

Electricity Distribution Price Control Review

Price control reporting framework: Regulatory Instructions and Guidance (version1)

December 2004

Summary

This document is the first draft of version 1 of the Price Control Revenue Reporting Regulatory Instructions and Guidance (RIGs).

The purpose of the RIGs is to provide a framework for the collection and provision of accurate and consistent information from the distribution Network Operators (DNOs), in accordance with standard condition 50 of the electricity distribution licence. This version of the RIGs will take effect on 1 April 2005.

Comments are welcomed on this draft version by 17 January 2005. They should be sent to:

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Ofgem intends to publish the final document in February 2005, when undertaking the statutory consultation on the licence modifications that are required to introduce the revised distribution price controls.

Copies of this document are available on Ofgem's website (www.ofgem.gov.uk).

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1. Introduction

- 1.1. Version 1 of the Price Control Revenue Reporting: Regulatory Instructions and Guidance (RIGs) has been produced in accordance with standard condition 50 of the electricity distribution licence (SLC 50). The purpose of these RIGs is to provide a framework for the collection and provision of accurate and consistent information from the distribution network operators (DNOs). This is important as it reduces the level of regulatory uncertainty that may otherwise exist. The benefits of improvements in the quality of information should be realised by all those with an interest in the regulation of DNOs, including customers and their representatives, Ofgem and the DNOs themselves.
- 1.2. These RIGs include definitions and related instructions and guidance for collection and reporting of the “specified information” as defined in subparagraph 3(e) of standard condition 50. For the avoidance of doubt this RIGs document is subordinate to the licence conditions that may apply to the determination of allowed revenues or which contain associated reporting obligations. Consequently, the RIGs will not change any definitions or obligations contained within the distribution licence and in the event of any dispute the licence conditions will always take precedence.
- 1.3. Any changes or amendments to the RIGs will follow the change process set out in paragraphs 10 to 13 of standard condition 50. Ofgem recognises that any significant changes to the scope or form of the information that it requests from the DNOs could not only increase the regulatory burden but also the perception of regulatory risk. It is Ofgem’s intention to change the scope and form of the information it requests as infrequently as possible, consistent with Ofgem carrying out its functions under the Electricity Act 1989.

Structure of this document

- 1.4. This document covers the following main areas:
 - ◆ **Chapter 2** – sets out the overview of the price control framework and revenue reporting;

- ◆ **Chapter 3** – sets out definitions and related instructions and guidance for the reporting of the terms relevant to the operation of the demand charge restriction conditions;
- ◆ **Chapter 4** – sets out definitions and related instructions and guidance for the reporting of the terms relevant to the operation of the network generation charge restriction conditions;
- ◆ **Chapter 5** – sets out the definitions and related instructions and guidance for reporting against common provisions to both the operation of demand and generation charge restrictions;
- ◆ **Chapter 6** – sets out definitions and related instructions and guidance for the reporting of the terms relevant to the operation of the metering charge restriction conditions;
- ◆ **Chapter 7** – sets out definitions and related instructions and guidance for the reporting of excluded services;
- ◆ **Chapter 8** – This section details the procedures for reporting revenue to Ofgem, provides guidance on how returns should be completed and the timing of the submissions;
- ◆ **Chapter 9** – This section details the required level of accuracy when reporting items to Ofgem;
- ◆ **Chapter 10** - This section details the procedures for dealing with adjustments and restatement of returns to Ofgem.
- ◆ **Appendix 1** – This section details the templates to be completed for the returns.

2. Overview of the price control framework and revenue reporting

Introduction

- 2.1. The revised price control arrangements that will apply from 1 April 2005 establish a number of charge and revenue restrictions on core business activities, define the scope of those restrictions, and determine what activities fall outside those restrictions. The Price Control Revenue Reporting RIGs aims to establish procedures for the collection and reporting of information on a consistent basis to demonstrate compliance against each of the restrictions, as required by standard condition 50.
- 2.2. There are five main categories of specified information, which include:
 - ◆ demand revenues and restrictions;
 - ◆ generation revenues and restrictions;
 - ◆ metering revenues and restrictions;
 - ◆ excluded service revenue; and
 - ◆ de minimis activities and revenues.

Demand revenue and restrictions

- 2.3. The demand revenue restriction is set out in paragraph 2 of special condition B1 (Restriction of distribution charges: demand use of system charges). The purpose of this condition is to determine the amount of revenue that may be recovered from demand use of system charge by the licensee and state what the licensee must do to comply with those restrictions.
- 2.4. **“Allowable demand revenue”** is the total amount revenue determined by the demand revenue restriction. It is made up of four components:
 - ◆ **“Base demand revenue”** – which is the allowance determined by the Authority in undertaking core business activities;

- ◆ “Allowable pass-through items” – which is the total adjustment to the revenue restriction for the amount paid by the licensee in relation to , business rates, licence fees, miscellaneous costs allowed by the authority, and the subsidy for high cost distribution;
- ◆ “Incentive revenue” – is the adjustments to the revenue restriction for a DNOs performance against the various incentive schemes – losses, quality of service, Innovation funding, distributed generation, and registered power zones; and
- ◆ “the correction factor” – which is the carry forward of differences of demand revenue from allowable demand revenue.

2.5. There are separate reporting requirements in relation to the quality of service incentive scheme and Innovative Funding Incentive, which set out specified outputs to be reported to the Authority. Nevertheless, there are some aspects of the quality of service incentive scheme that relate to the pass-through of severe weather payments and reporting against these items is set out in this RIGs document.

Network generation revenue and restrictions

2.6. The network generation revenue restriction is set out in paragraph 2 of special condition D1 (Restriction of distribution charges: generation use of system charges). The purpose of this condition is to determine the amount of revenue that may be recovered from generation use of system charge by the licensee and state what the licensee must do to comply with those restrictions.

2.7. “**Allowable network generation revenue**” is the total amount revenue determined by the network generation revenue restriction. It is made up of two components:

- ◆ “the incentivised revenue for distributed generation and registered power zones” – which is the adjustments to the revenue restriction for a DNOs performance against the incentive; and
- ◆ “the correction factor” – which is the carry forward of differences of network generation revenue from allowable network generation revenue.

- 2.8. There are separate reporting requirements and guidelines in relation to the incentivised outputs of the incentive scheme. The reporting of the financial outcomes against the incentive scheme is set out in this guidance document.

Metering charges, revenues, and restrictions

- 2.9. The metering charges and revenue restrictions are set out in special condition F1 (Restriction of basic metering). The purpose of this condition is to state what the licensee must do to comply with those restrictions. There are two main restrictions on metering charges and revenues. These are:

- ◆ maximum price caps that apply to charges for basic meter asset provision; and
- ◆ a revenue restriction for basic meter operation services.

- 2.10. **“basic meter asset provision”** - is the provision of metering equipment in accordance with paragraph 3(a) of standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services).

- 2.11. **“basic meter operation”** – is those services comprising the installation, commissioning, testing, repair, maintenance, removal, and replacement of metering equipment in accordance with paragraph 3(b) of standard condition 36 (Requirement to Offer Terms for the Provision of Basic Metering Services).

Restrictions on basic meter asset provision

- 2.12. The restrictions on basic meter asset provision are set out in paragraphs 2 to 8 of special condition F1 (Restriction of basic metering). The restrictions are in the form of maximum price caps for four types of basic meter, which are the:

- ◆ Single-rate credit meter;
- ◆ Single-rate token pre-payment meter;
- ◆ Single-rate key pre-payment meter; and
- ◆ Single-rate smartcard pre-payment meter.

2.13. The restriction imposes the requirement that charges do not exceed the maximum price-caps specified by the licence condition.

Restrictions on basic meter operation

2.14. The restrictions on basic meter asset provision are set out in paragraphs 9 to 11 of special condition F1 (Restriction of basic metering).

2.15. **“Allowable basic meter operation revenue”** is the total amount revenue determined by the basic meter operation restriction. It is made up of two components, which are:

- ◆ “base meter operation revenue” - which is the allowance determined by the Authority for basic meter operation service; and
- ◆ “meter operation revenue driver” – which is the adjustment to basic meter operation revenue for changes in the volume of services provided.

2.16. Guidance on reporting against these restrictions is set out in chapter 6 of this document.

Excluded service revenue and Revenue outside of the Price Control

2.17. Not all of the charges and revenues of services provided by the licensee fall within the scope of the revenue and charge restrictions described above. The charges that may be treated outside the scope of the charge restriction conditions are set out in special condition A2 (Scope of the charge restriction conditions).

2.18. **“Excluded service revenue”** is the total amount of revenue earned by the licensee associated with charges falling within the definitions of appendix 1 of special condition A2 (Scope of the charge restriction conditions).

2.19. **“Revenue outside the Price control”** covers the pass through items of transmission exit charges and the cost of wheeled units which have been imported onto the licensee’s network.

2.20. Guidance for reporting excluded service revenues is set out in chapter 7 of this document.

De minimis activities and revenues

2.21. The Price Control Reporting Regulatory Instructions and Guidance also covers the disclosure of de minimis activities and the associated revenue of those activities.

Outputs from the Price Control Revenue Reporting RIGs

2.22. These RIGs will seek to provide a framework for the collection and provision of accurate and consistent information for revenue reporting from DNOs. The output from this process will be the provision of regulatory returns detailed in Appendix 1. The provision of these returns has two objectives:

- ◆ to facilitate effective monitoring of the DNOs compliance with the charge restriction conditions; and
- ◆ to enable the reconciliation of reported revenues to the profit and loss statement in the DNOs' financial statements.

3. Definitions, instructions and guidance for reporting terms in relation to the core terms of the demand charge restriction conditions.

Introduction

- 3.1. This section sets out definitions and related instructions and guidance for the reporting of the terms relevant to the operation of the demand charge restriction conditions.

Demand revenue restrictions

- 3.2. The demand revenue restriction is set out in paragraph 2 of special condition B1 (Restriction of distribution charges: demand use of system charges). The purpose of this condition is to determine the amount of revenue that may be recovered from demand use of system charge by the licensee and state what the licensee must do to comply with those restrictions.
- 3.3. **“Allowable demand revenue”** (AD_t) is the total amount of revenue determined by the demand revenue restriction. It is made up of four components:
- ◆ “Base demand revenue” (BR_t) – which is the allowance determined by the Authority in undertaking core business activities;
 - ◆ “Allowable pass-through items” (PT_t) – which is the total adjustment to the revenue restriction for the amount paid by the licensee in relation to , business rates, licence fees, miscellaneous costs allowed by the authority, and the subsidy for high cost distribution;
 - ◆ “Incentive revenue” (IP_t) – is the adjustments to the revenue restriction for a DNOs performance against the various incentive schemes – losses, quality of service, and innovation funding; and
 - ◆ “the correction factor” (KD_t) – which is the carry forward of differences of demand revenue from allowable demand revenue.

