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MODIFICATION PURSUANT TO SECTION 11 OF THE ELECTRICITY ACT 1989 OF THE SPECIAL CONDITIONS OF EACH OF THE DISTRIBUTION LICENCES GRANTED OR TREATED AS GRANTED UNDER SECTION 6(1)(C) OF THE ELECTRICITY ACT 1989

WHEREAS:

1. The companies to whom this document is addressed (the "Licensees") each hold a distribution licence (the "Licences") granted or treated as granted by the Gas and Electricity Markets Authority (the "Authority") under section 6(1)(c) of the Electricity Act 1989 (the "Act").
2. In accordance with section 11 of the Act the Authority gave notice on 23 February 2010 on its website that it proposed to individually modify the special conditions of the Licences and specified that any representations or objections to the proposed modifications must be made within 28 days, on or before 23 March 2010.
3. The proposed modifications as set out in the Appendix 1 to the document "Electricity Distribution Price Control Review: statutory consultation on the licence modifications (Ref: 24/10)", 23 February 2010 involve in summary:
 - a. Omitting, deleting and removing the following special conditions:
 - (i) Special condition A1 (Definitions and interpretation)
 - (ii) Special condition A2 (Scope of the charge restriction conditions)
 - (iii) Special condition A3 (Arrangements for the recovery of uncertain costs)
 - (iv) Special condition A4 (Duration of the charge restriction conditions)
 - (v) Special condition B1 (Restriction of distribution charges: demand use of system charges)
 - (vi) Special condition B2 (Restriction of distribution charges: allowed pass-through items)
 - (vii) Special condition B3 (Restriction of distribution charges: total incentive revenue adjustment)
 - (viii) Special condition C1 (Calculation of charge restriction adjustments arising from the distribution losses incentive scheme)
 - (ix) Special condition C2 (Calculation of charge restriction adjustments arising from performance in respect of quality of service)
 - (x) Special condition C3 (Calculation of charge restriction adjustments arising from the innovation funding incentive scheme)

- (xi) Special condition D1 (Restriction of distribution charges: generation use of system charges)
- (xii) Special condition D2 (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones)
- (xiii) Special condition E1 (Charge restriction conditions: supplementary restrictions)
- (xiv) Special condition F1 (Restriction of charges for legacy basis meter asset provision)
- (xv) Special condition G1 (Restriction of distribution charges outside the distribution services area)
- (xvi) Special condition J (Assistance for high-cost distribution areas) (this condition only applies to Scottish Hydro Electric Power Distribution plc)

b. Adding and including the following new special conditions:

- i. CRC 1 (Overview of Part 4)
- ii. CRC 2 (Definitions for the Charge Restriction Conditions)
- iii. CRC 3 (Restriction of Distribution Charges: Use of System Charges)
- iv. CRC 4 (Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items)
- v. CRC 5 (Restriction of Distribution Charges: non-generation incentive revenue adjustment)
- vi. CRC 6 (Restriction of charges for the provision of Legacy Metering Equipment)
- vii. CRC 7 (Adjustment of licensee's revenues to reflect distribution losses performance)
- viii. CRC 8 (Adjustment of licensee's revenues to reflect quality of service performance)
- ix. CRC 9 (Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges)
- x. CRC 10 (Adjustment of licensee's revenues to reflect innovation funding performance)
- xi. CRC 11 (Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation)
- xii. CRC 12 (Licensee's Connection Activities: Margins and the development of competition)

- xiii. CRC 13 (Low Carbon Networks Fund)
 - xiv. CRC 14 (Distribution Charges: supplementary restrictions)
 - xv. CRC 15 (Services treated as Excluded Services)
 - xvi. CRC 16 (Charging outside the Distribution Services Area)
 - xvii. CRC 17 (Assistance for high-cost distribution areas)
 - xviii. CRC 18 (Arrangements for the recovery of uncertain costs)
 - xix. CRC 18A (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland) (this condition only applies to Scottish Hydro Electric Power Distribution plc)
 - xx. CRC 19 (Duration of the Charge Restriction Conditions)
4. The reasons why the Authority proposed to make these licence modifications and their effect are set out in the following documents published by the Authority:
- a. Electricity Distribution Price Control Review: Initial Licence Drafting Consultation (Ref: 128/09), 20 October 2009,
 - b. Electricity Distribution Price Control Review: Final Proposals (Ref: 144/09), 7 December 2009,
 - c. Electricity Distribution Price Control Review: Second Licence Drafting Consultation – Appendices (Ref: 158/09), 18 December 2009, and
 - d. Electricity Distribution Price Control Review: statutory consultation on the licence modifications (Ref: 24/10), 23 February 2010.
5. In summary, the effect of these licence modifications is to implement those changes to the regulatory framework consulted upon as part of, or in conjunction with, the Electricity Distribution Price Control Review; in particular those changes required to remove and terminate the existing distribution price controls and introduce and give effect to the revised price controls set out in the Authority’s Final Proposals published on 7 December 2009.
6. In accordance with section 11(4) of the Act the Authority sent a copy of the notice of its intention to make the modifications to the Secretary of State and did not receive by 23 March 2010 or at all, a direction from the Secretary of State not to make any modification.
7. The Authority received seven representations (including six from Licensees) suggesting textual clarification to the proposed modifications and the Authority has carefully considered the representations and concluded that much of the suggested clarification falls within section 11 of the Act and can be incorporated into the modifications.

8. The Licensees have given their consent to the modifications set out in the attached Schedule.

NOW in accordance with the powers contained in section 11 of the Act the Authority **HEREBY MODIFIES** the special conditions in each of the Licences granted or treated as granted to the Licensees under section 6(1)(c) of the Act in the manner contained in the attached Schedule **WITH EFFECT** on and from 1 April 2010.

This constitutes notice of reasons for the Authority's decision pursuant to section 49A of the Act.



Rachel Fletcher
Partner, Distribution
Authorised on behalf of the Authority
31 March 2010

Schedule

Electricity Distribution Price Control Review

**Special conditions of the Electricity
Distribution Licence**

31 March 2010

Structure for the Charge Restriction Conditions

CRC 1. Overview of Part 4	12
CRC 2. Definitions for the Charge Restriction Conditions	13
CRC 3. Restriction of Distribution Charges: Use of System Charges	23
CRC 4. Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items	27
CRC 5. Restriction of Distribution Charges: non-generation incentive revenue adjustment	35
CRC 6. Restriction of charges for the provision of Legacy	37
CRC 7. Adjustment of licensee’s revenues to reflect distribution losses performance	44
CRC 8. Adjustment of licensee’s revenues to reflect quality of service performance	49
CRC 9. Adjustment of licensee’s revenues to reflect performance in relation to Transmission Connection Point Charges	81
CRC 10. Adjustment of licensee’s revenues to reflect innovation funding performance	83
CRC 11. Adjustment of licensee’s revenues to reflect performance in relation to Distributed Generation	85
CRC 12. Licensee’s Connection Activities: Margins and the development of competition	94
CRC 13. Low Carbon Networks Fund	113
CRC 14. Distribution Charges: supplementary restrictions	121
CRC 16. Charging outside the Distribution Services Area	126

CRC 18. Arrangements for the recovery of uncertain costs	130
CRC 18A. Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland	140
CRC 19. Duration of the Charge Restriction Conditions	143

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 be modified only 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) that has 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, in respect of 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, in respect of 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: Use of System Charges).

Business Rates	<p>means:</p> <p>(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</p> <p>(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 or the Local Government (Scotland) Act 1994,</p> <p>or any legislation amending or replacing those enactments.</p>
Combined Allowed Distribution Network Revenue	<p>means:</p> <p>(a) the revenue calculated in accordance with the formula for ART set out at Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges); or</p> <p>(b) in any Regulatory Year preceding 1 April 2010, the sum of Allowed Demand Revenue and Allowed Network Generation Revenue.</p>
Demand Customer	<p>means, in relation to any energised or de-energised Exit Point on the licensee’s Distribution System, the person who is taking, or is deemed to be taking, a supply of electricity through that Exit Point.</p>
Demand Use of System Charges	<p>means charges levied by the licensee in accordance with the provisions of its Use of System Charging Statement in respect of Demand Customers.</p>
DG	<p>for the purposes of CRC 11 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.</p>
Directly Connected	<p>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).</p>
Distribution Charges	<p>means charges levied by the licensee in respect of the provision of Distribution Services.</p>

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 System Entry Volumes 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.
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.
Incentive Payment	means an adjustment to the licensee's Combined Allowed Distribution Network 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 7 (Adjustment of licensee's revenues to reflect distribution losses performance), CRC 8 (Adjustment of licensee's revenues to reflect quality of service performance), CRC 9 (Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges), CRC 10 (Adjustment of licensee's revenues to reflect innovation funding performance), and CRC 11 (Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation) to establish mechanisms for adjusting Combined Allowed Distribution Network 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).
Metered	means, in relation to any quantity of electricity distributed, as measured by an Electricity Meter installed for such purpose.

**Network
Generation
Revenue**

means, in respect of any Regulatory Year preceding 1 April 2010 (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 by the licensee 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 by the licensee 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
- (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.

**New Transmission
Capacity Charges**

has the meaning given in standard condition 33 (Incentive scheme for Transmission Connection Point Charges).

**Price Control
Review Date**

means the date (not being on or before 1 April 2010) 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 Combined Distribution Network Revenue

means:

- (a) in respect of the Regulatory Year commencing on 1 April 2010 and every subsequent Regulatory Year (subject to notes 1 and 2 below), the revenue derived by the licensee from Use of System Charges made for the provision of Distribution Services to Customers in a Regulatory Year, after deduction of value added tax (if any) and any other taxes based directly on the amount concerned.

note 1: references in this definition to revenue derived by the licensee are references to that revenue 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 Regulated Combined Distribution Network Revenue.

- (b) in respect of any Regulatory Year preceding 1 April 2010, the sum of Regulated Demand Revenue and Network Generation Revenue.

Regulated Demand Revenue	<p>means, in respect of any Regulatory Year preceding 1 April 2010 (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:</p> <ul style="list-style-type: none"> (a) an amount equal to that part of the total amount payable by the licensee 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 Demand Use of System Charges; (b) an amount equal to that part of the total amount payable by the licensee 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. <p>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.</p>
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 Prices Index	<p>means:</p> <ul style="list-style-type: none"> (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.
RPI_t	<p>means the percentage change (whether positive or negative) between the arithmetic average of the Retail Prices 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.</p>
System Entry Volumes	<p>means the total quantity of Units entering the licensee's Distribution System in Regulatory Year t.</p>
Transmission Connection Point Charges	<p>means the sum of:</p> <ul style="list-style-type: none"> (a) 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; and (b) charges payable by the licensee to another Authorised distributor in respect of units transported from that person's network and which are recoverable by the licensee from users of the Distribution System in its Use of System Charges.
Transmission Use of System Charges	<p>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 or the import of electricity to its Transmission System from the licensee's Distribution System and that are payable by the licensee.</p>
Unit	<p>means a kilowatt hour.</p>

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, in relation to any quantity of electricity distributed, 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
- Affiliate
- Authority
- Balancing and Settlement Code
- Charge Restriction Condition
- Charging Methodology
- Competition Commission
- Conditions
- Connection Charging Statement
- Connection Charges
- Connection Regulations
- Customer [including as adapted for the purposes of standard condition 45]
- Data Services
- Distribution Business
- Distribution Services Area
- Distribution Services Provider
- Distribution System
- Domestic Customer
- Domestic Premises
- Electricity Distributor
- Electricity Meter
- Electricity Supplier
- Entry Point
- Excluded Services

Exit Point
GB System Operator
GB Transmission System
Legacy Metering Equipment
Metering Equipment
Metering Point Administration Services
Metering Services
Notice
Regulatory Year
Related Undertaking
Transmission Licence
Transmission Licensee
Transmission System
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
New Transmission Capacity Charges
Quality of Service RIGs
Regulatory Instructions and Guidance
Specified Information
Transmission Connection Point Charges
Transmission Connection Point Charges RIGs

CHAPTER 2
Conditions 3 to 6:
Arrangements for revenue
restriction

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

Introduction

- 3.1 The purposes of this condition are:
- (a) to establish the charging restrictions that determine the level of Combined Allowed Distribution Network Revenue that may be recovered by the licensee from 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 and Generation Use of System Charges, must take all appropriate steps within its power to ensure that, in Regulatory Year t , Regulated Combined Distribution Network Revenue does not exceed Combined Allowed Distribution Network Revenue.

Part B: Calculation of Combined Allowed Distribution Network Revenue (AR)

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

$$AR_t = BR_t + PT_t + IP_t + LCN_t + IG_t - K_t - AUM_t - CGSSP_t + CGSRA_t$$

- 3.4 In the Principal Formula:

- AR_t means the amount of Combined Allowed Distribution Network 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 the Allowed Pass-Through Items).
- IP_t means the amount of the non-generation incentive revenue adjustment, whether of a positive or negative value, calculated for the Regulatory Year t in accordance with CRC 5 (Restriction of Distribution Charges: non-generation incentive revenue adjustment).
- LCN_t means the revenue for the purposes of incentivising the development of low carbon networks, calculated for the Regulatory Year t in accordance with CRC 13 (Low Carbon Networks Fund).
- IG_t is the incentive revenue for Distributed Generation, and in Regulatory Year t is derived from the formula in Part A of CRC 11 (Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation).

- K_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.
- AUM_t** is the total amount of the sums remaining unpaid pursuant to the requirements of a Clawback Direction given in accordance with the provisions of Part I of CRC 12 (Licensee’s Connection Activities: Margins and the development of competition) one year after the licensee has received that direction.
- CGSSPt** means the adjustment to Combined Allowed Distribution Network Revenue for failure by the licensee to provide the Authority, pursuant to the requirements of CRC 12 (Licensee’s Connection Activities: Margins and the development of competition), with verification that the necessary systems and processes are in place to facilitate the licensee’s compliance with the Connection Regulations and with any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A (Connection Policy and Connection Performance), and is derived from the formula set out in Appendix 2 of CRC 12.
- CGSRAt** means the adjustment to Combined Allowed Distribution Network Revenue for payments made in respect of failures by the licensee to achieve performance standards pursuant to the requirements of the Connection Regulations and of any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A (Connection Policy and Connection Performance), where the sum of those payments exceeds the revenue exposure cap specified for the licensee in Table A3.1 of Appendix 3 to CRC 12 (Licensee’s Connection Activities: Margins and the development of competition), and is derived from the formula set out in that appendix.

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:

$$BR_t = PU_t \times PIAD_t - MG_t$$

- 3.6 In the formula for the BR term above:

PU_t means the amount set against the licensee’s name for the Regulatory Year concerned in Appendix 1, and represents the revenue allowance determined by the Authority in relation to the distribution of electricity to premises.

PIAD_t is the price index adjuster, which in the Regulatory Year beginning on 1 April 2010 has the value of 1 and in each subsequent Regulatory Year is derived from the following formula (see also paragraph 3.7 below):

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

MGt is the merger adjustment and, in relation to the Regulatory Year beginning on 1 April 2010 and every subsequent regulatory year, has the value of zero, unless the Authority has directed otherwise.

3.7 In the formula for the PIAD term above:

RPI_t is as defined in Part A of CRC 2, and is determined in accordance with the method set out there.

Part D: Calculation of the correction factor (K)

3.8 For the purposes of the Principal Formula, K_t is derived, subject to Part B of CRC 14 (Distribution Charges: supplementary restrictions), from the following formula (see also paragraph 3.10 below):

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

3.9 In the formula for the K term above:

RD_{t-1} means the Regulated Combined Distribution Network Revenue (as defined in CRC 2 (Definitions for the Charge Restriction Conditions) in the Regulatory Year t-1, except in the Regulatory Year beginning 1 April 2010 where RD_{t-1} is the sum of:

- (a) Regulated Demand Revenue (as defined in special condition B1 of this licence in the form in which it was in force at 31 March 2010) recovered by the licensee in the Regulatory Year beginning 1 April 2009; and
- (b) Network Generation Revenue (as defined in special condition D1 of this licence in the form in which it was in force at 31 March 2010) recovered by the licensee in the Regulatory Year beginning 1 April 2009.

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 14 (Distribution Charges: supplementary restrictions).

AR_{t-1} means the amount of the Combined Allowed Distribution Network Revenue in the Regulatory Year t-1, except in the Regulatory Year beginning 1 April 2010 where AR_{t-1} is the sum of:

- (a) Allowed Demand Revenue (as defined in special condition B1 of this licence in the form in which it was in force at 31 March 2010) for the Regulatory Year beginning 1 April 2009; and
- (b) Allowed Network Generation Revenue (as defined in special condition D1 of this licence in the form in which it was in force at 31 March 2010) for the Regulatory Year beginning 1 April 2009.

3.10 Appendix 1 follows immediately below.

APPENDIX 1

Values for the PU term (2010/11 prices) by licensee (see paragraph 3.6 of this condition)

Licensee	PU 2010- 11 £m	PU 2011- 12 £m	PU 2012- 13 £m	PU 2013- 14 £m	PU 2014- 15 £m
Central Networks West plc	341.8	352.7	367.5	381.6	399.7
Central Networks East plc	332.9	344.2	364.1	381.3	398.7
Electricity North West Ltd	337.5	359.5	377.7	408.3	442.2
Northern Electric Distribution Ltd	226.6	238.8	241.7	262.3	281.1
Yorkshire Electricity Distribution plc	300.4	315.7	302.9	329.5	348.5
Western Power Distribution (South Wales) plc	198.0	205.9	217.4	233.4	247.7
Western Power Distribution (South West) plc	253.6	270.9	281.6	305.0	327.9
EDF Energy Networks (LPN) plc	317.8	350.4	367.6	392.2	419.8
EDF Energy Networks (SPN) plc	237.9	274.8	296.9	321.0	349.0
EDF Energy Networks (EPN) plc	393.0	422.7	475.2	464.9	489.4
SP Distribution Ltd	390.0	336.9	311.1	300.7	284.5
SP Manweb plc	272.8	297.0	296.1	325.3	357.9
Scottish Hydro Electric Power Distribution plc	231.8	240.3	250.2	262.3	273.5
Southern Electric Power Distribution plc	457.3	468.7	485.5	505.7	524.6

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: 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 Combined Allowed Distribution Network Revenue as calculated in accordance with that condition reflects certain costs that can be passed through to users through Use of System Charges.

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 Combined Allowed Distribution Network Revenue, the total amount of the PT term is calculated in accordance with the following formula (in this condition, the Principal Formula):

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

- 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 17 in connection with this).
- IED_t** means an amount in the Regulatory Year t representing the revenue from 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.
- TB_t** means the amount of pass-through revenue for Regulatory Year t, representing an adjustment in respect of Transmission Connection Point Charges, as derived from the formula set out in Part E below.

