

Electricity Distribution Price Control Review Initial Licence Drafting Consultation

Document type: Appendices

Ref: 128a/09

Date of publication: 20 October 2009

Deadline for response: 17 November 2009

Target audience: Consumers and their representatives, distribution network operators (DNOs), independent distribution network operators (IDNOs), owners and operators of distributed energy schemes, transmission owners, generators, electricity suppliers, the Department of Energy and Climate Change (DECC) and any other interested parties.

Overview: This document sets out our initial views on the changes to the DNOs' licence conditions that we think are necessary to bring our proposals for the next Distribution Price Control Review (DPCR5) into effect. The proposed changes are broadly consistent with our Initial Proposals for DPCR5 which we set out in August this year. In some places, the draft licence conditions reflect further policy development since August.

We invite views on the draft licence conditions. At this stage we are not consulting on the policy itself. We will hold a further consultation on the licence conditions once we have issued our Final Proposals for DPCR5 later this year.

This document contains the appendices for the Electricity Distribution Price Control Review – Initial Licence Drafting Consultation.

Contact name and details: Rachel Fletcher - Partner, Distribution

Tel: 020 7901 7209

Email: DPCR5.reply@ofgem.gov.uk

Team: Electricity Distribution

Context

We began the Electricity Distribution Price Control Review (DPCR5) in March 2008. Since then we have issued a number of consultation documents, including our Initial Proposals in August this year. In that document we set out our initial proposals for the revenues the DNOs should be allowed to earn between 2010 and 2015. We also set out the outputs and behaviours we would like from the DNOs over this period and the incentives, funds and obligations we propose to use to encourage them. We will publish our Final Proposals later this year. If the DNOs accept them, the new arrangements will come into effect on 1 April 2010. If they do not, we may refer the matter to the Competition Commission.

Ahead of 1 April 2010 we need to ensure that the DNOs' licence conditions reflect our Final Proposals. We have formed a DPCR5 legal drafting working group (LDWG) with the DNOs to help develop the new licence conditions. While the LDWG is working well, we think it is important to get the views of other stakeholders on how the licence drafting is developing at an early stage of the licence drafting process. Sharing the work in progress also enables us to highlight potential modifications to the licence conditions which may not be apparent from earlier DPCR5 consultation documents, including our Initial Proposals.

The licence drafting consultation also provides us with the opportunity to review the DNOs' licences and seek improvements, not associated with DPCR5, where appropriate. In this regard we propose a change to the structure of the price control licence conditions (also referred to as the special licence conditions) to align them more closely with the standard licence conditions in both style and format. This and other house-keeping changes (including a review of the defined terms in the special licence conditions) are to reflect the conclusions of the Distribution Licence Review last year.

We will hold another consultation on the licence drafting later this year following publication of Final Proposals.

Associated Documents

- Electricity Distribution Price Control Review - Initial Licence Drafting Consultation, 20 October 2009 (Ref. 128/09)
- September Update to Initial Proposals, 21 September 2009
[http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/September Update letter.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/September%20Update%20letter.pdf)
- Electricity Distribution Price Control Review - Initial Proposals, 3 August 2009 (Ref. 92/09)
[http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/Initial%20Proposals 1 Core%20document.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/Initial%20Proposals%201%20Core%20document.pdf)

- Electricity Distribution Price Control Review - Initial Proposals - Incentives and Obligations, 3 August 2009 (Ref. 93/09)

http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/Initial%20Proposals_2_Incentives%20and%20Obligations.pdf

- Electricity Distribution Licence Review: Conclusions and Statutory Consultation, April 2008 (Ref. 50/08)

http://www.ofgem.gov.uk/Networks/ElecDist/Policy/Documents1/DLR%20Conclusions_letter.pdf

- Electricity Distribution Licence Review Proposals, October 2007 (Ref. 259/07)

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/Documents1/DLR%20Proposals%20consultation.pdf>

- Distribution Price Control Review - Final Proposals, November 2004 (Ref. 265/04)

<http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR4/Documents1/8944-26504.pdf>

Table of Contents

| | |
|--|-----------|
| Appendix 7 – Proposed standard licence conditions to implement key DPCR5 policy issues | 4 |
| Appendix 8 – Proposed special licence conditions / charge restriction conditions to implement key DPCR5 policy issues | 31 |

Appendix 7 – Proposed standard licence conditions to implement key DPCR5 policy issues

This appendix contains our current drafting in relation to proposed standard licence conditions to implement key DPCR5 policy issues. Currently we propose to introduce six new standard licence conditions for this purpose. Other standard licence conditions will be affected as set out in Appendix 6 in the main consultation document. Proposed changes to those other licence conditions will be contained in the second licence drafting consultation which we intend to undertake later this year following publication of our Final Proposals.

The standard licence conditions included in this appendix are as follows:

- SLC 15A – Connection policy and connection performance,
- SLC 25A – Distributed Generation Connections Guide and Information Strategy,
- SLC 44A – Network Outputs Regime,
- SLC 44B – Distribution Losses Regime,
- SLC 45A – Incentive scheme for Transmission Connection Point Charges, and
- SLC 46A – Business Carbon Footprint Report.

Condition 15A Connection policy and connection performance

Introduction

- 15A.1 This condition applies on and after 1 April 2010 and provides for the Authority to issue Regulatory Instructions and Guidance (“the Connection RIGs”) about connection policy and connection performance (see paragraph 15A.3 below).
- 15A.2 It also imposes a particular duty on the licensee with respect to the Electricity (Connection Standards of Performance) Regulations 2010 (SI 2010/1234) (“the Connection Regulations”).

Meaning of certain terms

- 15A.3 In this condition:
- (a) references to “connection policy” are references to the Authority’s policy of promoting competitive connection activity, as reflected in the provisions of Charge Restriction Condition 13 (Licensee’s Connection Activities: Margins and the development of competition); and
 - (b) references to “connection performance” are references to the licensee’s performance under or in relation to the provisions of:
 - (i) standard condition 15 of this licence (Standards for the provision of Non-Contestable Connection Services); and
 - (ii) the Connection Regulations.

Contents of the Connection RIGs

- 15A.4 Any Connection RIGs issued under this condition may, in particular, include provision about or impose requirements in respect of:
- (a) the nature and formulation of the criteria against which the licensee’s compliance with, and the results of, connection policy will be assessed by the Authority;
 - (b) details of the information to be collected and recorded by the licensee in relation to the application and development of connection policy;
 - (c) the form and manner in which, and the frequency with which, such information is to be provided to the Authority;
 - (d) the meaning of particular words or expressions used, whether under this licence or elsewhere, in relation to connection policy;

- (e) details of the information to be collected and recorded by the licensee in relation to connection performance;
- (f) the form and manner in which, and the frequency with which, such information is to be provided to the Authority;
- (g) the meaning of particular words or expressions used, whether under this licence or elsewhere, in relation to connection performance;
- (h) the scope and conduct of any audit required by the Authority in relation to any of the requirements or purposes of either or both of connection policy and connection performance;
- (i) the contents of any commentary to be provided by the licensee when providing information to the Authority in respect of either or both of connection policy and connection performance.

15A.5 The provisions of the Connection RIGs must not exceed what is reasonably required to achieve the purposes of this condition.

Procedure for issuing the Connection RIGs

15A.6 Before issuing Connection RIGs, the Authority, by Notice given to all Electricity Distributors, must:

- (a) state that it proposes to issue the RIGs and specify the date on which it proposes that they should take effect;
- (b) set out the text of the RIGs and the Authority's reasons for proposing to issue them; and
- (c) specify the time (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.

15A.7 The Authority must consider any representations or objections that are duly made and not withdrawn.

Compliance with and modification of the Connection RIGs

15A.8 In fulfilling its obligations under or in relation to matters of connection policy and connection performance, the licensee must at all times act in accordance with any relevant provisions of the Connection RIGs.

15A.9 The Connection RIGs may be modified at any time on or after 1 April 2010 in accordance with the procedures and subject to the other provisions specified in standard condition 49 (Modification of RIGs in force under this licence).

Connection Regulations: licensee's duty

[15A.10 It is the licensee's duty under this condition:

- (a) to take all reasonable steps to comply with the standards of performance prescribed for the licensee by the Connection Regulations in every case to which each such standard applies; and
- (b) without limiting the general effect of that obligation, to comply with those standards of performance in at least 90 per cent of all of the cases to which each such standard applies.]

Price accuracy scheme

[15A.11 The price accuracy scheme is still being considered by the Electricity Connections Steering Group (sub-group). This condition may contain a provision that requires the licensee to submit to the Authority for its agreement an accuracy review scheme through which customers can require the licensee to review the accuracy of quotations for obtaining a new electricity connection or altering an existing electricity connection and, in the event that the licensee provides an inaccurate quotation, the licensee may have to adjust any charge made to the customer to the amount due under an accurate quotation.]

Interpretation

[15A.12]The requirements of paragraphs 15A.6 and 15A.7 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

Condition 25A. Distributed Generation: Connections Guide and Information Strategy

Introduction

25A.1 This condition applies on and after 1 April 2010 for the purpose of ensuring that the licensee:

- (a) makes information available in the public domain that will assist any person who might wish to enter into arrangements with the licensee that relate to the connection of Distributed Generation to the licensee's Distribution System ("DG connections") to understand and evaluate the process for doing so; and
- (b) implements a DG Information Strategy in respect of that information and also of other information more generally related to DG connections.

Scope and contents of the DG Connections Guide

25A.2 Where the Authority gives the licensee a direction to do so, the licensee must work collectively with such other licensees as are also subject to a direction under this condition ("relevant licensees") to prepare and maintain a common set of documents, approved by the Authority and to be known as the DG Connections Guide, that:

- (a) is in such form as may be specified in the direction for the purposes of this condition; and
- (b) contains such information as the licensee can reasonably provide that identifies or relates to the matters specified in paragraph 25A.3.

25A.3 Those matters may (without limitation) include:

- (a) details of the statutory and regulatory framework (including health and safety considerations) that applies to DG connections;
- (b) the likely costs, charges, and timescales involved in the application process typically operated by Electricity Distributors in respect of such connections;
- (c) details of the arrangements and opportunities available for competitive activity in the provision or procurement of such connections; and
- (d) engineering and other technical matters relevant to the commissioning, energisation, and maintenance of such connections.

Preparation and revision of the DG Connections Guide

25A.4 The licensee must, together with the relevant licensees:

- (a) prepare and issue the DG Connections Guide, as approved by the Authority, within a period of three months after the date of the Authority's direction; and
- (b) except with the Authority's consent, review and where appropriate revise the Guide in each following Regulatory Year to ensure that, so far as is reasonably practicable, the information contained in it is up to date and accurate in all material respects.

Licensee's DG Information Strategy

25A.5 Where the Authority gives the licensee a direction to do so, the licensee must prepare and implement a DG Information Strategy, approved by the Authority, which sets out how the licensee intends to ensure that all existing and potential users of its Distribution System are able to receive an adequate level of information and a satisfactory standard of service in relation to the DG connections process and matters relevant to it.

25A.6 In particular, the scope and contents of the DG Information Strategy must cover how the licensee will provide information to all such users in a form and manner tailored to their particular needs and designed to help them to:

- (a) understand the DG connections process and the likely range of the costs and timescales involved in obtaining such connections;
- (b) form an indicative view, by reference to the likely costs and timescales involved, of the most (and the least) advantageous locations within the licensee's Distribution Services Area in which to obtain such connections;
- (c) understand in appropriate detail the connection opportunities available to DG schemes in a specified locality within that area, and the factors driving any constraints;
- (d) make an indicative assessment of the connection costs applicable to any specific DG scheme within that area; and
- (e) request a formal quotation for the connection of a specific DG scheme to the licensee's Distribution System.

25A.7 The licensee must implement its DG Information Strategy, as approved by the Authority, with effect from such date as may be specified in or determined under the direction given by the Authority under paragraph 25A.5.

Review and revision of the DG Information Strategy

25A.8 The licensee must review its DG Information Strategy at least once a year with a view to ensuring that it remains fit for the purposes envisaged by paragraph 25A.5 and, with the consent or at the direction of the Authority, must make any changes to the strategy that may be necessary to enable it to better achieve those purposes.

Procedure for directions under this condition

25A.9 Before the Authority gives a direction under this condition, whether in accordance with paragraph 25A.2 or 25A.5, it must inform the licensee of its intention to do so in a Notice that:

- (a) states the date on which it is proposed that the direction should take effect;
- (b) sets out the proposed contents of the direction with respect to the form in which the DG Connections Guide or the DG Information Strategy (as the case may be) is to be prepared and maintained for the purposes of this condition; and
- (c) specifies the time (which must not be less than a period of 28 days from the date of the Notice) within which representations with respect to the proposed direction may be made.

25A.10 The Authority must consider any representations that are duly made and are not withdrawn.

25A.11 A direction under this condition, whether in accordance with paragraph 25A.2 or 25A.5, may be given at any time in a Regulatory Year.

Availability of the Guide and the Strategy

25A.12 The licensee must give the Authority a copy of the DG Connections Guide and the DG Information Strategy and of each revision of either document.

25A.13 The licensee must also:

- (a) publish each document in such manner as the licensee believes will ensure adequate publicity for it (including by making it readily accessible from the licensee's Website); and
- (b) give or send a copy of either document to any person who requests one and who makes such payment to the licensee as it may require (which must not exceed such amount as the Authority may from time to time approve for that purpose in respect of the document in question).

Interpretation

- 25A.14 The requirements of paragraphs 25A.9 and 25A.10 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
- 25A.15 In this condition, **Distributed Generation** has the meaning given in Charge Restriction Condition 2 (Definitions for the Charge Restriction Conditions) and **DG** is to be read as a reference to that term.

Condition 44A. Network Outputs Regime

Introduction

- 44A.1 This condition applies on and after 1 April 2010 and requires the licensee to collect and provide the Authority with Specified Information on a common basis with all other Distribution Services Providers, and to an appropriate degree of accuracy, so as to:
- (a) facilitate the establishment and operation of a reporting and monitoring regime for Agreed Network Outputs (“the Network Outputs Regime”) that will enable the Authority to assess the licensee’s performance in relation to those outputs; and
 - (b) provide a basis for further development of that regime while it is in force.
- 44A.2 References in this condition to the Agreed Network Outputs are references to the outputs (measured in terms of Distribution Asset health and Distribution Asset utilisation) that form the baseline against which the licensee’s future performance will be assessed in accordance with the Regulatory Instructions and Guidance issued by the Authority for the purposes of this condition (“the Network Outputs RIGs”).
- 44A.3 Those outputs were specified for the licensee in the Authority’s decision document published on 30 November 2009 and are deemed to have been accepted by the licensee by virtue of the Authority’s modification, with the licensee’s consent, of the Charge Restriction Conditions of this licence effective from 1 April 2010.