- 3.4. The formula for allowable demand revenue is:

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

Definitions associated with base demand revenue

- 3.5. Base demand revenue (BR_t) is the allowance determined by the Authority in undertaking core business activities, adjusted for inflation, customer growth, volume growth, and merger policy.
- 3.6. It is calculated in accordance with the formula given in paragraph 3 of special condition B1, which is:

$$BR_t = (PU.GR_t + PE).PID_t - MG_t$$

(PU.GR+ PR) Term

- 3.7. PU and PE represent amounts determined by the Authority as the appropriate revenue allowances for DNOs after an assessment of their operating and capital expenditure, financing costs, and scope for efficiency. The amount for each DNO is set against the licensee’s name in Annex A to special condition B1.
- 3.8. The GR_t is a growth adjustment term. It represents the weighted average of customer and volume growth that has occurred since the relevant year commencing 1 April 2005. This growth adjustment is needed to reflect the increase in costs associated with the increase in units distributed and customer numbers.
- 3.9. GR_t has a value of 1 in the 1st April 2005 and then in the relevant year commencing 1st April 2006 and in each subsequent relevant year is derived from the following formula:

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

- 3.10. P_{0i}, as formally expressed in the licence, “means in respect of each distribution unit category *i* set out against the licensee’s name in Annex B to special condition B1, the corresponding value of P₀ that applies in respect of that category.” It refers to the weighting that should be placed on each category of

unit distributed to reflect the relative differences in costs associated with such units.

- 3.11. D_{it} means the volume of electricity distributed in the relevant year t , which falls within the relevant distribution unit category i .
- 3.12. C_t is the total number of demand customers calculated on 30 September of the relevant year t . For the purposes of this calculation “**demand customer**” is defined as any energised or de-energised exit point to the licensee’s distribution system for which there is a valid meter point administration number (MPAN).

Price index adjustment (PID_t)

- 3.13. The revenue allowances (the amounts set against the terms PU and PE) set out for each DNO have been established in 2005/06 prices and therefore it is necessary to adjust them for inflation in each successive year. As a consequence, in the relevant year commencing 1st April 2005 PID_t takes the value of 1 and in each subsequent relevant year will be derived from the following formula:

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

- 3.14. “**RPI_t**” is defined as 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 $t-2$.

- 3.15. For the purposes of the revenue restrictions, the change in retail price index will be calculated as follow:

$$RPI_t = \frac{\sum RPI \text{ index numbers (July to December)}_{t-1}}{\sum RPI \text{ index numbers (July to December)}_{t-2}} - 1$$

Merger adjustment (MGt)

- 3.16. Mergers between DNOs in the period 2002/03 to 2004/05 have been subject to explicit revenue adjustments relating to, amongst other things, the loss of a comparator for benchmarking purposes. Where appropriate, the revenue adjustment is applied for the five relevant years following these mergers is calculated using the following formula:

$$MG_t = MR_t . PIAM_t$$

- 3.17. “**MR_t**” is the annual amount of the adjustment for the relevant year commencing 1 April immediately after the date of the merger and the next five subsequent relevant years. This amount is set in 2001/02 prices.
- 3.18. “**PIAM_t**” is the price indexation adjustment term. In the relevant year commencing 1 April 2001 it shall equal 1 and in all subsequent years is derived using the following formula:

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

- 3.19. The PIM term uses RPI calculated on a consistent basis with paragraph 3.16.
- 3.20. The merger adjustment applies to those licensees that have come into common ownership with another licensee since May 2002. On 1 December 2004, this applied to:
- ◆ EDF – EPN, LPN, and SPN; and
 - ◆ Central Networks – East and West.
- 3.21. For all other licensees the MG term is zero.

Reporting requirements for all terms relevant to base demand revenue.

- 3.22. The licensee shall be required to report the following items to Ofgem when providing the returns required under paragraph 5 of standard condition 50:
- ◆ The calculated value of base demand revenue (BR_t);
 - ◆ The total amount of units distributed against each distribution unit category in the relevant years t and $t-1$;
 - ◆ The total number of customers connected to the distribution system in the relevant years t and $t-1$; and
 - ◆ The value of the merger adjustment (MG_t).
- 3.23. These terms should be disclosed in the relevant pro-formas given in Appendix 1 and should be reported to the level of accuracy set out in Chapter 9 “Required Level of Reporting Accuracy”.

Definitions associated with allowable pass-through items

- 3.24. “**Allowable pass-through items**” (PT_t) is the adjustment to revenues, whether of a positive or negative value, determined in accordance with special condition B2. The adjustment to revenues is made in relation to specified items that the Authority has directed should be treated as pass-through items.
- 3.25. In some cases, assumptions have been made on the amounts that might be passed on to customers in determining the revenue allowances. Therefore the amount of the revenue adjustment is a mixture of reconciliation adjustments, where assumptions on the amount passed on have been made, and absolute pass-through where there was no assumption of the pass-through amount in setting the revenue allowances.

- 3.26. The adjustment for allowable pass-through items is derived from the following formula:

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

Licence fees adjustment (LF_t Term)

- 3.27. “**LF_t**” is an amount (whether positive or negative) representing an adjustment to allowable demand revenue for the difference between payments made by the licensee in the relevant year t, in accordance with its obligations set out in standard condition 3 (Payment by licensee to the Authority), and the assumptions made by the Authority in respect of those payments in determining the value of PU and PE set out in special condition B1 (Restriction of distribution charges: demand use of system charges).
- 3.28. It is calculated using the following formula:

$$LF_t = LP_t - LA_t$$

- 3.29. “**LP_t**” is the amount equal to the licence fee payments made by the DNO, in the relevant year t. “**LA_t**” represents the assumption made by the Authority in respect of the amounts payable by the DNO, and is calculated using the following formula:

$$LA_t = PF.PIAB_t$$

- 3.30. “**PF**” is the assumption made by the Authority, as set out in the table appearing under the term in the part of Annex A to special condition B2, in 2002/03 prices. “**PIAB_t**” is the inflation index adjustment to be applied to the predetermined amount, calculated in accordance with following formula:

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

- 3.31. In the relevant year commencing 1 April 2002, PIAB_t takes the value of 1, and for the purposes of calculating the value of PIAB_t in each subsequent relevant year, RPI_t is the amount determined from the calculation in paragraph 3.16.

Business rates revenue adjustment (RB_t term)

- 3.32. “**RB_t**” is an amount (whether positive or negative), representing an adjustment to allowable demand revenue for the difference between payments made by the licensee in the relevant year *t*, in respect of business rates and the assumptions made in respect of those payments in determining the value of PU and PE set out in special condition B1 (Restriction of distribution charges: demand use of system charges). It is calculated using the following formula.

$$RB_t = RP_t - RA_t$$

- 3.33. “**RP_t**” is the amount payable by the licensee in respect of business rates. “**RA_t**” is the assumed amount of the payments made by the licensee in determining the revenue allowances PU and PE, and is calculated as follows:

$$RA_t = RV_t . PIAB_t$$

- 3.34. “**RV_t**” means the amount payable by the DNO that has been assumed by the Authority, in 2002/03 prices, as set out in the annex to special condition B2 (Restriction of distribution charges: demand use of system charges). “**PIAB_t**” is the inflation index adjustment which shall, in the relevant year commencing 1 April 2003, take the value of 1 and in each subsequent relevant year shall be calculated from the following formula given in paragraph 3.30.

Assistance for areas with high distribution costs (HB_t)

- 3.35. Section 184 of the Energy Act 2004 enables the Secretary of State to establish a scheme to provide assistance to areas where the costs of distributing electricity are significantly higher than in other areas. Such a scheme would enable the Secretary of State to direct that payments should be made to one or more distributors to be recovered through transmission charges. Under the arrangements, the DNOs in receipt of such payments are to ensure that the benefit is passed on to customers in the form of lower distribution charges. “**HB_t**” is the amount of the payments received by a DNO which is to be passed through in lower distribution charges.

Miscellaneous pass-through items (MPT_t)

3.36. There are a small number of specific cost items that are specific to individual DNOs or that may only be incurred from time to time, that are determined to be pass-through costs. " MPT_t " is an amount, whether positive or negative, representing that adjustment to allowable demand revenue in respect of those items specified in relation to that term in special condition B2 (Restriction of distribution charges: allowable pass-through items). It is determined by the following formula:

$$MPT_t = MPC_t + MPA_t$$

3.37. MPC_t represents miscellaneous pass through costs and 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 MPA_t term. :

3.38. MPA_t relates to specific adjustments for SAS run off costs for Scotland in the transition to BETTA and allowance wholesale balancing costs relating to Shetland. It is given by the formula:

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

3.39. SRS_t relates to the SAS run off costs and applies to Scottish Power Distribution plc and Scottish Hydro Electric Distribution plc only. For all other licensees the term is zero.

3.40. SA_t relates to Shetland wholesale balancing costs and applies to Scottish Hydro Electric Distribution plc only – for all other licensee's the term is zero. It is given by the formula:

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

where:

TPC_t means the cost of contracts with third party generators for supplying demand customers in Shetland in the relevant year t .

- LPSF_t means the cost of fuel purchased for Lerwick Power Station (LPS) in relevant year t.
- LPSC_t 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 [xx] million.

PIAH_t 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_t means the cost of environmental permits in relevant year t; and
- SH_t means the income from units purchased by suppliers in respect of generation on Shetland for the relevant year t.
- SHB_t means the amount the allowance assumed in setting PU and PE in special condition B1, which is derived by the following formula:

$$SHB_t = SHA \times PIAH_t$$

where:

SHA takes the value £7 million.

Recovery of uncertain costs (UNC_t)

- 3.41. “UNC_t” means an amount determined by the Authority in accordance with special condition A3. The process for determining the adjustment is set out in detail within chapter 5 of this document.

Reporting requirements associated with allowable pass-through items (PT_t)

- 3.42. The licensee shall be required to report the following items to Ofgem when providing the returns required under paragraph 5 of standard condition 50:

- ◆ The calculated value of the revenue adjustment for allowable pass-through items (PT_t);
- ◆ The amount paid by the licensee in the relevant year t in accordance with standard condition 3 (Payment by licensee to the Authority) (LP_t);
- ◆ The amount payable by the licensee in the relevant year t in respect of business rates (RP_t);
- ◆ The amounts received by the licensee in the relevant year t in respect of the scheme established by the Secretary of State to assist areas with high distribution costs (HB_t); and
- ◆ Where relevant, amounts against the terms defined as being miscellaneous pass-through items (MPT_t).

