scottish Hydro-Electric Power Distribution Limited**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

### **Southern Electric Power Distribution plc**

**RV<sub>t</sub>** (£m)

1 April 2005	[xx]
1 April 2006	[xx]
1 April 2007	[xx]
1 April 2008	[xx]
1 April 2009	[xx]

thereafter [xx]

## **Annex C to special condition B2 (Restriction of distribution charges: allowable pass-through items)**

### **Part 1**

<b>Licensee</b>	<b>SRS<sub>t</sub> (£m)</b>
Central Networks West plc	0.00
Central Networks East plc	0.00
United Utilities Electricity plc	0.00
Northern Electric Distribution Limited	0.00
Yorkshire Electricity Distribution plc	0.00
Western Power Distribution (South West) plc	0.00
Western Power Distribution (South Wales) plc	0.00
EDF Energy Networks (LPN) plc	0.00
EDF Energy Networks (SPN) plc	0.00
EDF Energy Networks (EPN) plc	0.00
SP Distribution Limited	x.xx
SP Manweb plc	0.00
Scottish Hydro-Electric Power Distribution Limited	x.xx
Southern Electric Power Distribution plc	0.00

### **Part 2**

1. This Part 2 of Annex C to special condition B2 (Restriction of distribution charges: allowable pass-through items) applies solely to Scottish Hydro-Electric Power Distribution Limited.

$$SA_t = TPC_t + LPSF_t + LPSC_t + EP_t - SH_t - SHB_t$$

where:

TPC<sub>t</sub> means the cost of contracts with third party generators for supplying demand customers in Shetland in the relevant year t.

LPSF<sub>t</sub> means the cost of fuel purchased for Lerwick Power Station (LPS) in relevant year t.

LPSC<sub>t</sub> means the capital and operating cost allowance for LPS in relevant year t calculated as follows:

$$LPSC_t = LPSA \times PIAH_t$$

where:

LPSA takes the value £5.2 million.

PIAH<sub>t</sub> is the price index adjustment term in the relevant year t, which in the relevant year commencing 1 April 2002 has the value 1 and thereafter is given by the follow formula:

$$PIAH_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIAH_{t-1}$$

EP<sub>t</sub> means the cost of environmental permits in relevant year t; and

SH<sub>t</sub> means the income from units purchased by suppliers in respect of generation on Shetland for the relevant year t.

SHB<sub>t</sub> means the amount the allowance assumed in setting PU and PE in special condition B1, which is derived by the following formula:

$$SHB_t = SHA \times PLAH_t$$

where:

SHA takes the value £7 million.

## ***SPECIAL CONDITION B3 – Restriction of distribution charges: incentive revenue adjustment***

1. The purpose of this condition is to establish the amount of incentive payment that adjusts allowable demand revenue to reflect the performance of the licensee with respect to the incentive schemes described below.

### Formula for incentive revenue ( $IP_t$ )

2. For the purposes of paragraph 2 of special condition B1 (Restriction of distribution charges: demand use of system charges),  $IP_t$  is derived in accordance with the following formula:

$$IP_t = IL_t + IQ_t + IFI_t$$

where:

- |         |   |
|---------|---|
| $IL_t$  | is the losses incentive adjustment, and in the relevant year $t$ is derived in accordance with the formula set out in paragraph 2 of special licence condition C1 (Incentive scheme: calculation of charge restriction adjustment for distribution losses). |
| $IQ_t$  | is the quality of performance incentive adjustment and in the relevant year $t$ is derived from the formula set out in paragraph 2 of special licence condition C2 (Incentive scheme: calculation of charge restriction adjustment for quality of service). |
| $IFI_t$ | is the innovation funding incentive adjustment and in the relevant year $t$ is derived from the formula set out in paragraph 2 of special licence condition C3 (Incentive scheme: calculation of charge restriction adjustment for innovation).             |

## ***SPECIAL CONDITION C1: Incentive scheme: calculation of charge restriction adjustments for distribution losses***

1. The purpose of this condition is to establish the amount of incentive that adjusts revenue allowances so as to reflect the performance of the licensee in respect of distribution losses.

### Formula for the losses incentive adjustment ( $IL_t$ )

2. For the purposes of paragraph 2 of special condition B3,  $IL_t$  is calculated in accordance with the following formula:

$$IL_t = [LR \times PIAL_t \times (AL_t - L_t)]$$

where:

LR is the distribution losses incentive rate and takes the value of £48/MWh for units physically distributed on or after 1 April 2005 and £[xx]/MWh for units physically distributed before that date.

$PIAL_t$  in the relevant year commencing 1 April 2004 takes the value 1, and in each subsequent relevant year is derived from the following formula:

$$PIAL_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIAL_{t-1}$$

$L_t$  means, in respect of the relevant year  $t$ , the adjusted distribution losses calculated in accordance with the methodological basis set out in paragraphs 3 to 5 of this condition.

$AL_t$  means an amount representing the target level of distribution losses in the relevant year  $t$  calculated, subject to paragraphs 6 to 8 below, in accordance with the following formula:

$$AL_t = \frac{ALP}{100} \times AUD_t$$

where:

ALP is the allowed loss percentage and shall, unless the Authority has directed otherwise in accordance with paragraph 7 of this condition, take the value set against the licensee's name in Annex A to this condition.

$AUD_t$  means, in respect of the relevant year  $t$ , the adjusted units distributed as defined in paragraph 5 of this condition.

Basis of calculation of adjusted distribution losses ( $L_t$ )

3. Adjusted distribution losses shall be deemed to be the difference between adjusted system entry volumes and adjusted units distributed.
4. Adjusted system entry volumes will be equal to the sum of:
  - a. all units metered on entering the licensee's distribution system;
  - b. all units deemed to be entering the licensee's distribution system by entry points that are unmetered; and
  - c. an amount (in units) representing the excess adverse effect on losses ( $DGA_t$ ) of units entering the system at entry points (other than entry points which are connected to a transmission network) where the loss adjustment factor determined by the licensee is less than 0.997, as calculated by the following formula:

$$DGA_t = \sum (LAF_{it} - 0.997) \times DGV_{it}$$

where:

$$LAF_{it} = \min(LAG_{it}, 0.997);$$

$DGV_{it}$  is the total number of units entering the distribution system at entry point  $i$ ; and

$LAG_{it}$  is the value, in the relevant year  $t$ , of the loss adjustment factor applicable to entry point  $i$ .

5. Adjusted units distributed shall be equal to the sum of:
  - a. all units distributed by the licensee metered at exit points on leaving the licensee's distribution system; and
  - b. all units deemed to be leaving the licensee's distribution system by exit points that are unmetered; and
  - c. in respect of Scottish Hydro-Electric Power Distribution Limited, less those units deemed to be leaving the licensee's distribution by shared unmetered exit points.
6. Subject to paragraph 7, the value of ALP set against the licensee's name in Annex A to this condition shall apply so long as this condition continues to be in force.
7. The Authority, having due regard to the purpose of this condition, and being satisfied, following consultation with the licensee, that there has been a material change (whether an improvement or a deterioration) in the quality of the information used to derive the adjusted system entry volumes or adjusted units distributed, may, with the licensee's consent (which shall not be unreasonably withheld), direct the licensee to use a different value for ALP.
8. A change to the value of ALP in accordance with paragraph 7 may be directed by the Authority at any time during the year but shall not take effect before the beginning of the relevant year commencing immediately after the date of the direction.

**ANNEX A to Special Condition C1 (Incentive scheme: calculation of charge restriction adjustments for distribution losses)**

<b>Name of licensee</b>	<b>ALP</b>
Central Networks West plc	4.96
Central Networks East plc	5.69
United Utilities Electricity plc	5.68
Northern Electric Distribution Limited	5.20
Yorkshire Electricity Distribution plc	5.90
Western Power Distribution (South West) plc	6.96
Western Power Distribution (South Wales) plc	4.94
EDF Energy Networks (LPN) plc	6.54
EDF Energy Networks (SPN) plc	6.54
EDF Energy Networks (EPN) plc	6.32
SP Distribution Limited	6.45
SP Manweb plc	7.52
Scottish Hydro-Electric Power Distribution Limited	8.73
Southern Electric Power Distribution plc	6.74

## ***Special condition C2: Incentive scheme: calculation of charge restriction adjustments for quality of service performance***

1. The purposes of this condition are to establish:
  - (a) a mechanism to provide for adjustments to the charge restriction conditions to reflect the performance of the licensee in achieving targets for quality of supply;
  - (b) a mechanism to reward best practice; and
  - (c) a mechanism to make adjustments to revenue in relation to the normal and severe weather standards for supply restoration *[and the standard for supply restoration for the Highlands and Islands.]*
2. For the purposes of paragraph 2 of special condition B3 in the relevant year commencing on 1 April 2005,  $IQ_t$  is the amount derived from the following formula:

$$IQ_t = \left[ \left( 1 + \frac{I_t}{100} \right) \times (Q_{t-1} + Y + za + zb) \right] + \left[ \left( 1 + \frac{I_t}{100} \right) \times \left( 1 + \frac{I_{t-1}}{100} \right) \times Q_{t-2} \right] + \left[ \left( 1 + \frac{I_t}{100} \right) \times \left( 1 + \frac{I_{t-1}}{100} \right) \times \left( 1 + \frac{I_{t-2}}{100} \right) \times Q_{t-3} \right] + qf_t + qg_t + qh_t$$

*[Note that the additional reward for out-performance Y will apply only to companies that have failed either their CI or CML target and have still been deemed by Ofgem to be a frontier performer based on the benchmarking analysis]*

where:

$Q_{t-2}$  and  $Q_{t-3}$  shall take the value set against the licensee's name in Annex E to this condition.

$Q_{t-1}$ ,  $za$  and  $zb$  are the adjustments to revenue to reflect the licensee's performance in the relevant year commencing April 2004 and shall be calculated from the application of the provisions of special condition G [J in Scotland] (Incentive scheme: calculation of charge restriction adjustment) in place for that relevant year. *[The paragraph above applies for all DNOs other than YEDL]*

*[ $Q_{t-1}$ ,  $za$  and  $zb$  are the adjustments to revenue to reflect the licensee's performance in the relevant year commencing April 2004 and shall be calculated from the application of the provisions of special condition G [J in Scotland] (Incentive scheme: calculation of charge restriction adjustment) in place for that relevant year, subject to the amendment that  $CMLIS_t$  for that year shall be calculated using the following formula:*

$$CMLIS_t = CMLA_t + CMLB_t + (c \times CMLC_t) + CMLD_t + (d \times CMLE_t) - 3$$

*This version of the paragraph applies to CE-YEDL to allow the roll forward of planned interruptions]*

$Y$  is an additional reward for outperformance where the licensee has failed to meet one of its interruption targets for the relevant year commencing 1 April 2004.

If, for the relevant year commencing 1 April 2004,  $CIIS_t$  is less than or equal to  $TA_t$  and  $CMLIS_t$  is less than or equal to  $TB_t$ , then  $Y$  shall be equal to zero.

If, for the relevant year commencing 1 April 2004, either  $CIIS_t$  is more than  $TA_t$  or  $CMLIS_t$  is more than  $TB_t$ , then  $Y$  shall be the amount derived from the following formula:

$$Y = \min \left[ \left( \max \left( \frac{PICI}{15} \times \frac{RLOPA}{100} \times BPCR_t, 0 \right) \right), \frac{RLOPA}{100} \times BPCR_t \right]$$

*[For SP Manweb, EDF(LPN), UU and Scottish Hydro]*

$$Y = \min \left[ \left( \max \left( \frac{PICML}{20} \times \frac{RLOPB}{100} \times BPCR_t, 0 \right) \right), \frac{RLOPB}{100} \times BPCR_t \right]$$

*[For WDP South-Wales, WPD South-West, EPN and Southern]*

*[For all other DNOs there is no Y term]*

where each of the terms in the formula shall be calculated from the application of the provisions of special condition G [J in Scotland] (Incentive scheme: calculation of charge restriction adjustment) of this licence in place for that year.

$qf_t$  is defined as set out in paragraph 9

$qg_t$  is defined as set out in paragraph 10

[  $qh_t$  is defined as set out in paragraph 10A.]

$I_t$  means the average specified rate (which is defined under those words in special condition A1 (Definitions and interpretation)) in relevant year  $t$ .

3. For the purposes of paragraph 2 of special condition B3 in the relevant year commencing on 1 April 2006,  $IQ_t$  shall be the amount derived from the following formula:

$$IQ_t = qf_t + qg_t [+qh_t]$$

where:

$qf_t$  is defined as set out in paragraph 9

$qg_t$  is defined as set out in paragraph 10

[  $qh_t$  is defined as set out in paragraph 10A.]

In the relevant year commencing on 1 April 2007 and in each subsequent relevant year  $t$ ,  $IQ_t$  shall be the amount derived from the following formula:

$$IQ_t = [qa_{t-2} + qb_{t-2} + qc_{t-2} + qd_{t-2} + qe_{t-2}] \times \left[ \left( 1 + \frac{I_t}{100} \right) \times \left( 1 + \frac{I_{t-1}}{100} \right) \right] + qf_t + qg_t + qh_t$$

where:

$I_t$  means the average specified rate (which is defined under those words in special condition A1 (Definitions and interpretation)) in relevant year t.

4. For the purpose of paragraphs 2, 3 and 5, and subject to paragraphs 11, 12 and 13:

$qa_t$  means the adjustment to revenue in respect of performance in relevant year t in relation to the target for the number of customers interrupted per 100 customers in that year and shall be derived from the following formula:

$$qa_t = \max \left[ \left( \min \left( (TA_t - CIIS_t) \times PIA_t \times IRA_t, \frac{RLA}{100} \times BR_t \right) \right), -\frac{RLA}{100} \times BR_t \right]$$

where:

$TA_t$  means the target for the number of customers interrupted for the relevant year t specified in the table in Annex A of this condition;

$CIIS_t$  means the performance in respect of the number of customers interrupted in relevant year t and is derived from the formula:

$$CIIS_t = CIA_t + (a \times CIB_t) + (b \times CIC_t) + CID_t + (c \times CIE_t)$$

where:

a takes the value of 0.5 and b and c are zero;

$CIA_t$  is the number of customers interrupted per year from unplanned incidents on the licensee's distribution system in the relevant year t and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$CIB_t$  is the number of customers interrupted per year from pre-arranged incidents on the licensee's distribution system in the relevant year t and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$CIC_t$  is the number of customers interrupted per year arising from incidents on the systems of the transmission company [transmission companies in Scotland] in the relevant year t and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$CID_t$  is the number of customers interrupted per year arising from incidents on the systems of distributed generators in the relevant year t and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$CIE_t$  is the number of customers interrupted per year arising from incidents on any other connected systems in the relevant year  $t$  and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$PIA_t$  means the price index adjustor in relevant year  $t$  and is derived from the following formula:

$$PIA_t = \left(1 + \frac{RPI_t}{100}\right) \times PIA_{t-1}$$

where, for the relevant year commencing 1 April 2002,  $PIA_t = 1$

$RPI_t$  is as defined in special condition B1 (Restriction of distribution charges: demand use of system charges);

$IRA_t$  means the incentive rate for the number of customers interrupted specified for the relevant year  $t$  in the table in Annex A of this condition, expressed in £ million in [2002/3] prices;

$RLA$  means the maximum percentage of base demand revenue exposed to the number of customers interrupted and has the value 1.2;

$BR_t$  means base demand revenue and is as defined in special condition B1 (Restriction of distribution charges: demand use of system charges).

5. For the purposes of paragraphs 2 and 3, and subject to paragraphs 11, 12 and 13:

$qb_t$  means the adjustment to allowable demand revenue in respect of performance in relevant year  $t$  in relation to the target for the duration of customer interruptions in that year and shall be derived according to the following rule:

$$qb_t = \max \left[ \left( \min \left( (TB_t - CMLIS_t) \times PIA_t \times IRB_t, \frac{RLB}{100} \times BR_t \right) \right), -\frac{RLB}{100} \times BR_t \right]$$

provided that:

$$(qa_t + qb_t + qc_t + qd_t + qe_t + SWE_t) \geq -\frac{TRL}{100} \times BR_t$$

otherwise  $qb_t$  shall be determined by the following formula:

$$qb_t = -\frac{TRL}{100} \times BR_t - (qa_t + qc_t + qd_t + qe_t + SWE_t)$$

where:

$TB_t$  means the target for the duration of customer interruptions for the relevant year  $t$  specified in the table in Annex A of this condition;

$CMLIS_t$  means the performance in respect of the duration of customer interruptions in relevant year  $t$  and is derived from the formula:

$$CMLIS_t = CMLA_t + (d \times CMLB_t) + (e \times CMLC_t) + CMLD_t + (f \times CMLE_t)$$

*[The paragraph above applies to all DNOs apart from CE-YEDL]*

*[ $CMLIS_t$  means the performance in respect of the duration of customer interruptions in relevant year  $t$  and for the relevant year commencing 1 April 2005 is derived from the formula:*

$$CMLIS_t = CMLA_t + (d \times (CMLB_t + 3.2)) + (e \times CMLC_t) + CMLD_t + (f \times CMLE_t)$$

*For each subsequent relevant year  $CMLIS_t$  is derived from the following formula:*

$$CMLIS_t = CMLA_t + (d \times CMLB_t) + (e \times CMLC_t) + CMLD_t + (f \times CMLE_t)$$

*The paragraph above only applies to CE – YEDL]*

where:

$d$  takes the value 0.5 and  $e$  and  $f$  each have the value 0.10;

$CMLA_t$  is the duration of interruptions from unplanned incidents on the licensee's distribution system in the relevant year  $t$  and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$CMLB_t$  is the duration of interruptions from pre-arranged incidents on the distribution system in the relevant year  $t$  and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$CMLC_t$  is the duration of interruptions arising from incidents on the systems of the transmission company [transmission companies in Scotland] in the relevant year  $t$  and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$CMLD_t$  is the duration of interruptions arising from incidents on the systems of distributed generators in the relevant year  $t$  and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

$CMLE_t$  is the duration of interruptions arising from incidents on any other connected systems in the relevant year  $t$  and is derived from the formula in Appendix 2 to the Regulatory Instructions and Guidance;

- $IRB_t$  means the incentive rate for the duration of customer interruptions specified for the relevant year  $t$  in the table in Annex A of this condition, expressed in £ million in 2002/03 prices;
- $PIA_t$  is defined as set out in paragraph 3 above;
- $TRL$  means the maximum percentage of base price demand revenue exposed in terms of penalties under the relevant elements of  $IQ_t$  for the relevant year  $t$  and has the value of 4;
- $RLB$  means the maximum percentage of base demand revenue exposed to the duration of customer interruptions and has the value 1.8;
- $BR_t$  means base demand and is as defined in special condition B1 (Restriction of distribution charges: demand use of system charges);
- $SWE_t$  is defined as set out in paragraph 9.

