

**PART FOUR: SPECIAL
CONDITIONS OF THE ELECTRICITY
DISTRIBUTION LICENCE**

Part 4 of the DNO licence:

Proposed Structure for the Charge Restriction Conditions

PAGE

Chapter 1: Overview and definitions

CRC 1	Overview of Part 4	00
CRC 2	Definitions for the Charge Restriction Conditions	00

Chapter 2: Arrangements for revenue restriction

CRC 3	Restriction of Distribution Charges: Demand Use of System Charges	00
CRC 4	Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items	
CRC 5	Restriction of Distribution Charges: total incentive revenue adjustment	
CRC 6	Restriction of Distribution Charges: Generation Use of System Charges	00
CRC 7	Restriction of charges for the provision of Legacy Metering Equipment	00

CHAPTER 1
Conditions 1 and 2: Overview
and definitions

CRC 1. Overview of Part 4

Introduction

- 1.1 Part 4 of this licence, in accordance with the Terms of the licence set out in Part 1, contains the special conditions.
- 1.2 The special conditions are referred to in this licence as the Charge Restriction Conditions (collectively “the CRCs” and each a “CRC” in this Part 4).

Part A: Summary of scope and purpose

- 1.3 A CRC is defined at standard condition 1 of this licence as any condition which has the purpose (whether on its own or in combination with any other CRC) of providing for the determination of a maximum price that may be charged by the licensee or a maximum revenue that may be recovered by it.
- 1.4 The CRCs apply to the licensee in connection with those matters and they confer powers and impose duties accordingly.
- 1.5 In particular, the CRCs make provision (including provision for the calculation of certain terms and values by reference to formulaic algebra) in respect of:
 - (a) the level of revenues (“allowed revenues”) that the licensee is permitted to recover from the charges that it levies for the services it provides;
 - (b) certain costs incurred by the licensee in providing those services that can be recovered on an unrestricted basis through allowed revenues;
 - (c) adjustments (by way of penalty or reward) to allowed revenues to reflect the licensee’s performance under certain Incentive Schemes;
 - (d) the licensee’s role in helping to develop competitive connection activity and a low carbon Distribution System;
 - (e) services in respect of which the charges levied by the licensee fall outside the scope of the restrictions established by the CRCs; and
 - (f) procedures by which the licensee may seek to vary or be relieved of some or all of the obligations imposed by the CRCs.

Part B: Modification of the CRCs

- 1.6 The CRCs are additional to the standard conditions (and any amended standard conditions) of this licence and can only be modified with the consent of the licensee or following the special process that is provided for at sections 12 to 14A of the Act.

Part C: References in the CRCs

- 1.7 Except if the context otherwise requires, any reference in a CRC to a numbered paragraph or appendix is a reference to the paragraph or appendix (as the case may be) bearing that number in that CRC.

CRC 2. Definitions for the Charge Restriction Conditions

Introduction

- 2.1 This condition sets out most of the defined words and expressions (all of which begin with capital letters) that are used in the Charge Restriction Conditions of this licence, and gives their definitions next to them.
- 2.2 But:
- (a) words and expressions used in Part 2 of this licence and defined in standard condition 1 or 33 of that part (see paragraph 2.4 below) have the same meaning when used in the Charge Restriction Conditions; and
 - (b) where defined words and expressions are used only in a particular Charge Restriction Condition, their definitions are included in that condition.

Part A: Definitions in alphabetical order

- 2.3 In the Charge Restriction Conditions, unless the context otherwise requires:

Allowed Demand Revenue

means:

- (a) in the Regulatory Year commencing 1 April 2010 and every subsequent Regulatory Year, the revenue calculated in accordance with the formula set out at Part B of CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges); and
- (b) in any Regulatory Year preceding 1 April 2010, the revenue calculated in accordance with the formula set out at paragraph 3 of special condition B1 of this licence (Restriction of distribution charges: demand use of system charges) in the form in which it was in force at 31 March 2010.

Allowed Network Generation Revenue

means:

- (a) in the Regulatory Year commencing 1 April 2010 and every subsequent Regulatory Year, the revenue calculated in accordance with the formula set out at Part B of CRC 6 (Restriction of Distribution Charges: Generation Use of System Charges); and
- (b) in any Regulatory Year preceding 1 April 2010, the revenue calculated in accordance with the formula set out at paragraph 2 of special condition D1 of this licence (Restriction of distribution charges: generation use of system charges) in the form in which it was in force at 31 March 2010.

Allowed Pass-Through Item

means any of the items referred to in CRC 4 (Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items).

Average Specified Rate	means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made.
Base Demand Revenue	means the revenue calculated in accordance with the formula set out at Part C of CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges).
Business Rates	means: <ul style="list-style-type: none"> (a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and (b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government (Scotland) Act 1994, or any legislation amending or replacing those enactments.
Combined Allowed Distribution Network Revenue	means the total amount of Allowed Demand Revenue and Allowed Network Generation Revenue.
Combined Distribution Network Revenue	means the total amount of Regulated Demand Revenue and Network Generation Revenue.
Demand Customer	means, in relation to any energised or de-energised Exit Point on the licensee's Distribution System for which there is a valid metering point administration number, the person who is taking, or is deemed to be taking, a supply of electricity through that Exit Point.
Demand Use of System Charges	means charges levied by the licensee in accordance with the provisions of its Use of System Charging Statement in respect of Demand Customers.
DG	for the purposes of CRC 12 only (Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation), and whether on its own or as part of another defined term, means Distributed Generation.
Directly Connected	in relation to any premises, means so connected to the licensee's Distribution System that the final connection to the premises is from that system (and Indirectly Connected means other than Directly Connected).
Distribution Charges	means charges levied by the licensee in respect of the provision of Distribution Services.