3.43. These terms should be disclosed in the relevant pro formas given in Appendix 1 and should be reported to the level of accuracy set out in Chapter 9 “Required Level of Reporting Accuracy”.

Definitions associated with incentive payments (IP_t)

3.44. “ IP_t ” is an amount, whether a positive or negative value, representing the adjustment to allowable demand revenue as a result of the licensee’s performance against the losses, quality of service, and innovation funding incentive schemes. The adjustment is calculated using the following formula:

$$IP_t = IL_t + IQ_t + IFI_t$$

Losses incentive adjustment (IL_t)

3.45. “ IL_t ” is the adjustment to the charge restriction conditions to reflect the performance of the licensee in achieving targets for distribution losses. Performance is measured as follows:

$$IL_t = [LR.PIL_t.(AL_t - L_t)]$$

3.46. “**LR**” is the distribution losses incentive rate and takes a value of £48/MWh in 2004/05 prices. “**PIAL_t**” in the relevant year commencing 1 April 2004 takes the value 1, and in each subsequent relevant year is calculated as follows:

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

3.47. “**L_t**” is the total amount of units lost on the licensee’s distribution system calculated as the difference between adjusted system entry volumes and units distributed.

3.48. “**Adjusted system entry volumes**” is the total of:

- ◆ units metered on entering the licensee’s distribution system;
- ◆ unmetered units calculated to be entering the licensee’s distribution system; and
- ◆ an amount (in units) representing the adverse effect on losses of units entering the system at entry points where the loss adjustment factor applied for settlement purposes is less than 0.997 (**DGA_t**), as calculated in paragraph 4 of special condition C1 (Incentive scheme: calculation of charge restriction adjustments for distribution losses)

3.49. “**units distributed**” is the total of:

- ◆ all units distributed by the licensee metered at exit points on leaving the distribution system; and
- ◆ all units reasonably calculated by the licensee as leaving the distribution system at unmetered exit points.

3.50. “**AL_t**” is an amount representing the target level of distribution losses in the relevant year t calculated in accordance with the following formula

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

3.51. “**ALP**” is the allowed loss percentage determined by the Authority and set against the licensee’s name. “**AUD_t**” is the total of units distributed in the relevant year t.

Quality of service incentive (IQ_t)

- 3.52. "IQ_t" is the adjustment to the charge restriction conditions to reflect the performance of the licensee in achieving targets for quality of supply, rewards best practice, and makes adjustments to revenue in relation to the normal and severe weather standards for supply restoration.
- 3.53. The Information and Incentives Regulatory Instructions and Guidance provide guidance and instructions on reporting information on the outputs of the quality of service incentive scheme. However, some elements of the scheme relate to adjustments for standards of performance compensation. Guidance on these aspects is set out below.
- 3.54. The quality of service incentive scheme for 2005 to 2010 includes mechanisms to make adjustments to revenue in respect of the supply restoration standards. The DNOs are required to report information on each of the key inputs to this mechanism annually to Ofgem as part of the quality of supply reporting. This will enable Ofgem to effectively monitor these elements of price control revenue.

Key terms

- 3.55. $SWPD_t$ 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 under severe weather conditions imposed on the licensee under regulation 6.
- 3.56. $SWPM_t$ is the total amount of payments that the DNO has made 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.

- 3.57. $NCPD_t$ is the total amount of the payments which either have been paid in relevant year t 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.
- 3.58. $NCPM_t$ 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 imposed on the licensee under regulation 5.
- 3.59. In addition Scottish Hydro-Electric Distribution will be required to report the following terms:
- 3.60. $HIPD_t$ is the total amount of the payments which either have been paid in relevant year t 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;
- 3.61. $HIPM_t$ 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.

Further instructions and guidance

- 3.62. The information for each of the terms should be audited by the DNO and reported to Ofgem by the end of [April] year. The DNO should also describe its methodology for estimating $SWPD_t$ and $NCPD_t$ (and in the case of Scottish Hydro-Electric Power Distribution $HIPD_t$ and $HIPM_t$).
- 3.63. References to numbered regulations refer to the relevant regulations in the Electricity (Standards of Performance) Regulations 2005 (SI 2005/0000).

Innovation funding incentive (IFI)

- 3.64. "IFI" is the adjustment to the charges restriction conditions to reflect the performance of the licensee in relation to its investment in innovation.

3.65. The Distributed generation, innovation funding incentive, and registered power zones: Regulatory Instructions and Guidance set out the reporting requirements in relation to the incentive scheme. For the purpose of price control revenue reporting DNOs will only be required to disclose the value of the IFI adjustment term.

Reporting requirements for all terms associated with the incentive payments (IP_t)

3.66. The licensee shall be required to report the following items to Ofgem when providing the returns required under paragraph 5 of standard condition 50:

- ◆ The calculated value of the revenue adjustment for the incentive payments adjustment (IP_t);
- ◆ The calculated value of the revenue adjustment in respect of the losses incentive (IL_t);
 - ◆ The total amount of units lost on the licensee's distribution system calculated as the difference between adjusted system entry volumes and units distributed (L_t);
 - ◆ The calculated value of allowed losses (AL_t);
- ◆ The calculated value of the revenue adjustment in respect of the quality of service incentive (IQ_t); and
- ◆ The calculated value of the revenue adjustment in respect of the innovation funding incentive (IFI_t).

3.67. These terms should be disclosed in the relevant pro formas given in Appendix 1 and should be reported to the level of accuracy set out in Chapter 9 "Required Level of Reporting Accuracy".

Definitions associated with the correction factor (KD_t)

3.68. " KD_t " is the correction factor, whether of a positive or negative value, representing the amount of the difference between regulated demand revenue and allowable demand revenue in the relevant year t-1, determined as follows:

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

3.69. In the relevant year commencing 1 April 2005, “regulated demand revenue” in the year t-1 (RD_{t-1}) shall be the amount of revenue recovered by the licensee in the relevant year commencing 1 April 2004 as determined by the definition of “regulated revenue” in force on that date.

3.70. For the avoidance of doubt:

- ◆ “**regulated demand revenue**” is defined as the amount of 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:
 - (i) 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;
 - (ii) 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 units transported from that person's network, and which would otherwise be included in distribution revenue by reason of being recovered in that relevant year by the licensee in its demand use of system charges, as falls to be attributed to those customers in that relevant year; and
 - (iii) value added tax (if any) and any other taxes based directly on the amounts so derived.

- ◆ For the relevant year commencing 1 April 2004, “**regulated revenue**” is defined as the amount of 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:

- (i) 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; and
- (ii) value added tax (if any) and any other taxes based directly on the amounts so derived.

3.71. In the relevant year commencing 1 April 2004, “allowable demand revenue” is total amount revenue determined by the revenue restriction set out in Special condition B of the distribution licence in force on that date. In the relevant year commencing 1 April 2005, AD_{t-1} shall be derived as follows:

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

3.72. “ M_{dt-1} ” 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 of distribution charges) [in Scotland special condition C] on that date.

3.73. “ D_{t-1} ” means the regulated quantity distributed in the relevant year commencing 1 April 2004.

3.74. “ I_t ” is the average specified rate of interest in the relevant year t. “ PR_t ” means the rate of interest adjustment that is applicable in accordance with paragraph 2 of special condition E1.

Reporting requirements for all terms associated with the correction factor (KD_t)

3.75. The licensee shall be required to report the following items to Ofgem when providing the returns required under paragraph 5 of standard condition 50:

- ◆ The calculated value of allowable demand revenue for the year t-1;
- ◆ The calculated value of regulated demand revenue for the year t-1; and
- ◆ The calculated value of interest (I).

3.76. These terms should be disclosed in the relevant pro formas given in Appendix 1 and should be reported to the level of accuracy set out in Chapter 9 "Required Level of Reporting Accuracy".

4. Definitions, instructions and guidance for reporting terms in relation to the core terms of the generation charge restriction conditions.

Introduction

- 4.1. This section sets out definitions and related instructions and guidance for the reporting of the terms relevant to the operation of the network generation charge restriction conditions.

Network generation revenue restriction

- 4.2. The network generation revenue restriction is set out in paragraph 2 of special condition D1 (Restriction of distribution charges: generation use of system charges). The purpose of this condition is to determine the amount of revenue that may be recovered from demand use of system charges by the licensee and state what the licensee must do to comply with those restrictions.
- 4.3. “**Allowable network generation revenue**” (AG_t) is the total amount revenue determined by the network generation revenue restriction. It is made up of two components:
- ◆ “the incentivised revenue for distributed generation and registered power zones” – which is the adjustments to the revenue restriction for a DNOs performance against the incentive; and
 - ◆ “the correction factor” – which is the carry forward of differences of network generation revenue from allowable network generation revenue.
- 4.4. Allowable network generation revenue is calculated using the formula:

$$AG_t = IG_t + RPZ_t - KG_t$$

Incentivised revenue for distributed generation and RPZ (IG_t)

- 4.5. “IG_t” is an amount to determine the level of the charge restriction condition to reflect the performance of the licensee in relation to connection of distributed generation (DG). It is derived from the following formula:

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

- 4.6. “RPZ_t” is an amount to determine the level of the charge restriction condition to reflect the performance of the licensee in relation to RPZ incentive scheme.
- 4.7. Each of the terms given in the formula will be determined in accordance with the procedures, processes and guidance given in the distributed generation, innovation funding initiative and registered power zones RIGs.

Reporting Requirements under the Price Control RIGs for terms associated with IG term

- 4.8. The licensee shall be required to report the following items to Ofgem when providing the returns required under sub-paragraph 5(a) of standard condition 50:
- ◆ The calculated value of the incentive payment (IG_t);
 - ◆ The calculated value of distributed generation incentive revenue (GI_t);
 - ◆ The calculated value of distributed generation pass-through revenue (GP_t);
 - ◆ The calculated value of the transfer of use of system capex (GT_t); and
 - ◆ The calculated value of registered power zones incentive revenue (RPZ_t).
- 4.9. The licensee shall be required to report the following items to Ofgem when providing the returns required under sub-paragraphs 5(b) and (c) of standard condition 50:
- ◆ The calculated value of the incentive payment (IG_t); and
 - ◆ The calculated value of registered power zones incentive revenue (RPZ_t).