6. For the purpose of paragraphs 2, 3 and 5:

- $qc_t$  means the adjustment to revenue in respect of the severe weather telephony incentive in relevant year  $t$  and shall be derived from the following formula:

$$qc_t = 0$$

7. For the purpose of paragraphs 2, 3 and 5:

- $qd_t$  means the adjustment to revenue in respect of overall surveyed performance in relevant year  $t$  in relation to the targets for the speed and quality of telephone response in that year.

In relevant year  $t$ , if  $APTR_t$  is greater than or equal to 4.5,  $qd_t$  shall be the amount derived from the following formula:

$$qd_t = 0.0005 \times BR_t$$

In relevant year  $t$ , if  $APTR_t$  is greater than or equal to 4.1 and less than 4.5,  $qd_t$  shall take the value 0.

In relevant year  $t$ , if  $APTR_t$  is less than 4.1,  $qd_t$  shall be the amount derived from the following formula:

$$qd_t = \max \left[ (APTR_t - 4.1) \times IRC_t, -\frac{RLD}{100} \times BR_t \right]$$

where:

APTR<sub>t</sub> is the actual overall performance score for the licensee in relevant year t, based on all assessed attributes in the survey of quality and speed of telephone response provided to the Authority by the company carrying out that survey, as notified by the Authority to the licensee;

IRC<sub>t</sub> means the penalty rate in the relevant year t for performance in respect of the speed and quality of telephone response and is derived from the following formula:

$$IRC_t = \frac{2 \times RLD}{100} \times BR_t$$

where:

RLD means the maximum percentage of base demand revenue exposed to penalties under the incentives for the quality and speed of telephone response and takes the value 0.25;

BR<sub>t</sub> means base price control revenue and is as defined in special condition B1 (Restriction of distribution charges: demand use of system charges).

8. For the purpose of paragraphs 2, 3 and 5:

qe<sub>t</sub> means a positive adjustment to revenue in respect of the discretionary reward scheme for best practice in relation to priority customers, communication, and corporate social responsibility as may be determined by the Authority.

9. For the purpose of paragraphs 2, 3 and 5:

qf<sub>t</sub> means the adjustment to revenue in respect of the standard of performance for supply restoration under severe weather conditions imposed on the licensee under regulation 6.

In relevant year t, qf<sub>t</sub> shall be the amount derived from the following formula:

$$qf_t = \min[(SWPM_t - SWPD_t), 0] + \max\left[\left(SWPD_t - \frac{RLE}{100} \times BR_t\right), 0\right]$$

where:

SWPD<sub>t</sub> Is the total amount of the payments in relevant year t which either have been paid to customers or, where not paid, which 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 6;

SWPM<sub>t</sub> is the total amount of payments that the licensee has made formally to customers in relevant year t in respect of failure to meet the standard of performance for restoration under severe weather conditions imposed on the licensee under regulation 6 or that has been paid to customers in the form of ex-gratia payments for a severe weather

event in relevant year t, and in calculating  $SWPM_t$  a maximum of £200 of payments per customer for any given event in relevant year t may be taken into account.

RLE means the maximum percentage of base demand revenue exposed to the severe weather arrangements for relevant year t and has the value of 2.

$SWE_t$  means the licensee's total exposure to the severe weather arrangements in relevant year t and shall be derived from the following formula:

$$SWE_t = qf_t - \min(SWPM_t, SWPD_t)$$

10. For the purpose of paragraphs 2 and 3:

$qg_t$  means the adjustment to revenue in respect of the standard of performance for supply restoration imposed on the licensee under regulation 5 and shall be the amount derived from the following formula:

$$qg_t = \min[(NCPM_t - NCPD_t), 0]$$

where:

$NCPD_t$  is the total amount of the payments in relevant year t which either have been paid to customers or, where not paid, which customers would have been entitled to claim for the licensee's failure to meet the standard of performance for supply restoration imposed on the licensee under regulation 5;

$NCPM_t$  is the total amount of the payments that the licensee has made formally to customers in relevant year t in respect of failure to meet the standard of performance for supply restoration imposed on the licensee under regulation 5.

*[The treatment of the Highlands and Island is still subject to consultation. Paragraph 10A would only apply to SSE – Hydro]*

[10A. For the purpose of paragraphs 2 and 3:

$qh_t$  means the adjustment to revenue in respect of the standard of performance for supply restoration imposed on the licensee under regulation 7 and shall be the amount derived from the following formula:

$$qh_t = \min[(HIPM_t - HIPD_t), 0]$$

where:

$HIPD_t$  is the total amount of the payments in relevant year r which either have been paid to customers or, where not paid, which customers would have been entitled to claim for the licensee's failure to meet the standard of performance for supply restoration for the Highlands and Islands imposed on the licensee under regulation 7;

HIPM<sub>t</sub> is the total amount of the payments that the licensee has made in relevant year t to customers in respect of failure to meet the standard of performance for supply restoration for the Highlands and Islands imposed on the licensee under regulation 7.]

11. Where the report of an examiner specifies that the level of accuracy of any specified information used for the purpose of any formula in this condition is less than the level of accuracy specified for such information in the Regulatory Instructions and Guidance, the Authority may, after consulting the licensee and having regard to all relevant information and circumstances, and so as to mitigate any distortion arising from that inaccuracy, by notice to the licensee direct the data which shall be used in substitution for that information for the purposes of that relevant formula or paragraph.
12. Where:
  - (a) the licensee considers that its performance in respect of any matter used for calculating CIIS<sub>t</sub> or CMLIS<sub>t</sub> has been affected by a severe weather event that meets the relevant exceptionality requirement defined in Annex B of this condition;
  - (b) the licensee has notified the Authority of such event within 14 days of the date upon which the licensee considers that such effect has ceased or within 14 days of the end of the relevant year (whichever is the earliest);
  - (c) the examiner or the Authority has verified the impact of the event on performance; and
  - (d) the Authority is satisfied that the severe weather event meets the relevant exceptionality requirement defined in Annex B of this condition,

the licensee's performance used for calculating CIIS<sub>t</sub> or CMLIS<sub>t</sub> shall be adjusted so as to exclude the full verified impact of the event as directed by the Authority.

13. Where:
  - (a) the licensee considers that its performance in respect of any matter used for calculating CIIS<sub>t</sub> or CMLIS<sub>t</sub> has been affected by an event which does not meet the exceptionality requirement defined in Annex B of this condition but does meet the exceptionality requirements defined in Annex C of this condition;
  - (b) the licensee has notified the Authority of such event within 14 days of the date upon which the licensee considers that such effect has ceased or within 14 days of the end of the relevant year (whichever is the earliest);
  - (c) the examiner has reported to the Authority in respect of such event and its effect;
  - (d) the licensee has provided such further information, if any, as the Authority may require; and
  - (e) the Authority is satisfied that the event meets the exceptionality requirements defined in Annex C of this condition,

the Authority may, having regard to whether the licensee has met the criteria for mitigating actions set out in Annex D of this condition and by notice to the licensee, direct that, for the purpose of calculating CIIS<sub>t</sub> or CMLIS<sub>t</sub>, or both, all or part of the impact of the event which is in excess of the relevant threshold in successive three-month periods from the start of the event until its effect has ceased shall be excluded from the relevant year's performance of the licensee.

14. A direction under paragraphs 11 or 13 shall not have effect unless, before it is made, the Authority has given notice to the licensee:
  - (a) setting out the terms of the proposed direction;

- (b) stating the reasons why it proposes to issue the direction; and
- (c) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections,

and has considered any such representations or objections and given reasons for its decision.

15. A notice under paragraph 10 of the principal condition in relation to Appendix 2 to the Regulatory Instructions and Guidance may only specify a date for the purposes of paragraph 10(a) which is a charging review date unless all distribution service providers have agreed an alternative date.

16. In this condition:

- (1) “the principal condition” means standard licence condition 49 (Incentive scheme and associated information) and words and phrases defined for the purposes of that condition shall have the same meaning when used in this condition;
- (2) any reference to a numbered regulation is a reference to the regulation bearing that number in the Electricity (Standards of Performance) Regulations 2005 (SI 2005/0000).
- (3) words and expressions defined in special condition B1 (Restriction of distribution charges: demand use of system charges) which are used in this condition shall bear the same meaning as in special condition B1;
- (4) words and expressions defined in the Regulatory Instructions and Guidance which are used in this condition shall bear the same meaning as in that document; and
- (5) where the terms “max” and “min” are used in any formula, for any two given amounts X and Y, “min (X,Y)” means X if X-Y is negative and otherwise Y, and “max (X,Y)” means Y if X-Y is negative and otherwise X.

**Annex A - Targets and incentive rates for interruptions**

<b>Relevant year commencing:</b>	<b>1 April 2005</b>	<b>1 April 2006</b>	<b>1 April 2007</b>	<b>1 April 2008</b>	<b>1 April 2009</b>
<b>TA<sub>t</sub></b>					
<b>IRA<sub>t</sub> (£ million 2002/3 prices)</b>					
<b>TB<sub>t</sub></b>					
<b>IRB<sub>t</sub> (£ million 2002/3 prices)</b>					

## Annex B – Exceptionality requirement for severe weather events

The relevant requirement for a severe weather event to be treated as exceptional for the purposes of paragraph 11 of this condition is that the number of incidents caused by the event at distribution higher voltage in a 24 hour period is greater than or equal to SWET.

Where, for the purposes of this condition:

SWET is the severe weather exceptionality threshold and is equal to [ ];

distribution higher voltage means nominal voltages of more than 1,000 volts up to and including 132 kilovolts in England and Wales [up to but excluding 132 kilovolts in Scotland]; and incidents are as defined in the Regulatory Instructions and Guidance.

*[SWET for each DNO is set out in the Table below. In the final version of the licence condition for each DNO the relevant number will be included.]*

DNO	SWET
Central Networks West plc	63
Central Networks East plc	58
United Utilities Electricity plc	47
Northern Electric Distribution Limited	36
Yorkshire Electric Distribution plc	35
Western Power Distribution (South-West plc)	54
Western Power Distribution (South-Wales plc)	46
EDF Energy Networks (LPN) plc	10
EDF Energy Networks (SPN) plc	46
EDF Energy Networks (EPN plc)	72
SP Distribution Limited	79
SP Manweb plc	61
Scottish Hydro-Electric Power Distribution Limited	61
Southern Electric Power Distribution plc	62

## Annex C - Exceptionality requirements for other events

For the purposes of paragraph 12 of this condition, the exceptionality requirements for other events are:

- (a) that the occurrence of the event (including, without limitation, an event arising from an incident on a transmission network or other connected network, or from terrorism or vandalism) is outside the control of the licensee and is caused by a third-party, act of god or is outside the normal experience of the licensee; and
- (b) that the event contributes more than the relevant threshold amount to  $CIIS_t$  or  $CMLIS_t$  in a three-month period,

where, in paragraph (b), the relevant threshold amount for  $CIIS_t$  and  $CMLIS_t$  respectively is as set out in the table below.

	Relevant threshold amount
$CIIS_t$	
$CMLIS_t$	

*[The relevant thresholds for CI and CML for each DNO are set out in the Table below. The appropriate values for each DNO will be included in the final version of their licence condition]*

DNO	CI threshold	CML threshold
Central Networks West plc	1.1	0.9
Central Networks East plc	1.0	0.8
United Utilities Electricity plc	1.1	0.9
Northern Electric Distribution Limited	1.6	1.3
Yorkshire Electric Distribution plc	1.2	0.9
Western Power Distribution (South-West plc)	1.7	1.4
Western Power Distribution (South-Wales plc)	2.3	1.9
EDF Energy Networks (LPN) plc	1.1	0.9
EDF Energy Networks (SPN) plc	1.2	0.9
EDF Energy Networks (EPN) plc	0.7	0.6
SP Distribution Limited	1.3	1.0
SP Manweb plc	1.7	1.4
Scottish Hydro-Electric Power Distribution Limited	3.7	2.9
Southern Electric Power Distribution plc	0.9	0.7

## Annex D – Criteria for mitigating actions

For the purposes of paragraph 12, the criteria for mitigating actions are that:

- (a) the licensee's actions (or lack of actions) were not contributory factors to the occurrence of the event;
- (b) the licensee took all appropriate steps to limit the number of customers interrupted by the event; and
- (c) the licensee took all reasonable steps to restore customers' supplies quickly and efficiently having due regard to safety and other legal obligations.

## Annex E

For the purpose of calculating  $IQ_t$  for the relevant year commencing 1 April 2005,  $Q_{t-2}$  and  $Q_{t-3}$  for each licensee are as set out in the Table below.

Licensee	$Q_{t-3}$	$Q_{t-2}$
Central Networks West plc	-£42,523	£54,025
Central Networks East plc	£78,531	-£249,159
United Utilities Electricity plc	-£530,583	£34,910
Northern Electric Distribution Limited	£128,076	£138,097
Yorkshire Electric Distribution plc	£102,352	£96,044
Western Power Distribution (South-West plc)	£113,704	£142,162
Western Power Distribution (South-Wales plc)	£48,633	£91,263
EDF Energy Networks (LPN) plc	-£225,240	-£282,750
EDF Energy Networks (SPN) plc	-£16,002	-£55,071
EDF Energy Networks (EPN) plc	-£148,927	-£221,721
SP Distribution Limited	£49,620	£72,480
SP Manweb plc	£29,875	-£381,372
Scottish Hydro-Electric Power Distribution Limited	£157,222	£197,028
Southern Electric Power Distribution plc	£171,883	£202,806

### ***Special Condition C3: Incentive scheme: calculation of charges restriction adjustment for the Innovation Funding Incentive (IFI).***

1. The purpose of this condition is to establish the innovation funding incentive (IFI) scheme so as to provide for adjustments to allowable demand revenue to reflect the performance of the licensee in relation to its investment in innovation.
2. For the purposes of paragraph 2 of special condition B3,  $IFI_t$  is derived for the relevant year t from the formula:

$$IFI_t = ptri_t \times (\min(IFIE_t, ((0.005 \times CBR_t) + KIFI_t)))$$

where:

$IFIE_t$  means the eligible IFI expenditure for the relevant year t as reported in the IFI annual report for that year.

$CBR_t$  means combined distribution network revenue in the relevant year t as defined in special condition A1 (definitions and interpretations).

$ptri_t$  is the pass-through factor applicable for the relevant year t as specified below.

Relevant year	2005/06	2006/07	2007/08	2008/09	2009/10
$ptri_t$	0.9	0.85	0.8	0.75	0.7

$KIFI_t$  is the IFI carry forward in relation to the incentive scheme as set out in the IFI annual report for relevant year t-1, and calculated from the following formula:

$$KIFI_t = \begin{cases} 0.5 \times 0.005 \times CBR_{t-1}, & \text{if } IFIE_{t-1} \leq (0.5 \times 0.005 \times CBR_{t-1}), \\ (0.005 \times CBR_{t-1}) - IFIE_{t-1}, & \text{if } IFIE_{t-1} > (0.5 \times 0.005 \times CBR_{t-1}) \text{ and } IFIE_{t-1} \leq (0.005 \times CBR_{t-1}), \\ 0, & \text{if } IFIE_{t-1} > (0.005 \times CBR_{t-1}); \end{cases}$$

where for the year commencing 1 April 2005,  $KIFI_{t-1}$  shall be zero.

3. For the purposes of the incentive scheme, the eligible IFI internal expenditure that qualifies as eligible IFI expenditure shall not exceed the amount determined by the following formula:

$$IFIE_t \leq z \times IFIE_t$$

where:

z shall take the value, except insofar as the Authority consents otherwise, of 0.15.

4. For the purposes of this condition,

“eligible IFI internal expenditure”	is intended to mean that amount of eligible IFI expenditure spent or accrued on the internal resources of the licensee, as set out in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance.
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“eligible IFI expenditure”	is intended to mean the amount of expenditure spent or accrued by the licensee in respect of eligible IFI projects, as set out in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance.
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“eligible IFI projects”	is intended to mean those projects that meet the requirements described in paragraph 3.7 of the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance.
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## ***Special Condition D1: Restriction of distribution charges: generation use of system charges***

1. The purposes of this condition are to establish the adjustment to allowable network generation revenue that may be recovered from generation use of system charges by the licensee and to state what the licensee must do to comply with those restrictions.

### Formula for allowable network generation revenue ( $AG_t$ )

2. The licensee, in setting its generation use of system charges, shall take all appropriate steps within its power to ensure that in the relevant year  $t$  network generation revenue does not exceed allowable network generation revenue calculated in accordance with the following formula:

$$AG_t = IG_t + RPZ_t - KG_t$$

where:

$AG_t$  means allowable network generation revenue in the relevant year  $t$ .

$IG_t$  is the incentive revenue for distributed generation and in the relevant year  $t$  is derived from the formula in paragraph 2 of special licence condition D2 (Incentive scheme: calculation of charge restriction adjustments for distributed generation and registered power zone incentives).

$RPZ_t$  is the incentive revenue for registered power zones and in the relevant year  $t$  is derived from the formula in paragraph 2 of special licence condition D2 (Incentive scheme: calculation of charge restriction adjustments for distributed generation and registered power zone incentives).

$KG_t$  means the correction factor in relevant year  $t$ , whether of a positive or negative value, calculated in accordance with the formula given in paragraph 3 of this condition.

### Formula for the correction factor ( $KG_t$ )

3. For the purpose of paragraph 2,  $KG_t$  is derived from the following formula:

$$KG_t = (RG_{t-1} - AG_{t-1}) \times \left[ 1 + \frac{(I_t + PR_t)}{100} \right]$$

where:

$RG_{t-1}$  means the network generation revenue in the relevant year  $t-1$  except in the relevant year commencing 1 April 2005 where  $RG_{t-1}$  shall take the value 0.

- $AG_{t-1}$  means allowable network generation revenue in the relevant year  $t-1$ , except in the relevant year commencing 1 April 2005 where  $AG_{t-1}$  shall take the value 0.
- $I_t$  means the average specified rate in the relevant year  $t$ .
- $PR_t$  means the rate of interest that is applicable in accordance with paragraph 2 of special condition E1.