Distributed Generation	means an installation comprising any plant or apparatus for the production of electricity that is Directly Connected to the licensee's Distribution System or is connected to that system through one or more electricity networks (other than through an onshore Transmission System) that are Directly Connected to it.
Distribution Losses	means the amount, in Units, of the difference between the quantity of Units entering the licensee's Distribution System and the quantity of Units Distributed.
Distribution Services	means all services provided by the licensee as part of its Distribution Business other than Excluded Services.
Distribution Unit Category	means (as the case may be) HV Units, LV1 Units, LV2 Units, or LV3 Units.
EHV Premises	means: <ul style="list-style-type: none"> (a) in relation to premises connected to the licensee's Distribution System at 31 March 2005, those EHV premises which would, had this licence continued in the form in which it was in force on 31 March 2005, have been notified in writing to the Authority by the licensee by 31 July 2005 in accordance with paragraph 9 of special condition D (Information to be provided to the Authority in connection with the charge restriction conditions) or, in Scotland, special condition E of that licence; and (b) in relation to premises connected to the licensee's Distribution System which are either first connected or (having been previously connected) have had their connection materially altered on or after 1 April 2005, those premises which are so connected at a voltage of 22 kilovolts or greater, or at a substation with a primary voltage of 66 kilovolts or higher.
EHV Units	means Units distributed by the licensee which are conveyed to EHV Premises.
Generation Use of System Charges	means charges levied by the licensee in accordance with the provisions of its Use of System Charging Statement in respect of Distributed Generation.
HV Units	means Units (other than EHV Units) distributed by the licensee which are delivered to Exit Points on the licensee's Distribution System at a voltage of 1,000 volts or more.

Incentive Payment	means an adjustment to the licensee's allowed revenues (whether Allowed Demand Revenue or Allowed Network Generation Revenue) that represents the penalty or reward in respect of the licensee's performance against the Incentive Schemes.
Incentive Schemes	means the arrangements set out in 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 Exit Charges), CRC 11 (Adjustment of licensee's revenues to reflect innovation funding performance), and CRC 12 (Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation) to establish mechanisms for adjusting Allowed Demand Revenue or, as appropriate, Allowed Network Generation Revenue in respect of the licensee's performance under or in relation to those conditions.
Inset Electricity Distributor	means an Electricity Distributor that owns or operates a Distribution System within the licensee's Distribution Services Area and is an Affiliate or Related Undertaking of the licensee but not a Distribution Services Provider.
Legacy Metering Equipment Charges	means the charges levied by the licensee for the provision of Legacy Metering Equipment in accordance with the relevant Charging Statement prepared by the licensee under standard condition 36 (Charges for the provision of Legacy Metering Equipment and Data Services).
LV Units	means Units distributed by the licensee to Exit Points on the licensee's Distribution System at a voltage of less than 1,000 volts.
LV1 Units	means LV Units which are distributed by the licensee outside off-peak periods: <ul style="list-style-type: none"> (a) to Domestic Premises or Small Premises (other than Domestic Premises); and (b) in respect of which, the appropriate Demand Use of System Charges apply rates in off-peak periods that are different from those applied at other times of day (and, for the avoidance of doubt, such charges include all those items specified as falling within the LV1 category in the statements provided by the licensee to the Authority in accordance with Part D of CRC 15 (Distribution Charges: supplementary restrictions).

LV2 Units means LV Units which are distributed by the licensee during off-peak periods to Domestic Premises or Small Premises (other than Domestic Premises) where the appropriate Demand Use of System Charges are restricted to apply to specified off-peak periods (and, for the avoidance of doubt, such charges include all those items specified as falling within the LV2 category in the statements provided by the licensee to the Authority in accordance with Part D of CRC 15 (Distribution Charges: supplementary restrictions)).

LV3 Units means LV Units other than LV1 Units and LV2 Units and, for the avoidance of doubt, includes Units distributed under the Use of System Charges specified as falling within the LV3 category in the statements provided by the licensee to the Authority in accordance with Part D of CRC 15 (Restriction of Distribution Charges: supplementary restrictions).

Metered in relation to any quantity of electricity distributed, means as measured by an Electricity Meter installed for such purpose.

Network Generation Revenue means (subject to notes 1 and 2 below) the revenue derived by the licensee from Generation Use of System Charges made for the provision of Distribution Services to the owners or operators of Distributed Generation in a Regulatory Year, after deduction of the following amounts:

- (a) an amount equal to that part of the total amount payable in that year to the Transmission Licensee in respect of Transmission Connection Point Charges, Transmission Use of System Charges, and Remote Transmission Asset Rentals which falls to be attributed to Distribution System users in that year and which has been recovered from those users in that year by the licensee in its Generation Use of System Charges;
- (b) an amount equal to that part of the total amount payable in that year to another Electricity Distributor in respect of charges for the conveyance of Units from that person's network which falls to be attributed to Distribution System users in that year and which would otherwise be included in Network Generation Revenue as an amount recovered from Distribution System users in that year by the licensee in its Generation Use of System Charges; and

continued

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

note 1: references in this definition to revenue derived by the licensee and amounts payable by the licensee are references to that revenue and those amounts measured on an accruals basis.

note 2: network unavailability rebates or payments are to be treated as a cost to the licensee and not as a reduction in its Network Generation Revenue.