- 4.10. These terms should be disclosed in the relevant pro formas given in Appendix 1 and should be reported to the level of accuracy set out in Chapter 9 “Required Level of Reporting Accuracy”.

The correction factor (KG_t)

- 4.11. “**KG_t**” is the correction factor, whether of a positive or negative value, representing the amount of the difference between network generation revenue and allowable network generation revenue, calculated as follows:

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

- 4.12. “**RG_{t-1}**” is 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.
- 4.13. “**Network generation revenue**” is defined as revenue (measured on an accruals basis) derived by the licensee from generation use of system charges made for the provision of distribution services from generation customers in the relevant year, before the deduction of unavailability rebates and after deduction of:
- ◆ 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;;
 - ◆ 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 units transported from that person's network, and which would otherwise be included in distribution revenue by reason of being recovered in that relevant year by the licensee in its generation use of system charges, as falls to be attributed to those customers in that relevant year; and

- ◆ value added tax (if any) and any other taxes based directly on the amounts so derived.
- 4.14. “**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
- 4.15. “**I_t**” is the average specified rate of interest in the relevant year t. “**PR_t**” means the rate of interest adjustment that is applicable in accordance with paragraph 2 of special condition E1.

Reporting requirements for all terms associated with the correction factor (KG_t)

- 4.16. The licensee shall be required to report the following items to Ofgem when providing the returns required under paragraph 5 of standard condition 50:
- ◆ The calculated value of allowable network generation revenue for the year t-1;
 - ◆ The calculated value of network generation revenue for the year t-1; and
 - ◆ The calculated value of interest (I_t).
- 4.17. These terms should be disclosed in the relevant pro-formas given in Appendix 1 and should be reported to the level of accuracy set out in Chapter 9 “Required Level of Reporting Accuracy”.

5. Definitions, instructions and guidance in relation to common provisions applying to allowable demand and allowable network generation revenue.

Introduction

5.1. This section sets out the definitions and related instructions and guidance for reporting against common provisions to both the operation of demand and generation charge restrictions. These include:

- ◆ provisions applying to over and under recoveries; and
- ◆ the process for dealing with uncertainty.

Provisions applying to over and under recoveries

5.2. Supplementary provisions applying to over and under recoveries against the demand and generation charge restriction are set out in special condition E1 (Restriction of distribution charges: supplementary restrictions). These have two elements:

- ◆ provisions for determining the interest rate adjustment applying to over and under recoveries; and
- ◆ restrictions on tariff changes in relation to significant over and under recoveries.

Provisions for determining the interest rate adjustment applying to over and under recoveries

5.3. For the purposes of demand and generation charge restrictions, 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.

5.4. **“Combined distribution network revenue”** is the total amount derived after combining regulated demand revenue and network generation revenue, and shall be calculated as follows:

$$\text{Combined distribution network revenue} = RD_t + RG_t$$

5.5. **“Combined allowable distribution network revenue”** is the total amount derived after combining allowable demand revenue and allowable network generation revenue, and shall be calculated as follow:

$$\text{Combined allowable distribution network revenue} = AD_t + AG_t$$

Examples in applying the interest rate adjustment to over and under recoveries

Over recovery of greater than 2 per cent of combined allowable distribution network revenue

- 5.6. If in the relevant year t-1, the licensee has the revenue position set out in table 5.1 such that the combined distribution network revenue exceeds combined allowable distribution network revenue by more than 2 per cent (in the example the combined over-recovery is £9m or 4 per cent of combined allowable distribution network revenue).

Table 5.1a – Combined over-recovery

	Allowable (£m)	Actual (£m)	+/- (£m)
Demand	200	210	10
Generation	20	19	(1)
Combined	220	229	9

- 5.7. For the purposes of determining allowable demand and network generation revenues in the relevant year t, assuming that the average specified rate is 3 per cent, the correction factor adjustments would be as follows:

Table 5.1b – Correction Factors for Demand and Generation

	Demand	Generation
Allowable Revenue	200	20
Revenue	210	19
+/-	10	(1)
Interest @ 3%	0.3	(0.03)
PR @ 3%	0.3	(0.03)
Correction Factor	10.6	(1.06)

Over recovery of less than 2 per cent of combined allowable distribution network revenue

- 5.8. If in the relevant year t-1, combined distribution network revenue exceeds combined allowable distribution network revenue by less than 2 per cent then the value of interest rate adjustment (PR_t) for the purposes of determining allowable demand and network generation revenues is 1.5.

Under recovery of greater than 2 per cent of combined allowable distribution network revenue

- 5.9. If in the relevant year t-1, the licensee has the revenue position set out in table 5.2a such that the combined distribution network revenue is less than combined allowable distribution network revenue by more than 2 per cent (in the example the combined under-recovery is £11m or 5 per cent of combined allowable distribution network revenue):

Table 5.2a – Combined under-recovery

	Allowed (£m)	Actual (£m)	+ /-(£m)
Demand	200	188	(12)
Generation	20	21	1
Combined	220	209	(11)

- 5.10. For the purposes of determining allowable demand and network generation revenues in the relevant year t, assuming that the average specified rate is 3 per cent, the correction factor adjustments would be as follows:

Table 5.2b – Correction Factors for Demand and Generation

	Demand	Generation
Allowable Revenue	200	20
Revenue	188	21
+/-	(12)	1
Interest @ 3%	(0.36)	0.03
PR @ 0%	-	-
Correction Factor	(12.36)	1.03

Under recovery of less than 2 per cent of combined allowable distribution network revenue

- 5.11. If in the relevant year t-1, combined distribution network revenue is less than combined allowable distribution network revenue by less than 2 per cent then the value of interest rate adjustment (PR_t) for the purposes of determining allowable demand and network generation revenues is 1.5.

Restrictions on tariff changes in relation to significant over and under recoveries

- 5.12. In addition to the provisions for determining the value of the interest rate adjustment that is used for the purposes of determining allowable demand and network generation revenue, the Authority is putting in place restrictions on tariff changes in response to substantial over and under-recoveries. These are described below:

Four per cent over recovery against allowable demand revenue (paragraph 3 of special condition E1)

- 5.13. If, in respect of any relevant year t, regulated demand revenue exceeds allowable demand revenue by more than 4 per cent, the licensee shall:
- ◆ furnish an explanation to the Authority setting out the factors that have contributed to the over-recovery; and

- ◆ in the next following relevant year shall not, unless the Authority consents, increase demand use of system charges.
- 5.14. For example, suppose allowable demand revenue was determined to be £200m but the amount of regulated demand revenue was reported to be £210m, the DNO will have over recovered against allowable demand revenue by £10m (or by 5 per cent allowable demand revenue). This restriction would prohibit increases in demand use of system charges except with the consent of the Authority.
- 5.15. In considering an application for consent to increase demand use of system charges the Authority will have regard to factors which have contributed to the over-recovery, the impact on customers, and the licensee's obligations under standard condition 4 of the distribution licence.

A ten per cent under recovery for two successive years against allowable demand revenue (paragraph 4 of special condition E1)

- 5.16. If, in respect of two successive relevant years, 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 in respect of the next following relevant year, there shall be substituted for RD_{t-1} such figure as the Authority may specify, not being less than RD_{t-1} and not more than 90 per cent of allowable demand revenue.
- 5.17. For example, suppose allowable demand revenue over two successive years was £400m and regulated demand revenue over the same years was £350m. In this instance the under-recovery against allowable demand revenue is £50m or 12.5 per cent. In light of this, the Authority shall for the purposes of determining allowable demand revenue in the subsequent relevant year direct a value for RD_{t-1} of between £360m and £350m.
- 5.18. In directing the value of RD_{t-1} for determining the amount, the Authority will have regard to factors which have contributed to the under-recovery, the impact on customers, and the licensee's obligations under standard condition 4 of the distribution licence.

Ten per cent over recovery against allowable network generation revenue (paragraph 5 of special condition E1)

- 5.19. If, in respect of any relevant year *t*, network generation revenue exceeds allowable network generation revenue by more than 10 per cent, the licensee shall:
- ◆ furnish an explanation to the Authority setting out the factors that have contributed to the over-recovery; and
 - ◆ in the next following relevant year shall not, unless the Authority consents, increase generation use of system charges.
- 5.20. For example, suppose allowable network generation revenue was determined to be £2m but the amount of network generation revenue was reported to be £2.5m, the DNO will have over recovered against allowable network generation revenue by £0.5m (or by 25 per cent allowable network generation revenue). This restriction would prohibit increases in generation use of system charges except with the consent of the Authority.
- 5.21. In considering an application for consent to increase demand use of system charges the Authority will have regard to factors which have contributed to the over-recovery, the impact on customers, and the licensee's obligations under standard condition 4 of the distribution licence.

A twenty five per cent under recovery for two successive years against allowable demand revenue (paragraph 6 of special condition E1)

- 5.22. 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:
- ◆ furnish an explanation to the Authority setting out the factors that have contributed to the under-recovery; 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.

- 5.23. For example, suppose allowable network revenue over two successive years was £5m and network generation revenue over the same years was £3m. In this instance the under-recovery against allowable network generation revenue is £2m or 40 per cent. This restriction would prohibit increases in generation use of system charges by more than 20 per cent except with the consent of the Authority.
- 5.24. In considering an application for consent to increase demand use of system charges the Authority will have regard to factors which have contributed to the under-recovery, the impact on customers, and the licensee's obligations under standard condition 4 of the distribution licence.

The process for dealing with recovery of uncertain costs

- 5.25. In setting the base revenue allowances, three specific areas of costs have been identified as those which might be incurred by DNOs during the period 2005 to 2010 but for which no allowance has been given. These areas are:
- ◆ the potential costs associated with meeting the overhead line clearance obligations set out in the Electrical Safety, Quality, and Continuity Regulations 2002 ("ESQCR");
 - ◆ the additional costs that may arise in meeting any amended ESQCR's; and
 - ◆ the costs that might be incurred in relation to complying with obligations under the Traffic Management Act 2004.
- 5.26. The main feature of these costs is that they are uncertain, both in terms of whether the DNOs will incur costs in the coming price control period, and the likely level and timing of the costs where they are incurred. In the light of this, the Authority has adopted a mechanism for dealing with these costs if and when they arise, which is set out in special condition A3 (Arrangements for the recovery of uncertain costs).

Costs in relation to the Electrical Safety, Quality, and Continuity Regulations 2002

5.27. 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.

5.28. A notice served by the licensee must:

- ◆ state the obligations or requirements to which the notice relates;
- ◆ set out by reference to each such obligation or requirement the basis on which the licensee has calculated the relevant adjustment; and
- ◆ 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.