## ***Special Condition D2: Incentive scheme: calculation of charges restriction adjustments for distributed generation and registered power zone incentives***

1. The purposes of this condition are to establish the adjustment to allowable network generation revenue that may be recovered from generation use of system charges by the licensee in respect of the connection of distributed generation under the incentive schemes and to state what the licensee must do to comply with those restrictions.
2. For the purposes of paragraph 2 of special condition D1 (Restriction of distribution charges: generation use of system charges),  $IG_t$  is the amount derived from the following formula:

$$IG_t = GI_t + GP_t + GO_t - GT_t$$

3. For the purposes of paragraph 2,  $GI_t$  means the total incentive payment in the relevant year  $t$ , derived from the following formula:

$$GI_t = PIAG_t \times gir \times \sum_{i=1}^{ng_t} gci_{it}$$

where:

$PIAG_t$  (being the price index adjuster relating to DG) is as set out in paragraph 6;

$gir$  is the incentive rate for the scheme, which takes the value of £1500 per MW of incentivised DG capacity, except in relation to Scottish Hydro-Electric Power Distribution Ltd where it shall take the value £2000 per MW;

$ng_t$  is the total amount of relevant DG connected to the licensee's distribution system in the relevant year  $t$ ;

$gci_{it}$  is the incentivised DG capacity of the relevant DG  $i$  that is connected to the licensee's distribution system in the relevant year  $t$ , expressed in MW.

4. For the purposes of paragraph 2,  $GP_t$  means an amount representing the pass-through revenue in respect of the connection of distributed generation in the relevant year  $t$ , calculated using the following formula:

$$GP_t = PIAG_t \times \sum_{j=\max(y+1, t-P+1)}^t \left[ \frac{1}{PIAG_j} \times \left( \frac{r}{1 - \frac{1}{(1+r)^P}} \right) \times gp_j \right]$$

where:

$PIAG_t$  (being the price index adjuster relating to DG) is as set out in paragraph 6;

$r$  is the allowed pre-tax cost of capital which, for the purpose of this condition, shall take the value of 6.9%;

$y$  is the value of  $t$  for the relevant year commencing 1 April 2005;

$P$  means the number of complete relevant years over which use of system capex is remunerated, which for the purposes of this condition takes the value of 15;

$gp_j$  means the amount of total use of system capex, subject to the pass-through arrangement of the incentive scheme, in the relevant year  $j$  and is derived from the following formula:

$$gp_j = ptrg \times (gps_j + gpc_j) - gpc_j - gt_j,$$

where:

$ptrg$  is the pass-through rate and shall take the value of 0.8;

$gps_j$  is the amount, expressed in pounds sterling, of use of system capex for DG for relevant year  $j$ ;

$gpc_j$  is the amount, expressed in pounds sterling, of shared connection capex for DG for relevant year  $j$ .

$gt_j$  is the amount of capex excluded from this calculation in accordance with paragraph [x].

5. For the purpose of paragraph 2,  $GO_t$  is the adjustment to allowable network generation revenue in respect of the operational and maintenance costs of total capex for relevant year  $t$ , which is derived using the following formula:

$$GO_t = PIAG_t \times gor \times \sum_{i=1}^{ng_t} gci_{it},$$

where:

$PIAG_t$  (being the price index adjuster relating to DG) is as set out in paragraph 6;

$ng_t$  is as defined in paragraph 3;

$gci_{it}$  is as defined in paragraph 3; and

$gor$  is the allowed operational and maintenance rate for all relevant DG, and has a value of £1000 per MW of incentivised DG capacity.

6. For the purposes of this condition,  $PIAG_t$  is the price index adjustment in relevant year  $t$  is derived from the following formula:

$$PIAG_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIAG_{t-1},$$

where, for the relevant year commencing 1 April 2005,  $PIAG_t = 1$ ; and

$RPI_t$  is defined as in paragraph 3 of special condition B1 (Restriction of distribution charges: demand use of system charges).

7. For the purpose of this condition, the incentive rate for the scheme,  $gir$ , shall take the value set out in paragraph 3 to this condition for each and every relevant year up to and including the relevant year commencing 1 April 2024 insofar as it is applied to incentivised DG capacity relevant to the licensee's distribution system from 1 April 2005 to 31 March 2010.
8. For the purposes of paragraph 4 of this condition, the licensee, with the consent of the Authority, may exclude capex of those assets, which have been initially treated as use of system capex for DG but where:
- (a) the incentivised DG capacity utilising those assets has fallen as a result of a relevant DG, or its agents, terminating its agreements for use of system and connection to the licensee's distribution system; and
  - (b) those assets have a value that has not been fully depreciated through generation use of system charges for 15 complete relevant years in accordance with paragraph 4 of this condition.
9. For the purpose of paragraph 2 of special condition D1 (Restriction of distribution charges: generation use of system charges),  $RPZ_t$  (the registered power zones revenue) is derived in relevant year  $t$  from the formula:

$$RPZ_t = PIAG_t \times giz \times gcz_t$$

where:

$PIAG_t$  (being the price index adjuster relating to DG) is as set out in paragraph 6;

$giz$  means the incremental incentive rate for connecting a relevant DG  $i$  within that area registered by the Authority as a registered power zone, and shall take a value of £3000 per MW of RPZ DG capacity;

$gcz_t$  is the amount of RPZ DG capacity connected to the licensee's distribution system in the relevant year within that area registered by the Authority as a registered power zone for the purposes of this condition.

10. For the purposes of this condition:

"incentivised DG capacity"	<p>means the definition set out in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance;</p> <p>which is intended to reflect the highest active electrical power that can be generated (or the relevant incremental change of this amount in cases involving the expansion of existing distributed generation) by a relevant DG for that relevant year, according to:</p> <ul style="list-style-type: none"> <li>(a) the connection and use of system agreement(s) in force in relation to the relevant plant or apparatus; or</li> <li>(b) the notification received by the licensee in any case of generation covered by Engineering Recommendation G83/1.</li> </ul>
"Relevant DG"	<p>means the definition for that term set out in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance; which is intended to mean distributed generation (except for distributed generation operating in parallel with the licensee's distribution system for the purposes of standby) which has a connection start date on or after 1 April 2005 and has paid connection charges (if any) and is eligible for use of system charges (if any) in accordance with the use of system charging methodology in place on or after 1 April 2005.</p>
"RPZ DG capacity"	<p>means the definition for that term set out in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance; which is intended to reflect the sum of incentivised DG capacity of all relevant DG with a connection point to that part of the licensee's distribution system that forms a registered power zone.</p>
"Shared connection capex for DG"	<p>means the definition for that term set out in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance; which is intended to reflect that part of the total capex for DG that is to be recovered from</p>

	generation connection charges, but exclusive of all costs relating to sole-use assets and, where appropriate, of the incremental costs in excess of the high-cost project threshold (as set out in the licensee's distribution charging methodology statement).
"Total capex for DG"	Means the definition for that term set out in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance; which is intended to reflect the sum of all direct costs incurred by the licensee in relation to the installation or reinforcement of electrical lines or electrical plant necessary for the connection of relevant DG or any proposed or expected relevant DG for subsequent relevant years and for the avoidance of doubt includes the increase in the present value of costs resulting from the advancement in time, to within the relevant year, of the reinforcement of assets so as to facilitate the connection of the relevant DG.
"Use of system capex for DG"	Means the definition for that term set out in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones Regulatory Instructions and Guidance; which is intended to reflect that amount of total capex for DG that is not remunerated through connection charges.

## ***Special Condition E1: Charge restriction conditions: supplementary restrictions***

1. The purpose of this condition is to set out the supplementary restrictions on distribution charges.

### Restrictions on over and under recoveries

2. For the purposes of paragraph 4 of special condition B1 and paragraph 3 of special condition D1, the interest rate adjustment  $PR_t$  shall be determined as follows:
  - a. If, in respect of the relevant year  $t-1$ , the combined distribution network revenue exceeds the combined allowable distribution network revenue by more than 2 per cent  $PR_t$  shall take the value 3; or
  - b. If, in respect of the relevant year  $t-1$ , the combined distribution network revenue is less than the combined allowable distribution network revenue by more than 2 per cent  $PR_t$  shall take the value 0;
  - c. otherwise,  $PR_t$  shall take the value 1.5.

### Restrictions on demand charges

3. If, in respect of any relevant year, regulated demand revenue exceeds allowable demand revenue by more than 4 per cent, the licensee shall provide an explanation to the Authority and in the next following relevant year shall not, unless the Authority consents, increase demand use of system charges.
4. If, in respect of two successive relevant years, regulated demand revenue is less than 90 per cent of allowable demand revenue, the Authority, after consultation with the licensee, may direct that in calculating  $KD_t$  for the purposes of paragraph 4 of special condition B1 (Restriction on distribution charges) in respect of the next following relevant year, there shall be substituted for  $RD_{t-1}$  in the formula at paragraph 4 of special condition B1 (Restriction on distribution charges) such figure as the Authority may specify, not being less than  $RD_{t-1}$  and not more than  $0.9.(AD_{t-1})$ .

### Restrictions on generation charges

5. If, in respect of any relevant year, network generation revenue exceeds allowable network generation revenue by more than 10 per cent, the licensee shall provide an explanation to the Authority and in the next following relevant year shall not, unless the Authority consents, increase generation use of system charges.
6. If, in respect of two successive relevant years, network generation revenue is less than 75 per cent of allowable network generation revenue, the licensee shall provide an explanation to the Authority and in the next following relevant year shall not, unless the Authority consents, increase generation use of system charges by more than 20 per cent.

### Distribution unit categories

7. Not less than three months after the start of the relevant year commencing 1 April 2005, the licensee shall provide to the Authority in a statement details specifying separately those use of system charges in respect of which the licensee intends to treat the units distributed as falling within the definition of each of LV1 units and LV2 units and LV3 units respectively.
8. If the licensee introduces a category of use of system charges not identified in the statement provided to the Authority in accordance with paragraph 7, then the licensee shall provide a written statement to the Authority specifying the distribution unit categories that units distributed, in respect of those use of system charges introduced by the licensee, are to be treated.
9. Where the Authority is satisfied that a use of system charge or charges in respect of which the licensee has treated the units as falling within one of the distribution unit categories i should not be so treated, the Authority shall after consultation with the Licensee issue a direction specifying the category in which the units should fall and shall specify the date from which it shall be so treated.

## ***SPECIAL CONDITION F1 – Restriction of basic metering charges***

1. The purpose of this condition is to establish the restrictions on charges for basic meter asset provision and basic meter operation services provided by the licensee and to state what the licensee must do to comply with those restrictions.

### **Part A: Basic meter asset provision**

2. The licensee shall, in setting charges for basic meter asset provision in accordance with standard condition 36, ensure that those charges do not exceed the limits imposed by paragraphs 3 to 7 of this condition.

#### Restraints on charges for Single-Rate Credit Meters (SRCM)

3. The licensee shall, in setting charges for the provision of a single-rate credit meter, ensure that the total charge is at no point greater than the value derived from the following formula:

$$SCRM_t = £1.11 \times PIT_t$$

where:

SCRM<sub>t</sub> is the maximum amount that the licensee may charge in the relevant year t.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

#### Restraints on charges for Single-Rate Token Pre-payment Meters (SRTPPM)

4. The licensee shall, in setting charges for the provision of a single-rate token pre-payment meter, ensure that the total charge is at no point greater than the value derived from the following formula:

$$SRTPPM_t = \left( \left[ \left( \frac{TPPMAV}{LT_t} \right) \times \left[ 1 + \left[ (1 + LTW_t) \times \left( \frac{6.9}{100} - \frac{6.9}{200} \times \frac{LTW_t}{LT_t} \right) \right] \right] + £0.242 \right) \times PIT_t \right.$$

where:

TPPMAV means the modern equivalent asset value of a single-rate token pre-payment meter and shall take the value £59.00

LT<sub>t</sub> is the current expected life of a single-rate token pre-payment meter, as calculated using the following formula:

$$LT_t = 9.72 - L RTPPM_t$$

where:

LRTPPM<sub>t</sub> means the allowed reduction in the expected asset life of a single-rate token pre-payment meter since 1 April 2005 as determined by the Authority in accordance with paragraph 12 of this condition.

LTW<sub>t</sub> shall take the value of LT<sub>t</sub> rounded down to the nearest integer.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

#### Restraints on charges for Single-Rate Key Pre-payment Meters (SRKPPM)

5. The licensee shall, in setting charges for the provision of a single-rate key pre-payment meter, ensure that the total charge is at no point greater than the value derived from the following formula:

$$SRKPPM_t = \left[ \left( \frac{KPPMAV}{LK_t} \right) \times \left[ 1 + \left[ (1 + LKW_t) \times \left( \frac{6.9}{100} - \frac{6.9}{200} \times \frac{LKW_t}{LK_t} \right) \right] \right] + £0.242 \right] \times PIT_t$$

where:

KPPMAV means the modern equivalent asset value of a single-rate key pre-payment meter and shall take the value £60.31

LK<sub>t</sub> is the current expected life of a single-rate key pre-payment meter, as calculated using the following formula:

$$LK_t = 9.34 - LRKPPM_t$$

where:

LRKPPM<sub>t</sub> means the allowed reduction in the expected asset life of a single-rate key pre-payment meter since 1 April 2005 as determined by the Authority in accordance with paragraph 12 of this condition.

LKW<sub>t</sub> shall take the value of LK<sub>t</sub> rounded down to the nearest integer.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

### Restraints on charges for Single Rate Smartcard Pre-payment Meters (SRSPPM)

6. The licensee shall, in setting charges for the provision of a single-rate smartcard pre-payment meter, ensure that the total charge is at no point greater than the value derived from the following formula:

$$SRSPPM_t = \left( \left[ \left( \frac{SPPMAV}{LS_t} \right) \times \left[ 1 + \left[ (1 + LSW_t) \times \left( \frac{6.9}{100} - \frac{6.9}{200} \times \frac{LSW_t}{LS_t} \right) \right] \right] + £0.242 \right] \times PIT_t \right)$$

where:

SPPMAV means the modern equivalent asset value of a single-rate key pre-payment meter and shall take the value £62.77.

LS<sub>t</sub> is the current expected life of a single-rate smartcard pre-payment meter, as calculated using the following formula:

$$LS_t = 7.00 - LRSPPM_t$$

where:

LRSPPM<sub>t</sub> means the allowed reduction in the expected asset life of a single-rate key pre-payment meter since 1 April 2005 as determined by the Authority in accordance with paragraph 12 of this condition.

LSW<sub>t</sub> shall be the value of LS<sub>t</sub> rounded down to the nearest integer.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

### Restraints on charges for all other meter types provided under Standard Licence Condition 36 (MAPPC)

7. The licensee shall, in setting charges for the provision of meter assets, not including those covered by paragraphs 3 to 6, ensure that the total charge for those meters is at no point greater than the value derived from the following formula:

$$MAPPC_t = \left[ \frac{MEAP_i}{ELA_i} + DMEAP_{it} \times \frac{6.9}{100} + 0.242 \right] \times PIT_t$$

where

MEAP<sub>i</sub> is the modern equivalent asset purchase price of the meter type *i* as at 1 June 2003 or nearest determinable date after 1 June 2003.

ELA<sub>i</sub> is the current expected economic life of the meter type *i*.

DMEAP<sub>it</sub> is the value of the modern equivalent asset purchase price of the meter type *i* as at 1 June 2003, or nearest determinable date after 1 June 2003, depreciated to reflect the average age of the asset type in the relevant year *t*.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

**Part B: Basic meter operation services**

8. The licensee shall in setting its charges for the services of basic meter operation, provided by the licensee in accordance with standard condition 36, take all appropriate steps within its power to ensure that basic meter operation revenue does not exceed allowable metering operation revenue calculated in accordance with the following formula:

MOP<sub>t</sub> means allowable meter operation revenue in the relevant year *t*, derived in accordance with the following formula:

$$MOP_t = MOPR_t - RMA_t$$

where:

MOPR<sub>t</sub> is the base meter operation revenue derived from the following formula:

$$MOPR_t = MRV \times PIT_t$$

where:

MRV shall take the value set against the term in Annex A of this condition.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

RMA<sub>t</sub> is the adjustment to the revenue associated with basic meter operation and is derived from the formula given in paragraph 9.

9. For the purposes of paragraph 8, RMA<sub>t</sub> is derived from the following formula:

$$RMA_t = SCA_t + PCA_t + CTCA_t$$

where:

SCA<sub>t</sub> is the revenue adjustment for changes in the level of single phase chargeable activities and is calculated using the following formula:

$$SCA_t = (FSCA - SPCA_t) \times (21.37 \times PIT_t)$$

where:

FSCA shall take the value set against the term in Annex A of this condition.

SPCA<sub>t</sub> is the number of single-phase chargeable activities undertaken in the relevant year t.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

PCA<sub>t</sub> is the revenue adjustment for changes in the level of poly-phase chargeable activities and is calculated using the following formula:

$$PCA_t = (FPCA - PPCA_t) \times (34.91 \times PIT_t)$$

where:

FPCA shall take the value set against the term in Annex A of this condition.

PPCA<sub>t</sub> is the number of poly-phase chargeable activities undertaken in the relevant year t.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

CTCA<sub>t</sub> is the revenue adjustment for changes in the level of CT metering chargeable activities and is calculated using the following formula:

$$CTCA_t = (FCTA - CCA_t) \times (106.67 \times PIT_t)$$

where:

FCTA shall take the value set against the term in Annex A of this condition.

CCA<sub>t</sub> is the number of CT metering chargeable activities undertaken in the relevant year t.

PIT<sub>t</sub> shall be the value determined in accordance with paragraph 10 of this condition.

10. For the purposes of paragraph 3 to 9, the price index adjustment (PIT) will be calculated as follows:

$$PIT_t = \left( 1 + \frac{RPI_t}{100} \right) \times PIT_{t-1}$$

where, in the relevant year commencing 1 April 2002  $PIT_t$  shall take the value of 1.

### **Part C: Excluded metering services**

11. Charges for the provision of a basic metering services (as set out at paragraph 3(b) of standard condition 36) insofar as it consists of services (including those services provided outside a contractual core time or timeband) that is not incorporated within the calculation of  $MOPR_t$  for the purposes of paragraph 8 of this condition, or charges in respect of any provision of metering services other than a basic metering services shall be set such that the licensee is able to recover its reasonable costs, together with a reasonable return, in providing those services.