UN_{Ct} means an amount in Regulatory Year t representing a relevant adjustment to the calculation of Allowed Demand Revenue arising from the application of CRC 18 (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 2007/08 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 2007 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 A of CRC 2, and is determined in accordance with the method 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 in the Regulatory Year t 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 2007/08 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 Power Distribution plc, and for every other licensee is zero.

Part E: Calculation of the adjustment for Transmission Connection Point Charges (TB)

4.14 For the purposes of the Principal Formula, TB_t is calculated in accordance with the following formula:

$$TB_t = TP_t - TA_t$$

4.15 In the formula for the TB term above:

TP_t is the amount that represents the sum of all those elements of Transmission Connection Point Charges incurred by the licensee in the Regulatory Year t that do not qualify as New Transmission Capacity Charges, as reported by the licensee pursuant to the Transmission Connection Point Charges RIGs issued by the Authority under standard condition 45A of this licence.

TA_t is the allowance in respect of the non-incentivised Transmission Connection Point Charges, and is derived from the following formula (see also paragraph 4.16 below):

$$TA_t = TV_t \times PIAB_t$$

4.16 In the formula for the TA term above:

TV_t is the allowance in respect of the non-incentivised Transmission Connection Point Charges in 2007/08 prices, and is represented by the amount shown for each Regulatory Year in the part of Appendix 4 that applies to the licensee.

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

4.17 Appendices 1 to 4 follow immediately below.

APPENDIX 1

Values for the PF term (2007/08 prices) by licensee

(see paragraph 4.7 of this condition)

Licensee	PF £m
Central Networks West plc	1.1
Central Networks East plc	1.2
Electricity North West Ltd	1.0
Northern Electric Distribution Ltd	0.8
Yorkshire Electricity Distribution plc	1.2
Western Power Distribution (South Wales) plc	0.7
Western Power Distribution (South West) plc	0.7
EDF Energy Networks (LPN) plc	1.0
EDF Energy Networks (SPN) plc	1.1
EDF Energy Networks (EPN) plc	1.7
SP Distribution Ltd	1.1
SP Manweb plc	0.8
Scottish Hydro Electric Power Distribution plc	0.4
Southern Electric Power Distribution plc	1.6

APPENDIX 2

Values for the RV term (2007/08 prices) by licensee

(see paragraph 4.11 of this condition)

Licensee	RV 2010- 11 £m	RV 2011- 12 £m	RV 2012- 13 £m	RV 2013- 14 £m	RV 2014- 15 £m
Central Networks West plc	23.1	23.1	23.1	23.1	23.1
Central Networks East plc	30.6	30.6	30.6	30.6	30.6
Electricity North West Ltd	20.6	20.6	20.6	20.6	20.6
Northern Electric Distribution Ltd	14.0	13.1	12.3	10.8	10.1
Yorkshire Electricity Distribution plc	21.3	21.3	21.3	21.3	21.3
Western Power Distribution (South Wales) plc	13.8	13.8	13.8	13.8	13.8
Western Power Distribution (South West) plc	18.5	17.4	16.2	14.3	13.0
EDF Energy Networks (LPN) plc	24.1	22.9	22.9	22.9	22.9
EDF Energy Networks (SPN) plc	8.5	9.7	11.3	13.8	14.5
EDF Energy Networks (EPN) plc	31.3	32.6	32.6	32.6	32.6
SP Distribution Ltd	31.2	31.2	31.2	31.2	31.2
SP Manweb plc	15.5	14.7	14.0	12.7	12.4
Scottish Hydro Electric Power Distribution plc	16.9	16.9	16.9	16.9	16.9
Southern Electric Power Distribution plc	39.3	36.8	35.4	35.4	35.4

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 Power 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 PU in CRC 3 (Restriction of Distribution Charges: Use of System Charges), and is derived from the following formula:

$$SHB_t = SHA \times PIAH_t$$

where:

SHA is the allowance assumed in setting PU in 2007/08 prices and has the value of £11.1 million (see also paragraph A3.5 below).

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):

$$LPSC_t = LPSA \times PIAP_t$$

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

LPSA is the capital and operating cost allowance for LPS in 2002/03 prices and has the value of £5.2 million (see also paragraph A3.5 below).

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

PIAH_t is the price index adjustment term for the amount of the allowance assumed in setting PU, which in the Regulatory Year beginning on 1

April 2007 has the value of 1 and in each subsequent Regulatory Year is derived from this formula:

$$\text{PIAH}_t = \left[1 + \frac{\text{RPI}_t}{100} \right] \times \text{PIAH}_{t-1}$$

PIAP_t is the price index adjustment term for the capital and operating cost allowance for LPS, 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:

$$\text{PIAP}_t = \left[1 + \frac{\text{RPI}_t}{100} \right] \times \text{PIAP}_{t-1}$$

APPENDIX 4

Values for the TV term (£m, 2007/08) by licensee

(see paragraph 4.16 of this condition)

Licensee	TV 2010- 11	TV 2011- 12	TV 2012- 13	TV 2013- 14	TV 2014- 15
Central Networks West plc	10.3	10.3	10.9	11.1	12.3
Central Networks East plc	6.7	7.2	7.9	7.9	7.9
Electricity North West Ltd	12.2	12.7	12.6	12.4	13.6
Northern Electric Distribution Ltd	5.1	5.2	5.2	5.2	5.1
Yorkshire Electricity Distribution plc	10.0	11.7	10.0	10.0	10.0
Western Power Distribution (South Wales) plc	6.6	6.6	6.7	6.7	6.7
Western Power Distribution (South West) plc	6.6	6.6	6.6	6.6	6.6
EDF Energy Networks (LPN) plc	15.8	19.7	21.6	24.6	28.9
EDF Energy Networks (SPN) plc	8.4	9.4	9.7	11.7	10.6
EDF Energy Networks (EPN) plc	13.7	15.6	18.7	21.6	23.0
SP Distribution Ltd	11.8	11.9	11.8	11.9	12.1
SP Manweb plc	9.2	9.3	9.4	9.2	9.3
Scottish Hydro Electric Power Distribution plc	9.1	9.7	9.7	9.7	9.7
Southern Electric Power Distribution plc	12.3	12.3	12.3	12.7	12.7

CRC 5. Restriction of Distribution Charges: non-generation 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 non-generation incentive revenue adjustment term) that applies in CRC 3 (Restriction of Distribution Charges: Use of System Charges).
- 5.2 The effect of the application of the non-generation incentive revenue adjustment term in CRC 3 is to adjust the licensee's Combined Allowed Distribution Network 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 7 (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 8 (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 8.
- 5.5 The third relevant Incentive Scheme is the Transmission Connection Point Charges Incentive Scheme provided for under CRC 9 (Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges).
- 5.6 The fourth relevant Incentive Scheme is the Innovation Funding Incentive Scheme provided for under CRC 10 (Adjustment of licensee's revenues to reflect innovation funding performance).

Part B: Calculation of the non-generation incentive revenue adjustment (IP)

- 5.7 For the purposes of Part B of CRC 3, which establishes the calculation of Combined Allowed Distribution Network Revenue, the amount of IP (the non-generation incentive revenue adjustment) for Regulatory Year t is derived in accordance with the following formula:

$$IP_t = IL_t + IQ_t + IT_t + IFI_t$$

- 5.8 In the formula for the IP term above:

- ILt 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 7 (Adjustment of licensee's revenues to reflect distribution losses performance).
- IQt is the total quality of service incentive adjustment, and in the Regulatory Year t is derived from the formula set out at paragraph 8.12, 8.14, or 8.16 (as appropriate) of CRC 8 (Adjustment of licensee's revenues to reflect quality of service performance).
- ITt is the Transmission Connection Point Charges incentive adjustment, and in Regulatory Year t is derived from the formula set out at Part A of CRC 9 (Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges).
- IFIt is the innovation funding 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 innovation funding performance).

CRC 6. Restriction of charges for the provision of Legacy Metering Equipment

Introduction

- 6.1 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

- 6.2 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

- 6.3 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:

$$\text{SRCM}_t = \text{£}1.12 \times \text{PIT}_t + \text{AF}_t$$

- 6.4 In the formula for the SRCM term above:

SRCMt 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*.

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 C: Charges for Single-Rate Token Prepayment Electricity Meters

- 6.5 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:

$$\text{TPPM}_t = \left(\left[\left(\frac{\text{TPPMAV}}{\text{LT}_t} \right) \times \left[1 + \left[(1 + \text{LTW}_t) \times \left(\frac{6.9}{100} - \frac{6.9}{200} \times \frac{\text{LTW}_t}{\text{LT}_t} \right) \right] \right] \right] + \text{£}0.242 \right) \times \text{PIT}_t + \text{AF}_t$$

- 6.6 In the formula for the TPPM term above:

TPPMt 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 (in years) 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

- 6.7 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:

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

- 6.8 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 (in years) 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

- 6.9 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:

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

6.10 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 (in years) 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

6.11 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:

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

6.12 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 (in years) 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.

6.13 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)

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

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

6.15 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 A of CRC 2, and is determined in accordance with the method set out there.

Part H: Determination and application of the adjustment factor (AF)

6.16 This paragraph applies where the licensee considers that the expected asset life of a type of Electricity Meter specified in paragraph 6.17 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.

6.17 The types of Electricity Meter to which paragraph 6.16 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).

- 6.18 If paragraph 6.16 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.
- 6.19 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 6.16 refers.
- 6.20 A Notice served by the licensee under paragraph 6.18 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”).
- 6.21 In giving that Notice, the licensee must have regard to any relevant guidelines published by the Authority for the purposes of this condition.
- 6.22 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 6.23.
- 6.23 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.
- 6.24 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 6.18 for the duration of the adjustment period.

Part I: Interpretation

- 6.25 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.

CHAPTER 3
Conditions 7 to 11:
Incentive schemes for licensee's performance

CRC 7. Adjustment of licensee's revenues to reflect distribution losses performance

Introduction

- 7.1 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: non-generation incentive revenue adjustment).
- 7.2 The effect of the application of the distribution losses incentive term in CRC 5 is to adjust the calculation of the licensee's Combined Allowed Distribution Network Revenue under CRC 3 (Restriction of Distribution Charges: Use of System Charges) (whether upwards or downwards) in order to reflect the licensee's performance under the Distribution Losses Incentive Scheme set out below.
- 7.3 The mechanism mentioned in paragraph 7.1 includes distribution losses targets and incentive amounts, to be determined by the Authority within Regulatory Year 2011/12 by reference to methodologies set out in Chapter 4 of the Authority's decision document published on 7 December 2009 under reference number 148/09, that will have effect in relation to the licensee for a period of five Regulatory Years commencing on 1 April 2010.

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

- 7.4 For the purposes of Part B of CRC 5, which adjusts the calculation of the licensee's Combined Allowed Distribution Network 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):

$$IL_t = UIL_t + PCOL_t - COL_t + PPL_t$$

where:

IL $_t$ is the distribution losses incentive adjustment term, and has the value of zero for each of the Regulatory Years beginning on 1 April 2010 and 1 April 2011.

UIL $_t$ is an amount calculated in accordance with Part B below.

PCOL $_t$ is an amount calculated in accordance with Part C below.

COL $_t$ is an amount calculated in accordance with Part C below.

PPL $_t$ is an amount calculated in accordance with Part D below.

Part B: Calculation of losses incentive prior to annual smoothing (UIL)

- 7.5 For the purposes of the Principal Formula:

UIL $_t$ is the amount of distribution losses incentive before the annual smoothing is applied and is calculated as follows:

$$UIL_t = LR \times PIAL_{t-2} \times (AL_{t-2} - L_{t-2}) \times \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \right]$$

where:

- 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.
- PIAL_t is the price index adjustment relating to distribution losses, and is determined as set out in Part E below.
- L_t is the Adjusted Distribution Losses in Regulatory Year t, as calculated in accordance with the methodological basis set out in Part F 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 G below, in accordance with the following formula:

$$AL_t = ALP \times UD_t$$

where:

- ALP is the allowed loss percentage as set by a direction given by the Authority (see Part G below).
- UD_t is the Units Distributed, expressed in MWh, in Regulatory Year t as calculated according to Part F below.
- It means the Average Specified Rate, as defined in CRC 2 (Definitions for the Charge Restriction Conditions), in Regulatory Year t.

Part C: Calculation of amount of losses carried over between years

7.6 For the purposes of the Principal Formula:

- COL_t is the amount of distribution losses incentive in excess of the annual upper or lower threshold to be carried over from Regulatory Year t to Regulatory Year t+1 and is zero for each of the two Regulatory Years beginning on 1 April 2010 and 1 April 2011, and thereafter is to be calculated from one of the following formulas:

- (a) If $UIL_t + PCOL_t \geq 0$ then

$$COL_t = (UIL_t + PCOL_t) - \min((PIAL_{t-2} \times UT), (UIL_t + PCOL_t))$$

or

- (b) If $UIL_t + PCOL_t < 0$ then

$$COL_t = (UIL_t + PCOL_t) - \max((PIAL_{t-2} \times LT), (UIL_t + PCOL_t))$$

where:

- UT is the annual upper threshold and has the value set out in Appendix 1.
- LT is the annual lower threshold and has the value set out in Appendix 1.
- PIAL_t is the price index adjustment relating to distribution losses, and is determined as set out in Part E below.
- PCOL_t is the amount of distribution losses incentive in excess of the annual upper or lower threshold carried over from Regulatory Year t-1 updated by the Average Specified Rate, and is calculated in accordance with the following formula:

$$PCOL_t = COL_{t-1} \times \left[1 + \frac{I_t}{100} \right]$$

Part D: Residual distribution losses incentive (PPL)

7.7 For the purposes of the Principal Formula:

PPL_t is the amount of the residual distribution losses incentive arising in the previous charge restriction period (1 April 2005 to 31 March 2010), set in accordance with the provisions of paragraph 7.8, that is to be recovered in respect of each Regulatory Year t in the current charge restriction period (1 April 2010 to 31 March 2015).

7.8 The value of PPL_t is set at zero for each of the two Regulatory Years beginning on 1 April 2010 and 1 April 2011 and then for each subsequent Regulatory Year of the current charge restriction period it is calculated by reference to the methodology set out in Chapter 4 of the Authority's decision document published on 7 December 2009 under reference number 148/09 and will be set in a direction given by the Authority not later than 30 November 2012 following consultation with the licensee and all other Distribution Services Providers.

Part E: Determination of the price index adjustment (PIAL)

7.9 For the purposes of the formula set out in Parts B and C above:

PIAL_t is the price index adjustment, which, in the Regulatory Year beginning on 1 April 2010, has the value of 1, and in each subsequent Regulatory Year is derived from the following formula:

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

where:

RPI_t is as defined in Part A of CRC 2, and is determined in accordance with the method set out there.

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

7.10 For the purpose of the calculation of the formula set out in Part B above, the amount of L is calculated as the sum of:

- (a) the difference (in MWh) between System Entry Volumes and Units Distributed, as measured and reported under the Distribution Losses Reporting RIGs issued by the Authority under standard condition 44B (Distribution Losses Reporting Regime); and
- (b) an amount (in MWh) representing the DG Losses Adjustment (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:

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

7.11 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 annual loss adjustment factor applicable to Entry Point i, and is derived by applying the loss adjustment factors used in the relevant settlement procedure of the Balancing and Settlement Code in respect of Entry Point i to the units for that Entry Point for each half hour of the Regulatory Year t, and then dividing the sum of those loss adjusted units by DGV_{it}.

Part G: Setting the allowed loss percentage (ALP)

7.12 The value of ALP, calculated by reference to the methodology set out in Chapter 4 of the Authority's decision document published on 7 December 2009 under reference number 148/09, will be set out in a direction given by the Authority not later than 30 November 2012 that will apply (subject to paragraph 7.13) for as long as this condition continues in force.

7.13 The Authority may, at the licensee's request, or with the licensee's consent (which must not be unreasonably withheld), direct the licensee to change the value of ALP, to which paragraph 7.12 refers, to a different value specified by the Authority, provided that the following conditions have been met.

7.14 The conditions referred to in paragraph 7.13 are that the Authority must:

- (a) have had due regard to the purposes of this condition; and

- (b) be satisfied, following consultation with the licensee, that there has been a material change (whether an improvement or deterioration) in the quality of the information used to derive the System Entry Volumes or Units Distributed.
- 7.15 A change to the value of ALP in accordance with paragraph 7.13 may be directed by the Authority at any time but may not take effect before the beginning of the next Regulatory Year following the date of the direction.

Part H: Continuity of the basis of calculation

- 7.16 The licensee must, unless otherwise agreed by the Authority, calculate distribution losses in accordance with the Statement of Compliance approved by the Authority under standard condition 44B.
- 7.17 Appendix 1 follows immediately below.

APPENDIX 1

Values for the annual upper and lower thresholds by licensee

(see paragraph 7.6 of this condition)

Licensee	UT (annual upper threshold) £m in 2010-11	LT (annual lower threshold) £m in 2010-11
Central Networks West plc	5.2	-5.2
Central Networks East plc	5.1	-5.1
Electricity North West Ltd	4.5	-4.5
Northern Electric Distribution Ltd	3.1	-3.1
Yorkshire Electricity Distribution plc	4.0	-4.0
Western Power Distribution (South Wales) plc	2.3	-2.3
Western Power Distribution (South West) plc	3.4	-3.4
EDF Energy Networks (LPN) plc	4.4	-4.4
EDF Energy Networks (SPN) plc	4.0	-4.0
EDF Energy Networks (EPN) plc	6.3	-6.3
SP Distribution Ltd	4.5	-4.5
SP Manweb plc	4.2	-4.2
Scottish Hydro Electric Power Distribution plc	2.9	-2.9
Southern Electric Power Distribution plc	6.0	-6.0

CRC 8. Adjustment of licensee's revenues to reflect quality of service performance

Introduction

- 8.1 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: non-generation incentive revenue adjustment).
- 8.2 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 Combined Allowed Distribution Network Revenue under CRC 3 (Restriction of Distribution Charges: Use of System Charges) (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

- 8.3 This condition is organised as follows.
- 8.4 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 Combined Allowed Distribution Network Revenue under CRC 3.
- 8.5 The next eight parts, B to I, 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;

- (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; and
 - (h) Part I provides for the calculation of the particular contribution arising from the licensee's performance in relation to supply restoration in the Highlands and Islands.
- 8.6 Part J 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.
- 8.7 Part K 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.
- 8.8 Part L deals with procedural requirements and matters of interpretation.
- 8.9 Appendices 1 to 4 set out targets, incentive rates and revenue exposures, 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

8.10 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.