5.29. Where the licensee serves a notice, the Authority:

- ◆ following consultation with the licensee;
- ◆ having particular regard to the purposes of the condition; and
- ◆ 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.

5.30. If the Authority has not determined the relevant adjustment within four months of receiving a notice from the licensee, 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.

Costs arising from amendments to the Electrical Safety, Quality, and Continuity Regulations 2002

5.31. If, in any relevant year commencing 1 April 2005 or thereafter, the licensee has reason to believe that its efficiently incurred costs in complying with any amended regulations made under section 29 of the Act (which modify, amend or replace the ESQCR 2002) is, or is likely to be, a material amount then the licensee may, by notice to the Authority, propose a relevant adjustment to the charge restriction conditions which, in the licensee's opinion more accurately reflects the efficient costs incurred or likely to be incurred.

5.32. A notice served by the licensee must:

- ◆ state the obligations or requirements to which the notice relates;
- ◆ set out by reference to each such obligation or requirement the basis on which the licensee has calculated the relevant adjustment; and
- ◆ 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.

5.33. Where the licensee serves a notice, the Authority:

- ◆ following consultation with the licensee;
- ◆ having particular regard to the purposes of the condition; and
- ◆ 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.

- 5.34. If the Authority has not determined the relevant adjustment within four months of receiving a notice from the licensee, 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.

Costs in relation to the Traffic Management Act 2004

- 5.35. If, in any relevant year commencing 1 April 2005 or thereafter, the licensee has reason to suppose that the amount of the efficiently incurred costs in complying with its obligations under the Traffic Management Act 2004 or equivalent provisions in Scotland (as may be amended) is, or is likely to be, a material amount then the licensee may, by notice to the Authority, propose a relevant adjustment to the charge restriction conditions which, in the licensee's opinion more accurately reflects the efficient costs incurred or likely to be incurred.

- 5.36. A notice served by the licensee must:

- ◆ state the obligations or requirements to which the notice relates;
- ◆ set out by reference to each such obligation or requirement the basis on which the licensee has calculated the relevant adjustment; and
- ◆ 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.

- 5.37. Where the licensee serves a notice, the Authority:

- ◆ following consultation with the licensee;
- ◆ having particular regard to the purposes of the condition; and
- ◆ 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.

- 5.38. If the Authority has not determined the relevant adjustment within four months of receiving a notice from the licensee, 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.

6. Definitions, instructions and guidance for reporting terms in relation to the metering charge restrictions

Introduction

- 6.1. This section sets out definitions and related instructions and guidance for the reporting of the terms relevant to the operation of the metering charge restriction conditions.

Basic meter asset provision restriction

- 6.2. The basic meter asset provision restriction is set out in paragraphs 2 to 8 of special condition F1 (Restriction of basic metering charges). The purpose of this restriction is to determine the amount of the maximum charges that may be levied by the licensee for the provision of basic metering.
- 6.3. The special condition states charge restrictions on the following types of meters (defined in special condition F1):
- Single-rate credit meter (SRCM);
 - Single-rate token pre-payment meter (SRTPPM);
 - Single-rate key pre-payment meter (SRKPPM); and
 - Single-rate smartcard pre-payment meter (SSPPM).

Single-rate credit meters (SRCM)

- 6.4. Paragraph 3 of special condition F1 states that charges for the provision of SRCM shall be no greater than the following formula:

$$SCR M_t = \pounds 1.11 \times PIT_t$$

Where **PIT** is an adjustment for inflation

- 6.5. Consequently, at no time during the price control is a charge in relation to a single-rate credit meter is allowed to exceed the value of the formula derived above.

Single-rate token payment meter (SRTPPM)

- 6.6. Paragraph 4 of special condition F1 states that charges for the provision of SRTPPM shall be no greater than the following formula:

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

Where **RLTPPM** is the reduction of the expected life of the licensee's meter and 9.72 is the expected life in years of SRTPP Meters.

- 6.7. Consequently, at no time during the price control is a charge relating SRTPP Meters allowed to exceed the value derived in above.

Single Rate Key Pre-Payment Meters (SRKPPM)

- 6.8. Paragraph 5 of Special Condition F1 states that charges for the provision of SRKPPM shall be no greater than the following formula:

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

where **RLKPPM** is the reduction of the expected life of the licensee's meter and 9.34 is the expected life in years of SRKPP meters.

- 6.9. Consequently, at no time during the price control is a charge relating SRKPP Meters allowed to exceed the value derived above.

Single Rate Smartcard Pre-Payment Meters (SRSPPM)

- 6.10. Paragraph 5 of Special Condition F1 states that charges for the provision of SRSPPM shall be no greater than the following formula:

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

Where **RLSPPM** is the reduction of the expected life of the licensee's meter and 7 is the expected life in years of SRSPPM meters

6.11. Consequently, at no time during the price control is a charge relating SSPP Meters allowed to exceed the value derived in above.

Other Meters

6.12. For all meters not covered in the above sections but for whom charges are restricted under standard condition 36, special condition F1 paragraph 7 states that charges for these meters shall be no greater than those determined on accordance with the following formula:

$$MAPP C_t = \left[\left(\left(\frac{MEAP}{ELA} \right) \times 1.066 \right) + 0.24 \right] . PIS_t$$

MEAP is the modern equivalent asset purchase price of the meter (or volume weighted average purchase price of the meter type) as at 1 April 2005 or nearest determinable date after 1 April 2005.

ELA is the expected economic life of the meter (or the volume weighted expected economic life of the meter type)

Reporting requirements associated with Meter Asset Provision

6.13. The Licensee shall be required to report the following items to Ofgem when providing the returns required under paragraph 5 of standard condition 50:

- ◆ The number of meters associated with SCRM, SRTPPM, SRKPPM, SRSPPM and MAPP C
- ◆ The amount of revenue associated with SCRM, SRTPPM, SRKPPM, SRSPPM and MAPP C
- ◆ The metering charge as per the relevant metering statement associated with SCRM, SRTPPM, SRKPPM, SRSPPM and MAPP C
- ◆ All terms associated with the derivation of SCRM, SRTPPM, SRKPPM, SRSPPM and MAPP C

Meter operation revenue restriction

6.14. The meter operation revenue restriction is set out in paragraph 9 of special condition F1 (Restriction of basic metering charges). The purpose of this restriction is to determine the amount of revenue that may be recovered in relation to the provision of basic meter operation service by the licensee and state what the licensee must do to comply with the restriction.

6.15. Paragraph 8 of Special Condition F1 states that Meter Operation revenue is determined in accordance with the following formula:

$$MOP_t = MOPR_t - RMA_t$$

6.16. **MOPR_t** is the allowance determined at the price control, and adjusted for inflation, for the operation of metering assets. It is determined by the following formula:

$$MOPR_t = MRV_t \times PIT_t$$

where MRV is a pre-determined allowance given in accordance with Annex [x] of Special Condition F and PIS_t is an adjustment for inflation.

6.17. **RMA_t** is the reduction in metering revenue following the advent of competition. It is determined by the following formula:

$$RMA_t = SCA_t + PCA_t + CTCA_t$$

6.18. **SCA** is the revenue driver for single phase chargeable activities and is determined in accordance with the following formula:

$$SCA_t = (FSCA - SRCA_t) \times (21.37 \times PIS_t)$$

where FSCA is the level fixed level metering activities associated with single phase meter operation given in Annex A of the special condition F, SRCA is the actual level of single metering activities in the relevant year and £21.37 represents the relevant charge with those activities.

- 6.19. **PCA** is the revenue driver for poly phase chargeable activities and is determined in accordance with the following formula:

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

where FPCA is the fixed level of metering activities associated with poly phase meter operation given in Annex A of special condition F, PPCA is the actual level of poly phase metering activities in the relevant year and £34.91 represents the relevant charge for those activities

- 6.20. **CTCA** is the revenue driver for CT metering and is determined in accordance with the following formula:

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

where FCTA is the fixed of metering activities associated with CT metering given in Annex A of special condition F, CCA is the actual level CT metering activities in the relevant year and £106.67 represents the charge for those activities.

Reporting requirements associated with Meter Operation

- 6.21. The Licensee shall be required to report the following items to Ofgem when providing the returns required under paragraph 5 of standard condition 50:

- ◆ MOPt
- ◆ MOPRt
- ◆ MRVt
- ◆ RMA
- ◆ SCA, SRCA
- ◆ PCA, PPCA
- ◆ CTCA, CCA

7. Definitions, instructions and guidance for reporting terms in relation to excluded services

Introduction

- 7.1. This section sets out the definitions, related instructions and guidance for reporting excluded services.
- 7.2. “**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 are to be treated as falling outside the scope of the charge restrictions otherwise. Specified excluded service items are set out in appendix 1 of special condition A2 (scope of the charge restriction conditions).
- 7.3. No service provided by the licensee, within its distribution services area, will be treated as an excluded service insofar as it consists of the provision of services remunerated use of system charges, or under charges for the provision of basic metering and data services.

Specified excluded service items

- 7.4. Specified excluded service items are set out in appendix 1 of special condition A2 (scope of the charge restriction conditions). These include:
- ◆ The transport of units distributed to EHV premises that were not connected to the licensee’s distribution system before 1 April 2005;
 - ◆ 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;
 - ◆ 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;

- ◆ Revenue protection services provided by the licensee;
- ◆ The provision of any statement or report pursuant to:
 1. paragraph 7 of standard condition 4 (use of system charging methodology)
 2. paragraph 8 of standard condition 4A (use of system charging statement), or
 3. paragraph 13 or 15 of standard condition 4B (connection charge methodology and charging statements);
- ◆ 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 sections 9(1) or 16 of the Act) imposed on the licensee.
- ◆ 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;
- ◆ The provision of electric lines and electrical plant required:
 1. for the specific purpose of enabling the provision of top-up or standby supplies or sales of electricity, or
 2. to provide a higher degree of security than is required for the purposes of complying with standard condition 5
- ◆ 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 kVA_r or kVA_rh transported to each premises;
- ◆ 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; and

- ◆ Any provision of metering services insofar as it consists of the provision of a service which is not made available by the licensee as a normal part of its distribution business.

Reporting requirements for all excluded service items

7.5. The licensee shall be required to report the following items to Ofgem when providing the returns required under sub-paragraph 5a of standard condition 50:

- ◆ The value of revenue earned against each of the excluded items listed in paragraph 7.4 above;
- ◆ The number of units distributed to EHV premises disaggregated between:
 1. EHV premises connected up to and included 31 March 2005;
and
 2. EHV premises connected after 1 April 2005.