### **Part D: Determination of the reduction in asset life**

12. For the purposes of paragraphs 4 to 6 of this condition, where the licensee considers that the expected asset life of a:

- (a) Single-rate token pre-payment meter;
- (b) Single-rate key pre-payment meter; or
- (c) Single-rate smartcard pre-payment meter;

has fallen below that level assumed for the purposes of establishing the relevant charge restriction, then the licensee may, by written notice to the Authority, propose a relevant reduction in the asset life for the purposes of the condition.

13. A relevant reduction under paragraph 12 is one which in the opinion of the licensee, would if made, have the effect of enabling the licensee to recover the efficient costs incurred or likely to be incurred in relation to basic meter asset provision.

14. A notice served by the licensee in accordance with paragraph 12 must:

- (a) specify the restriction to which the notice relates;
- (b) set out the basis on which the licensee has calculated the relevant reduction; and
- (c) state the date from which the licensee wishes the Authority to agree that the relevant reduction shall have effect ("the reduction request").

15. Where the licensee serves a notice under paragraph 12, the Authority:

- (a) following consultation with the licensee; and
- (b) having particular regard to the purposes of this condition;

may, within 28 days of receiving such notice, determine the relevant reduction in the expected asset life for the purposes of this condition in such manner as it considers appropriate.

16. If the Authority has not determined the relevant reduction within 28 days of receiving a notice from the licensee under paragraph 12, and such a notice has not been withdrawn, then the licensee may apply the relevant reduction set out in the reduction request from the date stated in that request.
17. For the purposes of this condition:

"CT metering chargeable activities"	Means, with the exception of deemed single phase activities, those activities performed under contract as of 1 June 2003 in relation to CT meter types
"modern equivalent asset purchase price"	Means those activities involved in the following: <ul style="list-style-type: none"> <li>• Resealing a meter</li> <li>• Installing a timeswitch or teleswitch</li> <li>• Reprogramming a meter where it is not part of a bulk reprogramme</li> <li>• De-energising or Re-energising a meter</li> <li>• An abortive, not including cancelled visits, where the DNO is not provided with sufficient notice by the DNO to reorganise resources.</li> <li>• Attending a visit by a DTI inspector.</li> </ul> Regardless of the nature of the Non Half hourly meter upon which the work is performed.
"poly-phase chargeable activities"	means the purchase price of a new meter of the same functionality of that type of meter
"single-phase chargeable activities"	Means, with the exception of deemed single phase activities and CT metering chargeable activities, those activities performed under contract as of 1 June 2003 in relation to poly-phase meter types.
"single-rate credit meter"	[to be defined]
"single-rate key pre-payment meter"	[to be defined]
"single-rate smartcard pre-payment meter"	[to be defined]
"single-rate token pre-payment meter"	[to be defined]

## **Annex A**

<b>Licensee</b>	<b>MRT, £million</b>	<b>FSCA</b>	<b>FPCA</b>	<b>FCTA</b>
CN – Midlands	8.39	251,266	9,813	921
CN – East Midlands	8.74	275,625	14,095	967
United Utilities	6.20	191,806	7,491	703
CE – NEDL	7.52	273,618	3,418	1,111
CE – YEDL	7.42	253,623	9,905	930
WPD – South West	6.06	211,362	6,883	674
WPD – South Wales	4.19	143,197	5,593	525
EDF – LPN	7.95	221,137	10,165	3,891
EDF – SPN	8.73	270,969	11,972	4,404
EDF – EPN	10.78	377,151	13,390	1,009
SP Distribution	4.66	146,912	3,459	129
SP Manweb	3.66	108,320	3,906	1,574
SSE – Hydro	2.69	88,294	3,448	324
SSE – Southern	9.09	310,974	12,145	1,140

## ***Special condition G1 – Restriction of distribution charges outside the distribution services area.***

1. The purpose of this condition is to establish the charge restrictions that apply to charges for distribution use of system levied by the licensee in respect of its distribution business outside the distribution services area (as defined in standard condition 1 (Definitions and interpretation)) of the licence.
2. The licensee shall make available and continue to make available charges for the provision of use of system to any authorised supplier using the licensee's network to supply domestic customers.
3. The licensee's distribution use of system charges in respect of distribution of electricity to domestic customers may vary according to the distribution services area of the licensed distributor within which domestic premises are connected to the licensee's distribution system.
4. The licensee shall set those charges so that, except with the prior written consent of the Authority, the standing charge, unit rate and any other component thereof shall not exceed the distribution use of system charges to equivalent domestic customers.
5. For the purposes of this condition, the distribution use of system charges to equivalent domestic customers are the charges for distribution use of system levied by the licensed distributor that is subject to a distribution services direction specifying the distribution services area in which the domestic premises connected to the licensee's system are located.
6. The Authority may specify by direction, which of the charges for distribution use of system levied by the licensed distributor with distribution services obligations for the distribution services area are relevant for the purposes of determining the distribution use of system charges to equivalent domestic customers.
7. These charging arrangements shall have effect within this licence until such time and in such circumstances as are described in paragraphs 8 to 13 of this condition.
8. This condition shall cease to have effect (in whole or in part as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 9 of this condition or notice is given to the Authority by the licensee in accordance with either paragraph 12 or paragraph 13 of this condition.
9. A disapplication request shall:
  - a. be in writing addressed to the Authority;
  - b. specify the paragraph or paragraphs of this condition to which the request relates; and

- c. state the date (being not earlier than the date specified in paragraph 11 of this condition) from which the licensee wishes the Authority to agree that the conditions shall cease to have effect (“the disapplication date”).
- 10. The licensee may withdraw a disapplication request at any time.
- 11. Save where the Authority otherwise consents in writing, no disapplication following delivery of a disapplication request pursuant to paragraph 9 of this condition shall have effect until a date being the later of:
  - a. not less than 18 months after delivery of the disapplication request; and
  - b. 31 March 2007.
- 12. If the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of this condition or the part or parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date and the licensee has not withdrawn this disapplication request, the licensee may deliver a written notice to the Authority terminating the application of this condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date or such earlier date to which the Authority has given its consent under paragraph 11.
- 13. If the Competition Commission’s report on a reference made by the Authority relating to the modification of this condition or the part or parts thereof specified in the disapplication request does not include a conclusion that the cessation of such revenue restrictions in this condition, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 13 of the Act deliver to the Authority notice terminating the application of this condition or the part or parts thereof specified in the disapplication request with effect from the disapplication date.

### 3. Draft standard licence conditions

- 3.1. This appendix sets out the Ofgem's drafting of the legal text of the standard conditions that will give effect to the revised price control framework. The legal text set out in this document reflects Ofgem's present thinking after consideration of the views expressed by the industry working group. Nevertheless, the text does not represent an agreed position between Ofgem and the DNOs.

#### ***Condition 1. Definitions and Interpretation***

1. In these standard conditions, unless the context otherwise requires:

the "Act"	means the Electricity Act 1989.
"affiliate"	in relation to the licensee means any holding company of the licensee, any subsidiary of the licensee or any subsidiary of a holding company of the licensee in each case within the meaning of sections 736, 736A and 736B of the Companies Act 1985.
"Application Regulations"	means the Electricity (Applications for Licences and Extensions and Restrictions of Licences) Regulations 2004 or any such application regulations as may be amended from time to time.
"appropriate auditor"	for the purposes of section C only, has the meaning given in paragraph 8 of standard condition 42 (Regulatory accounts)
"appropriate time"	for the purposes of standard condition 39 (Restriction on Use of Certain Information and Independence of the Distribution Business) only, has the meaning given in that condition.
"auditors"	means the licensee's auditors for the time being holding office in accordance with the requirements of the Companies Act 1985.
"authorised"	in relation to any business or activity means authorised by licence granted or treated as granted under section 6 or by exemption granted under section 5 of the Act.
"authorised electricity operator"	means any person (other than the licensee) who is authorised to generate, participate in the transmission of, distribute, or supply electricity and shall include

	any person who has made an application to be so authorised which application has not been refused and any person transferring electricity to or from or across an interconnector or Scottish interconnection or who has made an application for use of an interconnector or Scottish interconnection which has not been refused.
the “Authority”	means the Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000.
“basic meter asset provision”	for the purposes of section C only, has the meaning given in sub-paragraph 3(a) of standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services).
“basic meter operation”	for the purposes of Section C only, has the meaning given in sub-paragraph 3(b) of standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services).
“BETTA”	means the British electricity trading and transmission arrangements which are provided for in Chapter I of Part 3 of the Energy Act 2004.
“BETTA go-live date”	means the date which the Secretary of State indicates in a direction shall be the BETTA go-live date.
“British Grid Systems Agreement”	For the purposes of standard condition 30B (BETTA run-off arrangements scheme) only, has the meaning given in that condition.
“BSC”	for the purposes of Section B only, has the meaning given in standard condition 10 (Balancing and Settlement Code and NETA Implementation).
“ BSC Framework Agreement”	for the purposes of standard condition 10 (Balancing and Settlement Code and NETA Implementation) only, has the meaning given in that condition.
“bilateral agreement”	for the purposes of standard condition 26 (Compliance with CUSC) only, has the meaning given in that condition.
“charge restriction conditions”	shall have the same meaning as in special condition A1 (Definitions and interpretation).
“competent authority”	for the purposes of standard condition 39 (Restriction on Use of Certain Information and Independence of the Distribution Business) only, has the meaning given

	in that condition.
"confidential information"	for the purposes of standard condition 39 (Restriction on Use of Certain Information and Independence of the Distribution Business) only, has the meaning given in that condition.
"connection charges"	means charges made or levied, or to be made or levied, by the licensee for the provision of connections or the modification or retention of existing connections to the licensee's distribution system at entry or exit points, whether or not such charges or any part of them are annualised, and may include, as appropriate, costs relating to any of the matters that are mentioned in paragraph 5 of standard condition 4B (Connection Charging Methodology).
"connection charging methodology"	means the principles on which and the methods by which, for the purposes of achieving the objectives referred to in paragraph 3 of standard condition 4B (Connection Charging Methodology), connection charges are determined.
"construction agreement"	for the purposes of standard condition 26 (Compliance with CUSC) only, has the meaning given in that condition.
"Consumer Council "	means the Gas and Electricity Consumer Council as established under section 2 of the Utilities Act 2000.
"convenience customers"	means customers supplied or requiring to be supplied at any premises which are (i) connected to the licensee's distribution system; and (ii) situated within the distribution services area of a distribution services provider other than the licensee.
"core industry documents"	for the purposes of standard conditions 10 (Balancing and Settlement Code and NETA Implementation) and 11 (Change Co-ordination for NETA) only, has the meaning given in standard condition 10; and for the purposes of standard condition 26 (Compliance with CUSC) only, has the meaning given in that condition.
"cross-default obligation"	for the purposes of standard condition 47 (Indebtedness) only, has the meaning given in that condition.
"CUSC"	for the purposes of standard condition 26 (Compliance with CUSC) only, has the meaning given in that

	condition.
“CUSC Framework agreement”	for the purposes of standard condition 26 (Compliance with CUSC) only, has the meaning given in that condition.
“customer”	means any person supplied or requiring to be supplied with electricity at any premises in Great Britain, but shall not include any authorised electricity operator in its capacity as such.
“data aggregation”	has the meaning given in standard condition 36A (Requirement to Offer Terms for the Provision of Data Services).
“data processing”	has the meaning given in standard condition 36A (Requirement to Offer Terms for the Provision of Data Services).
“data retrieval”	has the meaning given in standard condition 36A (Requirement to Offer Terms for the Provision of Data Services).
“data services”	for the purposes of Section C only, has the meaning given in paragraph 2 of standard condition 36A (Requirement to Offer Terms for the Provision of Data Services).
“data transfer service”	for the purposes of Section C only, has the meaning given in standard condition 32 (Interpretation of Section C (Distribution Services Obligations)).
“declared net capacity”	means, in relation to generation plant, the highest generation of electricity at the main alternator terminals which can be maintained for an indefinite period of time without causing damage to the plant, less so much of that capacity as is consumed by the plant.
“de minimis activities”	means activities undertaken by the de minimis business.
“de minimis business”	for the purposes of Section C only, has the meaning given in sub-paragraph 4(a) of standard condition 43 (Restriction on activity and Financial Ring Fencing)
“disposal”	for the purposes of standard condition 29 (Disposal of Relevant Assets) only, has the meaning given in that condition.

“distribution arrangements”	has the meaning given in standard condition 25 (Long Term Development Statement).
“distribution business”	<p>means a business of the licensee, or in relation to sub-paragraphs (a) and (b) below, and except to the extent otherwise specified by the authority in a direction to the licensee, any business of any affiliate or related undertaking of the licensee comprising:</p> <ul style="list-style-type: none"> <li>(a) the distribution of electricity through the licensee’s distribution system, including any business in providing connections to such system; or</li> <li>(b) the provision of the services specified in sub-paragraphs (a) and (b) of paragraph 1 of standard condition 36A (Requirement to Offer Terms for the Provision of Data Services);</li> </ul> <p>or any business ancillary thereto.</p>
“Distribution Business Activities”	<p>means those activities undertaken by the licensee, comprising the following:</p> <ul style="list-style-type: none"> <li>(a) distribution services;</li> <li>(b) de minimis activities;</li> <li>(c) excluded services; and</li> <li>(d) metering services.</li> </ul>
“Distribution Code”	means a distribution code required to be prepared by a licensed distributor pursuant to standard condition 9 (Distribution Code) and approved by the Authority as revised from time to time with the approval of the Authority.
“distribution licence”	means a distribution licence granted or treated as granted under section 6(1)(c) of the Act.
“distribution services”	means services provided by the licensee other than excluded services, metering services, and de minimis activities.
“distribution services area”	has the meaning given at sub-paragraph 5(b) of standard condition 2 (Application of Section C (Distribution Services Obligations)).
“Distribution Services Direction”	has the meaning given in standard condition 2

	(Application of Section C (Distribution Services Obligations)).
“distribution services provider”	means a licensed distributor in whose licence Section C has effect.
“distribution system”	means the system consisting (wholly or mainly) of electric lines owned or operated by an authorised distributor and used for the distribution of electricity from grid supply points or generation sets or other entry points to the points of delivery to customers or authorised electricity operators or any transmission company within Great Britain in its capacity as operator of a transmission system and includes any remote transmission assets (owned by a transmission licensee within England and Wales) operated by such distributor and any electrical plant, meters and metering equipment owned or operated by such distributor in connection with the distribution of electricity, but shall not include any part of a transmission system.
“domestic customer”	means a customer supplied or requiring to be supplied with electricity at domestic premises (but excluding such customer in so far as he is supplied or requires to be supplied at premises other than domestic premises).
“domestic premises”	means premises at which a supply is taken wholly or mainly for domestic purposes.
“Electricity Arbitration Association”	for the purposes of standard condition 39 (Restriction on Use of Certain Information and Independence of the Distribution Business) only, has the meaning given in that condition.
“electricity supplier”	means any person authorised to supply electricity.
“estimated costs”	for the purposes of standard condition 3 (Payments by the Licensee to the Authority) only, has the meaning given in that condition.
“excluded services”	means those services provided by the licensee as part of its distribution business, which in accordance with special condition A2 (Scope of the charge restriction conditions) fall to be treated as excluded services.
“existing connection”	means, in relation to any premises, an existing connection to the licensee’s distribution system which does not require modification, or a new or modified

	connection to such system in respect of which all works have been completed, such that in either case electricity is able to be supplied to the premises in accordance with the terms of the relevant supply agreement.
"external distribution activities"	for the purposes of standard condition 39 (Restriction on Use of Certain Information and Independence of the Distribution Business) only, has the meaning given in that condition.
"financial year"	subject to standard condition 42A (Change of Financial Year) (where applicable), means a period of 12 months beginning on 1 April of each year and ending on 31 March of the following calendar year.
"Fuel Security Code"	for the purposes of Section B only, has the meaning given in standard condition 16 (Security Arrangements).
"generation set"	means any plant or apparatus for the production of electricity and shall where appropriate include a generating station comprising more than one generation set.
"Grid Code"	means a Grid Code which a transmission licensee is required to have in place pursuant to its transmission licence.
"grid supply point"	means any point at which electricity is delivered from a transmission system to any distribution system.
"holding company"	means a company within the meaning of sections 736, 736A and 736B of the Companies Act 1985.
"indebtedness"	for the purposes of standard condition 47 (Indebtedness) only, has the meaning given in that condition.
"information"	includes any documents, accounts, estimates, returns, records or reports and data in written, verbal or electronic form and information in any form or medium whatsoever (whether or not prepared specifically at the request of the Authority or the Consumer Council) of any description specified by the Authority.
"interconnection"	means:  the 275 kV and 400 kV circuits between and

including the associated switchgear at Harker sub-station in Cumbria and the associated switchgear at Strathaven sub-station in Lanarkshire;

the 275 kV transmission circuit between and including the associated switchgear at Cockenzie in East Lothian and the associated switchgear at Stella in Tyne and Wear; and

the 400 kV transmission circuit between and including the associated switchgear at Torness in East Lothian and the associated switchgear at Stella in Tyne and Wear

all as existing at the date on which the transmission licence comes into force as from time to time maintained, repaired or renewed, together with any alteration, modification or addition (other than maintenance, repair or renewal) which is primarily designed to effect a permanent increase in one or more particular interconnection capacities as they exist immediately prior to such alteration, modification or addition and as from time to time maintained, repaired or renewed; and

the 132 kV transmission circuit between and including (and directly connecting) the associated switchgear at Chapelcross and the associated switchgear at Harker sub-station in Cumbria; and

the 132 kV transmission circuit between and including (and connecting, via Junction V) the associated switchgear at Chapelcross and the associated switchgear at Harker sub-station in Cumbria

all as existing at the date on which the transmission licence comes into force and as from time to time maintained, repaired or renewed.

“interconnector(s)”

means the electric lines and electrical plant and meters owned or operated by a transmission company solely for the transfer of electricity to or from a transmission system into or out of England and Wales.

“investment”

for the purposes of Section C only, has the meaning given in standard condition 43 (Restriction on Activity and Financial Ring Fencing).