**Price Control
Review Date**

means the date from which modifications to the Charge Restriction Conditions have effect:

- (a) whether before or after the date upon which the modifications are made;
- (b) whether or not the same modifications are made in respect of each licensee that is a Distribution Services Provider; and
- (c) where such modifications have been proposed by the Authority following a review by the Authority of the Charge Restriction Conditions (or that part or parts of those conditions to which the modifications relate) in relation to all Distribution Services Providers.

**Registered Power
Zone**

means an area that comprises a collection of contiguously connected Distribution System assets having one or more terminal points that together describe in full the boundary of that area with the licensee's Distribution System and that has been registered by the Authority as a Registered Power Zone in accordance with special condition D2 of this licence (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones) in the form in which it was in force at 31 March 2010.

**Regulated Demand
Revenue**

means (subject to note 1 below) the revenue derived by the licensee from Demand Use of System Charges made for the provision of Distribution Services to Demand Customers in a Regulatory Year, after deduction of the following amounts:

- (a) an amount equal to that part of the total amount payable in that year to the Transmission Licensee in respect of Transmission Connection Point Charges, Transmission Use of System Charges, and Remote Transmission Asset Rentals which falls to be attributed to Distribution System users in that year and which has been recovered

continued

from those users in that year by the licensee in its Demand Use of System Charges;

- (b) an amount equal to that part of the total amount payable in that year to another Electricity Distributor in respect of charges for the conveyance of Units from that person's network which falls to be attributed to Distribution System users in that year and which would otherwise be included in Regulated Demand Revenue as an amount recovered from those users in that year by the licensee in its Demand Use of System Charges; and
- (c) value added tax (if any) and any other taxes based directly on the amounts so derived.

note 1: references in this definition to revenue derived by the licensee and amounts payable by the licensee are references to that revenue and those amounts measured on an accruals basis.

Regulatory Year t

means the particular Regulatory Year for the purposes of which any calculation is required to be made under the Charge Restriction Conditions.

Regulatory Year t-1

means the Regulatory Year immediately preceding Regulatory Year t (and similar expressions should be read accordingly).

Remote Transmission Asset Rental

means any rent or other periodic payment payable by the licensee to a Transmission Licensee in respect of Remote Transmission Assets forming part of the licensee's Distribution System.

Retail Price Index

means:

- (a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or
- (b) if that index in respect of any month relevant for the purposes of the Charge Restriction Conditions has not been published on or before the last day of February, such price index as the Authority may, after consultation with all Distribution Services Providers, determine to be appropriate; or
- (c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with all Distribution Services Providers, determine to be appropriate.

Small Premises	means premises at which a supply of electricity is taken through a non-half-hourly meter, whether for domestic or non-domestic purposes.
Transmission Connection Point Charges	means charges that are levied by a Transmission Licensee as connection charges by direct reference to the number or nature of connections between the licensee's Distribution System and the Transmission System of that Transmission Licensee and that are payable by the licensee.
Transmission Exit Charges	has the meaning given in standard condition 45A (Incentive scheme for Transmission Exit Charges).
Transmission Use of System Charges	means charges that are levied by a Transmission Licensee as use of system charges by direct reference to the export of electricity from its Transmission System to the licensee's Distribution System and that are payable by the licensee.
Unit	means a kilowatt hour.
Units Distributed	means the total quantity of Units distributed by the licensee through its Distribution System in Regulatory Year t, as measured on leaving that system, whether Metered or Unmetered.
Unmetered	means the estimated quantity of electricity entering or leaving the licensee's Distribution System in any case where that quantity is not measured by Metering Equipment.

Part B: Definitions found elsewhere in this licence

- 2.4 The following words or expressions used in the Charge Restriction Conditions are defined in either standard condition 1 or standard condition 33 of this licence, as indicated below, and have in the Charge Restriction Conditions the meaning given to them by the relevant standard condition.

Standard condition 1: Definitions for the standard conditions

Defined words or expressions

Act
Authority
Charge Restriction Condition
Charging Methodology
Competition Commission
Conditions
Connection Charging Statement
Connection Charges

Customer [including as adapted for the purposes of standard condition 45]
Data Services
Distribution Business
Distribution Charges
Distribution Connection and Use of System Agreement
Distribution Services Area
Distribution Services Provider
Distribution System
Domestic Customer
Domestic Premises
Electricity Distributor
Electricity Meter
Entry Point
Excluded Services
Exit Point
Legacy Metering Equipment
Metering Equipment
Metering Point Administration Services
Metering Services
Regulatory Year
Use of System [including reference to agreements for Use of System]
Use of System Charges
Writing

**Standard condition 33:
Definitions for the Section B standard conditions**

Defined words or expressions

Connection RIGs
Distributed Generation
Network Output RIGs
Quality of Service RIGs
Regulatory Instructions and Guidance
Specified Information
Transmission Exit Charges RIGs

CHAPTER 2
Conditions 3 to 7:
Arrangements for revenue
restriction

CRC 3. Restriction of Distribution Charges: Demand Use of System Charges

Introduction

- 3.1 The purposes of this condition are:
- (a) to establish the charging restrictions that determine the level of Allowed Demand Revenue that may be recovered by the licensee from Demand Use of System Charges; and
 - (b) to set out the obligation of the licensee in respect of those restrictions.