8.11 *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.

8.12 Principal Formula 1 is this:

$$IQ_t = [Q_{t-2}] \times \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \right] + QF_t + QG_t + QH_t$$

8.13 *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.

8.14 Principal Formula 2 is this:

$$IQ_t = [QA_{t-2} + QB_{t-2} + QD_{t-2} + QE_{t-2}] \times \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \right] + QF_t + QG_t + QH_t$$

8.15 *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.

8.16 Principal Formula 3 is this:

$$IQ_t = [QA_{t-2} + QB_{t-2} + QC_{t-2} + QE_{t-2}] \times \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \right] + QF_t + QG_t + QH_t$$

8.17 For the purposes of Principal Formula 1 only:

Qt-2 is the adjustment to Combined Allowed Distribution Network Revenue to reflect the licensee's performance in each of the Regulatory Years beginning on 1 April 2008 and 1 April 2009, 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.

8.18 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.

8.19 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.

8.20 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.

8.21 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.

QHt has the meaning given to that term in Part I 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

8.22 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.

8.23 For the purposes of those formulas:

QA_t means the adjustment to Combined Allowed Distribution Network 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:

$$QA_t = \max\left[\left((TA_t - CIIS_t) \times PIA_t \times IRA_t\right), -RLA_t \times PIA_t\right]$$

8.24 In the formula for the QA term above:

TA_t (*the target interruptions term*) means the target for the number of Customers interrupted for the Regulatory Year t as specified for the licensee in table A1 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:

$$CIIS_t = CIA_t + (A \times CIB_t) + (B \times CIC_t) + CID_t + (C \times CIE_t)$$

where:

A has the value of 0.5.

B has the value of zero.

C has the value of 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 the Appendix to 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 the Appendix to 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 Licensees in Regulatory Year t and is derived from the relevant formula in the Appendix to 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 the Appendix to the Quality of Service RIGs.

CIE_t (*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 the Appendix to the Quality of Service RIGs.

PIA_t 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:

PIA_t has the value of 1 for the Regulatory Year beginning on 1 April 2007, and in each subsequent Regulatory Year has the value derived from the formula itself.

RPI_t is as defined in Part A of CRC 2 (Definitions for the Charge Restriction Conditions) and is determined in accordance with the method 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 for the licensee in table A2 in Appendix 1, expressed in £ million in 2007/08 prices.

RLAt (*the revenue exposure to interruptions term*) means the maximum amount of revenue exposed to the number of Customers interrupted and has the value as specified for Regulatory Year t for the licensee in table A3 in Appendix 1, expressed in £ million in 2007/08 prices.

8.25 Adjustments to Combined Allowed Distribution Network Revenue arising from the application of this Part B are subject to the provisions (where applicable) of Parts J and K below.

Part C: Performance on the duration of Customer interruptions

8.26 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.

8.27 For the purposes of those formulas:

QB_t means the adjustment to Combined Allowed Distribution Network 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:

$$QB_t = \max\left[\left((TB_t - CMLIS_t) \times PIA_t \times IRB_t\right), -RLB_t \times PIA_t\right]$$

provided that:

$$(QA_t + QB_t + QD_t + SWE_t) \geq -TRL_t \times PIA_t$$

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

$$QB_t = -TRL_t \times PIA_t - (QA_t + QD_t + SWE_t)$$

(and, for the purposes of this proviso, QAt and QDt, insofar as they feature in the Principal Formula for the relevant Regulatory Year, are as defined in Part B above and Part E below).

8.28 In the formula for the QB term above:

TBt (*the target minutes lost term*) means the target for the licensee for the duration of Customer interruptions for the Regulatory Year t as specified in table A4 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:

$$\text{CMLIS}_t = \text{CMLA}_t + (D \times \text{CMLB}_t) + (E \times \text{CMLC}_t) + \text{CMLD}_t + (F \times \text{CMLE}_t)$$

where:

D has the value of 0.5.

E has the value of 0.10.

F has 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 the Appendix to 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 the Appendix to the Quality of Service RIGs.

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

CMLD_t (*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 the Appendix to the Quality of Service RIGs.

CMLE_t (*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 the Appendix to the Quality of Service RIGs.

IRBt (*the incentive rate for minutes lost term*) means the incentive rate for the licensee for the duration of Customer interruptions as specified for Regulatory Year t in table A5 in Appendix 1, expressed in £ million in 2007/08 prices.

- PIAt (*the price index adjuster*) is defined and determined as set out in Part B above.
- TRLt (*the revenue exposure to quality penalties term*) means the maximum amount of revenue that is exposed to penalties under the relevant elements of IQ_t for the Regulatory Year t and has the value as specified for Regulatory Year t for the licensee in table A7 in Appendix 1, expressed in £ million in 2007/08 prices.
- RLBt (*the revenue exposure to minutes lost term*) means the maximum amount of revenue that is exposed to the duration of Customer interruptions and has the value as specified for Regulatory Year t for the licensee in table A6 in Appendix 1, expressed in £ million in 2007/08 prices.
- SWEt (*the severe weather total exposure term*) is defined as set out in Part G below.

- 8.29 Adjustments to Combined Allowed Distribution Network Revenue arising from the application of this Part C are subject to the provisions (where applicable) of Parts J and K below.

Part D: Performance on the broad community satisfaction measure

- 8.30 This Part D applies for the purposes of the calculations established under Part A above in respect of Principal Formula 3.

- 8.31 For the purposes of those formulas:

QC_t means the adjustment to Combined Allowed Distribution Network 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 are affected by the licensee's operations) and is derived from the following formula:

$$QC_t = CSt + CM_t + SE_t$$

- 8.32 In the formula for the QC term above:

- CSt (*the community satisfaction term*) means the adjustment to Combined Allowed Distribution Network Revenue in respect of the licensee's overall surveyed performance in Regulatory Year t in relation to the targets for the community satisfaction score in that year.
- CM_t (*the complaints metric term*) means such negative adjustment (if any) to Combined Allowed Distribution Network Revenue in respect of the licensee's performance in Regulatory Year t in relation to the targets for the complaints metric score in that year.
- SE_t (*the stakeholder engagement term*) means such positive adjustment (if any) to Combined Allowed Distribution Network Revenue for the Regulatory Year t (being no greater than the value as specified for Regulatory Year t for the licensee in table A8 in Appendix 1) as may be determined by the Authority in respect of the licensee's engagement with stakeholders.

Adjustments arising from the community satisfaction survey

8.33 In calculating the value of CS_t under this Part D, the term CS_t refers to the community satisfaction score, and is derived from the following formula:

$$CS_t = CSA_t + CSB_t + CSC_t + CSD_t$$

8.34 In the formula for the CS term above:

- (a) *CSA_t* (*the overall community satisfaction survey term*) means the adjustment to Combined Allowed Distribution Network Revenue in respect of the licensee's performance in Regulatory Year t in relation to the target for the overall community satisfaction score in that year, and is derived from the following formula:

$$CSA_t = \max[\min((OS_t - OIM_t) \times PIA_t \times IRO_t, (AROU_t \times 0.8 \times PIA_t)), AROD_t \times 0.8 \times PIA_t]$$

where:

OIM_t (*the overall mean score term*) means the mean score of all licensees that are subject to this condition for the community satisfaction survey for the Regulatory Year t as calculated for that year.

OS_t (*the licensee's actual overall score term*) means the licensee's performance in respect of the community satisfaction survey in the Regulatory Year t and is derived from the formula:

$$OS_t = (0.4 \times SIAS_t) + (0.4 \times CAS_t) + (0.2 \times GAS_t)$$

where:

SIAS_t (*the supply interruptions actual score term*) means the licensee's actual performance for the supply interruptions element of the community satisfaction survey for the Regulatory Year t as calculated for that year.

CAS_t (*the connections actual score term*) means the licensee's actual performance for the connections element of the community satisfaction survey for the Regulatory Year t as calculated for that year.

GAS_t (*the general enquiries actual score term*) means the licensee's actual performance for the general enquiries element of the community satisfaction survey for the Regulatory Year t as calculated for that year.

IRO_t (*the overall incentive rate term*) means the incentive rate for the overall community satisfaction score in the Regulatory Year t and is derived from the formula:

$$IRO_t = \frac{(AROU_t \times 0.8)}{V_t}$$

where:

V_t is the appropriate range of deviation from the overall mean of all licensees that are subject to this condition, being a range that is to be notified by the Authority in a direction given for the purposes of this condition generally not later than 31 March 2012 following consultation with the licensee and all other Distribution Services Providers.

AROU_t (*the maximum upside allowed revenue term*) means the maximum positive adjustment to allowed revenue as specified for Regulatory Year t for the licensee in table A9 in Appendix 1, expressed in £ million in 2007/08 prices.

AROD_t (*the maximum downside allowed revenue term*) means the maximum negative adjustment to allowed revenue as specified for the Regulatory Year t for the licensee in table A10 in Appendix 1, expressed in £ million in 2007/08 prices.

- (b) CSB_t (*the community satisfaction with supply interruptions term*) means the adjustment to Combined Allowed Distribution Network Revenue in respect of the licensee's performance in Regulatory Year t in relation to the target for the supply interruptions element of the community satisfaction score in that year, and is derived from the following formula:

$$CSB_t = \max[\min((SIAS_t - SIIM_t) \times PIA_t \times IRSI_t, (AROU_t \times 0.08 \times PIA_t)), AROD_t \times 0.08 \times PIA_t]$$

where:

SIAS_t (*the supply interruptions actual score term*) has the meaning given above in relation to the derivation of the CSA term.

SIIM_t (*the supply interruptions mean score term*) means the mean score of all licensees that are subject to this condition for the supply interruptions element of the community satisfaction survey for Regulatory Year t as calculated for that year.

IRSI_t (*the supply interruptions incentive rate term*) means the incentive rate for the supply interruptions element of the community satisfaction score in the Regulatory Year t and is derived from the formula:

$$IRSI_t = \frac{(AROU_t \times 0.08)}{X_t}$$

where:

Xt is the appropriate range of deviation from the supply interruptions mean of all licensees that are subject to this condition, being a range that is to be notified by the Authority in a direction given for the purposes of this condition generally not later than 31 March 2012 following consultation with the licensee and all other Distribution Services Providers.

AROUt (*the maximum upside allowed revenue term*) and ARODt (*the maximum downside allowed revenue term*) have the respective meanings given above in relation to the derivation of the CSA term.

- (c) CSCt (*the community satisfaction with connections term*) means the adjustment to Combined Allowed Distribution Network Revenue in respect of the licensee's performance in Regulatory Year t in relation to the target for the connections element of the community satisfaction score in that year, and is derived from the following formula:

$$CSC_t = \max[\min((CAS_t - CIM_t) \times PIA_t \times IRC_t, (AROU_t \times 0.08 \times PIA_t)), ARODt \times 0.08 \times PIA_t]$$

where:

CASt (*the connections actual score term*) has the meaning given above in relation to the derivation of the CSA term.

CIMt (*the connections mean score term*) means the mean score of all licensees that are subject to this condition for the connections element of the community satisfaction survey for the Regulatory Year t as calculated for that year.

IRCt (*the connections incentive rate term*) means the incentive rate for the connections element of the community satisfaction score in the Regulatory Year t and is derived from the formula:

$$IRC_t = \frac{(AROU_t \times 0.08)}{Y_t}$$

where:

Yt is the appropriate range of deviation from the connections mean of all licensees that are subject to this condition, being a range that is to be notified by the Authority in a direction given for the purposes of this condition generally not later than 31 March 2012 following consultation with the licensee and all other Distribution Services Providers.

AROUt (*the maximum upside allowed revenue term*) and ARODt (*the maximum downside allowed revenue term*) have the respective meanings given above in relation to the derivation of the CSA term.

- (d) **CSD_t** (*the community satisfaction general enquiries term*) means the adjustment to Combined Allowed Distribution Network Revenue in respect of the licensee's performance in Regulatory Year t in relation to the target for the general enquiries element of the community satisfaction score in that year, and is derived from the following formula:

$$CSD_t = \max[\min((GAS_t - GIM_t) \times PIA_t \times IRG_t, (AROU_t \times 0.04 \times PIA_t)), AROD_t \times 0.04 \times PIA_t]$$

where:

GAS_t (*the general enquiries actual score term*) has the meaning given above in relation to the derivation of the CSA term.

GIM_t (*the general mean score term*) means the mean score of all licensees that are subject to this condition for the general enquiries element of the community satisfaction survey for the Regulatory Year t as calculated for that year.

IRG_t (*the general enquiries incentive rate term*) means the incentive rate for the general enquiries element of the community satisfaction score in the Regulatory Year t and is derived from the formula:

$$IRG_t = \frac{(AROU_t \times 0.04)}{Z_t}$$

where:

Z_t is the appropriate range of deviation from the general enquiries mean of all licensees that are subject to this condition, being a range that is to be notified by the Authority in a direction given for the purposes of this condition generally not later than 31 March 2012 following consultation with the licensee and all other Distribution Services Providers.

AROU_t (*the maximum upside allowed revenue term*) and **AROD_t** (*the maximum downside allowed revenue term*) have the respective meanings given above in relation to the derivation of the CSA term.

Adjustments arising from complaints metric performance

- 8.35 In calculating the value of CM_t under this Part D (see paragraph 8.32 above), the term CM_t refers to the complaints metric score, and where BQCM_t is less than or equal to 69 is derived from the following formula:

$$CM_t = \max[\min((BQCM_t - CMP_t) \times PIA_t \times IRCM_t, 0), -ARCM_t \times PIA_t]$$

Where BQCM_t is greater than 69 CM_t is derived from the following formula:

$$CM_t = \max[\min((70 - CMP_t) \times PIA_t \times ARCM_t, 0), -ARCM_t \times PIA_t]$$

8.36 In the formula for the CM term above:

BQCMt (*the industry best quartile term*) means the industry best quartile value of CMPt (see below) for the complaints metric for the Regulatory Year t as calculated for that year.

IRCMt (*the complaints metric incentive rate term*) means the incentive rate for the complaints metric for the Regulatory Year t as derived from the following formula:

$$IRCM_t = \frac{ARCM_t}{(70 - BQCM_t)}$$

ARCMt (*the complaints metric allowed revenue term*) means the maximum negative adjustment to allowed revenue as specified for Regulatory Year t for the licensee in table A11 in Appendix 1, expressed in £ million in 2007/08 prices.

CMPt (*the complaints metric performance term*) is determined in accordance with the following formula:

$$CMP_t = (PCUDPO_t \times 0.1) + (PCUDPT_t \times 0.2) + (PRC_t \times 0.5) + (POF_t \times 0.2)$$

where:

PCUDPOt (*the percentage of complaints unresolved after day plus one term*) means the percentage of complaints unresolved by the end of the first working day after the day on which the complaint was first received for the Regulatory Year t as calculated for that year.

PCUDPTt (*the percentage of complaints unresolved after day plus 31 term*) means the percentage of complaints unresolved after the end of 31 calendar days from the end of the first working day after the day on which the complaint was first received for the Regulatory Year t as calculated for that year.

PRCt (*the percentage of repeat complaints term*) means the percentage of repeat complaints for the Regulatory Year t as calculated for that year.

POFt (*the percentage of Ombudsman findings term*) means the percentage of Ombudsman findings against the licensee for the Regulatory Year t as calculated for that year.

Part E: Performance in relation to telephony response

8.37 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.

8.38 For the purposes of those formulas:

QDt means the adjustment to Combined Allowed Distribution Network 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.

8.39 In calculating the value of QDt under this Part E (see paragraph 8.41), the term RTS_t refers to the revised telephony score, including a weighting on unsuccessful calls, and is derived from the following formula:

$$RTS_t = APTR_t \times (1 - (UNCP_t \times 0.75))$$

8.40 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.

UNCP_t (*the unsuccessful calls term*) is the actual unsuccessful proportion of calls (within a range of values from 0 to 1) in Regulatory Year t, as defined in the Quality of Service RIGs.

8.41 In Regulatory Year t, if RTS_t is greater than or equal to 4.4, QDt is the amount derived from the following formula:

$$QD_t = RLD_t \times PIA_t$$

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

In Regulatory Year t, if RTS_t is less than 3.9, QDt is the amount derived from the following formula:

$$QD_t = \max[(RTS_t - 3.9) \times PIA_t \times IRC_t, -RLD_t \times PIA_t]$$

8.42 In the formula for the QDt 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 the licensee's telephone response and is derived from the following formula:

$$IRC_t = 2 \times RLD_t$$

where:

RLDt (*the revenue exposure to telephony penalties term*) means the maximum amount of revenue exposed to penalties under the incentives for the quality and speed of telephone response and has the value as specified for Regulatory Year t for the licensee in table A13 in Appendix 1, in £ million in 2007/08 prices.

Part F: Performance in relation to the Customer Service Reward Scheme

8.43 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.

8.44 For the purposes of those formulas:

QEt means such positive adjustment (if any) to Combined Allowed Distribution Network 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

8.45 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.

8.46 For the purposes of those formulas:

QFt means the adjustment to Combined Allowed Distribution Network Revenue in respect of the standard of performance for supply restoration under severe weather conditions imposed on the licensee under Regulation 7 and is the amount derived from the following formula:

$$QF_t = \min[(SWPM_t - SWPD_t), 0] + \max[(SWPD_t - RLF_t \times PIA_t), 0]$$

8.47 In the formula for the QF term above:

SWPDt (*the total severe weather payments due 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 7.

SWPMt (*the total severe weather payments made 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 7, 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, no more than a total of £216 of payments per Customer for any given event in Regulatory Year t may be taken into account).

RLF_t (*the severe weather revenue exposure term*) means the maximum amount of revenue exposed to the severe weather arrangements for Regulatory Year t and has the value as specified for Regulatory Year t for the licensee in table A14 in Appendix 1, expressed in £ million in 2007/08 prices.

SWE_t (*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

8.48 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.

8.49 For the purposes of those formulas:

QG_t means the adjustment to Combined Allowed Distribution Network Revenue in respect of the standard of performance for supply restoration imposed on the licensee under Regulations 5, 6 and 8 and is the amount derived from the following formula:

$$QG_t = \min[(NCPM_t - NCPD_t), 0] + \max[(NCPD_t - RLG_t \times PIA_t), 0]$$

8.50 In the formula for the QG term above:

NCPD_t (*the total normal weather payments due 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 standards of performance for supply restoration imposed on the licensee under Regulations 5, 6, and 8.

NCPM_t (*the total normal weather payments made 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 standards of performance for supply restoration imposed on the licensee under Regulations 5, 6, and 8 or that has been paid to Customers in the form of ex gratia payments in respect of such failure.