“investment grade issuer credit rating”	for the purposes of Section C only, has the meaning given in standard condition 46 (Credit Rating of Licensee).
“licensed distributor”	means any holder of a distribution licence.
“licensee’s Distribution Code”	means the distribution code required to be prepared by the licensee pursuant to standard condition 9 (Distribution Code) and approved by the Authority as revised from time to time with the approval of the Authority.
“licensee’s distribution system”	means the distribution system owned or operated by the licensee.
“Master Registration Agreement”	means the agreement of that title referred to and comprising such matters as are set out in standard condition 14 (Provision of the Metering Point Administration Service and Compliance with the Master Registration Agreement) and standard condition 37 (The Metering Point Administration Service and the Master Registration Agreement).
“metering equipment”	includes any electricity meter and any associated equipment which materially affects the operation of that meter.
“metering services”	means services relating to the provision, operation, and maintenance of metering equipment.
“Metering Point Administration Service”	means the service to be established, operated and maintained by the licensee in accordance with standard condition 14 (Provision of the Metering Point Administration Service and Compliance with the Master Registration Agreement).
“metering point administration services”	means the services of the Metering Point Administration Service established in accordance with standard condition 14 (Provision of the Metering Point Administration Service and Compliance with the Master Registration Agreement) or, where the context requires, in accordance with standard condition 37 (The Metering Point Administration Service and the Master Registration Agreement).
“Metering Point Administration Service operator”	has the meaning given in standard condition 38 (Establishment of a Data Transfer Service).
“non-GB trading and transmission	for the purposes of standard condition 30B (BETTA run-off arrangements scheme) only, has the meaning

arrangements"	given in that condition.
"non-domestic customer"	means a customer who is not a domestic customer.
"other Distribution Codes"	means the distribution codes which the holder(s) of a distribution licence (other than the licensee) are required to draw up and have approved by the Authority pursuant to standard condition 9 (Distribution Code) of their distribution licence, as from time to time revised with the approval of the Authority.
"owned"	in relation to an electricity meter or other property includes leased and cognate expressions shall be construed accordingly.
"participating interest"	has the meaning given by section 260 of the Companies Act 1985 as amended by section 22 of the Companies Act 1989.
"permitted purpose"	for the purposes of Section C only, has the meaning given in standard condition 32 (Interpretation of Section C (Distribution Services Obligations)).
"price control review information"	for the purposes of standard condition 52 (Price control review information) only, has the meaning given in that condition.
"regulatory instructions and guidance"	for the purposes of section C only, means any instructions and guidance issued by the Authority in relation to the collection and reporting of specified information.
"related undertaking"	in relation to the licensee means any undertaking in which the licensee has a participating interest.
"relevant asset"	means any asset for the time being forming part of the licensee's distribution system, any control centre for use in conjunction therewith, and any legal or beneficial interest in land upon which any of the foregoing is situate (which for the purposes of property located in Scotland means any estate, interest, servitude or other heritable or leasehold right in or over land including any leasehold interests or other rights to occupy or use and any contractual or personal rights relating to such property or the acquisition thereof).
"relevant documents"	for the purposes of standard condition 30B (BETTA run-off arrangements scheme) only, has the meaning

	given in that condition.
“relevant duties”	for the purposes of standard condition 40 (Appointment of a Compliance Officer) only, has the meaning given in that condition.
“relevant proportion”	for the purposes of standard condition 3 (Payments by the Licensee to the Authority) only, has the meaning given in that condition.
“relevant year”	for the purposes of: <ul style="list-style-type: none"> <li>(i) standard condition 3 (Payments by the Licensee to the Authority) only, has the meaning given in that condition;</li> <li>(ii) standard condition 48 (Last Resort Supply: Payment Claims) only, has the meaning given in that condition; and</li> <li>(iii) standard condition 50 (title) only, has the meaning given in that condition.</li> </ul>
“relinquishment of operational control”	for the purposes of standard condition 29 (Disposal of Relevant Assets) only, has the meaning given in that condition.
“remote transmission assets”	means any electric lines, electrical plant or meters in England and Wales owned by a transmission company (“the owner transmission company”) which: <ul style="list-style-type: none"> <li>(a) are embedded in the licensee’s distribution system or the distribution system of any authorised distributor and are not directly connected by lines or plant owned by the owner transmission company to a sub-station owned by the owner transmission company; and</li> <li>(b) are by agreement between the owner transmission company and the licensee or such authorised distributor operated under the direction and control of the licensee or such authorised distributor.</li> </ul>
“running-off”	for the purposes of standard condition 30B (BETTA run-off arrangements scheme) only, has the meaning given in that condition.

"Scottish Grid code"	means any grid code which any transmission licensee other than the system operator is obliged to maintain pursuant to its licence.
"Scottish interconnection"	means such part of the interconnection as is situated in Scotland.
"Secretary of State's costs"	for the purposes of standard condition 3 (Payments by Licensee to the Authority) only, has the meaning given in that condition.
"Section C (system operator standard conditions) Direction"	means a direction issued by the Authority or the Secretary of State, where appropriate, in accordance with standard condition A2 (Application of Section C) of the standard conditions for electricity transmission licences.
"separate business"	for the purposes of standard condition 39 (Restriction on Use of Certain Information and Independence of the Distribution Business) only, has the meaning given in that condition.
"Settlement Agreement for Scotland"	has the meaning given in standard condition 12 (Settlement Agreement for Scotland).
"settlement purposes"	means for the purposes of settlement as set out in the Balancing and Settlement Code or the Settlement Agreement for Scotland.
"specified information"	for the purposes of: <ul style="list-style-type: none"> <li>(i) standard condition 49 (Incentive Scheme and Associated Information) only, has the meaning given in that condition;</li> <li>(ii) standard condition 50 (Price Control Reporting Requirements and Associated Information) only, has the meaning given in that condition; and</li> <li>(iii) standard condition 51 (title) only, has the meaning given in that condition.</li> </ul>
"standby"	means the periodic or intermittent supply or sale of electricity: <ul style="list-style-type: none"> <li>(a) to an authorised electricity operator to make good any shortfall in the availability of electricity to that operator for the purposes of its supply of electricity to persons seeking</li> </ul>

	such supply; or
	(b) to a customer of the licensee to make good any shortfall between the customer's total supply requirements and that met either by its own generation or by electricity supplied by an electricity supplier other than the licensee.
"statutory accounts"	means the accounts that the licensee prepares under the Companies Act 1985 (as amended by the Companies Act 1989).
"subsidiary"	means a subsidiary within the meanings of sections 736, 736A and 736B of the Companies Act 1985.
"supply licence"	means a supply licence granted or treated as granted under section 6(1)(d) of the Act.
"system operator agreement"	for the purposes of standard condition 30B (BETTA run-off arrangements scheme) only, has the meaning given in that condition.
"system operator"	means the holder for the time being of a transmission licence in relation to which licence the Authority or the Secretary of State, where appropriate, has issued a Section C (system operator standard conditions) Direction and where Section C remains in effect (whether or not subject to any terms included in the Section C (system operator standard conditions) Direction or to any subsequent variation of its terms to which the transmission licensee may be subject).
"top-up"	means the supply or sale of electricity on a continuing or regular basis: <ul style="list-style-type: none"> <li>(a) to an authorised electricity operator to make good any shortfall in the availability of electricity to that operator for the purposes of its supply of electricity to persons seeking such supply; or</li> <li>(b) to a customer of the licensee to make good any shortfall between the customer's total supply requirements and that met either by its own generation or by electricity supplied by an electricity supplier other than the licensee.</li> </ul>
"trading code"	for the purposes of Section B only, has the meaning given in standard condition 12A (Compliance with

	Trading Code in Scotland).
“transmission company”	means a transmission licensee.
“transmission licence”	means a transmission licence granted or treated as granted under section 6(1)(b) of the Act.
“transmission licensee”	means the holder for the time being of a transmission licence.
“transmission system”	means a system consisting (wholly or mainly) of high voltage electric lines owned or operated by a transmission company 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 or Scottish interconnection in question and in relation to Scotland including any interconnector and Scottish interconnection, and includes any electrical plant and meters owned or operated by the transmission company in connection with the transmission of electricity but shall not include any remote transmission assets.
“ultimate controller”	<p>means:</p> <ul style="list-style-type: none"> <li>(a) a holding company of the licensee which is not itself a subsidiary of another company; and</li> <li>(b) any person who (whether alone or with a person or persons connected with him) is in a position to control, or to exercise significant influence over, the policy of the licensee or any holding company of the licensee by virtue of: <ul style="list-style-type: none"> <li>(i) rights under contractual arrangements to which he is a party or of which he is a beneficiary; or</li> <li>(ii) rights of ownership (including rights attached to or deriving from securities or rights under a trust) which are held by him or of which he is a beneficiary;</li> </ul> </li> </ul> <p>but excluding any director or employee of a corporate body in his capacity as such; and</p>

- (c) for the purposes of sub-paragraph (b), a person is connected with another person if they are party to any arrangement regarding the exercise of any such rights as are described in that paragraph.
- “undertaking” has the meaning given by section 259 of the Companies Act 1985.
- “unmetered supply” means a supply of electricity to premises which is not, for the purpose of calculating the charges for electricity supplied to the customer at such premises, measured by metering equipment.
- “use of system” means use of the licensee’s distribution system for the distribution of electricity by the licensee for any person.
- “use of system charges” means charges made or levied, or to be made or levied, by the licensee for the provision of services as part of the distribution business to any person, as more fully described in standard condition 4 (Use of System Charging Methodology) and 4A (Charges for Use of System), but does not include connection charges.
- “use of system charging methodology” means the principles on which and the methods by which, for the purposes of achieving the objectives referred to in paragraph 3 of standard condition 4 (Use of System Charging Methodology), use of system charges are determined.
2. Any words or expressions used in the Utilities Act 2000 or Part I of the Act or the Energy Act 2004 shall, unless the contrary intention appears, have the same meanings when used in the standard conditions.
  3. Except where the context otherwise requires, any reference to a numbered standard condition (with or without a letter) or Schedule is a reference to the standard condition (with or without a letter) or Schedule bearing that number in this licence, and any reference to a numbered paragraph (with or without a letter) is a reference to the paragraph bearing that number in the standard condition or Schedule in which the reference occurs, and reference to a Section is a reference to that Section in these standard conditions.
  4. These standard conditions shall have effect as if, in relation to a licence holder who is a natural person, for the words “it”, “its” and “which” there were substituted the words “he”, “him”, “his”, “who” and “whom”, and cognate expressions shall be construed accordingly.

5. Except where the context otherwise requires, a reference in a standard condition to a paragraph is a reference to a paragraph of that standard condition and a reference in a paragraph to a sub-paragraph is a reference to a sub-paragraph of that paragraph.
6. Any reference in these standard conditions to -
  - (a) a provision thereof;
  - (b) a provision of the standard conditions of electricity supply licences, or
  - (c) a provision of the standard conditions of electricity generation licences,
  - (d) a provision of the standard conditions of electricity transmission licences,shall, if these standard conditions or the standard conditions in question come to be modified, be construed, so far as the context permits, as a reference to the corresponding provision of these standard conditions or the other standard conditions in question as modified.
7. In construing these standard conditions, the heading or title of any standard condition or paragraph shall be disregarded.
8. Any reference in a standard condition to the purposes of that condition generally is a reference to the purposes of that standard condition as incorporated in this licence and as incorporated in each other licence under section 6(1)(c) of the Act (whenever granted) which incorporates it.
9. Where any obligation of the licence is required to be performed by a specified date or time, or within a specified period, and where the licensee has failed so to perform, such obligation shall continue to be binding and enforceable after the specified date or time, or after the expiry of the specified period (but without prejudice to all the rights and remedies available against the licensee by reason of the licensee's failure to perform by that date or time, or within that period).
10. Anything required by or under these standard conditions to be done in writing may be done by facsimile transmission of the instrument in question or by other electronic means and, in such case –
  - (a) the original instrument or other confirmation in writing shall be delivered or sent by pre-paid first-class post as soon as is reasonably practicable, and
  - (b) where the means of transmission had been agreed in advance between the parties concerned, in the absence of and pending such confirmation, there shall be a rebuttable presumption that what was received duly represented the original instrument.
11. The definitions referred to in this condition may include some definitions which are not used or not used exclusively in Sections A and B (which Sections are incorporated in all distribution licences). Where:

- (a) any definition is not used in Sections A and B, that definition shall, for the purposes of this licence, be treated:
  - (i) as part of the standard condition or conditions (and the Section) in which it is used;
  - (ii) as not having effect in the licence until such time as the standard condition in which the definition is used has effect within the licence in pursuance of standard condition 2 (Application of Section C (Distribution Services Obligations));
- (b) any definition which is used in Sections A and B is also used in one or more other Sections:
  - (i) that definition shall only be modifiable in accordance with the modification process applicable to each of the standard conditions in which it is used; and
  - (ii) if any such standard condition is modified so as to omit that definition, then the reference to that definition in this condition shall automatically cease to have effect.

## ***Condition 20. Payments in Relation to Standards of Performance***

1. The licensee shall not enter into a use of system agreement with any electricity supplier that does not provide for the licensee, where it has not made payments directly to the customer in respect of its or another electricity distributor's performance pursuant to any provision of Regulations made under section 39A of the Act, to make payments in respect of its or another electricity distributor's performance to the electricity supplier for the benefit of any customer of that electricity supplier equivalent to such sums as would have been paid pursuant to any provision of Regulations made under section 39A of the Act.
2. The licensee shall not enter into any agreement, either for connection to or use of the distribution system, with any other licensed electricity distributor that does not provide for:
  - (a) the licensee to make payments in respect of its performance to another licensed electricity distributor for onward transmission to a customer directly connected to that electricity distributor's distribution system pursuant to any provision of Regulations made under section 39A of the Act;
  - (b) the licensee and another licensed electricity distributor to agree the extent of responsibility of each licensee (where relevant) in relation to any failure to meet a prescribed level of performance pursuant to any provision of Regulations made under section 39A of the Act;
  - (c) a licensed electricity distributor, who is liable to make a payment pursuant to any provision of Regulations made under Section 39A of the Act, to recover all or part of the cost of those payments (as appropriate) (including financing costs where such payments have already been made to the customer or a supplier for onwards transmission to the customer) from the licensee where the liability to make a payment under the Regulations has arisen fully or partially due to a failure, action or inaction on the part of the licensee;
  - (d) the Authority, on application of either licensee, to settle any dispute in such a manner that appears to the Authority to be reasonable where:

- (i) the licensee has failed to agree with another licensed electricity distributor the extent of responsibility of each licensee (where relevant) in relation to any failure to meet a prescribed level of performance pursuant to any provision of Regulations made under section 39A of the Act as set out in paragraph 2(b), and/or
  - (ii) another licensed electricity distributor has been unable to recover costs from the licensee that it considers are due under paragraph 2(c);
- (e) the licensee to pay to another licensed electricity distributor such costs (including, where appropriate, financing costs) as may be determined under paragraph 2(d) as soon as is reasonably practicable.

## ***Condition 36. Requirement to Offer Terms for the Provision of Basic Metering Services***

1. This condition has effect on and after 1 April 2005.
2. Without prejudice to the provisions of paragraph 12, this condition sets out the obligations of the licensee relating to the provision of the services of basic meter asset provision and basic meter operation (collectively, the 'basic metering services').
3. For the purposes of this condition:
  - (a) the service of basic meter asset provision comprises the provision (in accordance with the requirements of paragraph 4(a)) of metering equipment (which, at the discretion of the licensee, may be metering equipment which is owned by him or by any person other than the person making the application under paragraph 6); and
  - (b) the services of basic meter operation comprise the installation, commissioning, testing, repair, maintenance, removal, and replacement (in each case in accordance with the requirements of paragraph 4(b)) of metering equipment.
4. In relation to the licensee's discharge of its obligations under conditions 36 to 36D of this licence:
  - (a) the service of basic meter asset provision provided pursuant to paragraph 3(a) shall be of the same functionality as that of the service provided pursuant to paragraph 1(a) of condition 36B of this licence in the form in which it was in force on 1 June 2003; and
  - (b) the services of basic meter operation provided pursuant to paragraph 3(b) shall be of the same standard of performance, quality, and timeliness as that of the services provided pursuant to paragraph 1(b) of condition 36B of this licence in the form in which it was in force on 1 June 2003.
5. For the purposes of paragraph 4, what is meant in any particular case by 'the same functionality' or 'the same standard of performance, quality, and timeliness' shall be a question of fact.
6. On application made by any person, the licensee shall (subject to paragraph 9) offer to enter into an agreement for providing within its distribution services area such of the services described in paragraphs 3(a) and 3(b) as may be required.

7. In making an offer pursuant to this condition to enter into any agreement, the licensee shall set out:
  - (a) the date by which the services required will be provided (time being of the essence, unless otherwise agreed between the parties);
  - (b) the charges to be paid in respect of the services required, such charges (unless manifestly inappropriate) being:
    - (i) presented in such a way as to be referable to the statements prepared in accordance with paragraph 1 of standard condition 36C (Basis of Charges for Basic Metering Services and Data Services: Requirements for Transparency) or any revision thereof; and
    - (ii) set in conformity with the requirements of standard condition 36C (Basis of Charges for Basic Metering Services and Data Services: Requirements for Transparency); and
  - (c) such other detailed terms in respect of each of the services required as are or may be appropriate for the purposes of the agreement.
8. The licensee shall offer terms for agreements in accordance with paragraph 6 as soon as practicable and (except where the Authority consents to a longer period) in any event not more than 28 days after receipt by the licensee (or its agent) from any person of an application containing all such information as the licensee may reasonably require for the purpose of formulating the terms of the offer.
9. The licensee shall not be obliged pursuant to this condition to offer to enter or to enter into any agreement if to do so would be likely to involve the licensee in being:
  - (a) in breach of its duties under section 9 of the Act;
  - (b) in breach either of any regulations made under section 29 of the Act or of any other enactment relating to safety or standards that is applicable in respect of the distribution business;
  - (c) in breach of any Grid Code or Distribution Code; or
  - (d) in breach of the conditions.
10. The licensee shall undertake each of the services referred to in paragraph 3 in the most efficient and economic manner practicable having regard to the alternatives available and the other requirements of the licence and of the Act insofar as they relate to the provision of those services.
11. In providing any of the services referred to in paragraph 3, the licensee shall not restrict, distort, or prevent competition in the supply of electricity.
12. Where, in relation to any metering point within the licensee's distribution services area, a person (including, if that person is a company, an affiliate or a related undertaking of the company) who is party to an agreement with the licensee for

the provision of the services of basic meter asset provision and basic meter operation pursuant to this condition appoints, in accordance with the provisions of the Master Registration Agreement, a provider other than the licensee of:

- (a) the service described at paragraph 3(a); or
- (b) the services described at paragraph 3(b),

then, notwithstanding anything in this condition, the licensee shall be under no obligation thereafter to offer to enter into any such agreement with that person for the provision of that service or (as the case may be) those services in relation to that metering point.