Part A: Licensee's obligation

- 3.2 The licensee, in setting Demand Use of System Charges, must take all appropriate steps within its power to ensure that, in Regulatory Year t , Combined Distribution Network Revenue does not exceed Combined Allowed Distribution Network Revenue.

Part B: Calculation of Allowed Demand Revenue (AD)

- 3.3 Allowed Demand Revenue is calculated in accordance with the following formula (in this condition, the Principal Formula):

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

- 3.4 In the Principal Formula:

- AD $_t$ means the amount of Allowed Demand Revenue in Regulatory Year t .
- BR $_t$ means the amount of Base Demand Revenue in the Regulatory Year t calculated in accordance with the formula set out at Part C below.
- PT $_t$ means the amount of the revenue adjustment, whether of a positive or negative value, made in the Regulatory Year t in respect of allowed pass-through items as derived in accordance with CRC 4 (Restriction of Distribution Charges: calculation of Allowed Pass-Through Items).
- IP $_t$ means the total amount of incentive revenue, whether of a positive or negative value, calculated for the Regulatory Year t in accordance with CRC 5 (Restriction of Distribution Charges: total incentive revenue adjustment).
- KD $_t$ means the amount of the correction factor, whether of a positive or negative value, calculated for Regulatory Year t in accordance with the formula set out at Part D below.

Part C: Calculation of Base Demand Revenue (BR)

- 3.5 For the purposes of the Principal Formula, the amount of BR $_t$ is derived from the following formula:

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

3.6 In the formula for the BR term above:

PU means the amount set against that term in the part of Appendix 1 that applies to the licensee, and represents the revenue allowance determined by the Authority in relation to the distribution of electricity to LV and HV premises at the time that the allowance was established.

PE means the amount set against that term in the part of Appendix 1 that applies to the licensee, and represents the revenue allowance determined by the Authority in relation to the distribution of electricity to EHV Premises at the time that the allowance was established.

GR_t is the growth term, and in the Regulatory Year beginning on 1 April 2005 has the value of 1 and then in the Regulatory Year beginning on 1 April 2006 and each subsequent Regulatory Year is derived from the following formula (see also paragraph 3.7 below):

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

PIAD_t is the price index adjuster, which in the Regulatory Year beginning on 1 April 2005 has the value of 1 and in each subsequent Regulatory Year is derived from the following formula (see also paragraph 3.8 below):

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

MG_t is the merger adjustment, and is derived from the following formula (see also paragraph 3.9 below):

$$MG_t = MR_t \times PIAM_t$$

3.7 In the formula for the GR term above:

\sum means the summation across all Distribution Unit Categories *i* as described in the definition of the term P0i.

P0i means, in respect of each Distribution Unit Category *i* set out against the licensee's name in Appendix 2, the corresponding value of P0 that applies in respect of that category.

DIt means the total number of the Units Distributed in Regulatory Year *t* to premises Directly Connected to the Distribution System of the licensee (or to the Distribution System of any Inset Electricity Distributor) within the licensee's Distribution Services Area which fall within the relevant Distribution Unit Category *i*.

C_t means the number of energised or de-energised Exit Points on the licensee's Distribution System (or on the Distribution System of any Inset Electricity Distributor) within the licensee's Distribution Services Area in the Regulatory Year t for which there is a valid metering point administration number, as calculated on 30 September of that year.

3.8 In the formula for the PIAD term above:

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

X in relation to the Regulatory Year beginning on 1 April 2006 and every subsequent Regulatory Year, has the value of zero.

3.9 In the formula for the MG term above:

MRT means the amount set against that term for each Regulatory Year in the part of Appendix 3 that applies to the licensee.

PIAM_t in the Regulatory Year beginning on 1 April 2001 equals 1, and in all subsequent Regulatory Years is derived from the following formula:

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

Part D: Calculation of the correction factor (KD)

3.10 For the purposes of the Principal Formula, KD_t is derived, subject to Part B of CRC 15 (Distribution Charges: supplementary restrictions), from the following formula (see also paragraph 3.11 below):

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

3.11 In the formula for the KD term above:

RD_{t-1} means the amount of the Regulated Demand Revenue in the Regulatory Year t-1, except in the Regulatory Year beginning on 1 April 2005 where RD_{t-1} is the amount of distribution revenue (as defined in special condition A, or in Scotland special condition B, of this licence in the form in which it was in force at 31 March 2005 and, for the avoidance of doubt, excluding EHV revenues) recovered by the licensee in the Regulatory Year beginning on 1 April 2004.

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

PR_t means the rate of interest that is applicable in accordance with Part A of CRC 15 (Distribution Charges: supplementary restrictions).

AD_{t-1} means the amount of the Allowed Demand Revenue in the Regulatory Year t-1, except in the Regulatory Year beginning on 1 April 2005 where AD_{t-1} is derived from the following formula (see also paragraph 3.12 below):

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

3.12 In the formula for the AD term above:

MD_{t-1} means the maximum average charge per Unit Distributed in the Regulatory Year beginning on 1 April 2004 arising from the application of the formula in paragraph 1 of special condition B, or in Scotland special condition C, of this licence in the form in which it was in force at 31 March 2005.