RLG_t (*the normal weather revenue exposure term*) means the maximum amount of revenue exposed to the normal weather arrangements for Regulatory Year t and has the value as specified for Regulatory Year t for the licensee in table A15 in Appendix 1, expressed in £ million in 2007/08 prices.

Part I: Highlands and Islands

8.51 This Part I applies to Scottish Hydro Electric Power Distribution plc for the purposes of the calculations established under Part A above in respect of each of Principal Formulas 1, 2, and 3.

8.52 For the purposes of those formulas:

QHt means the adjustment to Combined Allowed Distribution Network Revenue in respect of the standard of performance for supply restoration imposed on the licensee under Regulation 9 and is the amount derived from the following formula:

$$QHt = \min[(HIPMt - HIPDt), 0]$$

where:

HIPDt 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 for the Highlands and Islands imposed on the licensee under Regulation 9.

HIPMt is the total amount of the payments that the licensee has made in Regulatory Year t to Customers in respect of the licensee's failure to meet the standard of performance for supply restoration for the Highlands and Islands imposed on the licensee under Regulation 9 or that has been paid to Customers in the form of ex gratia payments in respect of such failure.

Part J: Power of the Authority to replace Specified Information

8.53 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.

8.54 If paragraph 8.53 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 K: Adjustment of performance on quality of supply targets

8.55 **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.
- 8.56 If paragraph 8.55 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 Regulatory 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.
- 8.57 **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.
- 8.58 If paragraph 8.57 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 that 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 Regulatory 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 L: Procedural requirements and interpretation

- 8.59 Before giving a direction under paragraph 8.54, 8.56, or 8.58, 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.
- 8.60 The Authority must consider any representations or objections duly received under paragraph 8.59, and give reasons for its decision.
- 8.61 A direction given by the Authority under paragraph 6 of standard condition 49 of this licence to modify the Appendix to 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 12(a) of that condition which is other than a Price Control Review Date unless all Distribution Services Providers have agreed that date.
- 8.62 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: 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 that are used in this condition have the same meaning as in those RIGs.
- 8.63 Appendices 1 to 4 follow immediately below.

APPENDIX 1

Targets, incentive rates, and revenue exposure for interruptions, the broad measure of community satisfaction, telephony, severe weather, and normal weather

(see paragraphs 8.24, 8.28, 8.32, 8.35, 8.36, 8.41, 8.42, 8.47
and 8.50 of this condition)

Table A1: TAt – Number of customer interruptions term targets

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	109.9	109.9	109.9	109.9	109.9
Central Networks East plc	75.7	75.7	75.7	75.7	75.7
Electricity North West Ltd	52.9	52.7	52.5	52.4	52.2
Northern Electric Distribution Ltd	68.3	68.2	68.2	68.1	68.1
Yorkshire Electricity Distribution plc	75.3	75.3	75.3	75.3	75.3
Western Power Distribution (South West) plc	79.5	79.5	79.5	79.5	79.5
Western Power Distribution (South Wales) plc	73.6	73.6	73.6	73.6	73.6
EDF Energy Networks (LPN) plc	33.4	33.4	33.4	33.4	33.4
EDF Energy Networks (SPN) plc	85.0	84.2	83.3	82.5	81.7
EDF Energy Networks (EPN) plc	76.1	75.9	75.7	75.5	75.4
SP Distribution Ltd	60.1	60.1	60.1	60.1	60.1
SP Manweb plc	45.6	45.5	45.3	45.1	44.9
Scottish Hydro Electric Power Distribution plc	77.0	77.0	77.0	77.0	77.0
Southern Electric Power Distribution plc	73.8	73.2	72.6	72.0	71.4

Table A2: IRAt – Customer interruptions term incentive rate (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	0.11	0.11	0.11	0.11	0.11
Central Networks East plc	0.12	0.12	0.12	0.12	0.12
Electricity North West Ltd	0.11	0.11	0.11	0.11	0.11
Northern Electric Distribution Ltd	0.07	0.07	0.07	0.07	0.07
Yorkshire Electricity Distribution plc	0.10	0.10	0.10	0.10	0.10
Western Power Distribution (South West) plc	0.05	0.05	0.05	0.05	0.05
Western Power Distribution (South Wales) plc	0.07	0.07	0.07	0.07	0.07
EDF Energy Networks (LPN) plc	0.30	0.30	0.30	0.30	0.30
EDF Energy Networks (SPN) plc	0.10	0.10	0.10	0.10	0.10
EDF Energy Networks (EPN) plc	0.16	0.16	0.16	0.16	0.16
SP Distribution Ltd	0.09	0.09	0.09	0.09	0.09
SP Manweb plc	0.07	0.07	0.07	0.07	0.07
Scottish Hydro Electric Power Distribution plc	0.03	0.03	0.03	0.03	0.03
Southern Electric Power Distribution plc	0.13	0.13	0.13	0.13	0.13

Table A3: RLAAt – Revenue exposure to customer interruptions term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	2.0	2.0	2.0	2.0	2.0
Central Networks East plc	1.9	1.9	1.9	1.9	1.9
Electricity North West Ltd	1.7	1.7	1.7	1.7	1.7
Northern Electric Distribution Ltd	1.2	1.2	1.2	1.2	1.2
Yorkshire Electricity Distribution plc	1.5	1.5	1.5	1.5	1.5
Western Power Distribution (South West) plc	0.9	0.9	0.9	0.9	0.9
Western Power Distribution (South Wales) plc	1.3	1.3	1.3	1.3	1.3
EDF Energy Networks (LPN) plc	1.7	1.7	1.7	1.7	1.7
EDF Energy Networks (SPN) plc	1.5	1.5	1.5	1.5	1.5
EDF Energy Networks (EPN) plc	2.4	2.4	2.4	2.4	2.4
SP Distribution Ltd	1.7	1.7	1.7	1.7	1.7
SP Manweb plc	1.6	1.6	1.6	1.6	1.6
Scottish Hydro Electric Power Distribution plc	1.1	1.1	1.1	1.1	1.1
Southern Electric Power Distribution plc	2.3	2.3	2.3	2.3	2.3

Table A4: TBt – Duration of customer interruptions term targets

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	97.0	96.3	95.6	94.9	94.2
Central Networks East plc	69.0	68.6	68.2	67.8	67.4
Electricity North West Ltd	55.6	55.6	55.6	55.6	55.6
Northern Electric Distribution Ltd	71.3	71.1	70.9	70.7	70.6
Yorkshire Electricity Distribution plc	76.0	76.0	76.0	76.0	76.0
Western Power Distribution (South West) plc	44.6	44.6	44.6	44.6	44.6
Western Power Distribution (South Wales) plc	51.0	51.0	51.0	51.0	51.0
EDF Energy Networks (LPN) plc	41.0	41.0	41.0	41.0	41.0
EDF Energy Networks (SPN) plc	87.6	82.9	78.1	73.3	68.5
EDF Energy Networks (EPN) plc	71.1	69.7	68.3	66.8	65.4
SP Distribution Ltd	65.5	63.5	61.5	59.5	57.5
SP Manweb plc	61.1	60.6	60.1	59.6	59.1
Scottish Hydro Electric Power Distribution plc	75.1	75.1	75.1	75.1	75.1
Southern Electric Power Distribution plc	69.1	68.3	67.5	66.6	65.8

Table A5: IRBt – Duration of customer interruptions term incentive rate (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	0.40	0.40	0.40	0.40	0.40
Central Networks East plc	0.42	0.42	0.42	0.42	0.42
Electricity North West Ltd	0.56	0.56	0.56	0.56	0.56
Northern Electric Distribution Ltd	0.26	0.26	0.26	0.26	0.26
Yorkshire Electricity Distribution plc	0.37	0.37	0.37	0.37	0.37
Western Power Distribution (South West) plc	0.18	0.18	0.18	0.18	0.18
Western Power Distribution (South Wales) plc	0.25	0.25	0.25	0.25	0.25
EDF Energy Networks (LPN) plc	0.34	0.34	0.34	0.34	0.34
EDF Energy Networks (SPN) plc	0.36	0.36	0.36	0.36	0.36
EDF Energy Networks (EPN) plc	0.57	0.57	0.57	0.57	0.57
SP Distribution Ltd	0.33	0.33	0.33	0.33	0.33
SP Manweb plc	0.21	0.21	0.21	0.21	0.21
Scottish Hydro Electric Power Distribution plc	0.15	0.15	0.15	0.15	0.15
Southern Electric Power Distribution plc	0.47	0.47	0.47	0.47	0.47

Table A6: RLBt – Revenue exposure to the duration term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	5.4	5.4	5.4	5.4	5.4
Central Networks East plc	5.3	5.3	5.3	5.3	5.3
Electricity North West Ltd	4.7	4.7	4.7	4.7	4.7
Northern Electric Distribution Ltd	3.2	3.2	3.2	3.2	3.2
Yorkshire Electricity Distribution plc	4.2	4.2	4.2	4.2	4.2
Western Power Distribution (South West) plc	2.5	2.5	2.5	2.5	2.5
Western Power Distribution (South Wales) plc	3.5	3.5	3.5	3.5	3.5
EDF Energy Networks (LPN) plc	4.6	4.6	4.6	4.6	4.6
EDF Energy Networks (SPN) plc	4.2	4.2	4.2	4.2	4.2
EDF Energy Networks (EPN) plc	6.6	6.6	6.6	6.6	6.6
SP Distribution Ltd	4.7	4.7	4.7	4.7	4.7
SP Manweb plc	4.4	4.4	4.4	4.4	4.4
Scottish Hydro Electric Power Distribution plc	3.0	3.0	3.0	3.0	3.0
Southern Electric Power Distribution plc	6.3	6.3	6.3	6.3	6.3

Table A7: TRLt – Revenue exposure to quality penalties term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	13.7	13.7	13.7	13.7	13.7
Central Networks East plc	13.4	13.4	13.4	13.4	13.4
Electricity North West Ltd	12.0	12.0	12.0	12.0	12.0
Northern Electric Distribution Ltd	8.2	8.2	8.2	8.2	8.2
Yorkshire Electricity Distribution plc	10.7	10.7	10.7	10.7	10.7
Western Power Distribution (South West) plc	6.2	6.2	6.2	6.2	6.2
Western Power Distribution (South Wales) plc	8.9	8.9	8.9	8.9	8.9
EDF Energy Networks (LPN) plc	11.7	11.7	11.7	11.7	11.7
EDF Energy Networks (SPN) plc	10.5	10.5	10.5	10.5	10.5
EDF Energy Networks (EPN) plc	16.7	16.7	16.7	16.7	16.7
SP Distribution Ltd	11.8	11.8	11.8	11.8	11.8
SP Manweb plc	11.1	11.1	11.1	11.1	11.1
Scottish Hydro Electric Power Distribution plc	7.7	7.7	7.7	7.7	7.7
Southern Electric Power Distribution plc	15.9	15.9	15.9	15.9	15.9

Table A8: S_{Et} – Maximum revenue exposure to the stakeholder engagement term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc			0.7	0.7	0.7
Central Networks East plc			0.7	0.7	0.7
Electricity North West Ltd			0.6	0.6	0.6
Northern Electric Distribution Ltd			0.4	0.4	0.4
Yorkshire Electricity Distribution plc			0.6	0.6	0.6
Western Power Distribution (South West) plc			0.3	0.3	0.3
Western Power Distribution (South Wales) plc			0.5	0.5	0.5
EDF Energy Networks (LPN) plc			0.6	0.6	0.6
EDF Energy Networks (SPN) plc			0.6	0.6	0.6
EDF Energy Networks (EPN) plc			0.9	0.9	0.9
SP Distribution Ltd			0.6	0.6	0.6
SP Manweb plc			0.6	0.6	0.6
Scottish Hydro Electric Power Distribution plc			0.4	0.4	0.4
Southern Electric Power Distribution plc			0.9	0.9	0.9

Table A9: AROU_t – Maximum upside allowed revenue term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc			2.9	2.9	2.9
Central Networks East plc			2.9	2.9	2.9
Electricity North West Ltd			2.6	2.6	2.6
Northern Electric Distribution Ltd			1.8	1.8	1.8
Yorkshire Electricity Distribution plc			2.3	2.3	2.3
Western Power Distribution (South West) plc			1.3	1.3	1.3
Western Power Distribution (South Wales) plc			1.9	1.9	1.9
EDF Energy Networks (LPN) plc			2.5	2.5	2.5
EDF Energy Networks (SPN) plc			2.3	2.3	2.3
EDF Energy Networks (EPN) plc			3.6	3.6	3.6
SP Distribution Ltd			2.5	2.5	2.5
SP Manweb plc			2.4	2.4	2.4
Scottish Hydro Electric Power Distribution plc			1.7	1.7	1.7
Southern Electric Power Distribution plc			3.4	3.4	3.4

Table A10: ARODt – Maximum downside allowed revenue term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc			-1.8	-1.8	-1.8
Central Networks East plc			-1.8	-1.8	-1.8
Electricity North West Ltd			-1.6	-1.6	-1.6
Northern Electric Distribution Ltd			-1.1	-1.1	-1.1
Yorkshire Electricity Distribution plc			-1.4	-1.4	-1.4
Western Power Distribution (South West) plc			-0.8	-0.8	-0.8
Western Power Distribution (South Wales) plc			-1.2	-1.2	-1.2
EDF Energy Networks (LPN) plc			-1.6	-1.6	-1.6
EDF Energy Networks (SPN) plc			-1.4	-1.4	-1.4
EDF Energy Networks (EPN) plc			-2.2	-2.2	-2.2
SP Distribution Ltd			-1.6	-1.6	-1.6
SP Manweb plc			-1.5	-1.5	-1.5
Scottish Hydro Electric Power Distribution plc			-1.0	-1.0	-1.0
Southern Electric Power Distribution plc			-2.1	-2.1	-2.1

Table A11: ARCMt – Complaints metric allowed revenue term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc			1.8	1.8	1.8
Central Networks East plc			1.8	1.8	1.8
Electricity North West Ltd			1.6	1.6	1.6
Northern Electric Distribution Ltd			1.1	1.1	1.1
Yorkshire Electricity Distribution plc			1.4	1.4	1.4
Western Power Distribution (South West) plc			0.8	0.8	0.8
Western Power Distribution (South Wales) plc			1.2	1.2	1.2
EDF Energy Networks (LPN) plc			1.6	1.6	1.6
EDF Energy Networks (SPN) plc			1.4	1.4	1.4
EDF Energy Networks (EPN) plc			2.2	2.2	2.2
SP Distribution Ltd			1.6	1.6	1.6
SP Manweb plc			1.5	1.5	1.5
Scottish Hydro Electric Power Distribution plc			1.0	1.0	1.0
Southern Electric Power Distribution plc			2.1	2.1	2.1

Table A12: Upside QDt – Positive adjustment to allowed revenue where QDt is greater than or equal to 4.4 (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	0.2	0.2			
Central Networks East plc	0.2	0.2			
Electricity North West Ltd	0.2	0.2			
Northern Electric Distribution Ltd	0.1	0.1			
Yorkshire Electricity Distribution plc	0.1	0.1			
Western Power Distribution (South West) plc	0.1	0.1			
Western Power Distribution (South Wales) plc	0.1	0.1			
EDF Energy Networks (LPN) plc	0.2	0.2			
EDF Energy Networks (SPN) plc	0.1	0.1			
EDF Energy Networks (EPN) plc	0.2	0.2			
SP Distribution Ltd	0.2	0.2			
SP Manweb plc	0.1	0.1			
Scottish Hydro Electric Power Distribution plc	0.1	0.1			
Southern Electric Power Distribution plc	0.2	0.2			

Table A13: RLDt – Revenue exposure to the telephony performance penalty term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	0.9	0.9			
Central Networks East plc	0.9	0.9			
Electricity North West Ltd	0.8	0.8			
Northern Electric Distribution Ltd	0.5	0.5			
Yorkshire Electricity Distribution plc	0.7	0.7			
Western Power Distribution (South West) plc	0.4	0.4			
Western Power Distribution (South Wales) plc	0.6	0.6			
EDF Energy Networks (LPN) plc	0.8	0.8			
EDF Energy Networks (SPN) plc	0.7	0.7			
EDF Energy Networks (EPN) plc	1.1	1.1			
SP Distribution Ltd	0.8	0.8			
SP Manweb plc	0.7	0.7			
Scottish Hydro Electric Power Distribution plc	0.5	0.5			
Southern Electric Power Distribution plc	1.0	1.0			

Table A14: RLft – Severe weather revenue exposure term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	6.8	6.8	6.8	6.8	6.8
Central Networks East plc	6.7	6.7	6.7	6.7	6.7
Electricity North West Ltd	6.0	6.0	6.0	6.0	6.0
Northern Electric Distribution Ltd	4.1	4.1	4.1	4.1	4.1
Yorkshire Electricity Distribution plc	5.3	5.3	5.3	5.3	5.3
Western Power Distribution (South West) plc	3.1	3.1	3.1	3.1	3.1
Western Power Distribution (South Wales) plc	4.5	4.5	4.5	4.5	4.5
EDF Energy Networks (LPN) plc	5.9	5.9	5.9	5.9	5.9
EDF Energy Networks (SPN) plc	5.3	5.3	5.3	5.3	5.3
EDF Energy Networks (EPN) plc	8.3	8.3	8.3	8.3	8.3
SP Distribution Ltd	5.9	5.9	5.9	5.9	5.9
SP Manweb plc	5.5	5.5	5.5	5.5	5.5
Scottish Hydro Electric Power Distribution plc	3.8	3.8	3.8	3.8	3.8
Southern Electric Power Distribution plc	7.9	7.9	7.9	7.9	7.9

Table A15: RLGt – Normal weather revenue exposure term (£ million, 2007/08 prices)

Licensee	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	5.1	5.1	5.1	5.1	5.1
Central Networks East plc	5.0	5.0	5.0	5.0	5.0
Electricity North West Ltd	4.5	4.5	4.5	4.5	4.5
Northern Electric Distribution Ltd	3.1	3.1	3.1	3.1	3.1
Yorkshire Electricity Distribution plc	4.0	4.0	4.0	4.0	4.0
Western Power Distribution (South West) plc	2.3	2.3	2.3	2.3	2.3
Western Power Distribution (South Wales) plc	3.4	3.4	3.4	3.4	3.4
EDF Energy Networks (LPN) plc	4.4	4.4	4.4	4.4	4.4
EDF Energy Networks (SPN) plc	4.0	4.0	4.0	4.0	4.0
EDF Energy Networks (EPN) plc	6.2	6.2	6.2	6.2	6.2
SP Distribution Ltd	4.4	4.4	4.4	4.4	4.4
SP Manweb plc	4.2	4.2	4.2	4.2	4.2
Scottish Hydro Electric Power Distribution plc	2.9	2.9	2.9	2.9	2.9
Southern Electric Power Distribution plc	6.0	6.0	6.0	6.0	6.0

APPENDIX 2

Exceptionality requirement for severe weather events (see paragraph 8.55 of this condition)

A2.1 For the purposes of paragraph 8.55 of this condition, an exceptional severe weather event:

- (a) is deemed to begin at the beginning of a 24-hour period when the number of incidents caused by the event at distribution higher voltage in that period is equal to or greater than the commencement threshold number; and
- (b) is deemed to end at the earlier of:
 - (i) the time of restoration of the last customer off supply due to an LV incident linked to the underlying cause of the severe weather, or
 - (ii) the end of a 48-hour period when the number of customers off supply due to high voltage incidents linked to the underlying cause of the severe weather has fallen to zero.