13. An appointment made in accordance with the provisions of the Master Registration Agreement, after 28 June 2004 and before this condition takes effect, of a provider other than the licensee of any of the services provided pursuant to paragraph 1(a) or (b) of condition 36B of this licence in the form in which it was in force on 1 June 2003 shall be treated, for the purposes of paragraph 12 of this condition, as an appointment which did not have effect until 1 April 2005.

14. For the avoidance of doubt, nothing in this condition:

- (a) affects the continuing obligations of the licensee in respect of the provision of the services of basic meter asset provision and/or basic meter operation for each and every metering point within its distribution services area at which the circumstances specified in paragraph 12 do not apply; or
- (b) prevents the licensee from offering to enter into and entering into an agreement with any person, whether on the application of that person under paragraph 6 or otherwise, for the provision of basic meter asset provision and/or basic meter operation of a functionality and/or standard of performance, quality and timeliness higher than that provided previously within the meaning of paragraph 4.

15. The obligations of the licensee in relation to the provision of:

- (a) the service of basic meter asset provision (except for meters provided prior to 31 March 2007); and
- (b) the services of basic meter operation;

pursuant to this condition shall cease to have effect on 31 March 2007 unless the Authority issues a direction for the purposes of this condition not less than six months before that date that it considers that the cessation of those obligations would be likely to be detrimental to the interests of consumers.

16. For the avoidance of doubt, references to 'meter' in this condition and conditions 36A to 36D do not include references to any meter or metering equipment that is

configured to record the quantity of electricity supplied to premises during each half-hour period of supply.

## ***Condition 36A. Requirement to Offer Terms for the Provision of Data Services***

1. The purpose of this condition is to set out the obligations of the licensee relating to data services.
2. For the purposes of this condition, data services comprise:
  - (a) metering point administration services pursuant to and in accordance with the provisions of the Master Registration Agreement; and
  - (b) data transfer services.
3. On application made by any person, the licensee shall (subject to paragraph 6) offer to enter into an agreement for the provision of data transfer services.
4. In making an offer pursuant to this condition to enter into any agreement, the licensee shall set out:
  - (a) the date by which the services required shall be provided (time being of the essence, unless otherwise agreed between the parties);
  - (b) the charges to be paid in respect of the services required, such charges (unless manifestly inappropriate) being:
    - (i) presented in such a way as to be referable to the statements prepared in accordance with paragraph 1 of standard condition 36C (Basis of Charges for Basic Metering Services and Data Services: Requirements for Transparency) or any revision thereof, and
    - (ii) set in conformity with the requirements of standard condition 36C (Basis of Charges for Basic Metering Services and Data Services: Requirements for Transparency); and
  - (c) such other detailed terms in respect of each of the services required as are or may be appropriate for the purposes of the agreement.
5. The licensee shall offer terms for agreements in accordance with paragraphs 2 and 3 as soon as practicable and (except where the Authority consents to a longer period) in any event not more than 28 days after receipt by the licensee (or its agent) from any person of an application containing all such information as the licensee may reasonably require for the purpose of formulating the terms of the offer.

6. The licensee shall not be obliged pursuant to this condition to offer to enter or to enter into any agreement if to do so would be likely to involve the licensee in being:
  - (a) in breach of its duties under section 9 of the Act;
  - (b) in breach either of any regulations made under section 29 of the Act or of any other enactment relating to safety or standards applicable in respect of the distribution business;
  - (c) in breach of any Grid Code or Distribution Code; or
  - (d) in breach of the conditions.
7. The licensee shall undertake each of the services referred to in paragraph 2 in the most efficient and economic manner practicable having regard to the alternatives available and the other requirements of the licence and of the Act insofar as they relate to the provision of those services.
8. In the provision of any of the services referred to in paragraph 2, the licensee shall not restrict, distort or prevent competition in the supply of electricity.
9. The services referred to in paragraph 2 shall collectively be referred to as the data services. For the avoidance of doubt, data services as referred to in this licence exclude the services of data retrieval, data processing and data aggregation.
10. In this condition:

“data retrieval”	means services comprising any or all of the following: the retrieval and verification of meter reading data from electricity meters and the delivery of such data to any person for the purpose of data processing.
“data processing”	means services comprising any or all of the following: the processing, validation and estimation of meter reading data, and the creation, processing and validation of data in respect of the consumption of electricity at premises which receive an unmetered supply, and the delivery of such data to any person for the purpose of data aggregation.
“data aggregation”	means services comprising any or all of the following: the collation and summation of meter reading data (whether actual or estimated) and of data in respect of the consumption of electricity at premises which receive an unmetered supply, and the delivery of such data to any person for settlement purposes.

### ***Condition 36B. Non-Discrimination in the Provision of Basic Metering Services and Data Services***

1. In providing any of the basic metering services and data services, the licensee shall not discriminate between any persons or class or classes of persons.
2. Without prejudice to paragraph 1, and subject to the provisions of standard condition 36C (Basis of Charges for Basic Metering Services and Data Services: Requirements for Transparency), the licensee shall not make charges for providing any of the basic metering services and data services to any person or class or classes of person which differ from the charges for such provision to any other person or class or classes of person except insofar as such differences reasonably reflect differences in the costs associated with such provision.

***Condition 36C. Basis of Charges for Basic Metering  
Services and Data Services: Requirements for  
Transparency***

1. The licensee shall as soon as practicable prepare statements in a form approved by the Authority setting out the basis upon which charges will be made for the provision of each of the basic metering services and data services, in each case in such form and with such detail as shall be necessary to enable any person to make a reasonable estimate of the charges which the person would become liable to pay for the provision of such services and of the other terms, likely to have a material impact on the conduct of the person's business, upon which the service would be provided and (without prejudice to the foregoing) including the information set out in paragraph 2.
2. The statements referred to at paragraph 1 shall include a schedule of charges for each of the basic metering services and data services, together with an explanation of the methods by which and the principles on which such charges will be calculated.
3. The Authority may, upon the written request of the licensee, issue a direction relieving the licensee of its obligations under paragraph 1 to such extent and subject to such terms and conditions as the Authority may specify in that direction.
4. The licensee shall not in setting its charges for, or in setting the other terms that will apply to, the provision of any of the basic metering services and data services, restrict, distort, or prevent competition in the generation, distribution, or supply of electricity or in the provision of meter equipment, meter maintenance or data retrieval services.
5. The licensee:
  - (a) shall, at least once in every year, review the information set out in the statements prepared in accordance with paragraph 1 in order to ensure that the information set out in them continues to be accurate in all material respects; and
  - (b) may, with the approval of the Authority, from time to time alter the form of such statements.
6. The licensee shall send a copy of any statement prepared in accordance with paragraph 1, and of each revision of such statement, to the Authority.
7. The licensee shall give or send a copy of any statement prepared in accordance with paragraph 1, or (as the case may be) of the latest revision of such statement, to any person who requests a copy.

8. The licensee may make a charge for any statement given or sent pursuant to paragraph 7 of an amount which shall not exceed the amount specified in directions issued by the Authority for the purposes of this condition based on the Authority's estimate of the licensee's reasonable costs of providing such statement.

## ***Condition 36D. Functions of the Authority***

1. If, after a period which appears to the Authority to be reasonable for the purpose, the licensee has failed to enter into an agreement with any person entitled or claiming to be entitled thereto pursuant to a request under standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services) and standard condition 36A (Requirement to Offer Terms for the Provision of Data Services), the Authority may, on the application of such person or the licensee, settle any terms of the agreement in dispute between the licensee and that person in such manner as appears to the Authority to be reasonable, having (insofar as relevant) regard in particular to the following considerations:
  - (a) that the performance by the licensee of its obligations under the agreement should not cause it to be in breach of those provisions referred to at paragraph 8 of standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services) and paragraph 6 of standard condition 36A (Requirement to Offer Terms for the Provision of Data Services); and
  - (b) that the terms and conditions of the agreement so settled by the Authority and of any other agreements entered into by the licensee pursuant to a request under standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services) and standard condition 36A (Requirement to Offer Terms for the Provision of Data Services) should be in as similar a form as is practicable.
2. Insofar as any person entitled or claiming to be entitled to an offer under standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services) and condition 36A (Requirement to Offer Terms for the Provision of Data Services) wishes to proceed on the basis of the agreement as settled by the Authority pursuant to paragraph 1, the licensee shall forthwith enter into and implement such agreement in accordance with its terms.
3. If either party to such agreement proposes to vary the contractual terms of any agreement for the provision of any of the basic metering services or data services entered into pursuant to standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services) or standard condition 36A (Requirement to Offer Terms for the Provision of Data Services) or this condition in any manner provided for under such agreement, the Authority may, at the request of that party, settle any dispute relating to such variation in such manner as appears to the Authority to be reasonable.
4. The Authority may (following consultation with the licensee) issue a direction relieving the licensee of its obligations under standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services) or standard condition 36A (Requirement to Offer Terms for the Provision of

Data Services) relating to basic metering services or data services in respect of such parts of that condition and to such extent as may be specified in the direction.

## ***Standard Condition 42: Regulatory Accounts***

### **Part A: Application and purpose**

1. The following paragraphs of this condition apply for the purpose of ensuring that the licensee maintains (and secures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements as are necessary to enable the licensee to prepare and publish regulatory accounts.

### **Part B: Preparation of accounts**

2. For the purposes of this condition, but without prejudice to paragraph 4, the licensee must prepare regulatory accounts for each financial year ending on 31 March.
3. Unless the Authority otherwise consents, the licensee must:
  - (a) keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 222(5)(b) of the Companies Act 1985 and in the manner referred to in that section, such accounting and other records as are necessary so that the revenues, costs, assets, liabilities, reserves, and provisions of, or reasonably attributable to, each of the distribution business activities are separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee); and
  - (b) prepare, on a consistent basis from such accounting records in respect of each financial year, regulatory accounts comprising a profit and loss account (or, as appropriate, an income statement), a statement of total recognised gains and losses (or, as appropriate, a statement of changes in equity), a balance sheet, and a cash flow statement, together with notes thereto stating the accounting policies adopted, and a directors' report, a corporate governance statement, an operating and financial review, and a statement on the links between directors' pay and standards of performance.
4. Regulatory accounts and information in respect of a financial year prepared under sub-paragraph 3(b) shall, so far as reasonably practicable and unless otherwise approved by the Authority having regard to the purposes of this condition, have the same content and format as the statutory accounts of the licensee prepared under sections 226 and 226A or, where appropriate, section 226B of the Companies Act 1985 and comply with all relevant accounting standards currently in force which have been issued or adopted by the Accounting Standards Board or, if prepared under section 226B of the Companies Act 1985, by the International Accounting Standards Board.

## **Part C: Audit and delivery of accounts**

5. Unless the Authority otherwise consents, the licensee must:
  - (a) procure, in relation to its regulatory accounts prepared under sub-paragraph 3(b):
    - (i) an audit by an appropriate auditor of such parts of those accounts as are specified in the Companies Act 1985 as being required to be so audited as if they were the statutory accounts of the licensee prepared under sections 226 and 226A or, as appropriate, section 226B of the Companies Act 1985 drawn up to 31 March; and
    - (ii) a report by that auditor, addressed to the Authority, stating whether in the auditor's opinion those accounts fairly present the financial position, financial performance, and cash flows of the licensee in accordance with the requirements of this condition; and
  - (b) deliver to the Authority those accounts and the auditor's report referred to in sub-paragraph (a)(ii) of this paragraph as soon as is reasonably practicable, and in any event prior to their publication under Part D and not later than 31 July following the end of the financial year to which the regulatory accounts relate.
6. The licensee shall use best endeavours to procure that, in relation to its regulatory accounts prepared under paragraph 3(b), the audit referred to in sub-paragraph 5(a)(i) shall verify and the auditors shall confirm to the Authority that the obligation to avoid discrimination and cross-subsidies specified in Article 19(4) of Directive 2003/54/EC of the European Parliament and of the European Council of 26 June 2003 has been respected.
7. For the purposes of paragraph 5, the licensee must, at its own expense, enter into a contract of appointment with an appropriate auditor which includes a term requiring that the audit of the regulatory accounts of the licensee must be conducted by that auditor in accordance with all such relevant auditing standards in force on the last day of the financial year to which the audit relates as would be appropriate for accounts prepared in accordance with either section 226A or 226B of the Companies Act 1985.
8. In this Part, "appropriate auditor" means:
  - (a) in the case of a licensee which is a company within the meaning of section 735 of the Companies Act 1985, a person appointed as auditor under Chapter V of Part XI of that Act;
  - (b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an

auditor under provisions analogous to Chapter V of Part XI of that Act, a person so appointed; and

- (c) in any other case, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989.

#### **Part D: Publication of regulatory accounts**

- 9. Unless the Authority otherwise directs, after consulting the licensee, the licensee must publish its regulatory accounts:
  - (a) as a stand-alone document in accordance with this condition;
  - (b) by 31 July following the end of the financial year to which the accounts relate;
  - (c) on the website used by the licensee in its ordinary course of business (where they should be reasonably accessible to any person requiring the same); and
  - (d) in any other manner which, in the opinion of the licensee, is necessary to secure adequate publicity for the accounts.
- 10. A copy of the regulatory accounts must be provided free of charge:
  - (a) to the Consumer Council no later than the date on which the accounts are published; and
  - (b) to any person requesting a copy.

#### **Part E: Interpretation**

- 11. References in this condition to sections of the Companies Act 1985 are references to those provisions as amended, substituted, or inserted by the relevant provisions of the Companies Act 1989, and if such provisions of the Companies Act 1989 are not in force at the date this condition takes effect, it must be construed as if such provisions were in force at such date.
- 12. A consent under paragraph 3 or 5 may be given in relation to some or all requirements of that paragraph and subject to such conditions as the Authority considers appropriate having regard to the purposes of this condition

## ***Condition 42A. Change of Financial Year***

1. The definition of “financial year” in standard condition 1 (Definitions and Interpretation) shall, for the purpose only of the statutory accounts of the licensee, cease to apply to the licensee from the date at which the licensee sends a notice to the Authority for that purpose.
2. Such notice shall:
  - (a) specify the date from which, for the purpose set out at paragraph 1, the current and subsequent financial years of the licensee shall run; and
  - (b) continue in effect until revoked by the licensee issuing a further notice.
3. The licensee may, for the purpose only of its statutory accounts, change its financial year from that previously notified by sending to the Authority a new notice pursuant to paragraph 1 which specifies the licensee’s new financial year-end.
4. Where the licensee sends the Authority a new notice, the previous notice shall be revoked, as provided by sub-paragraph 2(b), and the licensee’s financial year-end shall change with effect from the date specified in the new notice.
5. No provisions of this condition shall:
  - (a) apply to the financial year of the licensee as defined in standard condition 1 (Definitions and Interpretation) for the purpose of accounts or other information produced in compliance with standard conditions 42 (Regulatory Accounts), 50 (Price Control Revenue Reporting and Associated Information) and 52 (Price Control Review Information); or
  - (b) affect the licensee’s obligations in respect of the payment of licence fees under standard condition 3 (Payments by the Licensee to the Authority).

## ***Condition 43. Restriction on Activity and Financial Ring Fencing***

1. Save as provided by paragraphs 3 and 4, the licensee shall not conduct any business or carry on any activity other than the distribution business.
2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:
  - (a) shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose; or
  - (b) shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for the distribution business; or
  - (c) investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or, in the absence of any such requirement, recommended) from time to time for listed companies in the United Kingdom.
3. Subject to the provisions of paragraph 2, nothing in this condition shall prevent:
  - (a) any affiliate in which the licensee does not hold shares or other investments from conducting any business or carrying on any activity;
  - (b) the licensee from holding shares as, or performing the supervisory or management functions of, an investor in respect of any body corporate in which it holds an interest consistent with the provisions of this licence;
  - (c) the licensee from performing the supervisory or management functions of a holding company in respect of any subsidiary; or
  - (d) the licensee from carrying on any business or conducting any activity to which the Authority has given its consent in writing.
4. Nothing in this condition shall prevent the licensee or an affiliate or related undertaking of the licensee in which the licensee holds shares or other investments (a "relevant associate") from conducting de minimis business as defined in this paragraph so long as the limitations specified in this paragraph are complied with:
  - (a) For the purpose of this paragraph, "de minimis business" means any business or activity carried on by the licensee or a relevant associate or relevant associates other than:

- (i) the distribution business; and
  - (ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d).
- (b) The licensee or a relevant associate may carry on de minimis business provided that neither of the following limitations is exceeded, namely:
  - (i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5% of the aggregate turnover of the distribution business as shown by the most recent audited accounting statements of the licensee produced under paragraphs 3(b) and 5(a) of standard condition 42 (Regulatory Accounts); and
  - (ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee and all its relevant associates in their de minimis business or de minimis businesses does not at any time after the date at which this condition takes effect in this licence exceed 2.5% of the sum of share capital in issue, share premium, and consolidated reserves of the licensee as shown by its most recent audited historical cost financial statements then available.
- (c) For the purpose of sub-paragraph (b) of this paragraph, “investment” means any form of financial support or assistance given by or on behalf of the licensee or a relevant associate for the de minimis business whether on a temporary or permanent basis including (without limiting the generality of the foregoing) any commitment to provide any such support or assistance in the future.
- (d) At any relevant time, the amount of an investment shall be the sum of:
  - (i) the value at which such investment was included in the audited historical cost balance sheet of the licensee or a relevant associate as at its latest accounting reference date to have occurred prior to the date at which this condition takes effect in this licence (or, where the investment was not so included, zero);
  - (ii) the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by the licensee or the licensee’s equity share of the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by a relevant associate in respect of such investment in all completed accounting reference periods since such accounting reference date; and

- (iii) all commitments and liabilities (whether actual or contingent) of the licensee or a relevant associate relating to such investment outstanding at the end of the most recently completed accounting reference period,

less the sum of the aggregate gross amount of all income (whether of a capital or revenue nature) howsoever received by the licensee in respect of such investment in all completed accounting reference periods since the accounting reference date referred to in sub-paragraph 4(d)(i) of this condition.