Licensee’s obligations

- 44A.4 Unless and so far as the Authority otherwise consents, the licensee must have and maintain appropriate systems, processes, and procedures to enable it:
- (a) to estimate, measure, and record the information detailed in the Schedule of Specified Information set out at Appendix 1, which is part of this condition; and
 - (b) to provide such information to the Authority in respect of such periods and within such timeframes may be specified in or determined under that Schedule.
- 44A.5 In fulfilling its obligations under paragraph 44A.4, the licensee must at all times act in accordance with the Network Outputs RIGs.
- 44A.6 The Network Outputs RIGs may include, or make provision for, any of the matters specified at paragraph 44A.7.

Contents of the Network Outputs RIGs

- 44A.7 Subject to paragraph 44A.8, the matters that may be included, or for which provision may be made, in the Network Outputs RIGs are these:
- (a) a statement of the objectives of the Network Outputs Regime, and a description of how its requirements contribute to the achievement of those objectives;
 - (b) provision with respect to the meaning of words and phrases used in defining Specified Information, including a statement of whether and to what extent each category of Specified Information is required for the purposes of the Network Outputs Regime;
 - (c) requirements as to the form and manner in which, or the frequency with which, Specified Information must be provided to the Authority;
 - (d) requirements in respect of any commentary to be provided by the licensee when providing Specified Information;
 - (e) requirements as to the form and manner in which, and the standards of accuracy and reliability with which, Specified Information must be estimated, measured, and recorded; and
 - (f) requirements for the recording of information associated with Specified Information that is reasonably necessary to enable an Examiner nominated by the Authority under paragraph 44A.12 to determine the accuracy and reliability of Specified Information.
- 44A.8 The provisions of the Network Outputs RIGs must not exceed what is reasonably required to achieve the purposes of this condition.

Procedure for issuing Network Output RIGs

- 44A.9 Before issuing any Network Output RIGs, the Authority, by Notice given to all Distribution Services Providers, must:
- (a) state that it proposes to issue the RIGs and specify the date on which it proposes that they should take effect;
 - (b) set out the text of the RIGs and the Authority's reasons for proposing to issue them; and
 - (c) specify the time (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.
- 44A.10 The Authority must consider any representations or objections that are duly made and not withdrawn.

Modification of Network Output RIGs

44A.11 The Network Output RIGs may be modified at any time on or after 1 April 2010 in accordance with the procedures and subject to the other provisions specified in standard condition 49 (Modification of RIGs in force under this licence).

Nomination of an Examiner

44A.12 The licensee must permit a person or persons nominated by the Authority (in either case, an “Examiner”) to examine:

- (a) the systems, processes, and procedures referred to in paragraph 44A.4 and their operation;
- (b) the Specified Information collected by the licensee; and
- (c) the extent to which each of the matters mentioned in sub-paragraphs (a) and (b) complies, and is in accordance, with the Network Outputs RIGs.

Co-operation with an Examiner

44A.13 Subject to paragraph 44A.16, the licensee must co-operate fully with an Examiner so as to enable him to carry out, complete, and report to the Authority on any examination carried out in accordance with paragraph 44A.12.

44A.14 The licensee’s obligation to co-operate fully with an Examiner under paragraph 44A.13 includes an obligation to ensure, so far as it can, that the following persons also co-operate fully with that Examiner:

- (a) any Affiliate or Related Undertaking of the licensee;
- (b) any person from whom the licensee procures the performance of the obligations imposed at paragraph 44A.4; and
- (c) any auditor of such person, or of the licensee, or of any Affiliate or Related Undertaking of the licensee.

Provision of access to people and premises

44A.15 The licensee’s obligation under paragraphs 44A.13 and 44A.14 to co-operate or ensure co-operation with an Examiner includes, so far as may be necessary or expedient for such purpose, and in each case subject to reasonable Notice to the licensee:

- (a) providing access to management, employees, agents, or independent contractors of the licensee sufficient to enable the Examiner to make any enquiries and to discuss any matters that he reasonably considers to be relevant to the carrying out of the examination;

- (b) giving the Examiner access at reasonable hours to any premises occupied by the licensee or by any other person in performing the obligations set out in this condition; and
- (c) allowing the Examiner at reasonable hours:
 - (i) to inspect and make copies of, and take extracts from, any documents and records of the licensee maintained in relation to Specified Information (other than information that is subject to legal privilege),
 - (ii) to carry out inspections, measurements, and tests on or in relation to any systems maintained and operated for or in relation to the requirements of this condition, and
 - (iii) to take onto such premises or onto or into any assets used for the purposes of the licensee such other persons and such equipment as may be necessary or expedient for the purpose of carrying out the examination.

44A.16 The licensee is not required to perform its obligations in relation to an Examiner and his functions unless the Examiner has entered into an agreement with the licensee to maintain confidentiality on reasonable terms.

Interpretation

44A.17 The requirements of paragraphs 44A.9 and 44A.10 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

44A.18 For the purposes of this condition, any words and expressions appearing in it (with the exception of “Agreed Network Outputs”) that are defined, explained, or further elaborated under any provision of the Network Outputs RIGs have the meaning given by, or are to be read in accordance with, that provision.

44A.19 Appendix 1 follows immediately below and includes definitions relating to this condition as a whole.

Appendix 1: Schedule of Specified Information

A1. As provided for at paragraph 44A.4, this Schedule details the Specified Information that the licensee must estimate, measure, and record under this condition, the periods in respect of which the licensee must collect it, and the timeframes within which the licensee must give it to the Authority.

- A2. The Specified Information detailed below includes information in respect of one primary and one secondary Agreed Network Output measure relating to the condition of Distribution Assets, and one primary Agreed Network Output measure relating to the utilisation of Distribution Assets.

Specified Information Category 1

- A3. This information comprises the Health Index, which is the primary Agreed Network Output measure relating to the condition of Distribution Assets within each Health Index Asset Category.
- A4. Under the Health Index framework, the licensee will, by 1 April 2010, have given each Distribution Asset within each Health Index Asset Category a ranking of between 1 and 5 in accordance with the common definitions contained in the Network Outputs RIGs and by reference to each of the following dates:
- (a) as at the current date (initially as at 1 April 2010), based on the licensee's assessment of the condition of the relevant Distribution Asset;
 - (b) as at 31 March 2015, based on the licensee's forecast (disregarding the impact of any network investment) of the future condition of the relevant Distribution Asset; and
 - (c) as at 31 March 2015, based on the licensee's forecast of the impact of network investment on the condition of the relevant Distribution Asset.
- A5. The Agreed Network Output under the Health Index framework corresponds to the information provided under paragraph A4(c).
- A6. The licensee must provide an annual update to the Authority of the information first provided under paragraph A4(a) in accordance with such requirements in respect of scope as are set out in the Network Outputs RIGs.
- A7. The licensee must provide an update to the Authority of the information first provided under paragraphs A4(b) and A4(c) by no later than 30 September 2012 and in accordance with such requirements in respect of scope as are set out in the Network Outputs RIGs.

Specified Information Category 2

- A8. This information comprises the Fault Rate Record, which is the secondary Agreed Network Output measure relating to the condition of Distribution Assets.
- A9. The licensee will, by 1 April 2010, have provided forecast Fault Rates for each of the next five Regulatory Years for each Fault Rate Asset Category.

- A10. Each such forecast constitutes the Agreed Network Output for the relevant Fault Rate Asset Category.
- A11. The licensee must provide Fault Rate information to the Authority on an annual basis, based on the licensee's actual observed number of unplanned incidents in respect of each Fault Rate Asset Category for the preceding Regulatory Year.
- A12. The licensee's provision of Fault Rate information under paragraph A11 must comply with such requirements in respect of scope and timing as are set out in the Network Outputs RIGs.

Specified Information Category 3

- A13. This information comprises the Load Index, which is the primary Agreed Network Output measure relating to the utilisation of Distribution Assets.
- A14. Under the Load Index framework, the licensee will, by 1 April 2010, have given each Demand Group a ranking of between 1 and 5 in accordance with the common definitions contained in the Network Outputs RIGs and by reference to each of the following dates:
- (a) as at the current date (initially as at 1 April 2010), based on the licensee's assessment of the loading and firm capacity for the Distribution Assets supplying that Demand Group;
 - (b) as at 31 March 2015, based on the licensee's forecast (disregarding the impact of any network investment) of demand growth for the Distribution Assets supplying that Demand Group; and
 - (c) as at 31 March 2015, based on the licensee's forecast of the impact of network investment on the loading of the Distribution Assets supplying that Demand Group.
- A15. The Agreed Network Output under the Load Index framework corresponds to the information provided under paragraph A14(c).
- A16. The licensee must provide an annual update to the Authority of the information first provided under paragraph A14(a) in accordance with such requirements in respect of scope as are set out in the Network Outputs RIGs.
- A17. The licensee must provide to the Authority an update of the information first provided under paragraphs A14(b) and A14(c) by no later than 30 September 2012 and in accordance with such requirements in respect of scope as are set out in the Network Outputs RIGs.

Specified Information Category 4

A18. This information comprises such commentary and analysis as the Network Outputs RIGs may require the licensee to undertake to accompany the Specified Information provided to the Authority under Categories 1 to 3 above.

Specified Information Category 5

A19. This category comprises such other information as may from time to time be specified by the Authority in a direction given under this condition to the licensee and all other Distribution Services Providers as if it were a direction issued under and subject to the provisions of standard condition 49 (Modification of RIGs in force under this licence) to modify the Network Outputs RIGs.

Collection periods and reporting timeframes

A20. All of the Specified Information detailed under this Schedule must:

- (a) be collected (with effect from and including 1 April 2010) in respect of the period comprising each Regulatory Year; and
- (b) be provided, in the next following Regulatory Year, to the Authority:
 - (i) in the case of Categories 1 and 2, on or before 31 July (or such later date as the Authority may specify), and
 - (ii) in the case of Category 3, on or before 30 September (or such later date as the Authority may by Notice specify).

Definitions

A21. For the purposes of this condition:

| | |
|-------------------------------|---|
| Agreed Network Outputs | is to be interpreted in accordance with paragraphs 44A.2 and 44A.3 of this condition. |
| Demand Group | means an individual substation or group of interconnected substations, as specified in or determined pursuant to the Network Output RIGs, in respect of which the licensee is required to provide Load Index information. |
| Distribution Asset | means any of the electric lines and electrical plant included within the licensee's Distribution System. |

| | |
|------------------------------------|--|
| Examiner | means a person whose degree of knowledge and experience of asset management processes within a Distribution System environment is appropriate for the purposes of properly enabling that person to exercise the functions of an Examiner under this condition. |
| Fault Rate | means the incidence (per unit) of unplanned incidents for a specific category of Distribution Assets. |
| Fault Rate Asset Category | means any category of Distribution Assets, as specified in or determined pursuant to the Network Output RIGs, in respect of which the licensee is required to provide Fault Rate information. |
| Fault Rate Record | means the record maintained by the licensee, in a form set out in or determined pursuant to the Network Output RIGs, that tracks actual observed Fault Rates against forecast Fault Rates in respect of each Fault Rate Asset Category. |
| Health Index | means the framework established by the licensee, in accordance with or as determined pursuant to the Network Output RIGs, for collating information on the condition of Distribution Assets and for tracking changes in their condition over time. |
| Health Index Asset Category | means any category of Distribution Assets, as specified in or determined pursuant to the Network Output RIGs, in respect of which the licensee is required to provide Health Index information. |
| Load Index | means the framework established by the licensee, in accordance with or as determined pursuant to the Network Output RIGs, for collating information on the utilisation of the Distribution Assets supplying each Demand Group and for tracking changes in their utilisation over time. |

Condition 44B. Distribution Losses Regime

Introduction

- 44B.1 This condition applies on and after 1 April 2010 and requires the licensee to collect and provide the Authority with Specified Information on a common basis with all other Distribution Services Providers, and to an appropriate degree of accuracy, so as to:
- (a) facilitate the establishment and operation of the Distribution Losses Regime that will enable the Authority to monitor the licensee's performance in relation to the Distribution Losses Incentive Scheme established under CRC 8 (Adjustment of licensee's revenues to reflect distribution losses performance); and
 - (b) identify any unintended consequences that arise from the operation of that scheme and the Charge Restriction Conditions of this licence.

Licensee's obligations

- 44B.2 Unless and so far as the Authority otherwise consents, the licensee must have and maintain appropriate systems, processes, and procedures to enable it:
- (a) to measure, and record the information detailed in the Schedule of Specified Information set out at Appendix 1, which is part of this condition; and
 - (b) to provide such information to the Authority in respect of such periods and within such timeframes as may be specified in or determined under that Schedule.
- 44B.3 In fulfilling its obligations under paragraph 44B.2, the licensee must at all times act in accordance with any Regulatory Instructions and Guidance issued by the Authority for the purposes of this condition ("the Distribution Losses Reporting RIGs").
- 44B.4 The Distribution Losses Reporting RIGs may include, or make provision for, any of the matters specified at paragraph 44B.5.

Contents of the Distribution Losses Reporting RIGs

- 44B.5 Subject to paragraph 44B.6, the matters that may be included, or for which provision may be made, in the Distribution Losses Reporting RIGs are these:
- (a) a statement of the objectives of the Distribution Losses Reporting Regime, and a description of how its requirements contribute to the achievement of those objectives;

- (b) instructions on the establishment of systems, processes, procedures, and ways for recording and reporting Specified Information;
- (c) provision with respect to the meaning of words and phrases used in defining Specified Information;
- (d) requirements as to the form and manner in which and the frequency with which Specified Information must be provided to the Authority;
- (e) requirements in respect of any commentary to be provided by the licensee when providing Specified Information;
- (f) requirements as to the form and manner in which, and the standards of accuracy and reliability with which, Specified Information must be estimated, measured, and recorded; and
- [(g) requirements as to the scope and conduct of any audit required by the Authority in relation to the licensee's collection, recording, and reporting of Specified Information.]

44B.6 The provisions of the Distribution Losses Reporting RIGs must not exceed what is reasonably required to achieve the purposes of this condition.