7.6. The licensee shall be required to report the following items to Ofgem when providing the returns required under sub-paragraphs 5(b) or (c) of standard condition 50:

- ◆ An estimate of the total value of revenue earned in providing excluded services.

7.7. These terms should be disclosed in the relevant pro formas given in Appendix 1 and should be reported to the level of accuracy set out in Chapter 9 "Required Level of Reporting Accuracy".

Powers of the Authority

7.8. Where the Authority following consultation with the licensee is satisfied that a service which has been treated as an excluded service has been incorrectly treated as such, the Authority may issue a direction to that effect. Where a direction is issued, 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 by the Authority therein.

8. Reporting arrangements

Introduction

- 8.1. It is important that given the complexities of the price control a clear set of arrangements are in place for reporting revenues accurately and on a consistent basis. This section details the procedures for reporting revenue to Ofgem, provides guidance on how returns should be completed and the timing of the submissions.
- 8.2. These arrangements have been designed to strike an appropriate balance between the regulatory burdens on DNOs and facilitate effective monitoring of its compliance with the charge restriction conditions.

Provision of Compliance Model

- 8.3. Ofgem will provide the DNOs with a copy of its compliance model. This model will contain a user interface with input sheets where DNOs will enter the appropriate data. The model will then run calculations based upon input data and compute the allowable revenues for a DNO in a given year. The model will also have the capacity to generate price control reports. It is intended that these reports can form the foundation of the regulatory submissions to be made to Ofgem.

Regulatory submissions to Ofgem

- 8.4. Paragraph 5 of standard condition 50 sets out the obligations on DNOs to provide the following statements and reports. These are:
- ◆ **By 1 April** – estimates for the information specified under this document for the relevant years t and $t-1$;
 - ◆ **By 31 July** – an audited statement setting out the information specified under this document for the relevant year $t-1$; and
 - ◆ **By 31st October** – estimates for the information specified under this document for the relevant year t .

- 8.5. Ofgem expects that the provision of a compliance model will be able to assist the DNOs in the submission of regulatory returns. Furthermore as the Revenue Reporting process evolves Ofgem and the DNOs will re-evaluate the format of the returns and may, if appropriate, modify them in accordance with standard condition 50.

Generic Process for submitting Regulatory Returns

- 8.6. Figure 1 outlines the generic process for submitting the detailed return and figure 2 details the processes for submitting forecast returns.

Completing the Detailed Regulatory Return

- 8.7. The detailed regulatory return is given in Appendix [x]. The return will operate in part as a report with disclosure of outputs derived from the compliance model.

Section 1 – Summary Information

- 8.8. Section 1 is concerned with the disclosure of summary information. This contains two elements:
- ◆ a summary outputs for each of the revenue restrictions in table 1; and
 - ◆ the summary inputs in table 1a.

Section 2 – Demand revenue restriction

- 8.9. Section 2 relates to the demand revenue restriction. This should be completed in accordance with the guidance and instructions given in Chapter 3.

Section 3 – Generation revenue restriction

- 8.10. Section 3 relates to the generation revenue restriction. Section 3(b) is derivation of the correction factor. This should be completed in accordance with the guidance and instructions given in chapter 4.

Section 4 – Metering charge and revenue restrictions

- 8.11. Section 4 relates to the Metering charge restriction provision and should be completed in accordance with chapter 6.

Section 5 – Excluded Services

- 8.12. Section 5 relates to the disclosure of Excluded Services Revenue. This should be completed in accordance with the guidance and instructions given in chapter 7.

Section 6 - Charging

- 8.13. Section relates to charging. The DNO should list all tariffs used for the collection of allowable demand and allowable generation revenue, the amount of revenue attributed to each tariff and the amount of NGC exit charge as well.

Section 7 – Reconciliation of Turnover

- 8.14. Section 7 contains supplementary information to reconcile the actual turnover as recorded in the detailed return to the Turnover of the Profit and Loss account of the Regulatory Accounting Statements.

Section 8 – De Minimis Revenue

- 8.15. Section 8 relates to the reporting of de minimis revenue. The DNO should list all de minimis Activities and the revenue associated with those activities.

Audit Requirements

- 8.16. SLC 50 paragraph 6 requires the detailed return to be accompanied by an auditor's report. Accompanying the auditors report should be a letter from the auditors which sets out the audit procedures that the auditor has followed in reaching their opinion.

Completing the Forecast Return

- 8.17. The Forecast Return is given in Appendix 1. All information contained with the return will be run entirely as a report. Furthermore all sections should be completed by reference to the appropriate RIGs.

Ofgem's role in reporting

- 8.18. The provision of the regulatory returns, both forecast and detailed, will be scrutinized by Ofgem to ensure that DNOs are in compliance of the charge restrictions. Consequently Ofgem will undertake as much analysis as is deemed necessary to ensure that this objective is satisfied