## ***Condition 44. Availability of Resources***

1. The licensee shall at all times act in a manner calculated to secure that it has available to it such resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents and facilities on such terms and with all such rights as shall ensure that it is at all times able:
  - (a) to properly and efficiently carry on the distribution business; and
  - (b) to comply in all respects with its obligations under this licence and such obligations under the Act as apply to the distribution business including, without limitation, its duty to develop and maintain an efficient, co-ordinated and economical system of electricity distribution.
2. The licensee shall by 31 July of each year submit to the Authority a certificate, approved by a resolution of the board of directors of the licensee and signed by a director of the licensee pursuant to that resolution, in one of the following forms:
  - (a) "After making enquiries, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the directors of the licensee have a reasonable expectation that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the distribution business for a period of 12 months from the date of this certificate."
  - (b) "After making enquiries, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the directors of the licensee have a reasonable expectation, subject to what is said below, that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the distribution business for a period of 12 months from the date of this certificate. However, they would like to draw attention to the following factors which may cast doubt on the ability of the licensee to carry on the distribution business."
  - (c) "In the opinion of the directors of the licensee, the licensee will not have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the distribution business for a period of 12 months from the date of this certificate."
3. The licensee shall submit to the Authority with that certificate a statement of the main factors which the directors of the licensee have taken into account in giving the certificate, including a cashflow projection and the underlying assumptions thereof for the next 12 months from the date of the certificate, confirmation of the

availability of financial facilities, and a working capital statement in the format required by the UK Listing Authority.

4. The statement submitted to the Authority in accordance with paragraph 3 shall be approved by a resolution of the board of directors of the licensee and must be signed by a director of the licensee pursuant to that resolution.
5. The licensee shall inform the Authority in writing immediately if the directors of the licensee become aware of any circumstance which causes them no longer to have the reasonable expectation expressed in the most recent certificate given under paragraph 2.
6. The licensee shall use its best endeavours to obtain and submit to the Authority with each certificate, provided for in paragraph 2, a report prepared by its auditors and addressed to the Authority stating whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it and, on the other hand, any information which they obtained during their audit work on the regulatory accounts of the licensee pursuant to standard condition 42(Regulatory accounts).
7. The directors of the licensee shall not declare or recommend a dividend, nor shall the licensee make any other form of distribution within the meaning of section 263 of the Companies Act 1985, nor redeem or repurchase any share capital of the licensee unless prior to the declaration, recommendation or making of the distribution (as the case may be) the licensee has issued to the Authority a certificate complying with the following requirements of this paragraph:
  - (a) The certificate shall be in the following form:

“After making enquiries, the directors of the licensee are satisfied:

    - (i) that the licensee is in compliance in all material respects with all obligations imposed on it by standard condition 24 (Provision of Information to the Authority), standard condition 43 (Restriction on Activity and Financial Ring-fencing), standard condition 44 (Availability of Resources), standard condition 45 (Undertaking from Ultimate Controller), standard condition 46 (Credit Rating of the Licensee) and paragraph 1 of standard condition 47 (Indebtedness) of the licence; and
    - (ii) that the making of a distribution of [ ] on [ ] will not, either alone or when taken together with other circumstances reasonably foreseeable at the date of this certificate, cause the licensee to be in breach to a material extent of any of these obligations in the future.
  - (b) The certificate shall be signed by a director of the licensee and approved by a resolution of the board of directors of the licensee passed not more

than 14 days before the date on which the declaration, recommendation or payment will be made.

- (c) Where the certificate has been issued in respect of the declaration or recommendation of a dividend, the licensee shall be under no obligation to issue a further certificate prior to payment of that dividend provided that such payment is made within six months of that certificate.

## ***Condition 46. Credit Rating of the Licensee***

1. The licensee shall use all reasonable endeavours to ensure that the licensee maintains at all times an investment grade issuer credit rating.
2. In this condition:  
  
“investment grade issuer credit rating” means:
  - (a) an issuer rating of not less than BBB- by Standard & Poor’s Ratings Group or any of its subsidiaries; or
  - (b) a corporate rating of not less than Baa3 by Moody’s Investors Service, Inc. or any of its subsidiaries; or
  - (c) an issuer senior unsecured debt rating of not less than BBB- by Fitch Ratings Ltd or any of its subsidiaries; or
  - (d) such higher rating as may be specified by those agencies from time to time as the lowest investment grade credit rating; or
  - (e) an equivalent rating from any other reputable credit rating agency which, in the opinion of the Authority, notified in writing to the licensee, has comparable standing both in the United Kingdom and the United States of America.

## ***Standard condition 47 Indebtedness***

1. In addition to the requirements of standard condition 29 (Disposal of Relevant Assets), the licensee shall not without the prior written consent of the Authority (following the disclosure by the licensee of all material facts):
  - (a) create or continue or permit to remain in effect any mortgage, charge, pledge, lien or other form of security or encumbrance whatsoever, undertake any indebtedness to any other person or enter into any guarantee or any obligation otherwise than:
    - (i) on an arm's length basis;
    - (ii) on normal commercial terms;
    - (iii) for a permitted purpose; and
    - (iv) (if the transaction is within the ambit of standard condition 29 (Disposal of Relevant Assets)) in accordance with that condition;
  - (b) transfer, lease, license or lend any sum or sums, asset, right or benefit to any affiliate or related undertaking of the licensee otherwise than by way of:
    - (i) a dividend or other distribution out of distributable reserves;
    - (ii) repayment of capital;
    - (iii) payment properly due for any goods, services or assets provided on an arm's length basis and on normal commercial terms;
    - (iv) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and made in compliance with the payment condition;
    - (v) repayment of or payment of interest on a loan not prohibited by sub-paragraph (a);
    - (vi) payments for group corporation tax relief or for the surrender of Advance Corporation Tax calculated on a basis not exceeding the value of the benefit received ; or
    - (vii) an acquisition of shares or other investments in conformity with paragraph 2 of standard condition 43 (Restriction on Activity and Financial Ring Fencing) made on an arm's length basis and on normal commercial terms;

provided however that the provisions in paragraph 2 below shall prevail in any of the circumstances described or referred to therein.

- (c) enter into an agreement or incur a commitment incorporating a cross-default obligation; or
  - (d) continue or permit to remain in effect any agreement or commitment incorporating a cross-default obligation subsisting at the date that this condition takes effect in this licence, save that the licensee may permit any cross-default obligation in existence at that date to remain in effect for a period not exceeding twelve months from that date, provided that the cross-default obligation is solely referable to an instrument relating to the provision of a loan or other financial facilities granted prior to that date and the terms on which those facilities have been made available as subsisting on that date are not varied or otherwise made more onerous;
  - (e) the provisions of sub-paragraphs (c) and (d) of this paragraph shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of sub-paragraph (a);
  - (f) the payment condition referred to in sub-paragraph (b)(iv) is that the consideration due in respect of the transaction in question is paid in full when the transaction is entered into unless either:
    - (i) the counter-party to the transaction has and maintains until payment is made in full an investment grade issuer credit rating, or
    - (ii) the obligations of the counter-party to the transaction are fully and unconditionally guaranteed throughout the period during which any part of the consideration remains outstanding by a guarantor which has and maintains an investment grade issuer credit rating.
2. Except with the prior consent of the Authority, the licensee shall not enter into or complete any transaction of a type referred to or described in sub-paragraph 1(b) save in accordance with paragraph 4, if:
- (a) the licensee does not hold an investment grade issuer credit rating within the meaning in standard condition 46 (Credit Rating of Licensee); or
  - (b) the licensee's issuer credit rating is BBB- by Standard & Poor's Ratings Group or Fitch Ratings Ltd or Baa3 by Moody's Investors Service, Inc. or such issuer credit rating as may be specified by any of these credit rating agencies from time to time as the lowest investment grade credit rating and:
    - (i) is on review for possible downgrade; or
    - (ii) is on CreditWatch or Rating Watch with a negative designation; or where neither (i) or (ii) applies:
    - (iii) the rating outlook of the licensee as specified by any credit rating agency referred to in sub-paragraph (b) has been changed from stable or positive to negative.

3. In the case where the licensee holds different issuer credit ratings as defined in standard condition 46 (Credit Rating of Licensee), the lower (or lowest) of the licensee's issuer credit ratings will apply.
4. Where paragraph 2 applies, the licensee may not without the prior written consent of the Authority (following disclosure of all material facts) transfer, lease, license or lend any sum or sums, asset, right or benefit to any affiliate or related undertaking of the licensee as described or referred to in paragraph 1 (b) of this licence condition, otherwise than by way of:
  - (a) payment properly due for any goods, services or assets in relation to commitments entered into prior to the date on which the circumstances described in paragraph 2 arise, and which are provided on an arm's length basis and on normal commercial terms;
  - (b) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and where the value of the consideration due in respect of the transaction in question is payable wholly in cash and is paid in full when the transaction is entered into;
  - (c) repayment of or payment of interest on a loan not prohibited by sub-paragraph 1(a) and which was contracted prior to the date on which the circumstances in paragraph 2 arise provided that such payment is not made earlier than the original due date for payment in accordance with its terms;
  - (d) payments for group corporation tax relief or for the surrender of Advance Corporation Tax calculated on a basis not exceeding the value of the benefit received provided the payments are not made before the date on which the amounts of tax thereby relieved would otherwise have been due.

5. In this condition:

"cross-default obligation"

means a term of any agreement or arrangement whereby the licensee's liability to pay or repay any debt or other sum arises or is increased or accelerated or is capable of arising, of increasing or of acceleration by reason of a default (howsoever such default may be described or defined) by any person other than the licensee, unless:

- (i) that liability can arise only as the result of a default by a subsidiary of the licensee,
- (ii) the licensee holds a majority of the voting rights in that subsidiary and has the right to appoint or remove a majority of its board of directors, and

that subsidiary carries on business only for a

purpose within paragraph (a) of the definition of permitted purpose.

“indebtedness”

means all liabilities now or hereafter due, owing or incurred, whether actual or contingent, whether solely or jointly with any other person and whether as principal or surety, together with any interest accruing thereon and all costs, charges, penalties and expenses incurred in connection therewith.

## ***Condition 49. Incentive Scheme and Associated Information***

1. The purpose of this condition is to secure the collection of information on a common basis, and to an appropriate degree of accuracy, by the licensee so as:
  - (a) to facilitate the establishment and operation of an incentive scheme ("the scheme") to improve the operation of the licensee;
  - (b) to monitor the quality of service performance of the licensee; and
  - (c) to monitor any perverse incentives arising from the operation of the scheme and the charge restriction conditions.
2. The licensee shall establish appropriate systems, processes and procedures to measure and record specified information from the dates specified in paragraph 4 and in accordance with Regulatory Instructions and Guidance (including any associated information specified therein).
3. For the purposes of this condition:

"charge restriction conditions" shall have the same meaning as in special condition A1 (Definitions and interpretation);

"Regulatory Instructions and Guidance" means any instructions and guidance issued by the Authority for the purposes of this condition as modified from time to time by direction under paragraph 9 and may include:

  - (a) instructions and guidance as to the establishment of different systems, processes, procedures and manners for providing and recording information and of standards for different classes of information;
  - (b) a timetable for the development of the systems, processes and procedures required to achieve the appropriate standards of accuracy and reliability with which specified information shall be recorded;
  - (c) the meaning of words and phrases used in defining specified information;
  - (d) requirements for the recording of information associated with specified information which are reasonably necessary to enable an examiner to determine the accuracy and reliability of specified information;
  - (e) requirements as to the form and manner in which specified information shall be provided to the Authority;
  - (f) requirements as to the manner in which specified information shall be recorded and as to the standards of accuracy and reliability with which it shall be recorded; and

- (g) a statement as to whether and to what extent each category of specified information is required for the purposes of the scheme;

“specified information” means:

- (a) the number of interruptions in the supply of electricity through the licensee’s distribution system which occur in each period of 12 months commencing on 1 April in each calendar year and have a duration of –
  - (i) less than three minutes, together (in respect of each interruption) with the number of customers whose supply was interrupted and the cause of that interruption; and
  - (ii) three minutes or more, together (in respect of each interruption) with –
    - (aa) the number of customers whose supply of electricity was interrupted and the duration of the interruption;
    - (bb) the source, voltage level and HV circuit; and
    - (cc) the aggregate number of re-interruptions;
- (b) in relation to telephone calls made to the enquiry service operated under paragraph 1 of standard condition 6 (Safety and Security of Supplies Enquiry Service) –
  - (i) the speed of response for answering each call; and
  - (ii) in the case of each call answered by a human operator -
    - (aa) the telephone number of the caller;
    - (bb) the time of the call; and
    - (cc) if known, the name of the caller and whether the caller is or is not a domestic customer;
- (c)
  - (i) the aggregate number and cause of faults occurring in specified classes or types of electrical plant or electric lines;
  - (ii) a statement setting out the asset management strategy of the licensee in respect of the licensee’s distribution system; and
  - (iii) a statement of the reasons for any material increase or decrease in the number and cause of faults referred to in sub-paragraph (i) having regard to equivalent data held in respect of previous years; and
- (d) such other information as may from time to time be specified by the Authority, by direction to the licensee in accordance with paragraph 9.

4. The licensee shall collect specified information in respect of:

- (a) the matters specified in sub-paragraphs (a), (b) and (c) of the definition of specified information from and including 1 April 2001; and
- (b) any matter specified under sub-paragraph (d) of that definition from the date specified in the direction given in accordance with paragraph 9.

5. The licensee shall provide to the Authority:
  - (a) the information referred to in sub-paragraph (b)(ii) of the definition of specified information for each week within 4 days of the end of that week;
  - (b) the information referred to in sub-paragraphs (a),(b)(i) and (c) of that definition on or before 31 May 2002 and 30 April in each succeeding year (or such later date as the Authority may by notice specify) in respect of the period of 12 months expiring on the preceding 31 March; and
  - (c) the information referred to in sub-paragraph (d) of that definition in respect of such period and by such date as shall be specified in the relevant notice given under that sub-paragraph.
6. The licensee shall permit a person or persons nominated by the Authority (in each case “an examiner”) to examine the systems, processes and procedures referred to in paragraph 2 and their operation, the specified information and the extent to which each complies, and is in accordance, with Regulatory Instructions and Guidance.
7. The licensee shall (and shall procure, insofar as it is able to do so, that any affiliate of the licensee, any person by whom it procures the performance of the obligation in paragraph 2 and any auditor of such person or of the licensee shall) co-operate fully with an examiner so as to enable him to carry out, complete and report to the Authority on any examination carried out in accordance with paragraph 6.
8. The licensee’s obligation under paragraph 7 to co-operate or procure co-operation with an examiner shall include, without limitation and insofar as necessary or expedient for such purpose, in each case subject to reasonable prior notice to the licensee:
  - (a) providing access to management, employees, agents or independent contractors of the licensee sufficient to enable the examiner to make any enquiries and to discuss any matters which he reasonably considers to be relevant to the carrying out of the examination;
  - (b) giving to the examiner access at reasonable hours to any premises occupied by the licensee or any other person in performing the obligations set out in this condition; and
  - (c) allowing the examiner at reasonable hours:
    - (i) to inspect and make copies of, and take extracts from, any documents and records of the licensee maintained in relation to specified information (other than information which is subject to legal privilege);

- (ii) to carry out inspections, measurements and tests on or in relation to any systems maintained and operated for or in relation to the requirements of this condition; and
- (iii) to take onto such premises or onto or into any assets used for the purpose of the licensee such other persons and such equipment as may be necessary or expedient for the purpose of carrying out the examination.

9. Where the Authority considers that the Regulatory Instructions and Guidance should be modified to:

- a) Improve the presentation or style of the requirements;
- b) Remove or reduce inconsistencies between distribution services providers in the application or interpretation of the requirements;
- c) Further clarify the meaning of words and phrases used within the requirements to define the information to be provided;
- d) Improve the form or manner in which such information is to be provided under the requirements; or
- e) Introduce additional categories of specified information or enlarge existing categories of specified information;

in such ways as the Authority may reasonably require so as to more effectively achieve the principal purpose of this condition, the Authority may, subject to paragraphs 10 and 11, modify the Regulatory Instructions and Guidance by issuing a direction for that purpose to all distribution services providers.

10. Before issuing a direction under paragraph 9, the Authority, by notice given to all distribution services providers, must:

- a) state that it proposes to make a modification, and set out the date on which it proposes that the amendment should take effect;
- b) set out the effect of the modification and the reasons for proposing the modification; and
- c) specify the time (not being less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made;

and consider any representations or objections which have been duly made and are not withdrawn.

11. Where the modifications:

- a) relate to a requirement in the Regulatory Instructions and Guidance to provide specified information to a greater level of accuracy or the introduction of an additional category of information which is or is intended to be required for the purposes of the scheme; or
- b) are not reasonably required for the purposes of more effectively achieving the principal purpose of this condition;

then the Authority may make such modifications in following a collective modification process as if it were modifying this licence condition under the provisions of section 11A of the Act.

12. Regulatory Instructions and Guidance are limited to what is necessary to achieve the purposes of this condition, and may not purport to have effect with respect to the interpretation of any other condition of this licence or the fulfilment by the licensee of any obligation imposed in respect of any matter which is the subject of any such condition.

## ***Condition 50: Price Control Revenue Reporting and Associated Information***

### **Part A: General**

1. The purpose of this condition is to secure the collection of specified information on a common basis, and to an appropriate degree of accuracy, by the licensee to effectively monitor the compliance of the licensee with the charge restriction conditions.
2. The licensee shall establish appropriate systems, processes and procedures to measure and record specified information from the dates specified in paragraph 4 and in accordance with Price Control Revenue Reporting Regulatory Instructions and Guidance (including any associated information specified therein).
3. For the purposes of this condition:
  - (a) "charge restriction conditions" shall have the same meaning as in special condition A1 (Definitions and interpretation); and
  - (b) "Price Control Revenue Reporting Regulatory Instructions and Guidance" means any instructions and guidance issued by the Authority for the purposes of this condition as modified from time to time by a direction under paragraph 11 and may include:
    - (i) instructions and guidance as to the establishment of different systems, processes, procedures and manners for providing and recording information and of standards for different classes of information;
    - (ii) a timetable for the development of the systems, processes and procedures required to achieve the appropriate standards of accuracy and reliability with which specified information shall be recorded;
    - (iii) the meaning of words and phrases used in defining specified information;
    - (iv) requirements for the recording of specified information which are reasonably necessary to enable an appropriate auditor to determine the accuracy and reliability of specified information;
    - (v) requirements as to the form and manner in which specified information shall be provided to the Authority including the templates of returns; and
    - (vi) requirements as to the manner in which specified information shall be recorded and as to the standards of accuracy and reliability with which it shall be recorded;

- (d) “relevant year t” shall have the same meaning as in special condition A1 (Definitions and interpretation).
  - (e) “specified information” means all items referred to in special licence conditions A1 to F1 necessary to monitor, to an appropriate degree of accuracy, compliance with the charge restriction conditions, which will include:
    - (i) in relation to the restriction on demand use of system charges:
      - (1) regulated demand revenue;
      - (2) units distributed;
      - (3) distribution losses; and
      - (4) allowable demand revenue and its associated terms as set out in special conditions B1 to C3;
    - (ii) in relation to the restriction on generation use of system charges:
      - (1) network generation revenue; and
      - (2) allowable network generation revenue and its associated terms as set out in special conditions D1 to D2;
    - (iii) in relation to the restriction on basic metering charges:
      - (1) charges for basic meter asset provision;
      - (2) meter operation revenue;
      - (3) allowable meter operation revenue and its associated terms as set out in special condition F1;
    - (iv) a breakdown of revenue that falls outside the charge restriction conditions under excluded services;
    - (v) a list of all de minimis items and associated income; and
    - (vi) such other information as is specified in the Price control Revenue Reporting Regulatory Instructions and Guidance, or as from time to time may be specified by the Authority, by a direction to the licensee in accordance with paragraph 11.
4. The licensee shall collect specified information in respect of:
- (a) the matters specified in sub-paragraphs (i) to (v) of the definition of specified information from and including 1 April 2005; and
  - (b) any matter specified under sub-paragraph (vi) of that definition:

- (i) in respect of information as is specified in the Regulatory Instructions and Guidance: Price control reporting requirements on 1 April 2005, from and including 1 April 2005; and
- (ii) in respect of information specified by the Authority, by notice to the licensee in accordance with paragraph 11 from the date specified in a notice given in accordance with that notice.