Procedure for issuing Distribution Losses Reporting RIGs

- 44B.7 Before issuing any Distribution Losses Reporting RIGs, the Authority, by Notice given to all Distribution Services Providers, must:
- (a) state that it proposes to issue the RIGs and specify the date on which it proposes that they should take effect;
 - (b) set out the text of the RIGs and the Authority's reasons for proposing to issue them; and
 - (c) specify the time (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.

44B.8 The Authority must consider any representations or objections that are duly made and not withdrawn.

Modification of Distribution Losses Reporting RIGs

44B.9 The Distribution Losses Reporting RIGs may be modified at any time on or after 1 April 2010 in accordance with the procedures and subject to the other provisions specified in standard condition 49 (Modification of RIGs in force under this licence).

Statement of Compliance

44B.10 The licensee is required by not later than 1 April 2010 to submit to the Authority, and maintain, a Statement of Compliance that explains in detail how it will comply with the requirements of this condition and the Distribution Losses Reporting RIGs.

Interpretation

44B.11 The requirements of paragraphs 44B.7 and 44B.8 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

44B.12 For the purposes of this condition, any words and expressions appearing in it that are defined, explained, or further elaborated under any provision of the Distribution Losses Reporting RIGs have the meaning given by, or are to be read in accordance with, that provision.

44B.13 Appendix 1 follows immediately below and includes definitions relating to this condition as a whole.

Appendix 1: Schedule of Specified Information

- A1. As provided for at paragraph 44B.2, this Schedule details the Specified Information that the licensee must measure, record and report under this condition, the periods in respect of which the licensee must collect it, and the timeframes within which the licensee must give it to the Authority.

Specified Information Category 1

- A2. This information comprises the System Entry Volumes and Units Distributed, which are the primary inputs into the calculation of Adjusted Distribution Losses for the purpose of CRC 8 (Adjustment of licensee's revenues to reflect distribution losses performance).
- A3. System Entry Volumes are the Volumes of Energy entering the licensee's Distribution System through any and all of the following Entry Points:
- (a) Grid Supply Points,
 - (b) Distribution System Connection Points,
 - (c) Balancing Mechanism Unit Connection Points,
 - (d) Half-hourly Connection Points,
 - (e) Non-half-hourly Connection Points, and
 - (f) Inset DNO Connection Points.
- A4. Units Distributed are Volumes of Energy leaving the licensee's Distribution System via the following Exit Points:
- (a) Grid Supply Points,
 - (b) Distribution System Connection Points,
 - (c) Balancing Mechanism Unit Connection Points,
 - (d) Half-hourly Connection Points,
 - (e) Non-half-hourly Connection Points, and
 - (f) Inset DNO Connection Points.
- A5. The methodology for measuring the Volumes of Energy entering and exiting the licensee's Distribution System through the Entry Points and Exit Points is set out in the Distribution Losses Reporting RIGs.

- A6. The licensee must provide an annual update to the Authority of the information provided under paragraph A2 in accordance with such rules and requirements as are set out in the Distribution Losses Reporting RIGs.

Specified Information Category 2

- A7. This information comprises such commentary and analysis as the Distribution Losses Reporting RIGs may require the licensee to undertake to accompany the Specified Information provided to the Authority under Category 1 above.

Specified Information Category 3

- A8. This category comprises such other information as may from time to time be specified by the Authority in a direction given under this condition to the licensee and all other Distribution Services Providers as if it were a direction issued under and subject to the provisions of standard condition 49 (Modification of RIGs in force under this licence) to modify the Distribution Losses Reporting RIGs.

Collection periods and reporting timeframes

- A9. All of the Specified Information detailed under this Schedule must:
- (a) be collected (with effect from and including 1 April 2010) in respect of the period comprising each Regulatory Year; and
 - (b) be provided to the Authority on or before 31 July in the second Regulatory Year following the Regulatory Year to which the information relates..

Condition 45A. Incentive scheme for Transmission Connection Point Charges

Introduction

- 45A.1 This condition applies on and after 1 April 2010 and requires the licensee to collect and provide the Authority with Specified Information on a common basis with all other Distribution Services Providers, and to an appropriate degree of accuracy, so as to:
- (a) facilitate the establishment and operation of a Transmission Connection Point Charges Incentive Scheme under the Charge Restriction Conditions of this licence that is designed to incentivise an efficient level of Transmission Connection Point Charges at the boundary between the licensee's Distribution System and the GB Transmission System; and
 - (b) enable the Authority to monitor the licensee's performance in respect of that scheme.

Licensee's obligations

- 45A.2 Unless and so far as the Authority otherwise consents, the licensee must have and maintain appropriate systems, processes, and procedures to enable it:
- (a) to estimate, measure, and record the information detailed in the Schedule of Specified Information set out at Appendix 1, which is part of this condition; and
 - (b) to provide such information to the Authority in respect of such periods and within such timeframes as are specified in that Schedule.
- 45A.3 In fulfilling its obligations under paragraph 45A.2, the licensee must at all times act in accordance with any Regulatory Instructions and Guidance issued by the Authority for the purposes of this condition ("the Transmission Connection Point Charges RIGs").

Contents of the Transmission Connection Point Charges RIGs

- 45A.4 Subject to paragraph 45A.5, the Transmission Connection Point Charges RIGs may include or make provision for such matters (including in respect of cost allocation and audit) as the Authority considers appropriate for the purposes of ensuring the consistency, accuracy, and reliability of the Specified Information provided in accordance with Appendix 1.
- 45A.5 The provisions of the Transmission Connection Point Charges RIGs must not exceed what is reasonably required to achieve the purposes of this condition.

Procedure for issuing Transmission Connection Point Charges RIGs

- 45A.6 Before issuing any Transmission Connection Point Charges RIGs, the Authority, by Notice given to all Distribution Services Providers, must:
- (a) state that it proposes to issue the RIGs and specify the date on which it proposes that they should take effect;
 - (b) set out the text of the RIGs and the Authority's reasons for proposing to issue them; and
 - (c) specify the time (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.
- 45A.7 The Authority must consider any representations or objections that are duly made and not withdrawn.

Modification of Transmission Connection Point Charges RIGs

- 45A.8 The Transmission Connection Point Charges RIGs may be modified at any time on or after 1 April 2010 in accordance with the procedures and subject to the other provisions specified in standard condition 49 (Modification of RIGs in force under this licence).

[An audit provision will probably be included as part of the standardisation /consolidation of the RIGs]

Interpretation

- 45A.9 The requirements of paragraphs 45A.6 and 45A.7 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
- 45A.10 For the purposes of this condition (including Appendix 1):
- (a) words and expressions appearing in the condition that are defined under any provision of the Charge Restriction Conditions of this licence have the meaning given by that provision; and
 - (b) any words and expressions appearing in the condition that are defined, explained, or further elaborated under any provision of the Transmission Connection Point Charges RIGs have the meaning given by, or are to be read in accordance with, that provision.

Definitions

- 45A.11 [In this condition, **Incentivised Transmission Exit Charges** [note: this name may be changed] means:

in relation to the Transmission Connection Point Charges that are payable by the licensee, such elements of those charges as refer directly to assets installed after April 2010 for the purposes of providing new or reinforced connection points between the GB Transmission System and the licensee's Distribution System incurred as a result of DNO requirement (and that accordingly fall into the category of the Specified Information set out at paragraph A2 (c) of Appendix 1).]

- 45A.12 [In this condition, **Non incentivised Transmission Exit Charges** [note: this name may be changed, and the definition may be moved into CRC10] means:

in relation to the Transmission Connection Point Charges that are payable by the licensee, such elements of those charges as refer directly to assets installed either before 1 April 2010 or for the purposes of replacing connection points between the GB Transmission System and the licensee's Distribution System or for the purposes of providing new or reinforced connection points between the GB Transmission System and the licensee's Distribution System that has not been incurred as a result of DNO requirement (and that accordingly fall into one of the categories of the Specified Information set out at paragraphs A2 (b) and (d) of Appendix 1).]

[please note that this definition of Non Incentivised Transmission Exit Charges may be more appropriate in CRC 10, since it is not referenced in this Condition]

Condition 46A. Business Carbon Footprint Report

Introduction

46A.1 This condition applies on and after 1 April 2010 for the purpose of requiring the licensee to provide annual reports to the Authority about its Business Carbon Footprint (see paragraph 46A.11 below).

Licensee's obligation

46A.2 Where the Authority gives the licensee a direction to do so, the licensee must in each Regulatory Year prepare and submit to the Authority a report, to be known as the Business Carbon Footprint (BCF) Report, on the total Greenhouse Gas (GHG) emissions arising directly or indirectly from the operations and activities of the licensee's Distribution Business in the preceding Regulatory Year.

46A.3 In fulfilling its obligation under paragraph 46A.2, the licensee must at all times act in accordance with any Regulatory Instructions and Guidance issued by the Authority for the purposes of this condition ("the Business Carbon Footprint RIGs").

Contents of the Business Carbon Footprint RIGs

46A.4 Any Business Carbon Footprint RIGs issued under this condition may, in particular, include provision about or impose requirements in respect of:

- (a) the form in which the licensee is to prepare and present its BCF Report;
- (b) the date in each Regulatory Year by which the report must be submitted to the Authority;
- (c) the inclusion within the report of a standard template for the presentation of information in a common format that will enable the Authority to rank the GHG emissions performance of all licensees subject to a direction under this condition;
- (d) the quantification (including estimation) of GHG emissions by reference to different categories or segments of the licensee's Distribution Business activities and operations;
- (e) the appropriate attribution of GHG emissions as between those activities and operations of the licensee's Distribution Business that are performed directly by the licensee itself, and those that are performed on behalf of the licensee by a different legal entity; and
- (f) the matters that are to be explained by the licensee in a commentary to accompany the report, including, in particular:

- (i) the data sources and processes relied upon by the licensee for the purposes of recording or estimating GHG emissions, and
- (ii) the methods used by the licensee for the purposes of converting GHG emissions into carbon dioxide equivalent emissions.

46A.5 The provisions of the Business Carbon Footprint RIGs must not exceed what is reasonably required to achieve the purposes of this condition.

Procedure for issuing Business Carbon Footprint RIGs

46A.6 Before issuing any Business Carbon Footprint RIGs, the Authority, by Notice given to all Electricity Distributors, must:

- (a) state that it proposes to issue the RIGs and specify the date on which it proposes that they should take effect;
- (b) set out the text of the RIGs and the Authority's reasons for proposing to issue them; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.

46A.7 The Authority must consider any representations or objections that are duly made and not withdrawn.

46A.8 The requirements of paragraphs 46A.6 and 46A.7 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

Modification of the Business Carbon Footprint RIGs

46A.9 The Business Carbon Footprint RIGs may be modified at any time on or after 1 April 2010 in accordance with the procedures and subject to the other provisions specified in standard condition 49 (Modification of RIGs in force under this licence).

Availability of the BCF Report

- 46A.10 At the same time in each Regulatory Year as it submits its BCF Report to the Authority, the licensee must also:
- (a) publish that report in such manner as the licensee believes will ensure adequate publicity for it (including by making it readily accessible from the licensee's Website); and
 - (b) give or send a copy of that report to any person who requests one and makes such payment to the licensee as it may require (which must not exceed such amount as the Authority may from time to time approve for that purpose in respect of the document in question).

Interpretation

- 46A.11 For the purposes of this condition:

Greenhouse Gas has the meaning given in section 92 of the Climate Change Act 2008 (and **GHG** is to be read as a reference to that term).

Business Carbon Footprint (including when shortened to **BCF**) refers to the measurement framework established under what is commonly known as the GHG Protocol, but subject to any particular variations or requirements specified by the Authority in the Business Carbon Footprint RIGs.

Appendix 8 – Proposed special licence conditions / charge restriction conditions to implement key DPCR5 policy issues

This appendix contains our current drafting in relation to proposed special licence conditions / new charge restriction conditions (CRCs) to implement key DPCR5 policy issues. While we propose that there will be 21 CRCs in total, our current drafting in this appendix concerns only 8 of these CRCs. Proposed changes to the other CRCs will be contained in the second licence drafting consultation which we intend to undertake later this year following publication of our Final Proposals.

The CRCs included in this appendix are as follows:

- CRC 8 – Adjustment of licensee’s revenues to reflect distribution losses performance,
- CRC 9 – Adjustment of licensee’s revenues to reflect quality of service performance,
- CRC 10 – Adjustment of licensee’s revenues to reflect performance in relation to Transmission Connection Point Charges,
- CRC 11 – Adjustment of licensee’s revenues to reflect innovation funding performance,
- CRC 12 – Adjustment of licensee’s revenues to reflect performance in relation to Distributed Generation,
- CRC 13 – Licensee’s Connection Activities: margins and the development of competition,
- CRC 14 – Low Carbon Networks Fund, and
- CRC 16 – Services treated as Excluded Services.

CRC 8. Adjustment of licensee's revenues to reflect distribution losses performance

Introduction

- 8.1 The purpose of this condition is to establish the mechanism for calculating the amount of the term IL (the distribution losses incentive term) that applies in CRC 5 (Restriction of Distribution Charges: total incentive revenue adjustment).
- 8.2 The effect of the application of the distribution losses incentive term in CRC 5 is to adjust the calculation of the licensee's Allowed Demand Revenue under CRC 3 (whether upwards or downwards) in order to reflect the licensee's performance under the Distribution Losses Incentive Scheme set out below.

Part A: Calculation of the losses incentive adjustment (IL)

- 8.3 For the purposes of Part B of CRC 5, which adjusts the calculation of the licensee's Allowed Demand Revenue under CRC 3, the IL adjustment in Regulatory Year t is derived in accordance with the following formula (in this condition, the Principal Formula):

$$IL_t = LR \times PIAL_{t-2} \times AC_{t-2}$$

- 8.4 For the purposes of the Principal Formula:

IL_t is the distribution losses incentive adjustment and will be set at zero for the Regulatory Years beginning on 1 April 2010 and 1 April 2011.

LR is the distribution losses incentive rate and has the value of £60 per MWh for units physically distributed on or after 1 April 2010.

AC_t means the maximum or minimum amount of distribution losses in the Regulatory Year t calculated, subject to the provisions of Part C below, in accordance with the following formula:

[Following Initial Proposals we are considering different options for applying the cap and floor – therefore the mechanism is still under development. However it will reference L_t , UD_t and AL_t as defined below]

L_t is the Adjusted Distribution Losses in Regulatory Year t calculated in accordance with the methodological basis set out in Parts B and D below.