D_{t-1} means the regulated quantity distributed in the Regulatory Year that begins on 1 April 2004, calculated in accordance with special condition A, or in Scotland special condition B, of this licence in the form in which it was in force at 31 March 2005.

3.13 Appendices 1 to 3 follow immediately below.

APPENDIX 1

**Values for the terms PU and PE by licensee
(see paragraph 3.6 of this condition)**

APPENDIX 2

**Values for the P0 weights by licensee
(see paragraph 3.7 of this condition)**

APPENDIX 3

**Values for the MR term by licensee
(see paragraph 3.9 of this condition)**

CRC 4. Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items

Introduction

- 4.1 The purpose of this condition is to provide for the calculation of the amount of the term PT (the allowed pass-through term) that applies in CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges).
- 4.2 The effect of the application of the allowed pass-through term in CRC 3 is to ensure that the level of the licensee's Allowed Demand Revenue as calculated in accordance with that condition reflects certain costs that can be passed through to Demand Customers through Allowed Demand Revenue.

Part A: Calculation of Allowed Pass-Through Items (PT)

- 4.3 For the purposes of Part B of CRC 3, which establishes the calculation of Allowed Demand Revenue, the total amount of the PT term is calculated in accordance with the following formula (in this condition, the Principal Formula):

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

- 4.4 In the Principal Formula:

- LF_t** means an amount (whether positive or negative) in Regulatory Year t, as derived from the formula set out in Part B below, representing a licence fee adjustment.
- RB_t** means an amount (whether positive or negative) in Regulatory Year t, as derived from the formula set out in Part C below, representing a business rates adjustment.
- HB_t** means the amount received by the licensee in Regulatory Year t as the result of any direction given by the Secretary of State in accordance with section 184 of the Energy Act 2004 in relation to assistance for high-cost distributors (see also CRC 18 in connection with this).
- IED_t** means an amount in the Regulatory Year t representing the revenue from Demand Use of System Charges received by any Inset Electricity Distributor, but limited to the portion of that revenue that relates to the use of relevant assets owned or operated by that distributor that are situated within the geographical boundaries of the licensee's Distribution Services Area.
- MPT_t** means an amount (whether positive or negative) in Regulatory Year t, as derived from the formula set out in Part D below, representing an adjustment for any other pass-through items.
- UNC_t** means an amount in Regulatory Year t representing a relevant adjustment to the calculation of Allowed Demand Revenue arising from the application of CRC 19 (Arrangements for the recovery of uncertain costs).

Part B: Calculation of the licence fee adjustment (LF)

- 4.5 For the purposes of the Principal Formula, LF_t is calculated in accordance with the following formula:

$$LF_t = LP_t - LA_t$$

- 4.6 In the formula for the LF term above:

LP_t is an amount in respect of licence fee payments, and means the amount equal to the payments made by the licensee, in the Regulatory Year t , in accordance with its obligations set out in standard condition 5 of this licence (Licensee's payments to the Authority).

LA_t is the amount of the licence fee payments allowance, and is derived from the following formula (see also paragraph 4.7 below):

$$LA_t = PF \times PIAB_t$$

- 4.7 In the formula for the LA term above:

PF is the amount of the licence fee payments allowance in 2002/03 prices, and is represented by the amount set against the licensee's name in the table shown at Appendix 1.

$PIAB_t$ is the price index adjustment, and in the Regulatory Year beginning on 1 April 2002 has the value of 1 and in each subsequent Regulatory Year is derived from the following formula (see also paragraph 4.8 below):

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

- 4.8 In the formula for PIAB above:

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

Part C: Calculation of the business rates adjustment (RB)

- 4.9 For the purposes of the Principal Formula, RB_t is calculated in accordance with the following formula:

$$RB_t = RP_t - RA_t$$

- 4.10 In the formula for the RB term above:

RP_t is the amount payable by the licensee in respect of business rates.

RA_t is the business rates allowance, and is derived from the following formula (see also paragraph 4.11 below):

$$RA_t = RV_t \times PIAB_t$$

- 4.11 In the formula for the RA term above:

RV_t is the business rates allowance in 2002/03 prices, and is represented by the amount shown for each Regulatory Year in the part of Appendix 2 that applies to the licensee.

PIAB_t is as defined in paragraph 4.7 above, and is determined in accordance with that paragraph.

Part D: Calculation of other pass-through items (MPT)

4.12 For the purposes of the Principal Formula, MPT_t is calculated in accordance with the following formula:

$$MPT_t = MPC_t + MPA_t$$

4.13 In the formula for the MPT term above:

MPC_t is the amount payable by the licensee in respect of costs incurred by the licensee in the Regulatory Year t for items which the licensee considers should be treated as miscellaneous pass-through items not reflected in the term MPA_t and which have been directed by the Authority to be so treated following consultation with the licensee.

MPA_t means the amount of allowed pass-through relating to Shetland balancing costs, and is the amount derived under the formula for that term set out in Appendix 3 with respect to Scottish Hydro Electric Distribution plc, and for every other licensee is zero.

4.14 Appendices 1 to 3 follow immediately below.

APPENDIX 1

Values for the PF term by licensee

(see paragraph 4.7 of this condition)

APPENDIX 2

Values for the RV term by licensee

(see paragraph 4.11 of this condition)

APPENDIX 3

Calculation of Shetland balancing costs (see paragraph 4.13 of this condition)

A3.1 This Appendix 3 applies solely to Scottish Hydro Electric Distribution plc.