A2.2 For the purposes of paragraph A2.1:

- (a) the commencement threshold number is the number set against the name of the licensee in Threshold Table 1 below;
- (b) “distribution higher voltage” means any nominal voltage of more than 1,000 volts up to and including (except in Scotland) 132 kilovolts; and
- (c) “incidents” are as defined in the Quality of Service RIGs.

Threshold Table 1

Licensee	Severe weather exceptional threshold
Central Networks West plc	65
Central Networks East plc	68
Electricity North West Ltd	49
Northern Electric Distribution Ltd	37
Yorkshire Electricity Distribution plc	37
Western Power Distribution (South West) plc	59
Western Power Distribution (South Wales) plc	45
EDF Energy Networks (LPN) plc	19
EDF Energy Networks (SPN) plc	48
EDF Energy Networks (EPN) plc	85
SP Distribution Ltd	76
SP Manweb plc	68
Scottish Hydro Electric Power Distribution plc	56
Southern Electric Power Distribution plc	66

APPENDIX 3

Exceptionality requirements for other events

(see paragraph 8.57 of this condition)

- A3.1 For the purposes of paragraph 8.57 of this condition, the exceptionality requirements for an event not falling within paragraph 8.55 are both of the following:
- (a) the first requirement is that the occurrence of the event was a consequence of either:
 - (i) an external cause (including, without limitation, an event arising from an incident on a Transmission System or other connected network, or from terrorism or vandalism), or
 - (ii) an internal cause:
 - (aa) that was not attributable to any culpable error by the licensee in relation to the installation, operation or maintenance of an asset forming part of its Distribution System, or
 - (bb) the consequence of which could not reasonably have been avoided by the licensee;
 - (b) the second requirement is that the event contributes more than the relevant threshold amount to CIIS or CMLIS in a three-month period.
- A3.2 For the purposes of paragraph A3.1(b), the relevant threshold amounts for CIIS^t and CMLIS^t respectively are those that are set against the name of the licensee in Threshold Table 2 below.

Threshold Table 2

Licensee	CIIS ** threshold amount	CMLIS ** threshold amount
Central Networks West plc	1.0	0.8
Central Networks East plc	1.0	0.8
Electricity North West Ltd	1.1	0.8
Northern Electric Distribution Ltd	1.6	1.3
Yorkshire Electricity Distribution plc	1.1	0.9
Western Power Distribution (South West) plc	1.6	1.3
Western Power Distribution (South Wales) plc	2.3	1.8
EDF Energy Networks (LPN) plc	1.1	0.9
EDF Energy Networks (SPN) plc	1.1	0.9
EDF Energy Networks (EPN) plc	0.7	0.6
SP Distribution Ltd	1.3	1.0
SP Manweb plc	1.7	1.3
Scottish Hydro Electric Power Distribution plc	3.4	2.7
Southern Electric Power Distribution plc	0.9	0.7

** CIIS = Customer interruptions, CMLIS = Customer minutes lost

APPENDIX 4

Criteria for preventative and mitigating actions (see paragraph 8.58 of this condition)

- A4.1 For the purposes of paragraph 8.58 of this condition, the criteria for preventative and mitigating actions are that:
- (a) where the occurrence of the event was the consequence of an external cause, the licensee had taken all reasonable steps to ensure that its actions (or lack of actions) were not contributory factors to the occurrence of the event; and
 - (b) in any case, the licensee took all appropriate steps within its power:
 - (i) to limit the number of Customers interrupted by the event, and
 - (ii) to restore Customers' supplies quickly and efficiently, having due regard to safety and other legal obligations.

CRC 9. Adjustment of licensee’s revenues to reflect performance in relation to Transmission Connection Point Charges

Introduction

- 9.1 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: non-generation incentive revenue adjustment).
- 9.2 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 Combined Allowed Distribution Network Revenue under CRC 3 (Restriction of Distribution Charges: Use of System Charges) (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 the amount of the IT adjustment

- 9.3 For the purposes of Part B of CRC 5, which adjusts the calculation of the licensee’s Combined Allowed Distribution Network 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):

$$IT_t = (NTC_t - (PIAT_t \times ALL_t)) \times (1 - TIR)$$

- 9.4 For the purposes of the Principal Formula:

NTC_t is the actual amount of New Transmission Capacity 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.

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

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

ALL_t is the New Transmission Capacity Charges allowance in the Regulatory Year t in 2007/08 prices, as represented by the amount shown against the licensee’s name in the table set out at Appendix 1 (which is part of this condition).

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

- 9.5 In the Principal Formula set out in Part A above:

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

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

9.6 In the formula for the PIAT term above:

PIAT_t has the value of 1 for the Regulatory Year beginning on 1 April 2007, and then for each subsequent Regulatory Year has the value derived in accordance with the formula itself.

RPI_t is as defined in Part A of CRC 2, and is determined in accordance with the method set out there.

9.7 Appendix 1 follows immediately below.

APPENDIX 1

Allowance (ALLt) for New Transmission Capacity Charges

(see paragraph 9.4 of this condition)

Licensee	Allowance (£m) in 2007-08 prices				
	2010-11	2011-12	2012-13	2013-14	2014-15
Central Networks West plc	0.0	0.0	0.0	1.0	7.5
Central Networks East plc	0.0	0.0	0.0	8.8	13.3
Electricity North West Ltd	0.0	1.0	0.7	0.7	0.7
Northern Electric Distribution Ltd	0.0	0.0	0.0	4.7	4.7
Yorkshire Electricity Distribution plc	0.0	0.0	0.0	0.0	0.0
Western Power Distribution (South West) plc	0.0	0.0	0.6	0.6	0.6
Western Power Distribution (South Wales) plc	0.0	0.0	0.5	0.5	0.5
EDF Energy Networks (LPN) plc	2.8	4.3	5.2	5.5	8.3
EDF Energy Networks (SPN) plc	0.1	0.0	2.0	6.9	7.1
EDF Energy Networks (EPN) plc	2.5	4.0	4.0	2.1	3.9
SP Distribution Ltd	0.0	0.2	0.2	0.5	0.5
SP Manweb plc	0.0	0.0	0.0	0.2	0.2
Scottish Hydro Electric Power Distribution plc	0.6	1.3	2.7	3.1	4.1
Southern Electric Power Distribution plc	0.0	0.0	0.0	0.0	0.0

CRC 10. Adjustment of licensee’s revenues to reflect innovation funding performance

Introduction

- 10.1 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: non-generation incentive revenue adjustment).
- 10.2 The effect of the application of the innovation funding incentive term in CRC 5 is to adjust the calculation of the licensee’s Combined Allowed Distribution Network Revenue under CRC 3 (Restriction of Distribution Charges: Use of System Charges) (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)

- 10.3 For the purposes of Part B of CRC 5, which adjusts the calculation of the licensee’s Combined Allowed Distribution Network 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):

$$IFI_t = PTRI \times \min(IFIE_t, ((0.005 \times RD_t) + KIFI_t))$$

- 10.4 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).

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

PTRI 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 one of the following formulas:

(a) if $IFIE_{t-1} \leq (0.5 \times 0.005 \times RD_{t-1})$ then $KIFI_t = 0.5 \times 0.005 \times RD_{t-1}$,
or

(b) if $IFIE_{t-1} > (0.5 \times 0.005 \times RD_{t-1})$ and $IFIE_{t-1} \leq (0.005 \times RD_{t-1})$,
then $KIFI_t = (0.005 \times RD_{t-1}) - IFIE_{t-1}$, or

(c) if $IFIE_{t-1} > (0.005 \times RD_{t-1})$ then $KIFI_t = 0$

- 10.5 For the purposes of the incentive scheme, the Eligible IFI Internal Expenditure (IFIIE_t) that qualifies as Eligible IFI Expenditure in the Regulatory Year t must not exceed the amount determined by the following formula:

$$\text{IFIIE}_t \leq Z \times \text{IFIE}_t$$

where:

IFIIE_t is the Eligible IFI Internal Expenditure that qualifies as Eligible IFI Expenditure for the Regulatory Year t.

Z has the value of 0.15, except insofar as the Authority consents otherwise (or has so consented under paragraph 3 of special condition C3 of this licence (Calculation of charge restriction adjustments arising from the innovation funding incentive scheme) in the form in which it was in force at 31 March 2010).

Part B: Interpretation

- 10.6 For the purposes of this condition:

Eligible IFI Internal Expenditure means that amount of Eligible IFI Expenditure spent or accrued on the internal resources of the licensee.

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.

- 10.7 Expressions defined in paragraph 10.6 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 (Incentive schemes for innovation funding and Distributed Generation) of this licence in relation to the IFI Scheme established pursuant to that condition.

CRC 11. Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation

Introduction

- 11.1 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 3 (Restriction of Distribution Charges: Use of System Charges).
- 11.2 The effect of the application of the incentive revenue for Distributed Generation term in CRC 3 is to adjust the calculation of the licensee's Combined Allowed Distribution Network 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)

- 11.3 For the purposes of Part B of CRC 3, which adjusts the calculation of the licensee's Combined Allowed Distribution Network 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):

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

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

- 11.4 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:

$$GI_t = PIAO_t \times GIR \times GC_t$$

- 11.5 In the formula for the GI term above:

PIAO_t is the price index adjuster relating to the DG incentive and operation and maintenance costs, and is determined as set out in Part I 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 J below in respect of the application of this value).

GC_t is the Total Incentivised DG Capacity 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)

11.6 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:

$$GP_t = PIAG_t \times \sum_{j=A}^{t-1} \left[\frac{1}{PIAG_j} \times \left(\frac{R}{1 - \frac{1}{(1+R)^P}} \right) \times (GPX_j - GT_j) \right]$$

11.7 In the formula for the GP term above:

PIAG_t is the price index adjuster relating to pass-through revenue for DG, and is determined as set out in Part H below.

j is the Regulatory Year for the purposes of the formula in paragraph 11.6.

A is the lower limit for j, and is derived from the following formula:

$$A = \max(y, t - P)$$

R is the allowed pre-tax cost of capital, expressed in real terms, which, for the purposes of this condition, has the value of 5.6 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.

GPX_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:

$$GPX_j = PTRG \times GPS_j$$

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, expressed in pounds sterling, that is excluded from this calculation to reflect the transfer of Capex from the DG Incentive Scheme in accordance with Part K below.

Part D: Calculation of the operation and maintenance cost adjustment (GO)

11.8 For the purposes of the Principal Formula:

GO_t is the adjustment to Combined Allowed Distribution Network 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:

$$GO_t = PIAO_t \times GOR \times GC_t$$

11.9 In the formula for the GO term above:

$PIAO_t$ is the price index adjuster relating to the DG incentive and O&M, and is determined as set out in Part I 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)

11.10 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 was connected to the licensee's Distribution System on or before 31 March 2010 (as a result of the DG Incentive Scheme in effect at that date) after the cap and floor have been applied to the revenue stream, and is derived from the following formula:

$$GL_t = PIAG_t \times GLA_t$$

11.11 In the formula for the GL term above:

$PIAG_t$ is the price index adjuster relating to the previous price control amount for DG, and is determined as set out in Part H below.

GLA_t means an amount representing the revenue in the Regulatory Year t in respect of the DG that was 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) and has the value shown against the licensee's name and Regulatory Year t in the table set out at Appendix 1 (which is part of this condition).

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

11.12 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, GP_t, 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 11.13) for any Inset Electricity Distributor.

11.13 The equivalent value mentioned in paragraph 11.12 refers to the portion of the capacity or the Capex value in question that 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 G: Calculation of incentive revenue for Registered Power Zones

11.14 For the purposes of the Principal Formula:

$$RPZ_t = PIAG_t \times \min(RPZM, GIZ \times GCZ_t)$$

11.15 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 H below.

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 £3,450 per MW of RPZ DG Capacity.

GCZ_t 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 H: Determination of the price index adjuster (PIAG)

11.16 For the purposes of the formulas set out in Parts C, E and G above:

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

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

11.17 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 A of CRC 2 (Definitions for the Charge Restriction Conditions), and is determined in accordance with the method set out there.

Part I: Determination of the price index adjuster (PIAO)

11.18 For the purposes of the formula set out in Parts B and D above:

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

$$\text{PIAO}_t = \left[1 + \frac{\text{RPI}_t}{100} \right] \times \text{PIAO}_{t-1}$$

11.19 In the formula for the PIAO term above:

PIAO_t has the value of 1 for the Regulatory Year beginning on 1 April 2007, and then in each subsequent Regulatory Year has the value derived in accordance with the formula itself.

RPI_t is as defined in Part A of CRC 2, and is determined in accordance with the method set out there.

Part J: Duration of the value of the incentive rate (GIR)

11.20 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 K: Criteria for the exclusion of certain Capex amounts (GTj)

11.21 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 decreased 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 Use of System Charges for 15 complete Regulatory Years in accordance with the provisions of Part C.

Part L: Interpretation

11.22 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 that 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 standby generation operating in parallel with the licensee's Distribution System for testing purposes only) that 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, provided that any such capacity relates to generating units commissioned on or before 31 March 2012.

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 exclusive of the incremental costs in excess of the high-cost project threshold (as set out in the licensee's connection charging methodology in place on or after 1 April 2010).

- 11.23 Expressions defined in paragraph 11.22 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 (GLA, in £m, 2010/11 prices) for previous price control incentive amounts

(see Part E of this condition)

Licensee	2010 -11	2011 -12	2012 -13	2013 -14	2014 -15
Central Networks West plc	0.14	0.14	0.14	0.14	0.14
Central Networks East plc	0.59	0.59	0.59	0.59	0.59
Electricity North West Ltd	-0.01	0.22	0.22	0.22	0.22
Northern Electric Distribution Ltd	-0.45	0.18	0.18	0.18	0.18
Yorkshire Electricity Distribution plc	-0.49	0.24	0.24	0.24	0.24
Western Power Distribution (South Wales) plc	-0.11	0.07	0.07	0.07	0.07
Western Power Distribution (South West) plc	0.06	0.06	0.06	0.06	0.06
EDF Energy Networks (LPN) plc	-0.01	0.00	0.00	0.00	0.00
EDF Energy Networks (SPN) plc	-0.19	0.09	0.09	0.09	0.09
EDF Energy Networks (EPN) plc	0.25	0.25	0.25	0.25	0.25
SP Distribution Ltd	1.03	1.03	1.03	1.03	1.03
SP Manweb plc	0.66	0.66	0.66	0.66	0.66
Scottish Hydro Electric Power Distribution plc	0.54	0.54	0.54	0.54	0.54
Southern Electric Power Distribution plc	-0.21	0.09	0.09	0.09	0.09

Licensee	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20
Central Networks West plc	0.14	0.14	0.14	0.14	0.14
Central Networks East plc	0.59	0.59	0.59	0.59	0.59
Electricity North West Ltd	0.22	0.22	0.22	0.22	0.22
Northern Electric Distribution Ltd	0.18	0.18	0.18	0.18	0.18
Yorkshire Electricity Distribution plc	0.24	0.24	0.24	0.24	0.24
Western Power Distribution (South Wales) plc	0.07	0.07	0.07	0.07	0.07
Western Power Distribution (South West) plc	0.06	0.06	0.06	0.06	0.06
EDF Energy Networks (LPN) plc	0.00	0.00	0.00	0.00	0.00
EDF Energy Networks (SPN) plc	0.09	0.09	0.09	0.09	0.09
EDF Energy Networks (EPN) plc	0.25	0.25	0.25	0.25	0.25
SP Distribution Ltd	1.03	1.03	1.03	1.03	1.03
SP Manweb plc	0.66	0.66	0.66	0.66	0.66
Scottish Hydro Electric Power Distribution plc	0.54	0.54	0.54	0.54	0.54
Southern Electric Power Distribution plc	0.09	0.09	0.09	0.09	0.09

Licensee	2020 -21	2021 -22	2022 -23	2023 -24	2024 -25
Central Networks West plc	0.14	0.14	0.13	0.11	0.11
Central Networks East plc	0.59	0.59	0.58	0.55	0.45
Electricity North West Ltd	0.22	0.22	0.19	0.15	0.07
Northern Electric Distribution Ltd	0.18	0.18	0.16	0.11	0.03
Yorkshire Electricity Distribution plc	0.24	0.23	0.20	0.16	0.09
Western Power Distribution (South Wales) plc	0.07	0.07	0.07	0.06	0.04
Western Power Distribution (South West) plc	0.06	0.06	0.04	0.00	0.00
EDF Energy Networks (LPN) plc	0.00	0.00	0.00	0.00	0.00
EDF Energy Networks (SPN) plc	0.09	0.09	0.09	0.09	0.00
EDF Energy Networks (EPN) plc	0.25	0.25	0.21	0.15	0.11
SP Distribution Ltd	1.03	1.03	0.91	0.73	0.37
SP Manweb plc	0.66	0.65	0.64	0.52	0.17
Scottish Hydro Electric Power Distribution plc	0.54	0.53	0.51	0.46	0.40
Southern Electric Power Distribution plc	0.09	0.08	0.08	0.06	0.01

CHAPTER 4
Conditions 12 to 13:
Connection activities and network development

CRC 12. Licensee's Connection Activities: Margins and the development of competition

Introduction

- 12.1 This condition applies on and after 1 April 2010 for the following purposes.
- 12.2 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 will develop in Relevant Market Segments of the Local Connections Market.
- 12.3 The second purpose is to limit that Margin until the Authority is satisfied that such competition has developed.
- 12.4 The third purpose is to establish Tests that will enable the Authority to assess and determine:
- (a) the extent to which such competition has developed; and
 - (b) the licensee's compliance with certain legal requirements in respect of the making of connections to its Distribution System.
- 12.5 The fourth purpose is to allow the Authority to direct the licensee to repay such of the Margin charged on its Connection Activities as the Authority considers appropriate, where those legal requirements have not been met.