UD_t is the Units Distributed in Regulatory Year t as defined in Part B below.

AL_t means an amount representing the benchmark level of distribution losses in the Regulatory Year t calculated, subject to the provisions of Part C below, in accordance with the following formula (see also paragraph 8.5 below):

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

$PIAL_t$ is the price index adjustment, which, in the Regulatory Year beginning on 1 April 2009, has the value of 1, and in each subsequent Regulatory Year is derived from the following formula (see also paragraph 8.6 below):

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

8.5 In the formulas containing the AL term above:

ALP is the allowed loss percentage and, unless the Authority has directed otherwise under Part C below, has the value set against the licensee's name in the table shown at Appendix 1.

[Note: post Initial Proposals we are now minded to calculate targets based on five years of final settlement data. This means that targets will be calculated in DPCR5 using a formula, and any required adjustments, are to be specified in this licence]

8.6 In the formula for the $PIAL$ term above:

RPI_t is as defined in Part C of CRC 3, and is determined in accordance with the formula set out there.

Part B: Basis of calculation of Adjusted Distribution Losses (L)

8.7 Adjusted Distribution Losses (represented by the L term appearing in the [capping formula to be developed] set out in Part A above) are deemed to be the difference between System Entry Volumes and Units Distributed, as reported under the Distribution Losses Reporting RIGs and adjusted by [an amount (in Units) representing the excess adverse effect on losses (DGA_t) of Units entering the system at Entry Points (other than Entry Points which are connected to an onshore Transmission System) where the loss adjustment factor applied for settlement purposes is less than 0.997, as calculated by the following formula (see also paragraph 8.8 below): [please note that in DPCR5 Initial Proposals this element was removed, however we are now minded to retain it]

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

8.8 In the formula for the DGA term above:

DGV_{it} is the total number of units, in respect of the Regulatory Year t , entering the licensee's Distribution System at Entry Point i , and

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

where:

LAG_{it} is the value, in the Regulatory Year t , of the loss adjustment factor applicable to Entry Point i .

Part C: Amendment of the allowed loss percentage (ALP)

[This section will have a similar text which refers to the mechanism for changing the value of the cap and floor]

- 8.9 Subject to the provisions of this Part C, the value of ALP set against the licensee's name in the table shown at Appendix 1 applies for as long as this condition continues in force.
- 8.10 The Authority may, with the licensee's consent (which must not be unreasonably withheld), direct the licensee to change the value of ALP, to which paragraph 8.9 refers, to a different value specified by the Authority, provided that the following conditions have been met.
- 8.11 The conditions referred to in paragraph 8.12 are that the Authority must:
- (a) have had due regard to the purpose of this condition; and
 - (b) be satisfied, following consultation with the licensee, that there has been a material change (whether an improvement or a deterioration) in the quality of the information used to derive the System Entry Volumes or Units Distributed.
- 8.12 A change to the value of ALP in accordance with paragraph 8.10 may be directed by the Authority at any time during the year but may not take effect before the beginning of the next Regulatory Year following the date of the direction.

Part D: Continuity of the basis of calculation

- 8.13 The licensee must, unless otherwise agreed by the Authority, calculate distribution losses in accordance with the statement submitted and approved by the Authority under standard condition 44B (Distribution Losses Reporting Regime).
- 8.14 Appendix 1 follows immediately below.

APPENDIX 1**Value for the Allowed Loss Percentage by licensee**

(see paragraph 8.5 of this condition)

[According to our minded to position in 8.5, this Appendix and table will be removed, since targets will be calculated from a specified formula during DPCR5 once final settlement data is received]

CRC 9. Adjustment of licensee's revenues to reflect quality of service performance

Introduction

- 9.1 The purpose of this condition is to establish mechanisms for calculating the amount of the term IQ (the total quality of service incentive term) that applies in CRC 5 (Restriction of Distribution Charges: total incentive revenue adjustment).
- 9.2 The effect of the application of the total quality of service incentive term in CRC 5 is to adjust the calculation of the licensee's Allowed Demand Revenue under CRC 3 (whether upwards or downwards) in order to reflect, in the round, the performance of the licensee on the relevant quality of service issues.

Structure of this condition

- 9.3 This condition is organised as follows.
- 9.4 Part A provides for the calculation of the total quality of service incentive amount through the use of three separate mechanisms (the Principal Formulas), each depending on the period of time in respect of which the term is to be applied for the purpose of adjusting Allowed Demand Revenue under CRC 3.
- 9.5 The next seven parts provide for the calculation of the particular contributions made to the Part A calculations by the licensee's performance in relation to each of the relevant quality of service issues, as follows:
- (a) Part B provides for the calculation of the particular contribution arising from the licensee's performance in relation to the quality of supply target for the number of Customer interruptions;
 - (b) Part C provides for the calculation of the particular contribution arising from the licensee's performance in relation to the quality of supply target for the duration of Customer interruptions;
 - (c) Part D provides for the calculation of the particular contribution arising from the licensee's performance in relation to the broad measure of community satisfaction;
 - (d) Part E provides for the calculation of the particular contribution arising from the licensee's performance in relation to the speed and quality of telephony response;
 - (e) Part F provides for the input of the particular contribution that would arise from any decision in favour of the licensee under the Authority's Customer Service Reward Scheme;

- (f) Part G provides for the calculation of the particular contribution arising from the licensee's performance in relation to supply restoration under severe weather conditions; and
- (g) Part H provides for the calculation of the particular contribution arising from the licensee's performance in relation to supply restoration under normal weather conditions.
- 9.6 Part I provides for the Authority, following review by an Examiner, to give directions in relation to the accuracy of the Specified Information supplied by the licensee for use in any of the formulas contained in this condition.
- 9.7 Part J provides for the licensee, by reference to specified exceptionality requirements, to request adjustments to its recorded performance in relation to targets for quality of supply.
- 9.8 Part K deals with procedural requirements and matters of interpretation.
- 9.9 Appendices 1 to 4 set out targets and incentive rates for Customer interruptions, the exceptionality requirements for severe weather events and other events, and criteria for preventative and mitigating actions.

Part A: Formulas for deriving the total quality of service incentive amount

- 9.10 The Principal Formulas used for the purpose of deriving the amount of the term IQ_t (the total quality of service incentive term for Regulatory Year t) in Part B of CRC 5 apply differently in relation to different periods of time, and are stated below as Principal Formula 1, Principal Formula 2, and Principal Formula 3.
- 9.11 *Principal Formula 1* applies for the purpose of deriving the amount of the term IQ_t for each of the Regulatory Years beginning on 1 April 2010 and 1 April 2011.
- 9.12 Principal Formula 1 is this:

$$IQ_t = \left[a_{t-2} \right] \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \right] + qf_t + qg_t$$

- 9.13 *Principal Formula 2* applies for the purpose of deriving the amount of the term IQ_t for each of the Regulatory Years beginning on 1 April 2012 and 1 April 2013.
- 9.14 Principal Formula 2 is this:

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

- 9.15 *Principal Formula 3* applies for the purpose of deriving the amount of the term IQ_t for the Regulatory Year beginning on 1 April 2014.

9.16 Principal Formula 3 is this:

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

9.17 For the purposes of Principal Formula 1 only:

Qt-2 is the adjustment to Allowed Demand Revenue to reflect the licensee's performance in each of the Regulatory Years beginning on 1 April 2009 and 1 April 2010, and is calculated from the application of the appropriate provisions of special condition C2 of this licence in the form in which that condition was in force at 31 March 2010.

9.18 For the purposes of Principal Formula 2 only:

qdt has the meaning given to that term in Part E below and is derived in accordance with the provisions of that part.

9.19 For the purposes of Principal Formula 3 only:

qct has the meaning given to that term in Part D below and is derived in accordance with the provisions of that part.

9.20 For the purposes of each of Principal Formulas 2 and 3:

qat has the meaning given to that term in Part B below and is derived in accordance with the provisions of that part.

qbt has the meaning given to that term in Part C below and is derived in accordance with the provisions of that part.

qet has the meaning given to that term in Part F below and is determined by virtue of the provisions of that part.

9.21 For the purposes of each of Principal Formulas 1, 2, and 3:

qft has the meaning given to that term in Part G below and is derived in accordance with the provisions of that part.

qgt has the meaning given to that term in Part H below and is derived in accordance with the provisions of that part.

It means the Average Specified Rate, as defined in CRC 2 (Definitions for the Charge Restriction Conditions), in Regulatory Year t.

Part B: Performance on the number of Customer interruptions

9.22 This Part B applies for the purposes of the calculations established under:

(a) Part A above in respect of each of Principal Formulas 2 and 3; and

(b) Part C below in respect of the formula for the term qbt.

9.23 For the purposes of those formulas:

qat means the adjustment to Allowed Demand Revenue in respect of the licensee's performance in Regulatory Year t in relation to the target for the number of Customers interrupted per 100 Customers in that year and is derived from the following formula:

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

9.24 In the formula for the qa term above:

TAt (*the target interruptions term*) means the target for the number of Customers interrupted for the Regulatory Year t as specified in the table in Appendix 1.

CIIS_t (*the interruptions actual performance term*) means the performance in respect of the number of Customers interrupted in the Regulatory Year t and is derived from the formula:

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

where:

a has the value of 0.5, and b and c are zero.

CIA_t (*the unplanned interruptions term*) is the number of Customers interrupted per year arising from unplanned incidents on the licensee's Distribution System in the Regulatory Year t and is derived from the relevant formula in Appendix 2 of the Quality of Service RIGs.

CIB_t (*the pre-arranged interruptions term*) is the number of Customers interrupted per year arising from pre-arranged incidents on the licensee's Distribution System in the Regulatory Year t and is derived from the relevant formula in Appendix 2 of the Quality of Service RIGs.

CIC_t (*the transmission interruptions term*) is the number of Customers interrupted per year arising from incidents on the systems of the Transmission Company in Regulatory Year t and is derived from the relevant formula in Appendix 2 of the Quality of Service RIGs.

CID_t (*the DG interruptions term*) is the number of Customers interrupted per year arising from incidents on the systems of Distributed

Generators in Regulatory Year t and is derived from the relevant formula in Appendix 2 of the Quality of Service RIGs.

CIEt (*the residual interruptions term*) is the number of Customers interrupted per year arising from incidents on any other connected systems in the Regulatory Year t and is derived from the relevant formula in Appendix 2 of the Quality of Service RIGs.

PIAt means the *price index adjuster* in Regulatory Year t and is derived from the following formula:

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

where:

PIAt has the value of 1 for the Regulatory Year beginning on 1 April 2002, and in each subsequent Regulatory Year has the value derived from the formula itself.

RPIt is as defined in Part C of CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges) and is determined in accordance with the formula set out there.

IRAt (*the incentive rate for interruptions term*) means the incentive rate for the number of Customers interrupted as specified for Regulatory Year t in the table in Appendix 1, expressed in £ million in 2007/08 prices.

RLA (*the revenue exposure to interruptions term*) means the maximum percentage of Base Demand Revenue exposed to the number of Customers interrupted and has the value of 1.2.

BRT (*the base revenue term*) means Base Demand Revenue in the Regulatory Year t and is determined in accordance with the formula set out at Part C of CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges).

9.25 Adjustments to Allowed Demand Revenue arising from the application of this Part B are subject to the provisions (where applicable) of Parts I and J below.

Part C: Performance on the duration of Customer interruptions

9.26 This Part C applies for the purposes of the calculations established under Part A above in respect of each of Principal Formulas 2 and 3.

9.27 For the purposes of those formulas:

QB_t means the adjustment to Allowed Demand Revenue in respect of the licensee's performance in Regulatory Year t in relation to the target for the duration of Customer interruptions in that year and is derived from the following formula:

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

provided that:

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

and, where that is not the case, qbt is to be determined by the following formula:

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

(and, for the purposes of this proviso, qat, qct, and qdt are as defined in Part B above and Parts D and E below respectively).

9.28 In the formula for the QB term above:

TB_t (*the target minutes lost term*) means the target for the duration of Customer interruptions for the Regulatory Year t as specified in the table in Appendix 1.

CMLIS_t (*the minutes lost actual performance term*) means the performance in respect of the duration of Customer interruptions in Regulatory Year t and is derived from the formula:

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

where:

d has the value of 0.5, and e and f each have the value of 0.10.

CMLA_t (*the unplanned minutes lost term*) is the duration of interruptions from unplanned incidents on the licensee's Distribution System in the Regulatory Year t and is derived from the formula in Appendix 2 of the Quality of Service RIGs.

CMLB_t (*the pre-arranged minutes lost term*) is the duration of interruptions from pre-arranged incidents on the licensee's Distribution System

in the Regulatory Year t and is derived from the formula in Appendix 2 of the Quality of Service RIGs.

CMLCt (*the transmission minutes lost term*) is the duration of interruptions arising from incidents on the systems of the Transmission Company in the Regulatory Year t and is derived from the formula in Appendix 2 of the Quality of Service RIGs.

CMLDt (*the DG minutes lost term*) is the duration of interruptions arising from incidents on the systems of Distributed Generators in the Regulatory Year t and is derived from the formula in Appendix 2 of the Quality of Service RIGs.

CMLEt (*the residual minutes lost term*) is the duration of interruptions arising from incidents on any other connected systems in Regulatory Year t and is derived from the formula in Appendix 2 of the Quality of Service RIGs.

IRBt (*the incentive rate for minutes lost term*) means the incentive rate for the duration of Customer interruptions as specified for Regulatory Year t in the table in Appendix A, expressed in £ million in 2007/08 prices.

PIAt (*the price index adjuster*) is defined and determined as set out in Part B above.

TRL (*the revenue exposure to quality penalties term*) means the maximum percentage of Base Demand Revenue that is exposed to penalties under the relevant elements of IQ_t for the Regulatory Year t and has the value of 4.

RLB (*the revenue exposure to minutes lost term*) means the maximum percentage of Base Demand Revenue that is exposed to the duration of Customer interruptions and has the value of 1.8.

BRt (*the base revenue term*) means Base Demand Revenue in the Regulatory Year t and is derived from the formula set out at Part C of CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges).

SWEt (*the severe weather total exposure term*) is defined as set out in Part G below.

9.29 Adjustments to Allowed Demand Revenue arising from the application of this Part C are subject to the provisions (where applicable) of Parts I and J below.

Part D: Performance on the broad community satisfaction measure

9.30 This Part D applies for the purposes of the calculations established under:

- (a) Part A above in respect of Principal Formula 3; and
- (b) Part C above in respect of the formula for the term qbt .