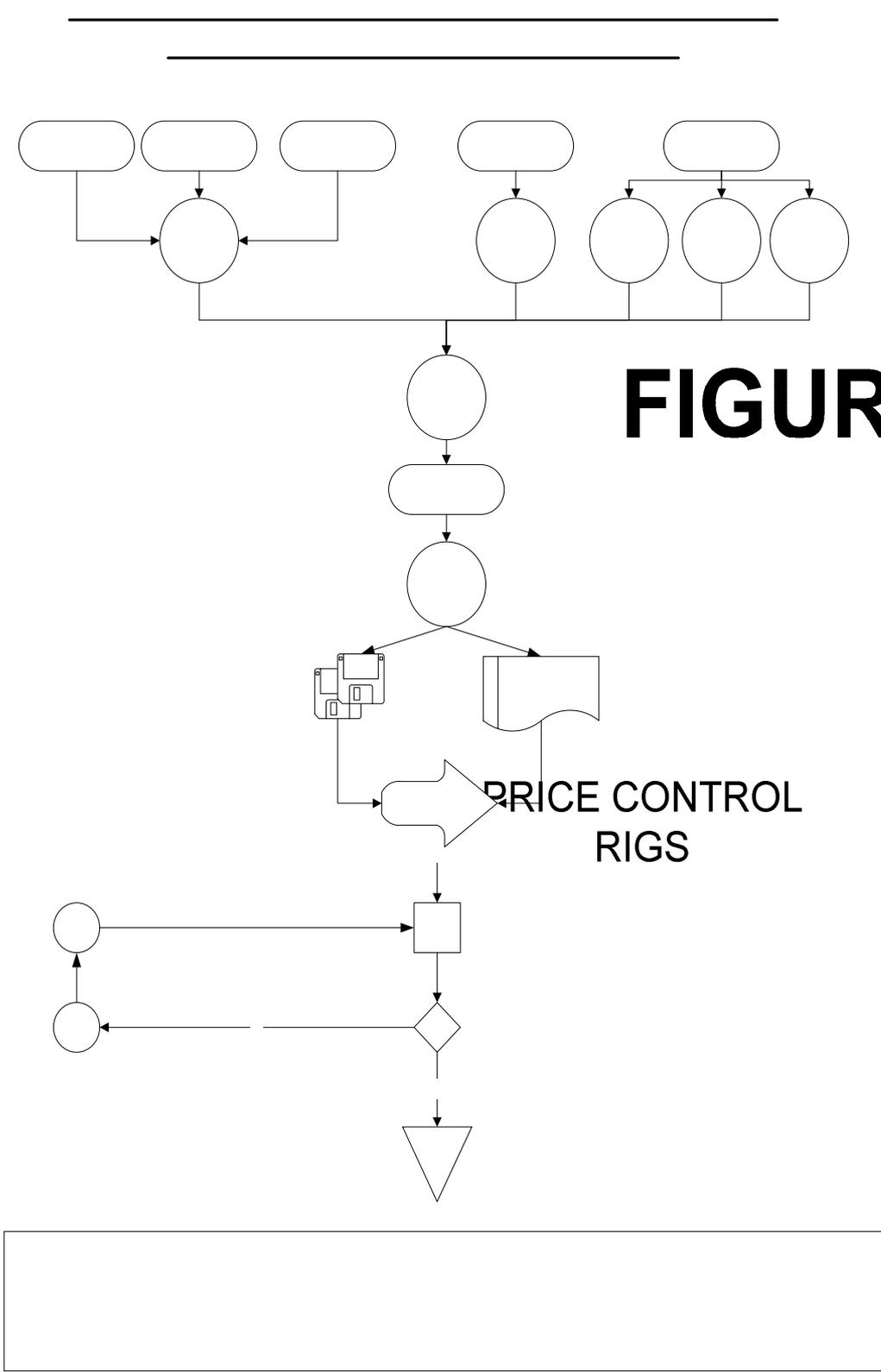


FIGURE 1 - G
DETAIL

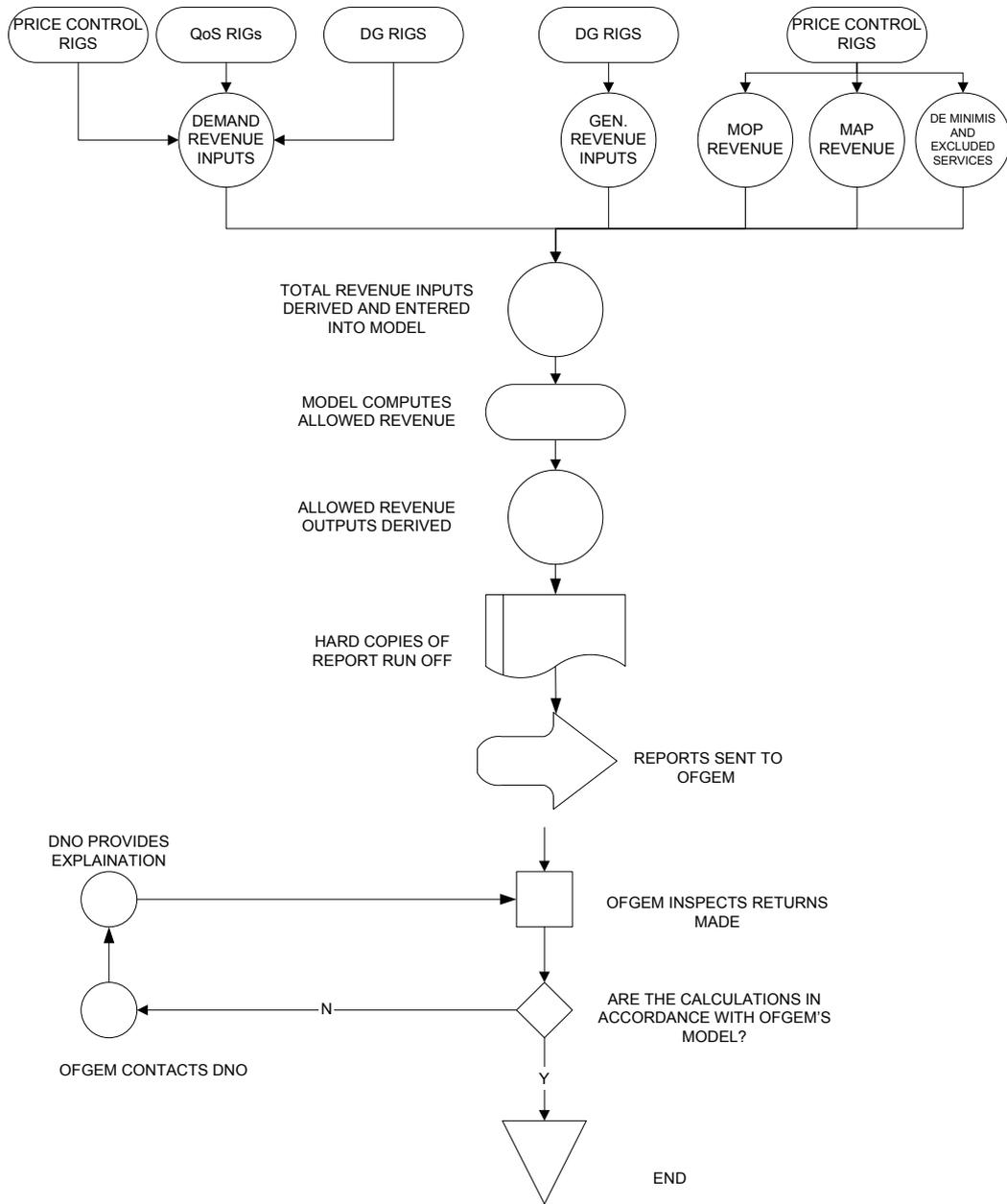
QoS RIGs

PRICE CONTROL RIGS

DEMAND REVENUE INPUTS

TOTA
DERI

FIGURE 2 - GENERIC PROCESS FOR SUBMITTING FORECAST REGULATORY RETURNS



NOTES:

1. DEMAND REVENUE INPUTS WILL BE DETERMINED BY THE PROCESSES SET OUT IN THE QUALITY OF SUPPLY RIGS, DG RIGS AND PRICE CONTROL RIGS SECTIONS 3 AND 5
2. GENERATION REVENUE INPUTS WILL BE DETERMINED BY THE PROCESSES SET OUT IN THE DG RIGS. THE REPORTING GUIDELINES FOR GENERATION REVENUE ARE DETAILED IN SECTIONS 4 AND 5
3. MAP AND MOP REVENUE INPUTS WILL BE DETERMINED BY THE PROCESSES SET OUT IN THE PRICE CONTROL RIGS SECTION 6.
4. PROCESSES FOR REPORTING EXCLUDED SERVICES ARE GIVEN IN SECTION 7

9. Reporting for adjustments and required level of accuracy for reporting

Introduction

- 9.1. This section sets out guidance and procedures for reporting for adjustments to price control returns and the level of accuracy to which the returns should be stated.

Reporting for Adjustments

- 9.2. Standard condition 50 requires that if, in relation to any preceding relevant year, information provided to the Authority under paragraph 5(a), or paragraph 9 of special condition D of the licence in force on 1 April 2004, is:

- ◆ subject to adjustment or amendment;
- ◆ found to be incorrect,

- 9.3. by 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 17, a statement to the Authority setting out the revised amounts for the specified items directly or indirectly effected by the amendments or corrections. The statement provided by the licensee shall restate information for all relevant years affected up to a maximum of preceding three relevant years from the date on which the statement is submitted to the Authority.

- 9.4. Where an item that has been previously reported, in either a statement submitted under special condition D of the licence in force on 1 April 2004 or a statement provided under paragraph 5(a) of standard condition 50, and has been subsequently subject to change or amendment, then the revised value for that specified item and all other items affected, whether in that year or subsequent years should be resubmitted.

- 9.5. This is best illustrated through the use of scenarios.

Scenario 1 – Restatement of Units Distributed.

- 9.6. A DNO receives information in September 2006 that it distributed an additional 600 GWh of regulated units in 2004/05, for which it had not previously billed for this consumption. In these circumstances, the DNO shall make all reasonable endeavours to place those units and the associated revenue adjustment in the 2004/05 regulatory period.
- 9.7. As a result of these adjustments, the DNO would also restate the relevant items together with those items consequentially effected by the change, in this instance:
- ◆ Units distributed;
 - ◆ regulated demand revenues;
 - ◆ The components of base demand revenue for the year 2004/05; and
 - ◆ The value of allowable demand revenue.
- 9.8. This change will also have consequential affects upon the derivation of allowable demand revenue in 2005/06, specifically;
- ◆ The value of correction factor; and
 - ◆ The value of allowable demand revenue.
- 9.9. In light of these consequential effects, the DNO would be required to restate those elements of the 2005/06 audited return.
- 9.10. **All re-submissions would be made together with statement required under paragraph 5(a) of standard condition 50 in respect of the relevant year 2006/07.**
- 9.11. Standard condition 50, subject to reasonable endeavours, does not permit the adjustment to be made in the 2006/7 regulatory period.

Scenario 2 – Units Distributed before 1st April 2004

- 9.12. A DNO in discovers in May 2005 that it distributed an extra 300 GWh of EHV units in 2002/03. Under these circumstances the DNO would place the units in the 2002/03 regulatory period and would restate the relevant components of the audited price control return submitted under Special Condition D in respect of that year that are effected by the adjustment.
- 9.13. This change may also have consequential affects upon the derivation of allowable demand revenue in 2003/04 and 2004/05, specifically;
- ◆ through calculation of losses and allowed losses;
 - ◆ the value of correction factor; and
 - ◆ the value of allowable demand revenue.
- 9.14. In light of these consequential effects, the DNO would be required to restate those elements of the 2004/05 audited return. However, if the change does not have a consequential effect on subsequent returns then, the restatement of items will only relate to the relevant year 2002/03.

Limits in restatement

- 9.15. Standard condition 50 places the obligation to restate information for a maximum of 3 years. For example, consider scenario 2 again although the adjustment is identified in 2008/09 rather than 2005/06. In this case, the DNO will only be expected to provide restated information in respect of the consequential effects that occur in the three years 2005/06 to 2007/08. This means that initial adjustment is made in relation to 2005/06 rather than 2002/03.

Required Level of Reporting Accuracy

Allowable Demand Revenue

- 9.16. All items disclosed for the determination of allowable demand revenue should be reported in accordance with the table given below:

Item	Notation	Guidance
Revenue Items	£	To be reported within the nearest £100,000
Units (volume of electricity)	GWh	To be reported to the nearest 0.1 GWh
Maximum Average charge per unit	p/kWh	To be reported within 4 decimal places
Customer Numbers		To be reported within the nearest customer
Inflation	%	To be applied to 2 decimal places
Interest Rates	%	To be applied to 2 decimal places

Allowable Generation Revenue

- 9.17. All items disclosed the determination of allowable generation revenue should be reported in accordance with the following table

Item	Notation	Guidance
Revenue items	£	To be reported within the nearest £10,000

Metering, Excluded Services and de minimis activities

- 9.18. All metering revenues (£) should be disclosed to within £100,000.
- 9.19. All excluded services revenues and revenues outside of the price control should be disclosed to within £100,000.
- 9.20. All revenue associated with de minimis activities should be reported to within £100,000.

10. Process for dealing with an event with a material impact on the consistency or accuracy of information

Introduction

10.1. It is important that Ofgem can collect information on a consistent and accurate basis and to this end the RIGs aims to provide a robust framework. However from time to time events may occur which have a significant impact upon the determination of allowed revenue but which are not covered by the general requirements of this document. Consequently, standard condition 50 seeks to make provision for such circumstances and ensures that a reasonable degree of consistency is maintained in approach by network operators.

Defining the event.

10.2. Standard condition 50 states that where the Price Control Revenue Regulatory Instructions and Guidance does not provide guidance in relation to the collection and reporting of specified items following:

- ◆ a change in industry process or procedures which has significant on the calculation of one or more specified items; or
- ◆ a change in the process or procedures of the licensee which has a significant effect on the calculation of one or more specified items;

the licensee shall request guidance from the Authority in relation to the treatment of such items.

10.3. An event can be deemed to be anything that causes a change calculation any item given in the detailed audited price control return caused by either a change in industry or the licensee's processes or procedures.

10.4. Regulatory involvement in determining the treatment of the event is subject to a "significant effect" test which is defined in standard condition 50 as a change which results in an amount that is:

- ◆ for allowable demand revenue, equal or greater than 1% of base demand revenue; and

- ◆ for allowable generation revenue, equal or greater than 0.1% of base demand revenue.

Discovery of an external event

- 10.5. As stated above, standard condition 50 places an obligation on the DNO to request guidance from the Authority where there is a significant effect of the calculation of allowable revenues as a consequence of changes in processes and procedures.
- 10.6. Once the request for guidance has been made, the Authority will seek to consultation with both the licensee, and other DNOs, which are effected by the change. In some cases, it may be necessary to modify this document to reflect the new circumstances. Any necessary change will therefore be made in accordance with the relevant change control mechanism detailed in Part C of standard condition 50.