A3.2 For the purposes of Part D of this condition, the amount of the term MPA is calculated in accordance with the following formula:

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

A3.3 In the formula for the MPA term above:

TPC_t means the amount representing the annual cost of contracts with third party generators for supplying Demand Customers in Shetland for the Regulatory Year t.

LPSF_t means the amount representing the cost of fuel purchased for use by Lerwick Power Station (LPS) in Regulatory Year t.

EP_t means the cost of environmental permits in respect of generation on Shetland in Regulatory Year t.

SH_t means the income from units purchased by suppliers in respect of generation on Shetland for Regulatory Year t.

SHB_t means the amount of the allowance assumed in setting the terms PU and PE in CRC 3, and is derived from the following formula (in which SHA is the allowance assumed in setting PU and PE in 2002/03 prices and has the value of £7 million) (see also paragraph A3.5 below):

$$SHB_t = SHA \times PIAH_t$$

LPSC_t means the capital and operating cost allowance for LPS in Regulatory Year t, calculated as follows (see also paragraphs A3.4 and A3.5 below):

$$LPSC_t = LPSA \times PIAH_t$$

A3.4 In the formula for the LPSC term above:

LPSA is the capital and operating cost allowance for LPS in respect of each Regulatory Year and has the value of £5.2 million.

A3.5 In the formulas for the terms LPSC and SHB above:

PIAH_t is the price index adjustment term in Regulatory Year t, which in the Regulatory Year beginning on 1 April 2002 has the value of 1 and in each subsequent Regulatory Year is derived from this formula:

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

CRC 5. Restriction of Distribution Charges: total incentive revenue adjustment

Introduction

- 5.1 The purpose of this condition is to establish the mechanism for determining the amount of the term IP (the total incentive payment term) that applies in CRC 3 (Restriction of Distribution Charges: Demand Use of System Charges).
- 5.2 The effect of the application of the total incentive payment term in CRC 3 is to adjust the licensee's Allowed Demand Revenue under that condition (whether upwards or downwards) in order to reflect the total performance of the licensee with respect to the relevant Incentive Schemes (see Part A below).

Part A: The relevant Incentive Schemes

- 5.3 The first relevant Incentive Scheme is the Distribution Losses Incentive Scheme provided for under CRC 8 (Adjustment of licensee's revenues to reflect distribution losses performance).
- 5.4 The second relevant Incentive Scheme comprises:
- (a) the Quality of Service Incentive Scheme established pursuant to standard condition 45 of this licence (Incentive scheme for quality of service), as incorporated into CRC 9 (Adjustment of licensee's revenues to reflect quality of service performance); and
 - (b) such other aspects of the licensee's quality of service performance as are provided for by CRC 9.
- 5.5 The third relevant Incentive Scheme is the Transmission Exit Charges Incentive Scheme established pursuant to standard condition XX of this licence (Incentive scheme for Transmission Exit Charges), as incorporated into CRC 10 (Adjustment of licensee's revenues to reflect performance in relation to Transmission Exit Charges).
- 5.6 The fourth relevant Incentive Scheme is the Innovation Funding Incentive Scheme established pursuant to standard condition 46 (Incentive scheme for innovation funding), as incorporated into CRC 11 (Adjustment of licensee's revenues to reflect innovation funding performance).

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

- 5.7 For the purposes of Part B of CRC 3, which establishes the calculation of Allowed Demand Revenue, the amount of IP (the total incentive payment) for Regulatory Year t is derived in accordance with the following formula:

$$IP_t = IL_t + IQ_t + IFI_t$$

- 5.8 In the formula for the IP term above:

- IL_t is the distribution losses incentive adjustment, and in Regulatory Year *t* is derived in accordance with the formula set out at Part A of CRC 8 (Adjustment of licensee's revenues to reflect distribution losses performance).
- IQ_t is the total quality of service incentive adjustment, and in the Regulatory Year *t* is derived from the formula set out at paragraph 9.12, 9.14, or 9.16 (as appropriate) of CRC 9 (Adjustment of licensee's revenues to reflect quality of service performance).
- IT_t is the Transmission Exit Charges incentive adjustment, and in Regulatory Year *t* is derived from the formula set out at Part A of CRC 10 (Adjustment of licensee's revenues to reflect performance in relation to Transmission Exit Charges).
- IF_t is the innovation funding incentive adjustment, and in Regulatory Year *t* is derived from the formula set out at Part A of CRC 11 (Adjustment of licensee's revenues to reflect innovation funding performance).

CRC 6. Restriction of Distribution Charges: Generation Use of System Charges

Introduction

- 6.1 The purposes of this condition are:
- (a) to establish the charging restrictions that determine the level of Allowed Network Generation Revenue that may be recovered by the licensee from Generation Use of System Charges; and
 - (b) to set out the obligation of the licensee in respect of those restrictions.

Part A: Licensee's obligation

- 6.2 The licensee, in setting Generation Use of System Charges, must take all appropriate steps within its power to ensure that, in Regulatory Year *t*, Network Generation Revenue does not exceed the Allowed Network Generation Revenue.