9.31 For the purposes of those formulas:

qct means the adjustment to Allowed Demand Revenue in respect of the licensee's performance on the broad measure of community satisfaction incentive in the Regulatory Year t (where "community" means the general body of persons, including but not limited to Customers, who have a legitimate interest in the licensee's operations) and is derived from the following formula:

$$BMCS_t = CS_t + CM_t + SE_t$$

9.32 In the formula for the qc term above:

$BMCS_t$ (*the satisfaction measure term*) is the broad measure of community satisfaction in Regulatory Year t .

CS_t (*the satisfaction score term*) is the score associated with the broad measure of community satisfaction in Regulatory Year t .

CM_t (*the complaints metric score term*) is the score associated with the complaints metric in Regulatory Year t .

SE_t (*the stakeholder engagement score term*) is the score associated with the stakeholder engagement measure in Regulatory Year t .]

Part E: Performance in relation to telephony response

9.33 This Part E applies for the purposes of the calculations established under:

- (a) Part A above in respect of Principal Formula 2; and
- (b) Part C above in respect of the formula for the term qbt .

9.34 For the purposes of those formulas:

qdt means the adjustment to Allowed Demand Revenue in respect of the licensee's overall surveyed performance in Regulatory Year t in relation to the targets for the speed and quality of telephone response in that year.

9.35 In calculating the value of qdt under this Part E (see paragraph 9.37), the term RTS_t refers to the revised telephony score, including a weighting on unsuccessful calls, and is derived from the following formula:

$$RTS_t = \left[(APTR_t) \times (1 - (UNCP_t \times 0.75)) \right]$$

9.36 In the formula for the RTS term above:

APTR_t (*the telephony performance term*) is the actual overall performance score for the licensee in the Regulatory Year *t*, based on all assessed attributes in the survey of the quality and speed of telephone response provided to the Authority by the company carrying out that survey, as notified by the Authority to the licensee.

UNPC_t (*the unsuccessful calls term*) is the actual unsuccessful percentage of calls in Regulatory Year *t*, as defined in the Quality of Service RIGs.

9.37 In Regulatory Year *t*, if RTSt is greater than or equal to 4.4, qdt is the amount derived from the following formula:

$$qd_t = 0.0005 \times BR_t$$

In Regulatory Year *t*, if RTSt is greater than or equal to 3.9 and less than 4.4, qdt has the value of zero.

In Regulatory Year *t*, if RTSt is less than 3.9, qdt is the amount derived from the following formula:

$$qd_t = \max \left[(RTS_t - 3.9) \times IRC_t, -\frac{RLD}{100} \times BR_t \right]$$

9.38 In the formulas for the qd term above:

IRC_t (*the telephony performance penalty term*) means the penalty rate in Regulatory Year *t* for performance in respect of the speed and quality of telephone response and is derived from the following formula:

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

where:

RLD (*the revenue exposure to telephony penalties term*) means the maximum percentage of Base Demand Revenue exposed to penalties under the incentives for the quality and speed of telephone response and has the value of 0.25.

BR_t (*the base revenue term*) means Base Demand Revenue in the Regulatory Year *t* and is determined by the formula set out at

Part C of CRC 3 (Restriction of Distribution Charges:
Demand Use of System Charges).

Part F: Performance in relation to best practice award scheme

9.39 This Part F applies for the purposes of the calculations established under Part A above in respect of each of Principal Formulas 2 and 3.

9.40 For the purposes of those formulas:

qet means such positive adjustment (if any) to Allowed Demand Revenue for the Regulatory Year t as may be determined by the Authority in respect of its Customer Service Reward Scheme for best practice in relation to Priority Customers, public communication, and corporate social responsibility.

Part G: Performance on severe weather supply restoration

9.41 This Part G applies for the purposes of the calculations established under Part A above in respect of each of Principal Formulas 1, 2, and 3.

9.42 For the purposes of those formulas:

qft means the adjustment to Allowed Demand Revenue in respect of the standard of performance for supply restoration under severe weather conditions imposed on the licensee under Regulation 6 and is the amount derived from the following formula:

$$qf_t = \min \left[\left(\frac{SWPM_t}{SWPD_t} - 1 \right) \times SWPD_t, 0 \right] + \max \left[\left(\frac{SWPD_t}{SWPM_t} - 1 \right) \times \left(\frac{RLE}{100} \times BR_t \right), 0 \right]$$

9.43 In the formula for the qf term above:

SWPD_t (*the all-in total severe weather payments term*) is the total amount of the payments in Regulatory Year t which either have been paid to Customers or, where not paid, which Customers would have been entitled to claim for the licensee's failure to meet the standard of performance for supply restoration under severe weather conditions imposed on the licensee under Regulation 6.

SWPM_t (*the total severe weather payments term*) is the total amount of the payments that the licensee has made formally to Customers in the Regulatory Year t in respect of failures 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 Regulatory Year t:

provided that, in calculating SWPM_t, a maximum of £200 of payments per Customer for any given event in Regulatory Year t may be taken into account.

RLE (*the severe weather revenue exposure term*) means the maximum percentage of Base Demand Revenue exposed to the severe weather arrangements for Regulatory Year t and has the value of 2.

SWEt (*the severe weather total exposure term*) means the licensee's total exposure to the severe weather arrangements in Regulatory Year t and is derived from the following formula:

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

Part H: Performance on normal weather supply restoration

9.44 This part H applies for the purposes of the calculations established under Part A above in respect of each of Principal Formulas 1, 2, and 3.

9.45 For the purposes of those formulas:

qgt means the adjustment to Allowed Demand Revenue in respect of the standard of performance for supply restoration imposed on the licensee under Regulation 5 and is the amount derived from the following formula:

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

9.46 In the formula for the qg term above:

NCPDt (*the all-in total normal weather payments term*) is the total amount of the payments in Regulatory Year t which either have been paid to Customers or, where not paid, which Customers would have been entitled to claim for the licensee's failure to meet the standard of performance for supply restoration imposed on the licensee under Regulation 5.

NCPMt (*the total normal weather payments term*) is the total amount of payments that the licensee has made formally to Customers in Regulatory Year t in respect of failures to meet the standard of performance for supply restoration imposed on the licensee under Regulation 5, or that has been paid to Customers in the form of ex gratia payments in respect of such failure.

Part I: Power of Authority to replace Specified Information

- 9.47 This paragraph applies where the report of an Examiner nominated by the Authority under standard condition 45 of this licence (Incentive scheme for quality of service) finds that the level of accuracy of any Specified Information used for the purposes of any formula in this condition is less than the level of accuracy specified for such information in the Quality of Service RIGs.
- 9.48 If paragraph 9.47 applies, the Authority may, after consultation with the licensee and having regard to all relevant information and circumstances, and so as to mitigate any distortion arising from that inaccuracy, by Notice to the licensee direct which data should be used in substitution for the non-compliant information for the purposes of the formula in question.

Part J: Adjustment of performance on quality of supply targets

- 9.49 **Severe weather events:** This paragraph applies where the licensee considers that its performance in respect of any matter used for calculating CIIS_t or CMLIS_t (as provided for respectively under Parts B and C above) has been affected by a severe weather event that meets the relevant exceptionality requirement defined in Appendix 2.
- 9.50 If paragraph 9.49 applies, the performance of the licensee used for calculating CIIS_t or CMLIS_t is to be adjusted so as to exclude the full verified impact of the event in question, provided that:
- (a) the Authority has been notified of the event within 14 days of the date on which the licensee considers that the effect of the event has ceased or within 14 days of the end of the relevant year (whichever is the earlier);
 - (b) an Examiner nominated by the Authority under standard condition 45 of this licence, or the Authority, has verified the impact of the event on the licensee's performance; and
 - (c) the Authority:
 - (i) is satisfied that the event meets the relevant exceptionality requirement defined in Appendix 2, and
 - (ii) has by Notice to the licensee directed the adjustment to be made to the licensee's performance.
- 9.51 **Other events:** This paragraph applies where the licensee considers that its performance in respect of any matter used for calculating CIIS_t or CMLIS_t (as provided for respectively under Parts B and C above) has been affected by an event that does not meet the relevant exceptionality requirement set out in Appendix 2, but does meet the exceptionality requirements set out in Appendix 3.

- 9.52 If paragraph 9.51 applies, the Authority may by Notice to the licensee direct that, for the purposes of calculating CIIS_t or CMLIS_t (or both), all or part of the impact of the event which is in excess of the relevant threshold in successive three-month periods from the start of the event until its effect has ceased is to be excluded from the relevant year's performance of the licensee, provided that:
- (a) the Authority has been notified of the event within 14 days of the date on which the licensee considers that the effect of the event has ceased or within 14 days of the end of the relevant year (whichever is the earlier);
 - (b) an Examiner nominated by the Authority under standard condition 45 of this licence has reported to the Authority in respect of the event and its effect;
 - (c) the licensee has provided such further information, if any, as the Authority may require; and
 - (d) the Authority:
 - (i) is satisfied that the event meets the exceptionality requirements defined in Appendix 3, and
 - (ii) has had regard to whether the licensee has met the criteria for preventative and mitigating actions set out in Appendix 4.

Part K: Procedural requirements and interpretation

- 9.53 Before giving a direction under paragraph 9.48, 9.50, or 9.52, the Authority, by Notice given to the licensee, must:
- (a) set out the terms of the proposed direction;
 - (b) state the reasons why it proposes to issue the direction; and
 - (c) specify the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections.
- 9.54 The Authority must consider any representations or objections duly received under paragraph 9.53, and give reasons for its decision.
- 9.55 A direction given by the Authority under paragraph 2 of standard condition 49 of this licence to modify Appendix 2 of the Quality of Service RIGs (which sets out further details of formulas relating to quality of service issues for the purposes of the licensee's reporting obligations to the Authority) may not specify a date for the purposes of paragraph 8(a) of that condition which is other than a Price Control Review Date unless all Distribution Services Providers have agreed that date.
- 9.56 In this condition:

- (a) any reference to a numbered Regulation is a reference to the Regulation bearing that number in the Electricity (Standards of Performance) Regulations 2010;
- (b) where the terms “max” and “min” are used in any formula, for any two given amounts X and Y, “min (X,Y)” means X if X–Y is negative (and otherwise means Y), and “max (X,Y)” means Y if X–Y is negative (and otherwise means X);
- (c) words and expressions defined for any of the purposes of:
 - (i) CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges), and
 - (ii) standard condition 45 of this licence (Incentive scheme for quality of service),have the same meaning when used in this condition; and
- (d) words and expressions defined in the Quality of Service RIGs which are used in this condition have the same meaning as in those RIGs.

9.57 Appendices 1 to 4 follow immediately below.

CRC 10. Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges

Introduction

- 10.1 The purpose of this condition is to establish a mechanism for calculating the amount of the term IT (the Transmission Connection Point Charges incentive term) that applies in CRC 5 (Restriction of Distribution Charges: total incentive revenue adjustment).
- 10.2 The effect of the application of the Transmission Connection Point Charges incentive term in CRC 5 is to adjust the calculation of the licensee's Allowed Demand revenue under CRC 3 (whether upwards or downwards) in order to reflect the performance of the licensee in relation to the Transmission Connection Point Charges Incentive Scheme established pursuant to standard condition 45A of this licence (Incentive scheme for Transmission Connection Point Charges).

Part A: Calculation of incentive revenue for Transmission Connection Point Charges (IT)

- 10.3 For the purposes of Part B of CRC 5, which adjusts the calculation of the licensee's Allowed Demand Revenue under CRC 3, the amount of the IT adjustment for the Regulatory Year t is derived in accordance with the following formula (in this condition, the Principal Formula):

$$IT_t = TI_t + TP_t$$

- 10.4 For the purposes of the Principal Formula:

TI_t means the Incentivised Transmission Exit Charges in the Regulatory Year t , as derived in part B

TP_t means the amount representing the pass-through revenue in respect of the Transmission Connection Point Charges in the Regulatory Year t , comprising the Non Incentivised Transmission Exit Charges in the Regulatory Year t , as reported under the Transmission Connection Point Charges RIGs issued by the Authority under standard condition 45A of this licence.

[note: the definition of Non Incentivised Transmission Exit Charges is currently in Condition 45A, however, it may be more appropriate to include it in this condition]

Part B: Calculation of the total incentive payment (TI)

10.5 For the purposes of the Principal Formula:

$$TI_t = PT_t + (tir \times ((PIAT_t \times All_t) - PT_t))$$

10.6 In the formula for the TI term above:

$PIAT_t$ is the price index adjuster relating to Incentivised Transmission Exit Charges, and is determined as set out in Part B below.

All_t is the Incentivised Transmission Exit Charges allowance in the Regulatory Year t in 2008/09 prices, as approved by the Authority under the Transmission Charges Exit Scheme, and is represented by the amount shown against the licensee's name in the table set out at Appendix 1 (which is part of this condition).

tir is the incentive rate, which, for the purposes of this condition, has the value of 20 per cent.

PT_t is the actual amount of Incentivised Transmission Exit Charges payable by the licensee in the Regulatory Year t , as reported under the Transmission Connection Point Charges RIGs issued by the Authority under standard condition 45A of this licence.

Part B: Calculation of the price index adjuster (PIAT)

10.8 For the purposes of the formulas set out in Part A above:

$PIAT_t$ is the price index adjuster in Regulatory Year t , and is derived from the following formula:

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

10.9 In the formula for the PIAT term above:

$PIAT_t$ has the value of 1 for the Regulatory Year beginning on 1 April 2010, and then for each subsequent Regulatory Year has the value derived in accordance with the formula itself.

[Indexation and year in which allowances are based will be made consistent]

RPI_t is as defined in Part C of CRC 3, and is determined in accordance with the formula set out there.