Structure of this condition

- 12.6 This condition is organised as follows.
- 12.7 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.
- 12.8 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 in Relevant Market Segments of the Local Connections Market.
- 12.9 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.
- 12.10 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.

- 12.11 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.
- 12.12 Parts J and K make associated provision relating to the definition of the Tests and other relevant terms.
- 12.13 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.
- 12.14 Appendix 2 (which is part of this condition) sets out the consequences for the licensee in terms of adjustments to the licensee's Combined Allowed Distribution Network Revenue under CRC 3 (Restriction of Distribution Charges: Use of System Charges) if, by 1 October 2010, the licensee does not have certain systems and processes in place.
- 12.15 Appendix 3 (which is part of this condition) sets out the formula on the basis of which the Authority will determine whether as a result of compensation payments to customers during the period 1 October 2010 to 31 March 2015 exceeding the revenue exposure cap for the licensee set out in Table A3.1 in that appendix an adjustment is required to the licensee's Combined Allowed Distribution Network Revenue under CRC 3.

Part A: The principal restrictions

- 12.16 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.
- 12.17 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

- 12.18 The licensee may give the Authority a Regulated Margin Notice and is only able to charge a Regulated Margin when:
- (a) verified systems and processes are in place within its Distribution Business for the purposes of compliance with the Connection Regulations and any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A and with the Connection RIGs issued by the Authority under standard condition 15A (Connection Policy and Connection Performance); and
 - (b) a commitment has been given by the licensee, as set out in Chapter 12 of the Authority's decision document published on 7 December 2009 under reference 145/09, to make guaranteed standards payments in relation to the Connection Regulations to all types of customer, irrespective of whether those customers are of a type covered by those regulations.

- 12.19 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.
- 12.20 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 that relate to its Connection Activities in an Excluded Market Segment;
 - (b) it must do so in relation to all of its Connection Activities in the Local Connections Market 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.
- 12.21 If the systems and processes referred to in paragraph 12.18(a) are not in place by 1 October 2010, the licensee will be exposed to the consequences set out in Appendix 2 to this condition.

Part C: The Legal Requirements Test and the Competition Test

- 12.22 There are two Tests against which the licensee will be assessed for the purposes of this condition:
- (a) the Legal Requirements Test; and
 - (b) the Competition Test.
- 12.23 The Legal Requirements Test involves an assessment of the licensee's compliance with such legal requirements in respect of the making of connections to its Distribution System as are set out in Chapter 12 of the Authority's decision document published on 7 December 2009 under reference 145/09.
- 12.24 The Competition Test involves an assessment of whether there is effective competition in a Relevant Market Segment as defined in Chapters 10 and 12 of the Authority's decision document published on 7 December 2009 under reference 145/09.

Part D: The Competition Notice

- 12.25 At any time on or before 31 December 2013, the licensee may give the Authority:
- (a) a single Competition Notice that relates to some or all Relevant Market Segments; or
 - (b) more than one Competition Notice, each of which relates to one or more different Relevant Market Segments.
- 12.26 A Competition Notice is a statement by the licensee that it considers both the Legal Requirements Test and the Competition Test to be satisfied in respect of one or more Relevant Market Segments.

- 12.27 A Competition Notice must state the licensee's reasons for believing those Tests to be satisfied.
- 12.28 A Competition Notice must be accompanied by such evidence as the licensee considers necessary to establish that those Tests are satisfied.
- 12.29 By 31 December 2013 the licensee must have given the Authority either:
- (a) a Competition Notice relating to all Relevant Market Segments where the licensee has not already given the Authority a Competition Notice under paragraph 12.25; or
 - (b) a Competition Notice relating to such Relevant Market Segments as were not the subject of any earlier Competition Notice given to the Authority by the licensee under paragraph 12.25; or
 - (c) a report containing such evidence as the licensee considers is necessary for the Authority to determine whether the Tests set out in Part C are satisfied in respect of any Relevant Market Segment that is not the subject of a Competition Notice.

Part E: The competition determination

- 12.30 If the Authority receives a Competition Notice from the licensee, it may, in accordance with this Part E, determine whether the Tests to which the Notice relates are satisfied.
- 12.31 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 Notice relates.
- 12.32 Before making a determination, the Authority must consult with the licensee and other persons who it believes are likely to have an interest in the outcome of the determination, and consider their views.
- 12.33 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.
- 12.34 Where a determination includes a finding that one or both of the Tests have not been satisfied, it must contain the Authority's reasons for that conclusion.
- 12.35 Subject to paragraph 12.36, if the Authority has not, within four months of receiving a Competition Notice from the licensee, made a determination in respect of a Relevant Market Segment to which that Notice relates, both of the Tests

within that Notice shall be deemed to be satisfied in relation to that Relevant Market Segment.

- 12.36 Paragraph 12.35 does not apply if, before the end of the four-month period referred to in that paragraph, the Authority has begun a formal investigation of the licensee's compliance with any of the legal requirements (comprising the Legal Requirements Test set out in paragraph 12.23 above) in relation to the Relevant Market Segment to which paragraph 12.35 refers.
- 12.37 Where the Authority determines that one or both of the Tests are 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 Notice relating to that Relevant Market Segment.

Part F: Provisions where both the Legal Requirements Test and the Competition Test are satisfied

- 12.38 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.
- 12.39 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 that the licensee may charge in those Connection Charges in relation to its Connection Activities in the Relevant Market Segment.
- 12.40 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

- 12.41 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.

- 12.42 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, provided the licensee has already given the Authority a Regulated Margin Notice under paragraph 12.18.
- 12.43 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 Test is now satisfied.
- 12.44 The Notice must be accompanied by such evidence as the licensee considers necessary to establish that the Competition Test is satisfied.
- 12.45 On receiving that Notice and following consultation with the licensee and other persons who the Authority believes are likely to have an interest in the outcome of the decision, the Authority may determine whether the Competition Test is satisfied in respect of the Relevant Market Segment.
- 12.46 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

- 12.47 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.
- 12.48 Where the determination is made on or before 31 December 2013, the licensee may continue to charge a Regulated Margin (but no more than that Margin) in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment, provided that the licensee:
- (a) has already given the Authority a Regulated Margin Notice under paragraph 12.18; and
 - (b) continues to meet the requirements set out in sub-paragraphs (a) and (b) of that paragraph.
- 12.49 Where the determination is made on or before 31 December 2013, and immediately prior to that determination the licensee has been charging an Unregulated Margin in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment, the licensee may charge a Regulated Margin (but no more than that Margin) in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment (even if the licensee has

not already given the Authority a Regulated Margin Notice under paragraph 12.18), provided that the licensee meets the requirements set out in subparagraphs (a) and (b) of that paragraph.

12.50 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 that does any or all of the following:

- (a) directs that the provisions of Part B will cease to apply;
- (b) directs 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 are specified in or determined under the direction;
- (c) directs 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 are specified in or determined under the direction.

12.51 The licensee must comply with any such direction issued to it.

Part I: Scope and contents of the Clawback Direction

12.52 A Clawback Direction issued under Part F is a direction that has effect in accordance with the provisions of this Part I.

12.53 A Clawback Direction is a direction requiring the licensee to make repayment of some or all of the Margin that it had charged in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment during a specified period of time, being:

- (a) in cases where the licensee has already given the Authority a Regulated Margin Notice under paragraph 12.18, the difference between the Unregulated Margin and the Regulated Margin but not less than zero; and
- (b) in all other cases, the difference between the Unregulated Margin and 4 per cent but not less than zero.

12.54 Any Clawback Direction issued by the Authority must specify both the period of time to which it relates and the proportion of the Margin that the Authority requires the licensee to repay.

12.55 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 during that period; and
- (b) was paid to and received by the licensee under that agreement.

- 12.56 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.
- 12.57 Where a Clawback Direction is issued under the provisions of Part F of this condition, 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 that that person paid to the licensee.
- 12.58 Where, within one year of the date of the Clawback Direction and despite having taken all reasonable steps to do so, the licensee has 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.
- 12.59 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: Use of System Charges).
- 12.60 Where a Margin became due to the licensee under a connection agreement entered into 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 such proportion of that Margin as is specified in the Clawback Direction.

Part J: Reporting requirements

- 12.61 Beginning with the Regulatory Year following that in which the determination was made under Part E, the licensee must, by no later than 30 June each year, submit to the Authority a report that explains:
- (a) the extent to which the evidence relied on by the licensee to establish that the Tests were satisfied under paragraph 12.28 or 12.44 is still accurate; and
 - (b) where appropriate, how change has occurred in the Relevant Market Segment that is the subject of the evidence described in paragraph (a) above.

12.62 The report must be accompanied by such evidence as the licensee considers necessary to establish that the evidence provided by the licensee under paragraph 12.28 or 12.44 is still accurate or has changed.

Part K: Interpretation

12.63 For the purposes of this condition:

Clawback Direction	is a direction given by the Authority in accordance with Part I of this condition.
Competition Notice	is a Notice given by the licensee in accordance with Part D 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, where those activities are fully funded by the Customer (as described in Chapters 10 and 12 of the Authority's decision document published on 7 December 2009 under reference 145/09).
Excluded Market Segment	means any of the Excluded Market Segments that are described in Appendix 1.
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, that: (a) is in addition to the cost estimated to be 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: <ul style="list-style-type: none"> (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 or determined in accordance with Appendix 1.
Tests	has the meaning given in Part C of this condition.
Unregulated Margin	is a Margin that: <ul style="list-style-type: none"> (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.

12.64 Words and expressions defined for any of 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.

12.65 Appendices 1 to 3 follow immediately below.

APPENDIX 1

Local Connections Market Segments

Part 1: Relevant Market Segments

- A1.1 For the purposes of this condition, the Relevant Market Segments of the Local Connections Market are:
- (a) each of the nine segments listed in paragraphs A1.2 to A1.4, defined by reference to the nature and volume of the Connection Activities and the work associated with them; or
 - (b) any alternative segments that are specified in accordance with paragraphs A1.5 to A1.9 below.

Demand Connections

- A1.2 In respect of Metered premises owned or occupied by Demand Customers:
- (i) **LV work:** low voltage Connection Activities involving only low voltage 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:** low voltage or high voltage Connection Activities involving extra high voltage work.
 - (iv) **EHV work and above:** extra high voltage and 132kV Connection Activities.

Distributed Generation

- A1.3 In respect of Metered premises in which Distributed Generation is situated:
- (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

- A1.4 In respect of unmetered premises:
- (vii) **LA work:** New Connection Activities in respect of local authority premises.
 - (viii) **PFI work:** New Connection Activities under private finance initiatives.

- (ix) **Other work:** all other non-local authority and non-PFI unmetered connections work.

Alternative Relevant Market Segments

A1.5 The licensee may give to the Authority a Competition Notice that, instead of relating to one or more of the segments listed in paragraphs A1.2 to A1.4, relates (in whole or in part) to one or more alternative segments.

A1.6 For the purposes of paragraph A1.5, an alternative segment is one that consists of one or more subsets, or combinations of subsets, of any of the segments listed in paragraphs A1.2 to A1.4.

A1.7 A Competition Notice in accordance with paragraph A1.5 must:

- (a) define the alternative segments to which the Notice relates;
- (b) set out the licensee's reasons for specifying those alternative segments; and
- (c) be accompanied by such evidence as, in the opinion of the licensee, is sufficient to substantiate its reasons for specifying those alternative segments instead of the segments listed in paragraphs A1.2 to A1.4.

A1.8 Where the Authority receives a Competition Notice in accordance with paragraph A12.5, it may either accept or reject the alternative segments specified by the licensee in the Notice.

A1.9 Where the Authority accepts the alternative segments:

- (a) those segments will become, for the purposes of Parts A to I of this condition, Relevant Market Segments; and
- (b) the Authority may determine consequential amendments required to the other segments listed in paragraphs A1.2 to A1.4, and any amended segments will become, for the purposes of Parts A to I of this condition, Relevant Market Segments.

A1.10 Where the Authority rejects the alternative segments, it may not proceed to make a determination in relation to the Competition Notice except in respect of any segments listed in paragraphs A1.2 to A1.4 to which the Notice also relates.

Part 2: Excluded Market Segment

A1.11 For the purposes of this condition, and subject to paragraph A1.2 (ii) above, the Excluded Market Segment of the Local Connections Market is the combination of the following two segments relating to Metered premises that 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 connection involving three-phase whole current metering at premises other than Domestic Premises.

Part 3: Interpretation

A1.12 Definitions of the Market Segments set out in this Appendix are subject to the provisions of paragraph 12.64 of this condition.

APPENDIX 2

Revenue adjustments for untimely systems and processes

- A2.1 Where the licensee has not provided the Authority before 1 October 2010 with an independent audit report that verifies that systems and processes are in place within its Distribution Business for the purpose of facilitating the licensee's compliance with the Connection Regulations and with any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A (Connection Policy and Performance), the Authority will apply a reduction to Combined Allowed Distribution Network Revenue for each quarter or part of a quarter of the Regulatory Year, until the licensee does provide the Authority with such verification.
- A2.2 For the purposes of Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges):

CGSSPt means the adjustment to Combined Allowed Distribution Network Revenue for any failure by the licensee to provide the Authority with the verification referred to in paragraph A2.1 in accordance with the requirements of that paragraph, and is derived from the following formula:

$$CGSSP_t = NQNC_t \times PER_t \times PIA_t$$

- A2.3 In the formula for the CGSSP term above:

NQNCt (*the number of quarters or part-quarters non-compliant term*) means the number of quarters or part-quarters after 30 September 2010 during which the licensee has failed to provide the verification referred to in paragraph A2.1 in accordance with the requirements of that paragraph, and has a maximum value of 2 for the Regulatory Year beginning on 1 April 2010, and a maximum value of 4 for each subsequent Regulatory Year.

PERt (*the penalty rate per quarter or part-quarter non-compliant term*) means the penalty rate levied by the Authority for each quarter or part-quarter after 30 September 2010 during which the licensee fails to provide the verification referred to in paragraph A2.1 in accordance with the requirements of that paragraph, and has the value specified in Table A2.1 of this appendix, expressed in £ million in 2007/08 prices.

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

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

A2.4 In the formula for the PIA term above:

PIA_t has the value of 1 for the Regulatory Year beginning on 1 April 2007, and in each subsequent Regulatory Year has the value derived from the formula itself.

RPI_t is as defined in Part A of CRC 2 (Definitions for the Charge Restriction Conditions) and is determined in accordance with the method set out there.

Table A2.1: Connections Guaranteed Standards of Performance Systems and Processes
 Combined Allowed Distribution Network Revenue adjustments (£million 2007/08 prices)

Licensee	Penalty rate per quarter or part- quarter
Central Networks West plc	1.3
Central Networks East plc	1.3
Electricity North West Ltd	1.2
Northern Electric Distribution Ltd	0.8
Yorkshire Electricity Distribution plc	1.0
Western Power Distribution (South West) plc	0.6
Western Power Distribution (South Wales) plc	0.9
EDF Energy Networks (LPN) plc	1.1
EDF Energy Networks (SPN) plc	1.0
EDF Energy Networks (EPN) plc	1.6
SP Distribution Ltd	1.1
SP Manweb plc	1.1
Scottish Hydro Electric Power Distribution plc	0.7
Southern Electric Power Distribution plc	1.5

APPENDIX 3

Revenue adjustments in respect of performance failures

- A3.1 This Appendix 3 applies for the purpose of adjusting Combined Allowed Distribution Network Revenue for the Regulatory Year beginning on 1 April 2014, where the sum of payments made by the licensee pursuant to the requirements of the Connection Regulations and of any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A (Connection Policy and Connection Performance) exceeds the revenue exposure cap specified against the licensee's name in Table A3.1 of this appendix.
- A3.2 For the purposes of Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges):

CGSRA_t means the adjustment to Combined Allowed Distribution Network Revenue for payments made by the licensee in respect of failures to achieve performance standards pursuant to the requirements of the Connection Regulations and of any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A (Connection Policy and Connection Performance), where the sum of those payments exceeds the revenue exposure cap specified for the licensee in Table A3.1, and is zero provided that:

$$\begin{aligned} \text{CGSRA}_t &= \text{CGSPM}_t + \left[\left(1 + \frac{I_t}{100} \right) \times \text{CGSPM}_{t-1} \right] + \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \times \text{CGSPM}_{t-2} \right] \\ &+ \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \times \left(1 + \frac{I_{t-2}}{100} \right) \times \text{CGSPM}_{t-3} \right] \\ &+ \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \times \left(1 + \frac{I_{t-2}}{100} \right) \times \left(1 + \frac{I_{t-3}}{100} \right) \times \text{CGSPM}_{t-4} \right] \\ &\leq \text{TCGSR} \times \text{PIA}_t \end{aligned}$$

A3.3 Where the proviso above does not apply, CGSRA_t is to be determined by reference to the following formula:

$$\begin{aligned}
 \text{CGSRA}_t = & \text{CGSPM}_t + \left[\left(1 + \frac{I_t}{100} \right) \times \text{CGSPM}_{t-1} \right] + \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \times \text{CGSPM}_{t-2} \right] \\
 & + \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \times \left(1 + \frac{I_{t-2}}{100} \right) \times \text{CGSPM}_{t-3} \right] \\
 & + \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \times \left(1 + \frac{I_{t-2}}{100} \right) \times \left(1 + \frac{I_{t-3}}{100} \right) \times \text{CGSPM}_{t-4} \right] \\
 & - \text{TCGSR} \times \text{PIA}_t
 \end{aligned}$$

A3.4 In the formulas for CGSRA in paragraphs A3.2 and A3.3 above:

CGSPM_t (*the connection guaranteed standards payments made term*) means the total amount of the payments in Regulatory Year *t* that have been made by the licensee to Customers in respect of failures to meet the requirements of the Connection Regulations and of any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A.

TCGSR (*the total connection guaranteed standards revenue exposure term*) means the maximum amount of Combined Allowed Distribution Network Revenue that is exposed for the duration of five successive Regulatory Years beginning on 1 April 2010 to the requirements of the Connection Regulations and of any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A, and has the value specified against the licensee's name in Table A3.1 of this appendix.

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

$$\text{PIA}_t = \left(1 + \frac{\text{RPI}_t}{100} \right) \times \text{PIA}_{t-1}$$

A3.5 In the formula for the PIA term above:

PIA_t has the value of 1 for the Regulatory Year beginning on 1 April 2007, and in each subsequent Regulatory Year has the value derived from the formula itself.

RPIit is as defined in Part A of CRC 2 (Definitions for the Charge Restriction Conditions) and is determined in accordance with the method set out there.