Part B: Calculation of Allowed Network Generation Revenue (AG)

- 6.3 The amount of Allowed Network Generation Revenue is calculated in accordance with the following formula (in this condition, the Principal Formula):

$$AG_t = IG_t + RPZ_t - KG_t$$

- 6.4 For the purposes of the Principal Formula:

- AG_t** means the amount of Allowed Network Generation Revenue in the Relevant Year *t*.
- IG_t** is the incentive revenue for Distributed Generation, and in Regulatory Year *t* is derived from the formula in Part A of CRC 12 (Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation).
- IEDG_t** means an amount in the Regulatory Year *t* representing the revenue from Generation Use of System Charges received by any Inset Electricity Distributor, but limited to the portion of that revenue that relates to the use of relevant assets owned or operated by that distributor that are situated within the geographical boundaries of the licensee's Distribution Services Area.
- RPZ_t** is the incentive revenue for Registered Power Zones, and in Regulatory Year *t* is derived from the formula in Part I of CRC 12.
- KG_t** means the correction factor in Regulatory Year *t*, whether of a positive or negative value, calculated in accordance with the formula given in Part C below.

Part C: Calculation of the correction factor (KG)

6.5 For the purposes of the Principal Formula, KG_t is derived from the following formula:

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

6.6 In the formula for the KG term above:

RG_{t-1} means the Network Generation Revenue in the year preceding the Regulatory Year t, except in the Regulatory Year beginning on 1 April 2005, where RG_{t-1} has the value of zero.

AG_{t-1} means Allowed Network Generation Revenue in the year preceding Regulatory Year t, except in the Regulatory Year beginning on 1 April 2005, where AG_{t-1} has the value of zero.

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

PR_t means the rate of interest that is applicable in accordance with Part A of CRC 15 (Distribution Charges: supplementary restrictions).

CRC 7. Restriction of charges for the provision of Legacy Metering Equipment

Introduction

- 7.1 The purposes of this condition are to establish the restrictions on charges for the provision of Legacy Metering Equipment and to set out the obligations of the licensee in respect of those restrictions.

Part A: Licensee's obligation

- 7.2 The licensee, in setting charges for the provision of Legacy Metering Equipment in accordance with standard condition 34 of this licence (Requirement to offer terms for the provision of Legacy Metering Equipment), must ensure that those charges do not exceed the limits imposed by each of Parts B to F below.

Part B: Charges for Single-Phase Single-Rate Credit Electricity Meters

- 7.3 The total charge set by the licensee in respect of the provision of a Single-Phase Single-Rate Credit Electricity Meter must at no time exceed the value derived from the following formula:

$$SRCM_t = \pounds 1.12 \times PIT_t + AF_t$$

- 7.4 In the formula for the SRCM term above:

SRCM_t is the maximum amount that the licensee may charge for the provision of a Single-Phase Single-Rate Credit Electricity Meter in the Regulatory Year *t*.

PIT_t is the price index adjustment, and has the value determined in accordance with Part G below.

AF_t is the adjustment factor (if any), and has the value determined in accordance with Part H below.

Part C: Charges for Single-Rate Token Prepayment Electricity Meters

- 7.5 The total charge set by the licensee in respect of the provision of a Single-Rate Token Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

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

- 7.6 In the formula for the TPPM term above:

TPPM_t is the maximum amount that the licensee may charge for the provision of a Single-Rate Token Prepayment Electricity Meter in the Regulatory Year *t*.

TPPMAV	means the modern equivalent asset value of a Single-Rate Token Prepayment Electricity Meter, and has the value of £59.
LTt	is the current expected life of a Single-Rate Token Prepayment Electricity Meter, and has the value of 9.72.
LTWt	is the value of LTt rounded down to the nearest integer, and hence has the value of 9.
PITt	is the price index adjustment, and has the value determined in accordance with Part G below.
AFt	is the adjustment factor (if any), and has the value determined in accordance with Part H below.

Part D: Charges for Single-Rate Key Prepayment Electricity Meters

7.7 The total charge set by the licensee in respect of the provision of a Single-Rate Key Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

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

7.8 In the formula for the KPPM term above:

KPPMt	is the maximum amount that the licensee may charge for the provision of a Single-Rate Key Prepayment Electricity Meter in the Regulatory Year t.
KPPMAV	means the modern equivalent asset value of a Single-Rate Key Prepayment Electricity Meter, and has the value of £60.31.
LKt	is the current expected life of a Single-Rate Key Prepayment Electricity Meter, and has the value of 9.34.
LKWt	is the value of LKt rounded down to the nearest integer, and hence has the value of 9.
PITt	is the price index adjustment, and has the value determined in accordance with Part G below.
AFt	is the adjustment factor (if any), and has the value determined in accordance with Part H below.

Part E: Charges for Single-Rate Smartcard Prepayment Electricity Meters

7.9 The total charge set by the licensee in respect of the provision of a Single-Rate Smartcard Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

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

7.10 In the formula for the SPPM term above:

SPPMt is the maximum amount that the licensee may charge for the provision of a Single-Rate Smartcard Prepayment Electricity Meter in the Regulatory Year t.

SPPMAV means the modern equivalent asset value of a Single-Rate Smartcard Prepayment Electricity Meter, and has the value of £62.77.

LSt is the current expected life of a Single-Rate Smartcard Prepayment Electricity Meter, and has the value of 7.

LSWt is the value of LSt rounded down to the nearest integer, and hence has the value of 7.

PITt is the price index adjustment, and has the value determined in accordance with Part G below.