10.10 Appendix 1 follows immediately below.

APPENDIX 1

Allowance for Incentivised Transmission Exit Charges

(see paragraph 10.6 of this condition)

| Licensee | Allowance (£m) in 2008/09 prices |
|--|-------------------------------------|
| Central Networks West plc | XX.X |
| Central Networks East plc | XX.X |
| Electricity North West Ltd | XX.X |
| Northern Electric Distribution Ltd | XX.X |
| Yorkshire Electricity Distribution plc | XX.X |
| Western Power Distribution (South West) plc | XX.X |
| Western Power Distribution (South Wales) plc | XX.X |
| EDF Energy Networks (LPN) plc | XX.X |
| EDF Energy Networks (SPN) plc | XX.X |
| EDF Energy Networks (EPN) plc | XX.X |
| SP Distribution Ltd | XX.X |
| SP Manweb plc | XX.X |
| Scottish Hydro Electric Power Distribution plc | XX.X |
| Southern Electric Power Distribution plc | XX.X |

CRC 11. Adjustment of licensee's revenues to reflect innovation funding performance

Introduction

- 11.1 The purpose of this condition is to establish a mechanism for calculating the amount of the term IFI (the innovation funding incentive term) that applies in CRC 5 (Restriction of Distribution Charges: total incentive revenue adjustment).
- 11.2 The effect of the application of the innovation funding incentive term in CRC 5 is to adjust the calculation of the licensee's Allowed Demand Revenue under CRC 3 (whether upwards or downwards) in order to reflect the performance of the licensee in relation to investment in innovation under the Innovation Funding Incentive (IFI) Scheme established pursuant to standard condition 46 of this licence (Incentive schemes for funding innovation and Distributed Generation).

Part A: Calculation of the innovation funding incentive (IFI)

- 11.3 For the purposes of Part B of CRC 5, which adjusts the calculation of the licensee's Allowed Demand Revenue under CRC 3, the IFI adjustment for the Regulatory Year t is derived in accordance with the following formula (in this condition, the Principal Formula):

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

- 11.4 For the purposes of the Principal Formula:

$IFIE_t$ means the Eligible IFI Expenditure for Regulatory Year t as reported in the IFI Annual Report for that year (see also Part B below).

CBR_t means Combined Distribution Network Revenue in the Regulatory Year t as defined in CRC 2 (Definitions for the Charge Restriction Conditions).

ptr_t is the pass-through factor and has the value of 0.8

$KIFI_t$ is the IFI carry-forward in relation to the IFI Scheme as set out in the IFI Annual Report for Regulatory Year $t-1$, and is calculated from the following formula:

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

Part B: Interpretation

11.5 For the purposes of this condition:

Eligible IFI Expenditure

means the amount of expenditure spent or accrued by the licensee in respect of Eligible IFI Projects.

Eligible IFI Projects

means those projects that meet the requirements described for such projects.

IFI Annual Report

means the report produced each year by the licensee, in a format agreed with the Authority, in respect of expenditure on innovation.

11.6 Expressions defined in paragraph 11.5 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the IFI RIGs issued by the Authority under standard condition 46 of this licence in relation to the IFI Scheme established pursuant to that condition.

CRC 12. Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation

Introduction

- 12.1 The purpose of this condition is to establish the mechanism for calculating the amount of the term IG (the incentive revenue for Distributed Generation term) that applies in CRC 6 (Restriction of Distribution Charges: Generation Use of System Charges).
- 12.2 The effect of the application of the incentive revenue for Distributed Generation term in CRC 6 is to adjust the calculation of the licensee's Allowed Network Generation Revenue under that condition in order to reflect the licensee's performance under the Distributed Generation Incentive Scheme set out below.

Part A: Calculation of incentive revenue for Distributed Generation (IG)

- 12.3 For the purposes of Part B of CRC 6, which adjusts the calculation of the licensee's Allowed Network Generation Revenue under that condition, the amount of the IG adjustment in Regulatory Year t is derived from the following formula (in this condition, the Principal Formula):

$$IG_t = GI_t + GP_t + GO_t + GL_t + IEDA_t$$

Part B: Calculation of the total incentive payment (GI)

- 12.4 For the purposes of the Principal Formula:

GI_t means the total incentive payment in the Regulatory Year t , as derived from the following formula:

$$GI_t = PIAG_t \times gir \times gct$$

- 12.5 In the formula for the GI term above:

$PIAG_t$ is the price index adjuster relating to DG, and is determined as set out in Part F below.

gir is the incentive rate for the DG Incentive Scheme, which has the value of £1,000 per MW of Incentivised DG Capacity (see also Part G below in respect of the application of this value).

gct is the Total Incentivised DG Capacity that is directly or indirectly connected to the licensee's Distribution System as at 31 March of the Regulatory Year t , expressed in MW (see also Part D below, where this term also applies).

Part C: Calculation of the pass-through revenue (GP)

12.6 For the purposes of the Principal Formula:

GP_t means an amount representing the pass-through revenue in respect of the connection of DG to the licensee's Distribution System in the Regulatory Year *t*, and is calculated in accordance with the following formula:

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

12.7 In the formula for the GP term above:

[*j* will be defined in a formula in this part, rather than as it currently appears above]

PIAG_t is the price index adjuster relating to DG, and is determined as set out in Part F below.

r is the allowed pre-tax cost of capital, expressed in real terms, which, for the purposes of this condition, has the value of 6.9 per cent.

y is the value of *t* for the Regulatory Year beginning on 1 April 2010.

P means the number of complete Regulatory Years over which Use of System Capex for DG is remunerated, which for the purposes of this condition has the value of 15.

gp_j means the amount of Use of System Capex for DG that is subject to the pass-through arrangement of this Incentive Scheme in the Regulatory Year *j*, and is derived from the following formula:

$$gp_j = ptrg \times gps_j$$

where:

ptrg is the pass-through rate and has the value of 0.8.

gps_j is the amount, expressed in pounds sterling, of Use of System Capex for DG for Regulatory Year *j*.

gt_j is the amount of Capex that is excluded from this calculation to reflect the transfer of Capex from the DG Incentive Scheme in accordance with Part H below.

Part D: Calculation of the O and M cost adjustment (GO)

12.8 For the purposes of the Principal Formula:

GO_t is the adjustment to Allowed Network Generation Revenue in respect of the operational and maintenance costs of Total Capex for DG for Regulatory Year t, and is derived from the following formula:

$$GO_t = PIAG_t \times gor \times gc_t$$

12.9 In the formula for the GO term above:

$PIAG_t$ is the price index adjuster relating to DG, and is determined as set out in Part F below.

gc_t is as defined in Part B above.

gor is the allowed operational and maintenance rate for all Relevant DG, and has a value of £1,000 per MW of Incentivised DG Capacity.

Part E: Value of the previous price control amount (GL)

12.10 For the purposes of the Principal Formula:

GL_t means an amount representing the revenue in the Regulatory Year t in respect of the DG that connected to the licensee's Distribution System prior to 31 March 2010 (as a result of the DG Incentive Scheme in effect at that date) after the cap and floor has been applied to the revenue stream, and takes the value against the licensee's name and Regulatory Year t in the table set out at Appendix 1 (which is part of this condition)

Part E: Calculation of values in respect of an Inset Electricity Distributor

12.11 For the purposes of the Principal Formula:

$IEDAt$ means an amount determined in respect of Regulatory Year t by recalculating the values for GI_t , GPt , and GO_t in accordance with the formulas set out in Parts B, C, and D above, but in each case substituting for each capacity or Capex value the equivalent value (see paragraph 12.11) for any Inset Electricity Distributor.

- 12.12 The equivalent value mentioned in paragraph 12.11 refers to the portion of the capacity or the Capex value in question which relates to capacity or Capex relating to relevant assets owned or operated by the Inset Electricity Distributor that are situated within the licensee's Distribution Services Area.

Part F: Determination of the price index adjuster (PIAG)

- 12.13 For the purposes of the formulas set out in Parts B, C, and D above and also in Part I below:

PIAG_t is the price index adjuster in Regulatory Year t, as derived from the following formula:

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

- 12.14 In the formula for the PIAG term above:

PIAG_t has the value of 1 for the Regulatory Year beginning on 1 April 2010, and then in each subsequent Regulatory Year has the value derived in accordance with the formula itself.

RPI_t is as defined in Part C of CRC 3, and is determined in accordance with the formula set out there.

Part G: Duration of the value of the incentive rate (gir)

- 12.15 For the purposes of this condition, the incentive rate (gir) for the DG Incentive Scheme is to have the value set out against that term in Part B above for each and every Regulatory Year up to and including the Regulatory Year beginning on 1 April 2029 so far as it is applied to Incentivised DG Capacity relevant to the licensee's Distribution System during the period from 1 April 2010 to 31 March 2015.

Part H: Criteria for the exclusion of certain Capex amounts (gtj)

- 12.16 For the purpose of determining the amount of the term gtj in Part C above, the licensee, with the consent of the Authority, may exclude Capex in respect of assets for which the Capex has been initially treated as Use of System Capex for DG but in respect of which:

- (a) the Incentivised DG Capacity utilising those assets has fallen because the owner or operator of a Relevant DG, or any agent of such owner or operator, has terminated its agreements for generator Use of System (or such parts of any other Use of System Agreements as may apply) and connection to an Authorised person's distribution system, or has otherwise reduced the capacity required; and

- (b) those assets have a value that has not been fully depreciated through Generation Use of System Charges for 15 complete Regulatory Years in accordance with the provisions of Part C.

Part I: Calculation of incentive revenue for Registered Power Zones

- 12.17 For the purposes of calculating the amount of incentive revenue for Registered Power Zones that is to be applied to the calculation of Allowed Network Generation Revenue under Part B of CRC 6, the value of RPZ_t in that Part B is derived from the following formula:

$$RPZ_t = PIAG_t \times \min \left(RPZM, giz \times gczt \right)$$

- 12.18 In the formula for the RPZ term above:

PIAG_t is the price index adjuster relating to DG, and is determined as set out in Part F above.

RPZM means the annual cap on RPZ revenue and has the value of £500,000.

giz means the incremental incentive rate for connecting a Relevant DG within that area registered by the Authority as a Registered Power Zone for the purposes of this condition, and has a value of £3,000 per MW of RPZ DG Capacity.

gczt is the amount of RPZ DG Capacity, expressed in MW, connected to the licensee's Distribution System in Regulatory Year *t*, as at 31 March of that year, within that area registered by the Authority as a Registered Power Zone for the purposes of this condition.

Part J: Interpretation

- 12.19 For the purposes of this condition:

Capex means costs that are directly incurred by the licensee in relation to the installation or reinforcement of electric lines or electrical plant forming part of the licensee's Distribution System.

Incentivised DG Capacity in relation to any Regulatory Year, means the highest active electrical power that could be generated (or the relevant incremental change in this amount in cases involving the expansion of existing Distributed Generation) by a Relevant DG for that year, according to either:

- (a) the connection agreements and Use of System

Agreements in force on 31 March of that Regulatory Year in relation to the relevant plant or apparatus; or

- (b) in any case of generation covered by the ENA Engineering Recommendation G83/1 (or any authorised successor), the notification received by the licensee on or before 31 March of that year,

in each case above, as connected at 31 March of the Regulatory Year.

Relevant DG

means Distributed Generation (except for Distributed Generation operating in parallel with the licensee's Distribution System for the purposes of standby) which has a connection start date on or after 1 April 2010 and is eligible for Use of System Charges (if any) in accordance with the licensee's Use of System Charging Methodology in place on or after 1 April 2010.

RPZ DG Capacity

means the sum of the Incentivised DG Capacity of all Relevant DG that has been connected for a period of five years or less after the date of connection and has a connection point to that part of the licensee's Distribution System that forms a Registered Power Zone.

Total Capex for DG

means the sum of all costs directly incurred by the licensee in relation to the installation or reinforcement of electric lines or electrical plant necessary for the connection of Relevant DG or of any proposed or expected Relevant DG for subsequent Regulatory Years and, for the avoidance of doubt, includes the increase in the present value of costs resulting from the advancement in time, to within the Regulatory Year, of the reinforcement of assets so as to facilitate the connection of the Relevant DG.

Total Incentivised DG Capacity

means the sum, for all of the Relevant DG for the licensee's Distribution System, of the Incentivised DG Capacity.

Use of System Capex for DG means that amount of Total Capex for DG that is not remunerated through Connection Charges payable to the licensee.

- 12.20 Expressions defined in paragraph 12.19 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the DG RIGs issued by the Authority under standard condition 46 of this licence in relation to the DG Incentive Scheme established pursuant to that condition.

APPENDIX 1

Allowance for previous price control incentive amounts

(see part E of this condition)

[please note that options are currently being evaluated around over what time period these revenue streams can be recovered]

| Licensee | 2010/11 | | 2024/25 |
|--|---------|-------|---------|
| Central Networks West plc | XX.X | | XX.X |
| Central Networks East plc | XX.X | | XX.X |
| Electricity North West Ltd | XX.X | | XX.X |
| Northern Electric Distribution Ltd | XX.X | | XX.X |
| Yorkshire Electricity Distribution plc | XX.X | | XX.X |
| Western Power Distribution (South West) plc | XX.X | | XX.X |
| Western Power Distribution (South Wales) plc | XX.X | | XX.X |
| EDF Energy Networks (LPN) plc | XX.X | | XX.X |
| EDF Energy Networks (SPN) plc | XX.X | | XX.X |
| EDF Energy Networks (EPN) plc | XX.X | | XX.X |
| SP Distribution Ltd | XX.X | | XX.X |
| SP Manweb plc | XX.X | | XX.X |
| Scottish Hydro Electric Power Distribution plc | XX.X | | XX.X |
| Southern Electric Power Distribution plc | XX.X | | XX.X |

CRC 13. Licensee's Connection Activities: Margins and the development of competition

Introduction

- 13.1 This condition applies on and after 1 April 2010 for the following purposes.
- 13.2 The first purpose is to allow the licensee (notwithstanding any other provision of this licence) to charge a Margin on its Connection Activities in order to create the circumstances in which competition and service will develop in Relevant Market Segments of the Local Connections Market.
- 13.3 The second purpose is to limit that Margin until the Authority is satisfied that such competition and service have developed.
- 13.4 The third purpose is to establish Tests which will enable the Authority to assess and determine:
- (a) the extent to which such competition and service have in fact developed; and
 - (b) the licensee's compliance with certain legal requirements in respect of the making of connections to its Distribution System.
- 13.5 The fourth purpose is to allow the Authority to direct the licensee to repay any Margin charged on its Connection Activities in circumstances in which those legal requirements have not been met.

Structure of this condition

- 13.6 This condition is organised as follows.
- 13.7 Parts A and B set out the general restriction on the licensee's ability to charge a Margin on its Connection Activities, but permit the restriction to be relaxed to allow such a Margin to be charged in certain circumstances.
- 13.8 Part C provides for the Authority to define Tests against which:
- (a) to assess the licensee's compliance with legal requirements in respect of the making of connections to its Distribution System; and
 - (b) to measure the development of competition and service in Relevant Market Segments of the Local Connections Market.