Table A3.1: Total DPCR5 revenue exposure to payments under the Connection Regulations and any Distributed Generation Connection Standards (£million 2007/08 prices)

Licensee	TCGSR
Central Networks West plc	26.5
Central Networks East plc	26.0
Electricity North West Ltd	23.3
Northern Electric Distribution Ltd	15.9
Yorkshire Electricity Distribution plc	20.7
Western Power Distribution (South West) plc	12.1
Western Power Distribution (South Wales) plc	17.3
EDF Energy Networks (LPN) plc	22.7
EDF Energy Networks (SPN) plc	20.4
EDF Energy Networks (EPN) plc	32.3
SP Distribution Ltd	22.9
SP Manweb plc	21.5
Scottish Hydro Electric Power Distribution plc	14.9
Southern Electric Power Distribution plc	30.8

CRC 13. Low Carbon Networks Fund

Introduction

- 13.1 This condition establishes arrangements, to be known as the Low Carbon Networks Fund, for determining the amount of the LCN term that applies in CRC 3 (Restriction of Distribution Charges: Use of System Charges) for the purposes of incentivising the development of low carbon networks, and also establishes arrangements for addressing other matters relating to the Low Carbon Networks Fund.
- 13.2 This condition shall come into effect on the day on which a direction given by the Authority to all Distribution Services Providers (“DSPs”) confirms either that the CRC 13 Clearance has been received or that the Authority has determined that such clearance is not required.

Part A: Funding mechanisms for Low Carbon Networks Fund functions

- 13.3 The following functions are to be discharged by the Low Carbon Networks Fund:
- (a) the funding of Eligible LCN Fund Projects through revenues contributed through the licensee’s Use of System Charges (“the First Tier Funding Mechanism”) in accordance with Part B below and the LCN Fund Governance Document; and
 - (b) the funding of Eligible LCN Fund Projects and awards through revenues contributed through the Use of System Charges of all DSPs (“the Second Tier and Discretionary Funding Mechanism”) in accordance with Part C below and the LCN Fund Governance Document.
- 13.4 The amount of the LCN term that is to be incorporated into the Combined Allowed Distribution Network Revenue in accordance with the provisions of CRC 3 in respect of any Regulatory Year comprises the total of the allowed revenues of the licensee recovered from Use of System Charges under each particular funding mechanism in that year.
- 13.5 Accordingly, for the purposes of Part B of CRC 3, which provides for the calculation of the licensee’s Combined Allowed Distribution Network Revenue, the amount of the LCN adjustment in Regulatory Year t is derived from the following formula (in this condition, the “LCN t Formula”):

$$LCN_t = LCN1_t + LCN2_t - LCN3_t$$

where:

- (a) LCN1 t is an amount determined under the First Tier Funding Mechanism in accordance with Part B below and the LCN Fund Governance Document;

- (b) LCN2t is an amount determined under the Second Tier and Discretionary Funding Mechanism in accordance with Part C below and the LCN Fund Governance Document; and
- (c) LCN3t is an amount recovered by the licensee in relation to Regulatory Year t or a previous Regulatory Year under the First Tier Funding Mechanism that the Authority has determined, in accordance with the provisions set out in the LCN Fund Governance Document, to be unrecoverable.

Part B: The First Tier Funding Mechanism

- 13.6 For the purposes of the LCNt Formula, the amount of LCN1t is the Allowable First Tier Expenditure incurred by the licensee in the Regulatory Year t in respect of Eligible LCN Fund Projects under the First Tier Funding Mechanism, as calculated by the licensee in accordance with the LCN Fund Governance Document and reported to the Authority in accordance with the LCN Fund RIGs established under standard condition 44C of this licence (Low Carbon Networks Fund reporting).
- 13.7 The Allowable First Tier Expenditure (in respect of LCN1t) incurred by the licensee in accordance with the LCN Fund Governance Document will be subject, in aggregate, to the overall limit determined for such projects by the licensee's First Tier LCN Allowance.
- 13.8 The licensee's First Tier LCN Allowance is the amount set against the name of the licensee in the table attached as Appendix 1 (which is part of this condition).
- 13.9 Eligibility, assessment, implementation, and other relevant matters relating to Eligible LCN Fund Projects under the First Tier Funding Mechanism are provided for in or pursuant to the LCN Fund Governance Document issued by the Authority under Parts E and F below.

Part C: The Second Tier and Discretionary Funding Mechanism

- 13.10 The Second Tier and Discretionary Funding Mechanism relates to the recovery by, and apportionment between, the licensee and other DSPs of:
 - (a) Second Tier Funding;
 - (b) Discretionary Funding;
 - (c) Halted Project Revenues; and
 - (d) Disallowed Expenditure.
- 13.11 Second Tier Funding is the aggregate (for the licensee and all other DSPs) of all the Approved Amounts.
- 13.12 Discretionary Funding is the aggregate (for the licensee and all other DSPs) of the additional funding awarded by the Authority, on a discretionary basis in accordance with the LCN Fund Governance Document, in respect of Eligible LCN Fund Projects.

- 13.13 Halted Project Revenues are revenues received (whether by the licensee or another DSP) under the Second Tier and Discretionary Funding Mechanism in respect of an Eligible LCN Fund Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that Eligible LCN Fund Project to be halted in accordance with the provisions of the LCN Fund Governance Document or those of the relevant Project Direction.
- 13.14 Disallowed Expenditure is revenue received (whether by the licensee or another DSP) under the Second Tier and Discretionary Funding Mechanism that the Authority determines not to have been spent in accordance with the provisions of the LCN Fund Governance Document or those of the relevant Project Direction.
- 13.15 For the purposes of the LCN_t Formula, LCN_{2t} is to be the amount specified for Regulatory Year t to be recovered by each DSP as determined by the Authority under paragraph 13.16 in relation to:
- (a) the Second Tier Funding specified for Regulatory Year t;
 - (b) any Discretionary Funding specified for Regulatory Year t;
 - (c) any Halted Project Revenues specified for Regulatory Year t; and
 - (d) any Disallowed Expenditure specified for Regulatory Year t.
- 13.16 In each Regulatory Year t, as provided for by the LCN Fund Governance Document, the Authority must calculate and, by direction given to all of the DSPs, specify in accordance with the appropriate provisions set out in the LCN Fund Governance Document:
- (a) the value for LCN_{2t} for each DSP (being the amount to be recovered by each DSP through Use of System Charges in order to contribute to its own or another DSP's Second Tier Funding and Discretionary Funding for that Regulatory Year); and
 - (b) the net amounts to be transferred between DSPs in order to ensure that each DSP receives an amount (if any) equal to the proportion of the Second Tier Funding and Discretionary Funding for that Regulatory Year that is attributable to the licensee's Eligible LCN Fund Projects (adjusted to take into account any Halted Project Revenue and Disallowed Expenditure); and
 - (c) the manner in which and the timescale over which the net amounts referred to in paragraph (b) above are to be transferred.
- 13.17 The licensee must comply with any direction issued by the Authority under paragraph 13.16 above.
- 13.18 Eligibility, assessment, implementation, and other relevant matters relating to Eligible LCN Fund Projects under the Second Tier and Discretionary Funding Mechanism are provided for in or pursuant to the LCN Fund Governance Document issued by the Authority under Parts E and F below.

Part D: Unrecoverable expenditure

- 13.19 For the purposes of the LCN_t Formula, the amount of LCN_{3t} is an amount recovered by the licensee in relation to Regulatory Year t or a previous Regulatory

Year under the First Tier Funding Mechanism that the Authority has determined, in accordance with the provisions set out in the LCN Fund Governance Document, to be unrecoverable.

- 13.20 In any Regulatory Year t , the Authority may set, by direction given to the licensee, an amount for $LCN3t$ that will reduce the licensee's Combined Allowed Distribution Network Revenue by the amount that the Authority has determined to be unrecoverable.

Part E: The LCN Fund Governance Document

- 13.21 The Authority must issue, and may from time to time revise, a document, to be known as the LCN Fund Governance Document, for purposes connected with the regulation, governance, and administration of the Low Carbon Networks Fund.
- 13.22 The LCN Fund Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
- (a) the eligibility criteria to be applied by and information to be provided to the Authority in relation to the assessment and approval of Eligible LCN Fund Projects;
 - (b) the criteria against which the funding of such projects will be assessed and approved (where necessary);
 - (c) the process and procedures that will be in place for the assessment, approval and financing of such projects' funding (where necessary);
 - (d) the arrangements for ensuring that relevant matters learnt from the implementation of Eligible LCN Fund Projects can be captured and disseminated;
 - (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the LCN Fund Governance Document);
 - (f) calculation of $LCN1t$ and related values or amounts (including but not limited to Allowable First Tier Expenditure) as specified in this condition or the LCN Fund Governance Document;
 - (g) arrangements relating to intellectual property rights in respect of Eligible LCN Fund Projects; and
 - (h) any other matters related to the regulation, governance, or administration of the Low Carbon Networks Fund.
- 13.23 The licensee must comply with the applicable provisions of the LCN Fund Governance Document as if it formed part of this condition.

Part F: Procedure for issuing the LCN Fund Governance Document

- 13.24 Before issuing the LCN Fund Governance Document under this condition, the Authority, by Notice given to all Electricity Distributors, 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.
- 13.25 The Authority must consider any representations or objections that are duly made (within 28 days of the date of the Notice) and not withdrawn.
- 13.26 The requirements of paragraphs 13.24 and 13.25 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
- 13.27 In paragraph 13.24, “issuing the LCN Fund Governance Document” includes issuing any revision of it and the procedure provided for at paragraph 13.24 shall apply to any such revision.

Part G: Interpretation

13.28 For the purposes of this condition:

Allowable First Tier Expenditure	has the meaning given in Part B of this condition.
Approved Amount	means an amount approved by the Authority in relation to a claim submitted by a DSP to receive funding for an Eligible LCN Fund Project under the Second Tier and Discretionary Funding Mechanism, where such claim complies in all respects with such requirements as are imposed by the LCN Fund Governance Document in respect of such claims.
CRC 13 Clearance	means the State Aid clearance granted by the European Commission in relation to this condition.
Disallowed Expenditure	has the meaning given in paragraph 13.14 of this condition.
Discretionary Funding	has the meaning given in paragraph 13.12 of this condition.
DSPs	has the meaning given in paragraph 13.2 of this condition.

Eligible LCN Fund Project	means a project undertaken by a DSP 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 and Discretionary Funding Mechanism.
First Tier Funding Mechanism	has the meaning given in paragraph 13.3(a) of this condition.
First Tier LCN Allowance	has the meaning given in paragraph 13.8 of this condition.
Halted Project Revenues	has the meaning given in paragraph 13.13 of this condition.
LCN Fund Governance Document	means the document issued by the Authority under Part E of this condition relating to the Low Carbon Networks Fund, including matters relating to the First Tier Funding Mechanism, the Second Tier and Discretionary Funding Mechanism and related matters, subject to the requirements of Part F.
LCNt Formula	has the meaning given in paragraph 13.5 of this condition.
Project Direction	means a direction issued by the Authority pursuant to the LCN Fund Governance Document setting out the terms to be followed in relation to the Eligible LCN Fund Project as a condition of its being funded pursuant to the Second Tier and Discretionary Funding Mechanism.
Second Tier and Discretionary Funding Mechanism	has the meaning given in paragraph 13.3(b) of this condition.
Second Tier Funding	has the meaning given in paragraph 13.11 of this condition.

APPENDIX 1

First Tier LCN Allowance

(see Part B of this condition)

Licensee	Annual allowance (£m, nominal prices)
Central Networks West plc	1.4
Central Networks East plc	1.4
Electricity North West Ltd	1.3
Northern Electric Distribution Ltd	0.9
Yorkshire Electricity Distribution plc	1.2
Western Power Distribution (South Wales) plc	0.6
Western Power Distribution (South West) plc	0.8
EDF Energy Networks (LPN) plc	1.2
EDF Energy Networks (SPN) plc	1.2
EDF Energy Networks (EPN) plc	1.9
SP Distribution Ltd	1.1
SP Manweb plc	0.8
Scottish Hydro Electric Power Distribution plc	0.4
Southern Electric Power Distribution plc	1.6

CHAPTER 5
Conditions 14 to 18:
Supplementary and other matters

CRC 14. Distribution Charges: supplementary restrictions

Introduction

- 14.1 The purpose of this condition is to impose in respect of the Use of System Charges levied by the licensee certain supplementary restrictions relating to:
- (a) the interest rate adjustments to be applied by the licensee to over and under recoveries of revenue; and
 - (b) the level of the increases that may be applied to the licensee's Use of System Charges.

Part A: Interest adjustment for over and under recoveries of revenue

- 14.2 For the purposes of Part D of CRC 3 (Restriction of Distribution Charges: Use of System Charges), the value of the interest rate adjustment PR_t is to be treated as follows:
- (a) if, in respect of Regulatory Year $t-1$, Regulated Combined Distribution Network Revenue exceeds 103 per cent of Combined Allowed Distribution Network Revenue, PR_t must have the value of 3;
 - (b) if, in respect of Regulatory Year $t-1$, Regulated Combined Distribution Network Revenue is less than 97 per cent of Combined Allowed Distribution Network Revenue, PR_t must have the value of zero;
- and in all other cases:
- (c) PR_t must have the value of 1.5.

Part B: Treatment of charges in the event of over recovery

- 14.3 This paragraph applies if, in respect of any Regulatory Year, the licensee's Regulated Combined Distribution Network Revenue exceeds 105 per cent of its Combined Allowed Distribution Network Revenue.
- 14.4 Where paragraph 14.3 applies, the licensee:
- (a) must provide an explanation for that event in Writing to the Authority by 31 July following the end of the Regulatory Year in question; and
 - (b) must not increase its use of System Charges during the next following Regulatory Year except and to the extent that the Authority has consented to such an increase.

Part C: Treatment of charges in the event of under recovery

- 14.5 This paragraph applies if, in respect of each of two successive Regulatory Years, the licensee's Regulated Combined Distribution Network Revenue is less than 90 per cent of Combined Allowed Distribution Network Revenue.

- 14.6 Where paragraph 14.5 applies, the Authority, after consultation with the licensee, may by Notice to the licensee specify the value of the term RDt-1 to be used for the purposes of calculating the licensee's correction factor term (Kt) under Part D of CRC 3 in respect of the next Regulatory Year, subject to paragraph 14.7.
- 14.7 The value specified by the Authority for RDt-1 under paragraph 14.6 may not be lower than the original value for RDt-1 or higher than 90 per cent of the value of the ARt-1 term to be used in the calculation to which that paragraph refers.

CRC 15. Services treated as Excluded Services

Introduction

- 15.1 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.
- 15.2 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

- 15.3 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.
- 15.4 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.
- 15.5 Part C provides for the Authority to give directions in respect of Excluded Services.

Part A: Statement of General Principle

- 15.6 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 15.7.
- 15.7 The charges referred to in paragraph 15.6 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

- 15.8 Appendix 1 (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.
- 15.9 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 CRC 12 (Licensee's Connection Activities: Margins and the development of competition).
- 15.10 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

- 15.11 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.
- 15.12 Where a direction is given under paragraph 15.11, 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

- 15.13 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 (including any necessary reinforcement works or diversionary works) for the purposes of providing, installing, operating, repairing, or maintaining 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 15.7).
- ES2. **Diversionary 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 15.7 or under any other charge for an Excluded Service.

CRC 16. Charging outside the Distribution Services Area

Introduction

- 16.1 The requirements imposed by this condition apply only in relation to the Demand Use of System Charges levied by the licensee in respect of its Distribution Business activities outside its Distribution Services Area (“Out of Area Charges”).
- 16.2 The licensee must make, and continue to make, Out of Area Charges available, in accordance with the requirements of this condition, for the provision of Use of System to any Authorised supplier of electricity that uses or wishes to use the licensee’s Distribution System to supply electricity to Domestic Customers at Domestic Premises outside the licensee’s Distribution Services Area.

Part A: Setting and restriction of Out of Area Charges

- 16.3 The licensee’s Out of Area Charges in relation to Domestic Customers may vary according to the Distribution Services Area of the Electricity Distributor within which Domestic Premises are connected to the licensee’s Distribution System.
- 16.4 The licensee must set those Out of Area Charges so that, except with the Authority’s consent, the standing charge, unit rate, and any other component of the charges does not exceed the Use of System Charges to equivalent Domestic Customers (“the equivalent charges”).
- 16.5 For the purposes of paragraph 16.4, equivalent charges are the Use of System Charges made by the Electricity Distributor which has a Distribution Services Direction that specifies the Distribution Services Area in which the Domestic Premises connected to the licensee’s Distribution System are located.
- 16.6 The Authority may give the licensee a direction that specifies which of the Use of System Charges made by the Distribution Services Provider for the Distribution Services Area mentioned in paragraph 16.5 are relevant for the purposes of determining the equivalent charges.

Part B: Procedure for disapplying this condition

- 16.7 The charging arrangements set out above will remain in force until such time and in such circumstances as are described in paragraphs 16.8 to 16.14.
- 16.8 The licensee may ask the Authority to consent to the disapplication of this condition (in whole or in part) by giving it a disapplication request made in accordance with paragraph 16.9.
- 16.9 A disapplication request must:
- (a) be in Writing addressed to the Authority;
 - (b) specify the paragraph or paragraphs of this condition to which the request relates; and
 - (c) state the date that is proposed by the licensee (which must not be earlier than the date specified in paragraph 16.10) on and after which the specified paragraph or paragraphs would no longer have effect (“the disapplication date”).

16.10 Except with the Authority's consent, no disapplication of this condition following its receipt of a disapplication request under paragraph 16.8 may have effect until whichever is the later of:

- (a) a date not less than 18 months after delivery of the disapplication request; and
- (b) 31 March 2012.

16.11 The licensee may withdraw a disapplication request at any time.

Part C: Licensee's right to disapply this condition

16.12 If the licensee has given the Authority a disapplication request under paragraph 16.8, it may subsequently give the Authority a Notice that terminates the application of this condition or the part or parts of it specified in the request:

- (a) in the circumstances described in paragraph 16.13, with effect from either the disapplication date or such earlier date to which the Authority has given its consent under paragraph 16.10; or
- (b) in the circumstances described in paragraph 16.14, with effect from the disapplication date, so long as the licensee gives Notice within 30 days after the publication of the report mentioned in that paragraph.

16.13 The circumstances described in this paragraph are that:

- (a) the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of this condition as specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date; and
- (b) the licensee has not withdrawn its request.

16.14 The circumstances described in this paragraph are that:

- (a) the Competition Commission has made a report on a reference made by the Authority relating to the modification of this condition as specified in the licensee's disapplication request; and
- (b) the Commission's report does not conclude that the termination of the charging arrangements in this condition, in whole or in part, would operate or might be expected to operate against the public interest.