AFt is the adjustment factor (if any), and has the value determined in accordance with Part H below.

Part F: Charges for all other types of Electricity Meter provided under standard condition 34

7.11 The total charge set by the licensee in respect of the provision under standard condition 34 of this licence of any type of Electricity Meter that is not within the types of Electricity Meter covered by Parts B to E above must at no time exceed the value derived from the following formula:

$$MAPPC_t = \left[\frac{MEAP_i}{ELA_i} + MEAP_i \times \frac{6.9}{200} + 0.242 \right] \times PIT_t + AF_t$$

7.12 In the formula for the MAPPC term above:

MAPPCt is the maximum amount that the licensee may charge for the provision of a type of Electricity Meter in the Regulatory Year t that is not within the types of Electricity Meter covered by Parts B to E above.

MEAPi is the Modern Equivalent Asset Purchase Price of the Electricity Meter type *i* as at 1 June 2003 or the nearest determinable date after 1 June 2003.

ELAi is the current expected economic life of the Electricity Meter type *i*.

PIT_t is the price index adjustment, and has the value determined in accordance with Part G below.

AF_t is the adjustment factor (if any), and has the value determined in accordance with Part H below.

7.13 The following types of Electricity Meter (without limitation, and subject to the licensee's right to sub-divide any such type in order to facilitate cost-reflective charging) are those that are covered by the provisions of this Part F:

- (a) multi-rate single-phase credit Electricity Meters;
- (b) multi-rate single-phase prepayment Electricity Meters;
- (c) poly-phase single-rate whole current Electricity Meters;
- (d) poly-phase multi-rate whole current Electricity Meters; and
- (e) non-half-hourly current transformer Electricity Meters.

Part G: Calculation of the price index adjustment (PIT)

7.14 For the purposes of Parts B to F above, the price index adjustment (PIT) is calculated in accordance with the following formula:

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

7.15 In the formula for the PIT term above:

PIT_t has the value of 1 in the Regulatory Year beginning on 1 April 2002, and then in each subsequent Regulatory Year has the value derived from 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 H: Determination and application of the adjustment factor (AF)

7.16 This paragraph applies where the licensee considers that the expected asset life of a type of Electricity Meter specified in paragraph 7.17 has fallen below the level assumed for the purposes of establishing the relevant charge restriction under this condition because of a decision by an Electricity Supplier to replace the technology associated with that type of Electricity Meter with technology associated with another type of Electricity Meter specified in that paragraph.

7.17 The types of Electricity Meter to which paragraph 7.16 refers are these:

- (a) a Token Prepayment Electricity Meter (whether single-rate or multi-rate);
- (b) a Key Prepayment Electricity Meter (whether single-rate or multi-rate);
and
- (c) a Smartcard Prepayment Electricity Meter (whether single-rate or multi-rate).

- 7.18 If paragraph 7.16 applies, the licensee may, by Notice to the Authority, propose a relevant adjustment factor (AFt) to be applied uniformly to each of the formulas set out in Parts B to F above in respect of the charging restrictions established by this condition.
- 7.19 A relevant adjustment factor is one which, in the licensee’s opinion, would have the effect of enabling the licensee to recover 30 per cent of the efficient costs incurred or likely to be incurred as a consequence of the Electricity Supplier’s decision to which paragraph 7.16 refers.
- 7.20 A Notice served by the licensee under paragraph 7.18 must:
- (a) set out the basis (including by reference to the effects of the Electricity Supplier’s decision) on which the licensee has calculated the relevant adjustment factor; and
 - (b) state both the start date and the end date of the period in respect of which the licensee seeks the Authority’s consent for the relevant adjustment to have effect (“the adjustment period”).
- 7.21 In giving that Notice, the licensee must have regard to any relevant guidelines published by the Authority for the purposes of this condition.
- 7.22 The Authority may, within 28 days of receiving Notice from the licensee in accordance with this Part H, determine both the relevant adjustment factor and the adjustment period in such manner as it considers appropriate, subject to paragraph 7.23.
- 7.23 In making its determination, the Authority must:
- (a) consult with the licensee; and
 - (b) have particular regard both to the purposes of this condition and to any relevant guidelines published by the Authority under it.
- 7.24 If the Authority has not determined the relevant adjustment factor within 28 days of receiving the licensee’s Notice, and that Notice has not been withdrawn, the licensee may apply the relevant adjustment factor in the manner specified in paragraph 7.18 for the duration of the adjustment period.

Part I: Interpretation

- 7.25 For the purposes of this condition:

Modern Equivalent Asset Purchase Price	in relation to any type of Electricity Meter, means the purchase price of a new Electricity Meter of the same functionality as that type.
Single-Phase Single-Rate Credit Electricity Meter	means an induction type (or electronic) alternating current single-phase two-wire single-rate credit Electricity Meter.

**Single-Rate Key
Prepayment Electricity
Meter**

means an Electricity Meter that requires the use of a key to enable information to be transferred from a point of sale for electricity credit to itself and vice versa.

**Single-Rate Smartcard
Prepayment Electricity
Meter**

means an Electricity Meter that requires the use of a smartcard to enable information to be transferred from a point of sale for electricity credit to itself and vice versa.

**Single-Rate Token
Prepayment Electricity
Meter**

means an Electricity Meter that requires the use of a token to enable information to be transferred from a point of sale for electricity credit to itself.