Appendix 1 Templates

1.1 Audited Pro Forma

Distribution Company:							
Regulatory Period:							
SECTION 1: SUMMARY							
Table 1 - Summary							
Reference	Notation	Revenue Stream			Reference	Year	Comparative
						£m	£m
1	AD t	Allowable Demand Revenue			Table 2		
2	AG t	Allowable Network Generation Revenue			Table 3		
3	MAP t	Metering Asset Provision			Table 4		
4	MOP t	Meter Asset Operation			Table 5		
5		Total Allowable Revenue					
Table 1a - Basic Information							
Reference	Notation	Item			Units	Year	Comparative
						t	t-1
6			EHV		GWh		
7			HV		GWh		
8			LV1		GWh		
9			LV2		GWh		
10			LV3		GWh		
11			RPI		%		
12			I dt		%		
Where							
1	AD t refers to paragraph 2 of special licence condition B						
2	AG t refers to paragraph 2 of special licence condition D						
3	MAP t refers to paragraphs 2 to 7 of special licence condition F						
4	MOP t refers 8 to 9 of special licence condition F						
6	EHV is defined is defined special condition A1						
7	HV is defined in special condition A1						
8	LV1 is defined in special condition A1						
9	LV2 is defined in special condition A1						
10	LV3 is defined in special condition A1						
11	RPI refers Retail Price Index and is defined in special condition B paragraph 3						
12	I dt refers to average specified interest rate as defined in special condition A1						

Distribution Company:						
Regulatory Period:						
SECTION 2: ALLOWABLE DEMAND REVENUE						
Table 2: Derivation of Allowable Demand Revenue						
Formula	$AD_t = BR_t + PT_t + IPT - KD_t$					
Reference	Notation	Revenue Item	Reference	Year	Comparative	
				£m	£m	
1	BR t	Base Revenue				
2	PT t	Pass Through				
3	IP t	Incentive Payments				
4	KD t	Correction Factor				
5	AD t	Total Allowable Demand Revenue				
6	RD t	Actual Revenue				
7		Over/(under) Recovery				
Table 2a Basic Base Revenue						
Formula	$BR = (PU.GR_t + PE)PID_t - MG_t$					
Reference	Notation	Revenue Item	Units	Year	Comparative	
1	PU.GR t	Basic Base Revenue	£m			
2	PE	EHV Revenue	£m			
3	PIDt	RPI-X term				
4	MGt	Merger Adjustment				
5	BR t	Base Revenue				
Table 2b Pass Through Items						
Formula	$PT_t = LF_t + RB_t - HB_t + MPT_t$					
Reference	Notation	Revenue Item	Reference	Units	Year	Comparative
1	LF	Licence Fee	Table 2 b (1)	£m		
2	RB	Business Rates	Table 2 b (2)	£m		
3	HB	Network Subsidy	-	£m		
4	MPT	Miscellaneous	Table 2 b (3)	£m		
	PT t	Total Pass through				

Table 2b (1) - Licence Fees						
Formula	$LF = LP - LA$					
Reference	Notation	Item	Reference	Units	Year	Comparative
1	LP	Payments	-	£m		
2	LA	Allowance Nominal	-	£m		
3	PF	Allowance Real	<i>Annex A of Special Condition B2</i>	£m		
4	PIF	Inflation	-	%		
Table 2b (2) - Business Rates						
Formula	$RB = RP - RA$					
Reference	Notation	Item	Reference	Units	Year	Comparative
1	RP	Rates Payable	-	£m		
2	RA	Rates Allowed Nominal	-	£m		
3	RV	Rates Allowed Real	<i>Annex B of Special Condition B2</i>	£m		
4	PIR	Inflation	-	%		
Table 2b (3) - Miscellaneous Pass through						
Formula	$MPT = MPC + MPA$					
Reference	Notation	Item	Reference	Units	Year	Comparative
1	SRS		<i>Annex C of Special Condition B2</i>	£m		
2	SA		<i>Annex C (part 2) of Special Condition B2</i>	£m		
3	PIR	Inflation		%		
4	MPA	Pass through adjustments	$(SRS+SA).PIR$	£m		
5	MPC	Other allowable costs	-	£m		
6	MPT	Total Miscellaneous Pass Through	$=4+5$	£m		

Table 2c Incentive Payments						
Formula	$IP = IL + IQ + IFI$					
Reference	Notation	Revenue Item	Reference	Year	Comparative	
				£m	£m	
1	IL t	Losses Incentive	Table 2c(1)			
2	IQ t	Quality of Supply Incentive	See Note below			
3	IFI t	Innovative funding incentive	See Note below			
4	IP t	Incentive Payments				
Notes						
3	IQ t is determined by incentive arrangements with the QoS. Only the output is disclosed here					
4	IFI t is determined by incentive arrangements with Technical monitoring. Only the output is recorded					
Table 2c(1) Losses Incentive						
Formula	$IL = LR \cdot PIAL \cdot (AL - L)$					
Reference	Notation	Item	Reference	Units	Year	Comparative
1	AL	Target Losses	Special Condition C1	GWh		
2	L	Actual Losses	Special Condition C1	GWh		
3		Net Losses	=1-2	GWh		
4	LR	Incentive Rate		£	0.48	
5	PIAL	Infaltion		%		
6	IL	Losses Incentive		£m		
Table 2d Derivation of correction Factor						
Reference	Notation	Item	Reference	Units	Year	Comparative
1	AD t-1	Allowed Revenue		£m		
2	RD t-1	Actual Revenue		£m		
3	I t	Interest		%		
4	PR t	Penalty Rate		%		
Table 2d (1) Correction Factor for 2005/06 only						
Reference	Notation	Item	Reference	Units	Year	Comparative
1	Mdt -1	Max Ave charge in 2004/05		£/GWh		
2	Dt-1	Units Distributed		GWh		
3	AD t-1	Allowed Revenue 2004/05		£m		
4	RD t-1	Actual Revenue 2004/05		£m		
5	K	Correction factor 05/06		£m		

Distribution Company:						
Regulatory Period:						
SECTION 3: ALLOWABLE GENERATION REVENUE						
Table 3: Derivation of Allowable Generation Revenue						
Formula	$AG\ t = IG\ t - KG\ t$					
Reference	Notation	Revenue Item	Reference	Year	Comparative	
				<u>£m</u>	<u>£m</u>	
1	IG t	Generation Revenue	Table 3(a)			
2	KG t	Generation Correction Factor	Table 3(b)			
3	AG t	Total Allowable Generation Revenue				
4	RG t	Actual Revenue				
5		Over/(under) Recovery				
Table 3(a) Disclosure of Generation Revenue						
Formula	$IG = (GI+GP+GO-GT+GA)+RPZ$					
Reference	Notation	Revenue Item	Reference	Year	Comparative	
				<u>£m</u>	<u>£m</u>	
1	GI	Incentive Revenue	See note below			
2	GP	Pass through Revenue	See note below			
3	GO	Operation and Maintenance	See note below			
4	GT	Adjustment for Assets Transferred	See note below			
5	GA	Adjustment for Cap or Floor	See note below			
6	RPZ	Registered Power Zone Revenue	See note below			
7	IG	Total Generation Revenue				
1-6	These terms have been prepared in accordance with the relevant reporting arrangements Only the output is disclosed here					
Table 3(b) Derivation of Generation Correction Factor						
Reference	Notation	Item	Reference	Units	Year	Comparative
1	AG t-1	Allowed Revenue		£m		
2	RG t-1	Actual Revenue		£m		
3	I t	Interest		%		
4	PR t	Penalty Rate		%		

Distribution Company:

Regulatory Period:

SECTION 5: Revenue Outside of Price Control and Excluded Service

Table 5 - Revenue Outside of Price Control and Excluded Services

Special Licence Ref	Description	Item	A	B	A-B Variance Amount
			Year Amount	Comparative Amount	
			£m	£m	£m
	Revenue Outside of Price Control	Transmission Exit Charges (LV1, LV2, LV3, HV) ¹			
		Other Recovery of Transmission Exit Charges (EHV charges, etc)			
		Wheeled Units Imported- Pass Through Costs			
	Excluded Services	EHV (after 1st April 2005)			
		Non Trading Rechargeables			
		Top-Up and Standby ²			
		Additional Security Provision			
		Reactive Power Charges			
		Connection Charges			
		Connection Charge Statements			
		Other Excluded Services			
		Total			

Table 5a - General Comments on Excluded Services for 2003/04

Commentary

Table 5b - Commentary on Transmission Exit Charges

Commentary

Table 5c - Other Transmission Exit Charges

Commentary

Table 5d - Wheeled Units Imported

Commentary

Table 5c- Commentary on EHV Charges

<u>Commentary</u>

Table 5f- Commentary on Non Trading Rechargeables

<u>Commentary</u>

Table 5g- Commentary on Top Up and Standby

<u>Commentary</u>

Table 5h - Commentary on Top Up and Standby

<u>Commentary</u>

Table 5i - Commentary on Other Revenue Excluded by the Distribution Business

<u>Commentary</u>

Table 5j - Connection Charge Receipts

Connection site	Amount £m
Total	

Give details of all projects where Connection charge receipts >£0.5m

Table 5L- Other Revenue Excluded by the Distribution Business

Item	A	B	A-B
	Year	Comparative	Variance
	Amount £m	Amount £m	Amount £m
Total			

Specify all revenue items in excess of £0.1m. If items below this threshold are aggregated, please list the constituent parts

1.2 Forecast Pro Forma

Forecast data input				
Distribution Company		Regulatory Period		
Submission date				
Table 1 - Basic Information				
Reference	Notation	Item	Units	Year
1		EHV	GWh	
2		HV	GWh	
3		LV1	GWh	
4		LV2	GWh	
5		LV3	GWh	
6		RPI	%	
7		I dt	%	
Table 1a - Basic Output Information				
Reference	Notation	Item	Units	Year
1	AD t	Total Allowable Demand Revenue	£m	
2		Demand Over/(under) Recovery	£m	
3	AG t	Total Allowable Generation Revenue	£m	
4		Generation Over/(under) Recovery	£m	
5	MAP	Metering Asset Provision	£m	
6	MOp	Metering Asset Operation	£m	
7		Excluded Services Income	£m	
8		De minimis Activities	£m	
Table 2 - Losses				
Reference	Notation	Item	Units	£m
1	ALt	Target Losses	GWh	
2	L t	Actual	GWh	
3		Net Losses	GWh	
4		Incentive	£m	
Table 3 - Demand Revenue				
Reference	Notation	Item	Units	Year £m
1	RD t	Demand Revenue	£m	
2	BR t	Base Revenue	£m	
3	PT t	Pass Through	£m	
4	IP t	Incentive Payments	£m	
5	KD t	Correction Factor	£m	

Table 5 - Revenue Outside of Price Control and Excluded Services				
Description	Reference	Revenue Item	Units	Year £m
Revenue outside of Price Control	1	Transmission Exit Charges (LV1, LV2, LV3, HV) ¹	<i>£m</i>	
	2	Other Recovery of Transmission Exit Charges (EHV charges, etc)	<i>£m</i>	
	3	Wheeled Units Imported- Pass Through Costs	<i>£m</i>	
Excluded Services	4	EHV (after 1st April 2005)	<i>£m</i>	
	5	Non Trading Rechargeables	<i>£m</i>	
	6	Top-Up and Standby ²	<i>£m</i>	
	7	Additional Security Provision	<i>£m</i>	
	8	Reactive Power Charges	<i>£m</i>	
	9	Connection Charges	<i>£m</i>	
	10	Connection Charge Statements	<i>£m</i>	
	11	Other Excluded Services	<i>£m</i>	