- 13.9 Parts D and E permit the licensee to notify the Authority if it believes the Tests to be satisfied in its Distribution Services Area, and provide for the Authority to determine whether those Tests are satisfied.
- 13.10 Parts F to H make provision to allow, restrict, or prohibit the charging of a future Margin by the licensee following the determination of the Authority.
- 13.11 Part I makes provision for all or part of any Margin previously charged by the licensee to be repaid where legal requirements in respect of the making of connections to its Distribution System have not been met, and in certain other cases.
- 13.12 Parts J and K make associated provision relating to the definition of the Tests and other relevant terms.
- 13.13 Appendix 1 (which is part of this condition) specifies those segments of the Local Connections Market that are within the scope of this condition and those that are not.

Part A: The principal restrictions

- 13.14 The licensee may not charge a Margin in a Connection Charge that relates to any of its Connection Activities in an Excluded Market Segment of the Local Connections Market.
- 13.15 The licensee may not charge a Margin in a Connection Charge that relates to any of its Connection Activities in a Relevant Market Segment of the Local Connections Market except in accordance with the provisions of this condition.

Part B: Ability to charge a Regulated Margin on Connection Activities

- 13.16 The licensee may give the Authority a Regulated Margin Notice when verified systems and processes are in place within its Distribution Business for the purposes of compliance with the Electricity (Connection Standards of Performance Regulations) 2010 (SI 2010/1234) and any Connection RIGs issued by the Authority under standard condition 15A (Connection policy and connection performance).
- 13.17 A Regulated Margin Notice is a statement of the licensee's intention to charge a Regulated Margin in Connection Charges relating to its Connection Activities in the Local Connections Market.
- 13.18 Where the licensee gives the Authority a Regulated Margin Notice:
- (a) it must charge a Regulated Margin in all such Connection Charges, except for those which relate to its Connection Activities in an Excluded Market Segment;

- (b) it must do so in relation to all of its Connection Activities in respect of which it makes an offer of connection terms within each of the Relevant Market Segments after the date of the Notice; and
- (c) the Regulated Margin that must be charged is 4 per cent.

Part C: Tests must comprise two categories of criteria

- 13.19 The Authority may, in accordance with this Part C, specify criteria against which to assess:
- (a) the licensee’s compliance with legal requirements in respect of the making of connections to its Distribution System; and
 - (b) the development of competition and service within each of the Relevant Market Segments.
- 13.20 Those criteria are collectively referred to in this condition as “the Tests”.
- 13.21 The nature of the Tests must be set out and explained in the Connection RIGs prepared and issued by the Authority following consultation with the licensee under standard condition 15A of this licence (Connection policy and connection performance).
- 13.22 The Tests must comprise and be ordered into two categories of criteria, being criteria against which to assess whether:
- (a) the licensee has complied with certain legal requirements related to the making of connections to its Distribution System (the Legal Requirements Tests); and
 - (b) there is established competition within, and the licensee is meeting appropriate standards as to price and service in relation to its Connection Activities in, the Relevant Market Segments (the Competition Test).
- 13.23 The Authority may (to the extent specified in the Connection RIGs) exclude one or more Relevant Market Segments from the Competition Test.

Part D: The Competition and Service Notice

- 13.24 At any time on or before 31 December 2013, the licensee may give the Authority Competition and Service Notice.
- 13.25 A Competition and Service Notice is a statement by the licensee that it considers the Legal Requirements Test and the Competition Test to be satisfied in respect of one or more Relevant Market Segments.
- 13.26 A Competition and Service Notice must state the licensee’s reasons for believing those Tests to be satisfied.

- 13.27 A Competition and Service Notice must be accompanied by the evidence [including, but not restricted to, such evidence as may be specified in the Connection RIGs], so far as it is in the licensee's possession, that is necessary to establish that those Tests are satisfied.
- 13.28 A reference in this condition to any category of the Tests being satisfied is a reference to such of the criteria within that category of Tests being satisfied as the Authority considers appropriate.
- 13.29 The licensee may give the Authority:
- (a) a single Competition and Service Notice which relates to all Relevant Market Segments; or
 - (b) more than one Competition and Service Notice, each of which relates to one or more different Relevant Market Segments.

Part E: The competition and service determination

- 13.30 If the Authority receives a Competition and Service Notice from the licensee, it may, in accordance with this Part E, determine whether the Tests to which the Notice relates are satisfied.
- 13.31 In determining whether the Tests are satisfied, the Authority must do so by way of a separate determination in respect of each Relevant Market Segment to which the Competition and Service Notice relates.
- 13.32 Before making a determination, the Authority must consult with persons who it believes are likely to have an interest in the outcome of the determination and consider their views.
- 13.33 A determination must include a statement that, as the case may be:
- (a) the Authority determines that the Legal Requirements Test and the Competition Test have been satisfied; or
 - (b) the Authority determines that only the Legal Requirements Test has been satisfied; or
 - (c) the Authority determines that the Legal Requirements Test has not been satisfied.
- 13.34 Where a determination includes a finding that one or more of the categories of the Tests have not been satisfied, it must contain the Authority's reasons for that conclusion.

- 13.35 If the Authority has not, within four months of receiving a Competition and Service Notice from the licensee, made a determination in respect of a Relevant Market Segment to which that Notice relates, all of the Tests within that Notice shall be deemed to be satisfied in relation to that Relevant Market Segment [unless the Authority has begun a formal investigation under either this licence or the Competition Act 1998 in relation to that Relevant Market Segment].
- 13.36 Where the Authority determines that one or both of the categories of the Tests is not satisfied in respect of any Relevant Market Segment, the licensee may, after four months from the relevant determination and up to 31 December 2013, give the Authority a further Competition and Service Notice relating to that Relevant Market Segment.

Part F: Ability to charge an Unregulated Margin on Connection Activities

- 13.37 The following provisions of this Part F apply where the Authority determines that:
- (a) the Legal Requirements Test has been satisfied in respect of a Relevant Market Segment; and
 - (b) the Competition Test has also been satisfied in respect of that Relevant Market Segment.
- 13.38 From the date of the determination:
- (a) the licensee will be entitled (but not obliged) to charge an Unregulated Margin in Connection Charges in relation to its Connection Activities in the Relevant Market Segment; and
 - (b) this condition is to be treated as placing no limit on the amount of the Unregulated Margin which the licensee may charge in those Connection Charges in relation to its Connection Activities in the Relevant Market Segment.
- 13.39 Beginning with the Regulatory Year following that in which the determination was made, the licensee must, by no later than 30 June each year, submit to the Authority a report which:
- (a) states that the categories of Tests covered by the Authority's determination under Part E above are satisfied at the time of the report in respect of the Relevant Market Segment; or
 - (b) specifies the extent (if any) to which those Tests are not satisfied at that time in respect of the Relevant Market Segment.

- 13.41 The report must be accompanied by the evidence, so far as it is in the licensee's possession, necessary to establish that the relevant Tests are satisfied or to show any extent to which they are not satisfied.
- 13.42 Where the Authority at any time determines that the Legal Requirements Test has ceased to be satisfied, it may issue to the licensee a Clawback Direction in accordance with the provisions of Part I below.

Part G: Provisions where only the Legal Requirements Test is satisfied

- 13.43 The following provisions of this Part G apply where the Authority determines that, in respect of a Relevant Market Segment:
- (a) the Legal Requirements Test has been satisfied; but
 - (b) the Competition Test has not been satisfied.
- 13.44 From the date of that determination, the licensee may continue to charge the Regulated Margin (but no more than that Margin) in its Connection Charges in relation to the Relevant Market Segment.
- 13.45 If, at any time after a period of four months from the date of the determination, the licensee considers that the Competition Test has come to be satisfied in respect of the Relevant Market Segment, it may give the Authority a Notice stating its reasons for believing that that category of Tests is now satisfied.
- 13.46 The Notice must be accompanied by the evidence [including, but not restricted to, such evidence as may be specified in the Connection RIGs], so far as it is in the licensee's possession, that is necessary to establish that that category of Tests is satisfied.
- 13.47 On receiving that Notice, the Authority may, following such consultation with the licensee and other persons as it considers appropriate, determine whether the Competition Test is satisfied in respect of the Relevant Market Segment.
- 13.48 Where the Authority determines that the Competition Test is satisfied and the Legal Requirements Test continues to be satisfied, then from the date of that determination:
- (a) this Part G will cease to apply in respect of the Relevant Market Segment; and
 - (b) the provisions of Part F will apply in respect of the Relevant Market Segment.

Part H: Provisions where the Legal Requirements Test is not satisfied

- 13.49 The following provisions of this Part H apply where the Authority determines that the Legal Requirements Test has not been satisfied in respect of a Relevant Market Segment.
- 13.50 For the purposes of this Part H, it is irrelevant whether or not the Authority has also determined that the Competition Test has been satisfied.
- 13.51 Where the determination is made on or before 31 December 2013, the licensee may continue to charge a Regulated Margin in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment.
- 13.52 Where the determination is made on or after 1 January 2014, the Authority may, at any time after the date of the determination and having first consulted with the licensee, issue a direction in respect of the Relevant Market Segment which does any or all of the following:
- (a) directs that the provisions of Part A will cease to apply;
 - (b) states that the licensee may not charge a Margin in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment in such cases and until such time as is specified in or determined under the direction;
 - (c) states that the licensee may charge a Margin in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment only of such an amount and in such cases as is specified in or determined under the direction.
- 13.53 The licensee must comply with any such direction issued to it.
- 13.54 Where the determination is made on or after 1 January 2014, the Authority may also, following the determination and having first consulted the licensee, issue a Clawback Direction in respect of the Relevant Market Segment.

Part I: The Clawback Direction

- 13.55 A Clawback Direction, whether issued under Part F or Part H, is a direction that has effect in accordance with the provisions of this Part I.
- 13.56 A Clawback Direction is a direction requiring the licensee to make repayment of some or all of the Margin which it had charged in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment during a specified period of time.

- 13.57 Any Clawback Direction issued by the Authority must specify both the period of time to which it relates and the [proportion] of the Margin which the Authority requires the licensee to repay.
- 13.58 For the purposes of this Part I, a Margin is treated as having been charged during a period of time if it:
- (a) became due to the licensee under a connection agreement entered into or varied during that period; and
 - (b) was paid to and received by the licensee under that agreement or variation of it.
- 13.59 Where a Clawback Direction is issued under the provisions of Part F of this condition:
- (a) the specified period of time may not commence earlier than the date which the Authority determines to be the earliest date on which the Legal Requirements Test ceased to be satisfied; and
 - (b) the [proportion] of each Margin which the Authority requires to be repaid by the licensee may not be greater than any amount by which the Margin charged by the licensee exceeded the Regulated Margin.
- 13.60 Where it is issued with a Clawback Direction, the licensee must take all reasonable steps to:
- (a) identify all those persons who were charged the Margin to which the Clawback Direction relates; and
 - (b) repay to each such person, as soon as is practicable, a sum equivalent to the [proportion] of the Margin which that person paid to the licensee.
- 13.61 Where the licensee has, after having taken all reasonable steps to do so, been unable to repay any sums representing Margins to which a Clawback Direction applies, it must notify the Authority of the aggregate amount of the sums remaining unpaid.
- 13.62 The aggregate amount notified to the Authority shall constitute the value of the [AUMt] term for the purposes of CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges).
- 13.63 Where a Margin became due to the licensee under a connection agreement entered into or varied during a period of time specified in a Clawback Direction, but has not been paid to and received by the licensee at the date of the Direction, the licensee must waive its rights to recover that Margin.

Part J: Restriction on the power to modify the Connection RIGs

- 13.64 Where a proposed modification of the Connection RIGs issued by the Authority under standard condition 15A of this licence relates to any criteria which form part of one or more categories of the Tests, the Authority may not make that modification except in accordance with the procedure under section 11A of the Act that would apply to the modification if it were in fact a modification of a standard condition under this licence.

Part K: Interpretation

- 13.65 In this condition, references to a Relevant Market Segment include references to any subset of that segment [, any amalgamation of subsets of segments or any amalgamation of segments] that is [are] capable of being specified meaningfully for the purposes set out in paragraphs 13.2 to 13.5 above.
- 13.66 For the purposes of this condition:

| | |
|---------------------------------------|---|
| Clawback Direction | is a direction given by the Authority in accordance with Part I of this condition. |
| Competition and Service Notice | is a Notice given by the licensee in accordance with Part D of this condition. |
| Competition Test | is a category of the Tests and has the meaning given in Part C of this condition. |
| Connection Activities | means any and all of such activities comprising or associated with the provision, modification, or retention of a connection to the licensee's Distribution System as may, in accordance with the licensee's Connection Charging Statement, be undertaken by persons other than the licensee. |
| Excluded Market Segment | means any of the Excluded Market Segments that are described in Appendix 1. |
| Legal Requirements Test | is a category of the Tests and has the meaning given in Part C of this condition. |
| Local Connections Market | means the market that exists for the procurement and provision of Connection Activities within the licensee's Distribution Services Area. |
| Margin | whether in relation to a Regulated Margin or an |

Unregulated Margin, means a monetary sum, forming part of a Connection Charge, which:

- (a) is in addition to the cost incurred by the licensee in providing any of its Connection Activities; and
- (b) is expressed as a percentage of that cost.

Regulated Margin

is a Margin that:

- (a) becomes chargeable in relation to Connection Activities by the licensee in the circumstances set out in Part B of this condition; and
- (b) is limited to the amount that is specified in that part.

Relevant Market Segment

means any of the Relevant Market Segments that are described in Appendix 1.

Tests

has the meaning given in Part C of this condition.

Unregulated Margin

is a Margin that:

- (a) becomes chargeable in relation to Connection Activities by the licensee in the circumstances set out in Part F of this condition; and
- (b) is not limited in its amount by any provision of this condition.

13.67 Words and expressions defined for any of the the purposes of this condition (including in Appendix 1) are to be read and given effect subject to any further explanation or elaboration set out in the Connection RIGs issued by the Authority under standard condition 15A of this licence.

13.68 Appendix 1 follows immediately below.

APPENDIX 1

Local Connections Market Segments

Part 1: Relevant Market Segments

A13.1 For the purposes of this condition, the Relevant Market Segments of the Local Connections Market are each of the following ten segments, defined by reference to the nature and volume of the Connection Activities and the work associated with them.