#### **Part B: Returns to be submitted**

5. The licensee shall provide to the Authority:
  - (a) the information specified in template [x] of the Price Control Revenue Reporting Regulatory Instructions and Guidance by no later than four months after the end of the relevant year t;
  - (b) the information specified in template [x] of the Price Control Revenue Reporting Regulatory Instructions and Guidance by no later than first day after the commencement of relevant year t; and
  - (c) the information specified in template [x] of the Price Control Revenue Reporting Regulatory Instructions and Guidance by no later than seven months after the commencement of the relevant year t.

#### **Part C: Audit Requirements**

6. The information referred to in paragraph 5(a) shall be accompanied by a report addressed to the Authority from an appropriate auditor, as defined in standard licence condition 42, stating whether in their opinion the information fairly presents each of the items referred to in the statement and that the amounts presented are in accordance with the licensee's records which have been maintained in accordance with paragraph 2 of this condition.
7. The licensee shall use best endeavours to procure that the report from the appropriate auditor, referred to in paragraph 6, shall be accompanied by a letter from that auditor to the Authority detailing the procedures that the auditor has followed in reaching their opinion.
8. For the purposes of paragraph 6 the licensee shall at its own expense enter into a contract of appointment with the appropriate auditor which includes a term requiring that the audit be conducted in accordance with all such relevant auditing standards in force on the last day of the financial year to which the audit relates as would be appropriate.
9. The licensee shall (and shall procure, insofar as it is able to do so, that any affiliate or related undertaking of the licensee shall) co-operate fully with the appropriate auditor so as to enable them to complete and report to the Authority on any audit carried out in accordance with paragraph 6.

## **Part D: Change Control**

10. Where the Authority considers that the Price Control Revenue Reporting Regulatory Instructions and Guidance should be modified to:
- (a) improve the presentation or style of the requirements;
  - (b) remove or reduce inconsistencies between distribution services providers in the application or interpretation of the requirements;
  - (c) further clarify the meaning of words and phrases used within the requirements to define the information to be provided;
  - (d) improve the form or manner in which such information is to be provided under the requirements; or
  - (e) introduce additional categories of specified information or enlarge existing categories of specified information,
- in such ways as the Authority may reasonably require so as to more effectively achieve the purpose of this condition, the Authority may, subject to paragraphs 12 and 13, modify the Regulatory Instructions and Guidance by issuing a direction for that purpose to all distribution services providers.
11. Before issuing a direction under paragraph 11, the Authority, by notice given to all distribution services providers, shall:
- (a) state that it proposes to make a modification, and set out the date on which it proposes that the amendment should take effect;
  - (b) set out the effect of the modification and the reasons for proposing the modification; and
  - (c) specify the time (not being less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made,
- and consider any representations or objections which have been duly made and are not withdrawn.
12. Where the modifications are not reasonably required to more effectively achieve the purpose of this condition then the Authority may make such modifications in following a collective modification process as if it were modifying this licence condition under the provisions of section 11A of the Act.
13. Price control Revenue Reporting: Regulatory Instructions and Guidance are limited to what is necessary to achieve the purposes of this condition, and may not purport to have effect with respect to the interpretation of any other condition of this licence or the fulfilment by the licensee of any obligation imposed in respect of any matter which is the subject of any such condition.

**Part E: Dealing with an event with a material impact on the consistency or accuracy of information**

14. Where the Price Control Revenue Reporting Regulatory Instructions and Guidance does not provide guidance in relation to the collection and reporting of specified items following:
- (a) a change in industry processes or procedures which has a significant effect on the calculation of one or more specified items; or
  - (b) a change in the processes or procedures of the licensee which has a significant effect on the calculation of one or more specified items;
- then the licensee shall request guidance from the Authority in relation to the treatment of such items.
15. For the purposes of this condition a “significant effect” is defined as a change to the calculation of one or more specified items such that it has an effect on the calculation of:
- (a) allowable demand revenue which exceeds, or is likely to exceed, 1 per cent of base demand revenue; or
  - (b) allowable network generation revenue which exceeds, or is likely to exceed, an amount which is equal to 0.5 per cent of base demand revenue
16. On receipt of a request for guidance in accordance with paragraph 15, the Authority shall:
- (a) having regard to whether the change to the calculation of one or more specified items impacts upon other distribution service providers; and
  - (b) after consultation with the licensee,
- issue a direction in accordance with paragraph 11 specifying how such specified items should be reported for the purposes of this condition.

**Part F: Restating Returns**

17. If, in relation to any preceding relevant year, information that has been provided to the Authority under paragraph 5(a) of this condition or, paragraph 9 of special condition D (special condition E in Scotland) of the licence in force on 1 April 2004, in respect of those relevant years has been subject to adjustment, amendment, or correction during a subsequent relevant year then
- (a) where the overall impact of the adjustment, amendment, or correction in respect of that or subsequent relevant years is equal to an amount greater than 1 per cent of demand base revenue then the licensee shall make reasonable endeavours to make those corrections or amendments in the relation to the relevant year in which the error occurred and provide,

subject to paragraph 19, a statement to the Authority setting out the revised amounts for the specified items directly or indirectly effected by the amendments or corrections.

18. For the purposes of paragraph 18, the statement provided by the licensee shall restate information for all relevant years affected up to a maximum of the preceding three complete relevant years from the date on which the statement is submitted to the Authority.

## ***Condition 51. Distributed Generation, Innovation Funding Incentive, and RPZ Incentive Schemes and Associated Information***

### **Part A: General**

1. The purpose of this condition is to secure the collection of information on a common basis, and to an appropriate degree of accuracy, by the licensee so as:
  - (a) to facilitate the establishment and operation of:
    - (i) the distributed generation incentive scheme ("scheme A") to incentivise the effective connection and utilisation of distributed generation by the licensee;
    - (ii) the innovation funding incentive scheme ("scheme B") to incentivise effective expenditure in innovation by the licensee; and
    - (iii) the registered power zone incentive scheme ("scheme C") to incentivise the development and implementation of innovative approaches to network operation and further enhance the effective connection and utilisation of distributed generation by the licensee;
  - (b) to monitor the performance of the licensee in respect of each of the incentive schemes; and
  - (c) to monitor any perverse incentives that arise from the operation of the schemes and the charge restriction conditions.
2. The licensee shall establish appropriate systems, processes and procedures to measure and record the specified information from the dates specified in paragraph 4 and in accordance with the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones: Regulatory Instructions and Guidance (including any associated information specified therein).
3. For the purposes of this condition:
  - (a) "charge restriction conditions" shall have the same meaning as in special condition A1 (Definitions and interpretation);
  - (b) "Distributed Generation, Innovation Funding Incentive, and Registered Power Zones: Regulatory Instructions and Guidance" means any instructions

and guidance issued by the Authority for the purposes of this condition as modified from time to time by a direct under paragraph 9 and may include:

- (i) instructions and guidance as to the establishment of different systems, processes, procedures and manners for providing and recording information and of standards for different classes of information;
  - (ii) a timetable for the development of the systems, processes and procedures required to achieve the appropriate standards of accuracy and reliability with which specified information shall be recorded;
  - (iii) the meaning of words and phrases used in defining specified information;
  - (iv) requirements for the recording of information associated with specified information which are reasonably necessary to enable an examiner to determine the accuracy and reliability of specified information;
  - (v) requirements as to the form and manner in which specified information shall be provided to the Authority;
  - (vi) requirements as to the manner in which specified information shall be recorded and as to the standards of accuracy and reliability with which it shall be recorded; and
  - (vii) a statement as to whether and to what extent each category of specified information is required for the purposes of the schemes referred to in paragraph 1 of this condition;
- (c) “specified information” means:
- (i) in relation to scheme A:
    - (aa) the total incentivised DG capacity;
    - (bb) total capex for DG;
    - (cc) use of system capex for DG;
    - (dd) shared connection capex for DG;
    - (ee) assets transferred out of DG capex to demand capex;
    - (ff) DG network unavailability;
    - (gg) DG network unavailability rebate payment; and

- (hh) Operational and maintenance costs for DG;
- (ii) in relation to scheme B:
  - (aa) IFI carry forward;
  - (bb) eligible IFI expenditure;
  - (cc) eligible IFI internal expenditure;
  - (dd) combined distribution network revenue; and
  - (ee) the IFI annual report;
- (iii) in relation to scheme C:
  - (aa) a schedule of all RPZ projects planned, committed, under construction and operational detailing their starting year, generating capacity in MW, connection cost and a summary of the innovation content of the RPZ;
  - (bb) for operating RPZs a report of the performance achieved in the reporting year; and
- (iv) such other information as may, from time to time, be specified by the Authority for the purposes of schemes A, B or C, by a direction to the licensee in accordance with paragraph 9 of this condition.
- (d) “reporting year” means the same as relevant year t as defined in special condition A1 (Definitions and interpretation).

4. The licensee shall collect specified information in respect of:

- (a) the matters specified in sub-paragraphs 3(c)(i), 3(c)(ii) and 3(c)(iii) from and including 1 April 2005; and
- (b) any matter specified under sub-paragraph 3(c)(iv) of that definition from the date specified in the direction that may have been made in accordance with paragraph 9.

**Part B: information to be provided to the Authority**

5. The licensee shall provide to the Authority:

- (a) an estimate of the information referred to in sub-paragraph (aa) of that part of the definition of specified information in respect of scheme B for each reporting year on or before [date month] for that year;

- (b) the information referred to in sub-paragraphs 3(c)(i), 3(c)(ii) and 3(c)(iii), in respect of the period of 12 months expiring on the preceding 31 March, on or before 31 July of each subsequent year (or such later date as the Authority may by notice specify); and
- (c) the information referred to in sub-paragraph 3(c)(iv) in respect of such period and by such date as shall be specified in the relevant direction given under paragraph 9.

### **Part C: Audit requirements**

6. The licensee shall permit a person or persons nominated by the Authority (in each case "an examiner") to examine:
  - (a) the systems, processes and procedures referred to in paragraph 2 and their operation;
  - (b) the specified information; and

the extent to which each complies, and is in accordance, with the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones: Regulatory Instructions and Guidance.
7. The licensee shall (and shall procure, insofar as it is able to do so, that any affiliate of the licensee, any person by whom it procures the performance of the obligation in paragraph 2 and any auditor of such person or of the licensee shall) co-operate fully with an examiner so as to enable him to carry out, complete and report to the Authority on any examination carried out in accordance with paragraph 6.
8. Where the Authority considers that the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones: Regulatory Instructions and Guidance should be modified to:
  - a) Improve the presentation or style of the requirements;
  - b) Remove or reduce inconsistencies between distribution services providers in the application or interpretation of the requirements;
  - c) Further clarify the meaning of words and phrases used within the requirements to define the information to be provided;
  - d) Improve the form or manner in which such information is to be provided under the requirements; or
  - e) Introduce additional categories of specified information or enlarge existing categories of specified information,

in such ways as the Authority may reasonably require so as to more effectively achieve the purpose of this condition, the Authority may, subject to paragraphs 10 and 11, modify the Regulatory Instructions and Guidance by issuing a direction for that purpose to all distribution services providers.

9. Before issuing a direction under paragraph 9, the Authority, by notice given to all distribution services providers, must:
- a) state that it proposes to make a modification, and set out the date on which it proposes that the amendment should take effect;
  - b) set out the effect of the modification and the reasons for proposing the modification; and
  - c) specify the time (not being less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made,

and consider any representations or objections which have been duly made and are not withdrawn.

10. Where the modifications:

- a) relate to a requirement in the Distributed Generation, Innovation Funding Incentive, and Registered Power Zones: Regulatory Instructions and Guidance to provide specified information to a greater level of accuracy or the introduction of an additional category of information which is or is intended to be required for the purposes of the scheme; or
- b) are not reasonably required for the purposes of more effectively achieving the principal purpose of this condition,

then the Authority may make such modifications following a collective modification process as if it were modifying this licence condition under section 11A of the Act.

12. Regulatory Instructions and Guidance are limited to what is necessary to achieve the purposes of this condition, and may not purport to have effect with respect to the interpretation of any other condition of this licence or the fulfilment by the licensee of any obligation imposed in respect of any matter which is the subject of any such condition.

## ***Standard Condition 52: Price Control Review Information***

### **Part A: Application and purpose**

1. This condition takes effect on 1 April 2005 and applies in respect of the price control review information of the licensee relating to the financial year commencing 1 April 2005 and each succeeding financial year for the purposes set out in paragraph 2.
2. Those purposes are to:
  - (a) ensure that the licensee maintains (and secures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements as are necessary to enable the licensee to prepare and submit price control review information reasonably requested in accordance with the requirements of this condition and any regulatory cost reporting instructions and guidance in force under it; and
  - (b) facilitate any review or modification by the Authority of the requirements of any of the charge restriction conditions of this licence ("a price control review").

### **Part B: Preparation of price control information**

3. Unless the Authority otherwise consents, the licensee must:
  - (a) keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 222(5)(b) of the Companies Act 1985 and in the manner referred to in that section, such accounting and other records as may be specified so that the price control review information of, or reasonably attributable to, the distribution business activities of the licensee is separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee); and
  - (b) prepare and submit, on a consistent basis from such accounting records in respect of each financial year, price control review information, either separately or consolidated and in such manner and in respect of such financial year as may be required in the regulatory cost reporting instructions and guidance:
    - (i) such aspects of the licensee's business; and of
    - (ii) the business of each affiliate or related undertaking that provide goods and services to the licensee.

### **Part C: Delivery of price control review information**

4. Unless the Authority otherwise consents, the licensee must deliver the price control information to the Authority as soon as is reasonably practicable, and in any event not later than 31 July following the end of the financial year to which the price control review information relates.
5. The Authority may, in addition to any audit carried out in accordance with Condition 42, arrange for a review by a person nominated by the Authority (in each case "a reviewer"), of matters in the price control review information in respect of which the Authority requires clarification, and the licensee shall give to such person all such assistance as they may reasonably require.
6. The licensee shall (and shall procure, insofar as it is able to do so, that any affiliate of the licensee, any person by whom it procures the performance of the obligation in paragraph 2 and any auditor of such person or of the licensee shall) co-operate fully with an examiner so as to enable him to carry out, complete and report to the Authority on any examination carried out in accordance with paragraph 5.

### **Part D: Regulatory cost reporting instructions and guidance**

7. For the purposes of this condition, "regulatory cost reporting instructions and guidance" means the common set of rules and instructions of that name issued by direction of the Authority in accordance with this condition and to be followed by the licensee and all other relevant electricity distributors in their preparation of price control review information.
8. A direction under this condition is only effective where the Authority:
  - (a) has informed the licensee of its intention to issue the regulatory cost reporting instructions and guidance in a notice which:
    - (i) states the date on which it is proposed that the direction should take effect;
    - (ii) sets out the contents of the regulatory cost reporting instructions and guidance which the Authority proposes to issue; and
    - (iii) specifies the period (not being less than 28 days from the date of the notice) within which representations or objections with respect to those guidance may be made; and
  - (b) has considered any representations or objections which are duly made and not withdrawn, and given reasons for its decision.
9. Subject to paragraph 10, the regulatory cost reporting instructions and guidance may, in relation to any requirement of this condition, specify:

- (a) the meaning to be applied to words and phrases (other than those defined in this or any other condition of this licence);
- (b) the methodology for calculating or deriving numbers;
- (c) requirements as to the manner in which and the standards of accuracy and reliability with which information must be recorded;
- (d) requirements as to the form and the content of this information, and the manner in which information must be provided to the Authority; and
- (e) requirements as to those parts of the price control information which are to be considered by an appropriate auditor and the nature of that consideration,

and may specify which (if any) of the information provided under this condition is to be subject to publication.

- 10. Regulatory cost reporting instructions and guidance must be limited to what is necessary to achieve the purposes of this condition, and may not purport to have effect with respect to the interpretation of any other condition of this licence or the fulfilment by the licensee of any obligation imposed in respect of any matter which is the subject of any such condition.

#### **Part E: Modification of the guidance**

- 11. The Authority may modify, in whole or in part, any regulatory cost reporting instructions and guidance issued under this condition, in accordance with the following provisions of this Part.
- 12. Where the Authority considers that the regulatory cost reporting instructions and guidance should be modified in order to provide more accurate and comparable information for a price control review, it may do so where it:
  - (a) has given notice to all relevant electricity distributors:
    - (i) stating that it proposes to make the modification and setting out its effect, and
    - (ii) specifying the period (not being less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made; and
  - (b) has considered any representations or objections which are duly made and not withdrawn, and given reasons for its decisions.

#### **Part F: Interpretation**

13. A consent under paragraph 3 or 4 may be given in relation to some or all requirements of those paragraphs and subject to such conditions as the Authority considers appropriate having regard to the purposes of this condition.

14. For the purposes of this condition:

‘a reviewer’ means a person nominated by the Authority to undertake a review of the price control review information prepared by the licensee, which may be an appropriate auditor or other competent person.

‘price control review information’ means the information required to be submitted by the licensee pursuant to this condition, and is to be interpreted in accordance with the regulatory cost reporting instructions and guidance; and

‘relevant electricity distributor’ means an electricity distributor in whose licence this condition has effect.