Demand Connections

A13.2 In respect of Metered premises owned or occupied by Demand Customers:

- (i) **LV work:** low voltage Connection Activities involving only low voltage LV work, other than in respect of Excluded Market Segments.
- (ii) **HV work:** low voltage or high voltage Connection Activities involving high voltage work (including where that work is required in respect of Connection Activities within an Excluded Market Segment).
- (iii) **HV and EHV work:** high voltage Connection Activities involving extra high voltage work.
- (iv) **EHV work and above:** extra high voltage and 132kV Connection Activities.

Distributed Generation

A13.3 In respect of Metered premises comprising Distributed Generation:

- (v) **LV work:** low voltage Connection Activities involving only low voltage work.
- (vi) **HV and EHV work:** any Connection Activities involving work at high voltage or above.

Unmetered Connections

A13.4 In respect of Unmetered premises:

- (vii) **LA 1–10 work:** Connection Activities in respect of local authority premises involving 10 or fewer jobs.

- (viii) **LA 11+ work:** Connection Activities in respect of local authority premises involving more than 10 jobs.
- (ix) **PFI work:** Connection Activities under private finance initiatives.
- (x) **Other work:** all other Unmetered connections work.

Part 2: Excluded Market Segments

A13.5 For the purposes of this condition, and subject to paragraph A13.2(ii) above, the Excluded Market Segments of the Local Connections Market are the following segments, each of them relating to Metered premises which are owned or occupied by Demand Customers and defined by reference to the nature and volume of the Connection Activities.

- (i) **Domestic LV work:** low voltage Connection Activities relating to no more than four Domestic Premises.
- (ii) **One-off industrial and commercial work:** Connection Activities in respect of a single or three phase low voltage connection at up to 60kVA for premises other than Domestic Premises.

Part 3: Interpretation

A13.6 Definitions of the Market Segments set out in this Appendix are subject to the provisions of paragraph 13.67 of this condition.

CRC 14. Low Carbon Networks Fund

Introduction

- 14.1 The purpose of this condition is to establish the mechanism for determining the amount of the LCN term (the total incentive payment for low carbon networks development) in relation to the Low Carbon Network Fund that applies in CRC 5 (Restriction of Distribution Charges: total incentive revenue adjustment).

Part A: Funding mechanisms for Low Carbon Networks Fund functions

- 14.2 Parts B to D below provide for the following functions to be discharged by the Low Carbon Networks Fund:
- (a) the funding of projects through revenues contributed through the licensee's Use of System Charges ("the First Tier Funding Mechanism");
 - (b) the funding of projects through revenues contributed through the Use of System Charges of all of the Distribution Service Providers ("DSPs") ("the Second Tier Funding Mechanism"); and
 - (c) the funding of such awards as the Authority considers appropriate through the Use of System Charges of all of the DSPs ("the Reward Funding Mechanism").
- 14.3 The revenues received by the licensee from its Use of System Charges under each funding mechanism in a Regulatory Year represent the amount of the LCN term that is to be incorporated into the provisions of CRC 5 in respect of that year.
- 14.4 Accordingly, for the purposes of Part B of CRC 5, which adjusts the calculation of the licensee's Allowed Demand Revenue under CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges), the amount of the LCN adjustment in Regulatory Year t is derived from the following formula (in this condition, the Principal Formula):

$$LCN_t = LCN_{1t} + LCN_{2t} + LCN_{3t}$$

where:

- (a) LCN_{1t} is an amount determined under the First Tier Funding Mechanism in accordance with Part B below;
- (b) LCN_{2t} is an amount determined under the Second Tier Funding Mechanism in accordance with Part C; and

- (c) LCN3_t is an amount determined under the Reward Funding Mechanism in accordance with Part D.

Part B: The First Tier Funding Mechanism

- 14.5 For the purposes of the Principal Formula, the amount of LCN1_t calculated below:

[LCN1_t will be calculated using a formula that ensures that the annual project cost does not exceed the allowance, and then spreads that cost over five years, plus return. LCN1_t will then be this year's component of that spread cost. The annual project cost will be defined as the amount of the expenditure incurred by the licensee in the Regulatory Year *t* in respect of Eligible LCN Projects, as reported in the licensee's LCN Annual Report for that year, and subject to the overall expenditure limit determined for such projects by the licensee's LCN Allowance.]

- 14.6 The LCN Allowance is the amount set against that term in the part of Appendix 1 that applies to the licensee.
- 14.7 Assessment, implementation, and other relevant matters relating to Eligible LCN Projects under the First Tier Funding Mechanism are provided for in or pursuant to the LCN Fund Governance Document issued by the Authority under Part E below.

Part C: The Second Tier Funding Mechanism

- 14.8 For the purposes of the Principal Formula, the amount of LCN2_t is zero at 1 April 2010 and is subsequently to be determined in accordance with this Part C.
- 14.9 Where the Authority approves a Valid Claim in a Regulatory Year, it shall, by a direction given to all DSPs, direct:
- (a) the amount of the LCN2 term for the purposes of the Principal Formula in that [and following] Regulatory Years; and
 - (b) the manner in which and the timescale over which such revenues are to be transferred by other DSPs to the DSP responsible for the approved claim ("the implementing DSP").
- 14.10 [Where the Authority and implementing DSP [agree] to halt a project, the Authority shall, by direction given to all DSPs, direct:
- (a) the amount of the LCN2 term [which may be negative] for the purposes of the Principal Formula in that [and following] Regulatory Years; and

- (b) the manner in which and the timescale over which such revenues are to be transferred by the implementing DSP to the other DSPs.]

14.11 Assessment, implementation, and other relevant matters relating to Eligible LCN Projects under the Second Tier Funding Mechanism are provided for in or pursuant to the Fund Governance Document issued by the Authority under Part E below.

Part D: The Reward Funding Mechanism

14.12 For the purposes of the Principal Formula, the amount of LCN3t is zero at 1 April 2010 and is subsequently to be determined in accordance with this Part D.

14.13 In recognition of the particular merits of an Eligible LCN Project, the Authority (at its sole discretion) may, in accordance with any relevant criteria set out in the LCN Fund Governance Document, decide to provide a revenue award to a nominated DSP.

14.14 Where the Authority so decides, it shall, by direction given to all the Distribution Services Providers, direct:

- (a) the amount of the LCN3 term; and
- (b) the manner in which and the timescale over which such revenues are to be transferred by other DSPs to the nominated DSP.

14.15 Assessment, implementation, and other relevant matters relating to the making of awards under the Reward Funding Mechanism are provided for in or pursuant to the LCN Fund Governance Document issued by the Authority under Part E below.

Part E: The LCN Fund Governance Document

14.16 The Authority may issue, and from time to time revise, a document, to be known as the LCN Fund Governance Document, for purposes connected with the governance and administration of the the Low Carbon Networks Fund.

14.17 The LCN Fund Governance Document may, in particular, make appropriate provision about or impose requirements in respect of:

- (a) information to be provided to the Authority in relation to the assessment and approval of Eligible Low Carbon Networks Fund Projects;

- (b) the criteria against which such projects will be assessed and approved (where necessary);
- (c) the process and procedures that will be in place for the assessment and approval of such projects (where necessary); and
- (d) the nature of the reporting obligations in respect of such projects.

Part F: Procedure for issuing the LCN Fund Governance Document

14.18 Before issuing a LCN Fund Governance Document under this condition, the Authority, by Notice given to all licence holders, must:

- (a) state that it proposes to issue the document, and specify the date on which it proposes that this should take effect;
- (b) set out the text of the document and the Authority's reasons for proposing it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.

14.19 The Authority must consider any representations or objections that are duly made and not withdrawn.

14.20 The requirements of paragraphs 14.18 and 14.19 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

14.21 In paragraph 14.18, "issuing guidance" includes issuing any revision of it.

Part G: Interpretation

14.22 For the purposes of this condition:

"licence holder" has the meaning given in section 3A(8) of the Act.

Eligible LCN Project

is a project undertaken by the licensee that appears to the Authority to satisfy such requirements of the LCN Fund Governance Document as are necessary to enable the project to be funded under (as the case may be)

the First Tier Funding Mechanism or the Second Tier Funding Mechanism

| | |
|--------------------------------------|---|
| First Tier Funding Mechanism | has the meaning given in Part B of this condition. |
| Fund Governance Document | means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F. |
| LCN Annual Report | means the licensee's report, produced each year in accordance with any requirements of the LCN Fund Governance Document as to format and timing, in respect of expenditure on Eligible LCN Projects under the First Tier Funding Mechanism. |
| Reward Funding Mechanism | has the meaning given in Part D of this condition. |
| Second Tier Funding Mechanism | has the meaning given in Part C of this condition. |
| Valid Claim | means a claim to receive funding for one or more Eligible LCN projects under the Second Tier Funding Mechanism that complies in all respects with such requirements as are imposed by the Fund Governance Document in respect of such claims. |

APPENDIX 1

LCN Allowance for the First Tier Funding Mechanism

(see Part B of this condition)

| Licensee | Allowance (£m) in 2008/09 prices |
|--|----------------------------------|
| Central Networks West plc | XX.X |
| Central Networks East plc | XX.X |
| Electricity North West Ltd | XX.X |
| Northern Electric Distribution Ltd | XX.X |
| Yorkshire Electricity Distribution plc | XX.X |
| Western Power Distribution (South West) plc | XX.X |
| Western Power Distribution (South Wales) plc | XX.X |
| EDF Energy Networks (LPN) plc | XX.X |
| EDF Energy Networks (SPN) plc | XX.X |
| EDF Energy Networks (EPN) plc | XX.X |
| SP Distribution Ltd | XX.X |
| SP Manweb plc | XX.X |
| Scottish Hydro Electric Power Distribution plc | XX.X |
| Southern Electric Power Distribution plc | XX.X |

CRC 16. Services treated as Excluded Services

Introduction

- 16.1 The purposes of this condition are:
- (a) to set out the basis on which services provided by the licensee may be treated as Excluded Services for the purposes of the Charge Restriction Conditions; and
 - (b) to state how the charges for such services should be set.
- 16.2 Excluded Services are the services that comply with the General Principle set out at Part A below and include, without limitation, those services listed in Appendix 1.

Structure of this condition

- 16.3 Part A of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the licensee are to be treated as Excluded Services.
- 16.4 Part B sets out particular examples of services that are to be treated as Excluded Services and states how charges for those services are to be set.
- 16.5 Part C provides for the Authority to give directions in respect of Excluded Services.

Part A: Statement of General Principle

- 16.6 The General Principle is that a service provided by the licensee as part of the normal activities of its Distribution Business within the Distribution Services Area is to be treated as an Excluded Service if and to the extent that the service so provided is not already remunerated under any of the charges mentioned in paragraph 19.7.
- 16.7 The charges referred to in paragraph 16.6 are those charges that are levied by the licensee in respect of the provision of:
- (a) Use of System, in accordance with the relevant Charging Statement prepared and published by the licensee under standard condition 14 (Charges for Use of System and connection);
 - (b) Metering Point Administration Services, in accordance with the MPAS Charging Statement prepared and published by the licensee under standard condition 18 (Provision of and charges for Metering Point Administration Services); and

- (c) Legacy Metering Equipment and Data Services, in each case in accordance with the relevant statement prepared and published by the licensee under standard condition 36 (Charges for the provision of Legacy Metering Equipment and Data Services).

Part B: Specific categories of Excluded Service

- 16.8 Appendix A (which has effect as part of this condition), while not limiting the scope of the General Principle, sets out certain categories of service provided by the licensee that are to be treated as Excluded Services.
- 16.9 Charges levied in respect of Excluded Services provided within categories ES1 to ES4 of Appendix 1 are to be set at a level that will allow the licensee to recover:
- (a) its reasonable costs; and
 - (b) a reasonable rate of return on the capital outlay represented by any expenditure incurred by the licensee during the period before payment is received of any amounts due by the person requiring the service in question; and
 - (c) in respect of ES1, a margin where that is consistent with the provisions of CRC13
- 16.10 Charges levied in respect of Excluded Services provided within categories ES5 and ES7 of Appendix 1 are to be set at a level that will allow the licensee to recover its reasonable costs and a reasonable margin in providing the service in question.

Part C: Authority's power to give directions

- 16.11 Where the Authority (having particular regard to the General Principle) is satisfied:
- (a) that any service treated by the licensee as an Excluded Service should not be so treated; or
 - (b) that any service not treated by the licensee as an Excluded Service should be so treated,
- it may give the licensee a direction to that effect.
- 16.12 Where a direction is given under paragraph 16.11, the licensee must, as the case may be, either:
- (a) stop treating the service or services specified in the direction as Excluded Services; or

- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

Interpretation

- 16.13 The descriptions of categories of Excluded Service set out in Appendix 1 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the Revenue Reporting RIGs or the Cost Reporting RIGs issued by the Authority under (respectively) standard condition 47 or 48 of this licence.

APPENDIX 1

Specific categories of Excluded Service

- ES1. **Connection services:** This category consists of the carrying out of works for the provision, installation, operation, repair, or maintenance of electric lines or electrical plant (but only to the extent that the service is not already remunerated under one of the charges mentioned in paragraph 16.7).
- ES2. **Diversiory works under an obligation:** This category consists of the relocating of any electric line or electrical plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9(1) (general duties of licence holders) or section 16 (duty to connect on request) of the Act.
- ES3. **Works required by any alteration of premises:** This category consists of the moving of any electric line, electrical plant, or Electricity Meter that forms part of the licensee's Distribution System to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.
- ES4. **Top-up, standby, and enhanced system security:** This category consists of the provision of electric lines and electrical plant to the extent required by any user of the licensee's Distribution System:
- (a) for the specific purpose of enabling the delivery of top-up or standby supplies of electricity; or
 - (b) to provide a higher degree of security than is required for the purposes of complying with paragraph 1 of standard condition 24 (Distribution System planning standard and quality of performance reporting)

- ES5. **Revenue protection services:** This category consists of the provision, at the request of any third party (which could include an Affiliate or a Related Undertaking of the licensee), of services relating to the prevention of Electricity Meter interference and other forms of illegal abstraction of electricity.
- ES6. **Metering Services:** This category consists of the provision of any Metering Service (other than the provision of Legacy Metering Equipment) that is not already remunerated under any other charge in respect of an Excluded Service.
- ES7. **Miscellaneous:** This category consists of the provision of any other service (including electric lines or electrical plant) that:
- (a) is for the specific benefit of any third party who requests it;
 - (b) is not made available by the licensee as a normal part of the activities of its Distribution Business within the Distribution Services Area; and
 - (c) is not remunerated under one of the charges mentioned in paragraph 16.7 or under any other charge for an Excluded Service.