CRC 17. Assistance for high-cost distribution areas

Introduction

- 17.1 This condition sets out the obligations of the licensee, if it is a Relevant Distributor in the Specified Area, in relation to any annual payments received by it from the GB System Operator for the purpose of providing assistance with the high costs of distributing electricity incurred by the licensee in that area.
- 17.2 The payments to which paragraph 17.1 refers are payments made pursuant to the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005 (“the Assistance Order”) and in accordance with standard condition C22 of the GB System Operator’s Transmission Licence.

Part A: Application of payments

- 17.3 The licensee must apply the benefit of any annual payment received by it under paragraph 17.1 so as to reduce its Use of System Charges to Specified Suppliers a manner that does not unduly discriminate between them and does not show undue preference to any Affiliate or Related Undertaking of the licensee.
- 17.4 In particular, the licensee must allocate the benefit of any such payment so as to ensure that the level of the benefit received by a Specified Supplier is directly proportionate to the expected level of demand attributable to the requirements of those (and only those) of that supplier’s customers who will be located in the Specified Area in the forthcoming year of demand.
- 17.5 When deciding the level of the benefit to be allocated to a Specified Supplier under paragraph 17.4, the licensee must apply the same or equivalent factors that it applies when considering the level of the benefit to be allocated to any Affiliate or Related Undertaking of the licensee.

Part B: Provision of Information

- 17.6 The licensee must give the Authority any Information that the Authority reasonably requires for the purpose of establishing whether the licensee is or has been in compliance with its obligations under this condition.

Part C: Interpretation

- 17.7 In this condition:

Relevant Distributor	has the same meaning as in section 184 of the Energy Act 2004.
Specified Area	means the area described as such in the Assistance Order.
Specified Supplier	means an Electricity Supplier who takes electricity from the GB Transmission System and supplies it to Customers in the Specified Area.

CHAPTER 6
Conditions 18 to 20:
Arrangements for review of the conditions

CRC 18. Arrangements for the recovery of uncertain costs

Introduction

- 18.1 This condition enables the licensee to propose, and the Authority to determine, such adjustments to the Charge Restriction Conditions (“relevant adjustments”) as are necessary to enable the licensee to recover the following categories of costs insofar as they are efficiently incurred:
- (a) Specific Security Expenditure Items;
 - (b) RLM System Costs;
 - (c) TMA Permitting Costs;
 - (d) High-Value Project Costs; and
 - (e) Load-Related Costs.
- 18.2 This condition provides for the licensee to propose relevant adjustments only during certain periods (“application windows”) specified below.
- 18.3 This condition also allows the Authority in certain circumstances to review the RLM System Costs incurred, or likely to be incurred, by the licensee and, if appropriate, to direct that an adjustment be made in respect of them.

Part A: Licensee’s ability to propose a relevant adjustment

- 18.4 The licensee may by Notice to the Authority, and in accordance with Parts B and C below, propose a relevant adjustment to the Charge Restriction Conditions in relation to any of the categories of costs listed in paragraph 18.1 where the costs within that particular category are relevant costs and constitute a material amount for the purposes of this Part A.
- 18.5 The relevant costs are:
- (a) in the case of each of RLM System Costs, Specific Security Expenditure Items and TMA Permitting Costs, the efficient costs incurred or likely to be incurred by the licensee; and
 - (b) in the case of each of High-Value Project Costs and Load-Related Costs, the efficient costs incurred or likely to be incurred by the licensee in excess of the Authority’s baseline for that particular category of costs as set out in Appendix 1 to this condition.
- 18.6 A material amount is:
- (a) in the case of each of RLM System Costs and Specific Security Expenditure Items, the amount of relevant costs, when multiplied by the IQI Incentive Rate, that exceeds or is likely to exceed 1 per cent of Base Demand Revenue for the Regulatory Year beginning on 1 April 2010 as determined in accordance with Part C of CRC 3 (Restriction of Distribution Charges: Use of System Charges);

- (b) in the case of TMA Permitting Costs, the amount of relevant costs, following the application of the IQI Incentive Rate to:
 - (i) any additional administrative costs arising from the introduction of permit schemes; and
 - (ii) any additional costs arising from the introduction of permit conditionswithin those relevant costs, that exceeds or is likely to exceed 1 per cent of Base Demand Revenue for the Regulatory Year beginning on 1 April 2010 as determined in accordance with Part C of CRC 3 (Restriction of Distribution Charges: Use of System Charges); and
- (c) in the case of each of High-Value Project Costs and Load-Related Costs, the amount of relevant costs in excess of 20 per cent of the Authority's baseline for that particular category of costs which, when multiplied by the IQI Incentive Rate, exceeds or is likely to exceed 1 per cent of Base Demand Revenue for the Regulatory Year beginning on 1 April 2010 as determined in accordance with Part C of CRC 3 (Restriction of Distribution Charges: Use of System Charges).

18.7 A relevant adjustment:

- (a) is one which the licensee believes would have the effect of enabling it to recover any of those relevant costs which would not otherwise be recoverable under the Charge Restriction Conditions; and
- (b) may concern relevant costs that the licensee has incurred, or is likely to incur, after 1 April 2010.

Part B: Application windows for relevant adjustments

18.8 There are two application windows during which a licensee may propose a relevant adjustment:

- (a) the first application window opens on 1 July 2012 and closes on 31 July 2012; and
- (b) the second application window opens on 1 January 2013 and closes on 31 January 2013.

18.9 If a relevant adjustment concerns Specific Security Expenditure Items, RLM System Costs or TMA Permitting Costs it must be proposed by the licensee during the first application window.

18.10 If a relevant adjustment concerns High-Value Project Costs or Load-Related Costs it must be proposed by the licensee during the second application window.

18.11 A relevant adjustment proposed by a licensee outside the appropriate application window as set out in paragraphs 18.8 to 18.10 will not be determined by the Authority under the process provided for in this condition.

Part C: Other provisions relating to the licensee's proposal

18.12 A Notice served by the licensee under Part A above must in all cases:

- (a) state the obligations or requirements to which the Notice relates;
- (b) set out by reference to each category of costs the basis on which the licensee has calculated the relevant adjustment; and
- (c) state the date from which the licensee wishes the Authority to agree that the relevant adjustment will have effect (“the adjustment date”).

18.13 The adjustment date must not be a date earlier than:

- (a) 1 April 2013 in the case of a relevant adjustment proposed during the first application window; and
- (b) 1 October 2013 in the case of a relevant adjustment proposed during the second application window.

18.14 The relevant adjustment proposed in the licensee's Notice must be demonstrated to be a material amount for the purposes of each category of costs to which the Notice refers.

Part D: Authority's determination of the relevant adjustment

18.15 Where the licensee serves a Notice under Part A, the Authority may, within four months of the close of the appropriate application window, determine the relevant adjustment to the Charge Restriction Conditions in such manner as it considers appropriate, subject to paragraph 18.16.

18.16 In determining the relevant adjustment under this Part D, the Authority must:

- (a) consult with the licensee;
- (b) have particular regard to the purposes of this condition; and
- (c) take no account of the financial performance of the licensee relative to any of the assumptions, whether express or implied, by reference to which the Charge Restriction Conditions may have been framed.

18.17 The provisions of Part E below are also relevant to the Authority's use of its power of determination under this Part D.

Part E: Other provisions relating to the power of determination

- 18.18 The power of the Authority to determine a relevant adjustment under Part D is a power to confirm, reject or vary the relevant adjustment proposed by the licensee.
- 18.19 Without prejudice to paragraph 18.18, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely to be incurred by the licensee in subsequent Regulatory Years within the category of costs to which the relevant adjustment relates.

Part F: Licensee's right to make a relevant adjustment

- 18.20 If the Authority has not determined the relevant adjustment proposed by the licensee within four months of the close of the appropriate application window, and that Notice has not been withdrawn, the licensee may give Notice to the Authority that the relevant adjustment will take effect from the adjustment date for all relevant purposes under the Charge Restriction Conditions.

Part G: RLM System Costs

- 18.21 At the close of the first application window the Authority will review the RLM System Costs of the licensee if the licensee has incurred such costs in the period since 1 April 2010 or if the Authority's baseline for this particular category of costs includes an amount for the licensee (as reflected in Appendix 2 to this condition).
- 18.22 Subject to the conclusion of that review, the Authority may direct that an adjustment be made in respect of any RLM System Costs incurred, or likely to be incurred, by the licensee during any Regulatory Year.
- 18.23 If the Authority conducts a review under this Part G, it will not determine any relevant adjustment proposed by a licensee under Part A insofar as that relevant adjustment relates to RLM System Costs.

Part H: Treatment of an adjustment or relevant adjustment

- 18.24 The amount of the term UN_Ct for the purposes of the calculations for which CRC 4 (Restriction of Distribution Charges: calculation of Allowed Pass-Through Items) makes provision is the total amount of:
- (a) any relevant adjustment or adjustments in respect of any Regulatory Year t, whether determined by the Authority under Part D or made by the licensee under Part F of this condition; and
 - (b) any adjustment in respect of any Regulatory Year t that may be directed by the Authority under Part G of this condition.

Part I: Interpretation

18.25 For the purposes of this condition, the following definitions apply:

Black Start Capability Costs	means costs that have been incurred by the licensee to meet black start capability requirements and associated emergency battery requirements.
CNI Costs	means costs that have been incurred by the licensee in relation to security enhancements to any of the licensee's sites that are vital to the normal operation of the licensee's Distribution System, taking account of Home Office and MI5 guidance on the protection of critical national infrastructure.
High-Value Project Costs	are costs that have been incurred by the licensee in relation to large investment projects with a value in excess of £15 million in respect of which an amount has been included for the licensee in the Authority's baseline for that particular category of costs (as reflected in Appendix 2 to this condition).
IQI Incentive Rate	means the incentive rate set out in Chapter 8 of the Authority's decision document published on 7 December 2009 under reference 146/09 and reflected in Appendix 1 to this condition.
Load-Related Costs	means costs incurred by the licensee in connecting new system assets to its Distribution System because of: <ul style="list-style-type: none">(a) a new high-voltage or extra-high voltage connection or system reinforcement associated with shared-asset connections or both; and(b) general reinforcement of the licensee's Distribution System, but exclude High-Value Project Costs.
RLM System Costs	means the costs incurred by the licensee in inspecting, maintaining or replacing rising and lateral electrical mains systems (being cables or busbars that connect to the intake terminals in a multiple occupancy building within the licensee's Distribution Services Area).

Specific Security Expenditure Items refers to the combination of Black Start Capability Costs and CNI Costs.

TMA Permitting Costs are the costs incurred by the licensee in complying with obligations or requirements arising under any order or regulations made under Part 3 of the Traffic Management Act 2004 (or, in Scotland, the Transport (Scotland) Act 2005) that impose a permit scheme and comprise:

- (a) permit fee costs;
- (b) one-off set-up costs;
- (c) additional administrative costs arising from the introduction of permit schemes; and
- (d) additional costs arising from the introduction of permit conditions,

as described in Chapter 7 of the Authority's decision document published on 7 December 2009 under reference 146/09.

18.26 Expressions defined in paragraph 18.25 above are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under standard condition 48 of this licence in relation to the reporting of Price Control Cost Information.

18.27 Appendices 1 and 2 follow immediately below.

APPENDIX 1

IQI Incentive Rate

(see paragraph 18.25 of this condition)

Licensee	Incentive rate
Central Networks West plc	47%
Central Networks East plc	47%
Electricity North West Ltd	45%
Northern Electric Distribution Ltd	48%
Yorkshire Electricity Distribution plc	48%
Western Power Distribution (South Wales) plc	51%
Western Power Distribution (South West) plc	51%
EDF Energy Networks (LPN) plc	45%
EDF Energy Networks (SPN) plc	45%
EDF Energy Networks (EPN) plc	45%
SP Distribution Ltd	45%
SP Manweb plc	45%
Scottish Hydro Electric Power Distribution plc	49%
Southern Electric Power Distribution plc	49%

APPENDIX 2

Authority Baseline for High-Value Projects, Load-Related Costs and RLM Costs

High-Value Projects

(see paragraph 18.5(b) of this condition)

Licensee	£m (2007-08 prices)
Central Networks West plc	0.0
Central Networks East plc	70.2
Electricity North West Ltd	39.1
Northern Electric Distribution Ltd	0.0
Yorkshire Electricity Distribution plc	27.3
Western Power Distribution (South Wales) plc	0.0
Western Power Distribution (South West) plc	0.0
EDF Energy Networks (LPN) plc	129.8
EDF Energy Networks (SPN) plc	52.9
EDF Energy Networks (EPN) plc	142.7
SP Distribution Ltd	0.0
SP Manweb plc	25.3
Scottish Hydro Electric Power Distribution plc	0.0
Southern Electric Power Distribution plc	82.4

Load-Related Costs

(see paragraph 18.5(b) of this condition)

Licensee	£m (2007-08 prices)
Central Networks West plc	150.0
Central Networks East plc	169.0
Electricity North West Ltd	89.1
Northern Electric Distribution Ltd	56.9
Yorkshire Electricity Distribution plc	48.6
Western Power Distribution (South Wales) plc	21.3
Western Power Distribution (South West) plc	25.7
EDF Energy Networks (LPN) plc	109.7
EDF Energy Networks (SPN) plc	126.0
EDF Energy Networks (EPN) plc	174.8
SP Distribution Ltd	72.9
SP Manweb plc	99.3
Scottish Hydro Electric Power Distribution plc	28.7
Southern Electric Power Distribution plc	138.5

RLM System Costs

(see paragraph 18.21 of this condition)

Licensee	£m (2007-08 prices)
Central Networks West plc	0.0
Central Networks East plc	0.0
Electricity North West Ltd	0.0
Northern Electric Distribution Ltd	1.6
Yorkshire Electricity Distribution plc	2.4
Western Power Distribution (South Wales) plc	0.0
Western Power Distribution (South West) plc	0.0
EDF Energy Networks (LPN) plc	0.0
EDF Energy Networks (SPN) plc	0.0
EDF Energy Networks (EPN) plc	0.0
SP Distribution Ltd	12.4
SP Manweb plc	7.0
Scottish Hydro Electric Power Distribution plc	0.6
Southern Electric Power Distribution plc	2.0

CRC 18A. Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland

Introduction

- 18A.1 This condition requires the licensee to propose an integrated plan to manage supply and demand on Shetland (“the Integrated Plan for Shetland”).
- 18A.2 This condition also requires the licensee to propose an incentive mechanism to accompany the Integrated Plan for Shetland.
- 18A.3 This condition enables the licensee, when proposing the Integrated Plan for Shetland and the incentive mechanism, also to propose, and the Authority to determine, such adjustments to the Charge Restriction Conditions as are necessary to enable the licensee to recover its Shetland Integrated Plan Costs.
- 18A.4 This condition allows the Authority to review the Shetland Integrated Plan Costs incurred, or likely to be incurred, by the licensee and, if appropriate, to direct that an adjustment be made in respect of them.
- 18A.5 This condition also allows the Authority to seek a competitive tender to manage supply and demand on Shetland if the licensee does not propose the Integrated Plan for Shetland within the timeframe set out in paragraph 18A.7 below.

Part A: Shetland Integrated Plan Costs

- 18A.6 For the purposes of this condition, Shetland Integrated Plan Costs:
- (a) are costs that are incurred, or likely to be incurred, reasonably and efficiently by the licensee in the delivery and management of the Integrated Plan for Shetland; and
 - (b) are not otherwise recoverable by the licensee under or pursuant to any of the Charge Restriction Conditions of this licence.

Part B: Licensee’s ability to propose a relevant adjustment

- 18A.7 The licensee must present the Integrated Plan for Shetland to the Authority by 31 January 2013.
- 18A.8 When presenting the Integrated Plan for Shetland under paragraph 18A.7 above, the licensee, by Notice to the Authority, and in accordance with Part C below:
- (a) must propose a relevant incentive mechanism; and
 - (b) may also propose a relevant adjustment to the Charge Restriction Conditions,
- in respect of the Shetland Integrated Plan Costs.

18A.9 A relevant adjustment is one which the licensee believes would have the effect of enabling it to recover any of the Shetland Integrated Plan Costs that would otherwise not be recoverable under the Charge Restriction Conditions.

Part C: Other provisions relating to the licensee's proposal

18A.10 The Authority will not consider the Integrated Plan for Shetland or determine a relevant incentive mechanism if the Integrated Plan for Shetland and a relevant incentive mechanism are not both presented by the licensee by 31 January 2013 in accordance with Part B above.

18A.11 The Authority will not determine any relevant adjustment if it is not proposed together with the Integrated Plan for Shetland and the relevant incentive mechanism by the licensee by 31 January 2013 in accordance with Part B above.

18A.12 A Notice served by the licensee under Part B above must in all cases:

- (a) state the obligations or requirements to which the Notice relates;
- (b) set out by reference to each such obligation or requirement the basis on which the licensee has calculated the relevant adjustment;
- (c) state the date from which the licensee wishes the Authority to agree that the relevant adjustment will have effect (“the adjustment date”) which must not be a date earlier than 1 October 2013;
- (d) include the licensee’s Integrated Plan for Shetland; and
- (e) include a relevant incentive mechanism.

Part D: Authority’s determination of the incentive mechanism and any relevant adjustment

18A.13 Where the licensee serves a Notice under Part B, subject to Part C above, the Authority may, within four months of the close of the second application window set out in paragraph 8(b) of CRC 18 (Arrangements for the recovery of uncertain costs), determine the relevant incentive mechanism and any relevant adjustment (if one is proposed) to the Charge Restriction Conditions in such manner as it considers appropriate, subject to paragraph 18A.14.

18A.14 In determining the relevant incentive mechanism and any relevant adjustment under this Part D, the Authority must:

- (a) consult with the licensee;
- (b) have particular regard to the purposes of this condition; and
- (c) take no account of the financial performance of the licensee relative to any of the assumptions, whether express or implied, by reference to which the Charge Restriction Conditions may have been framed.

18A.15 The provisions of Part E below are also relevant to the Authority’s use of its power of determination under this Part D.

Part E: Other provisions relating to the power of determination

18A.16 The power of the Authority to determine a relevant incentive mechanism or a relevant adjustment under Part D is a power to confirm, reject or vary the relevant incentive mechanism proposed by the licensee and any relevant adjustment if one is proposed by the licensee.

18A.17 Without prejudice to paragraph 18A.16, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of Shetland Integrated Plan Costs likely to be incurred in subsequent Regulatory Years.

Part F: Licensee's right to implement a relevant incentive mechanism or make a relevant adjustment

18A.18 If the Authority has not determined the relevant incentive mechanism and (if applicable) relevant adjustment proposed by the licensee within four months of the close of the second application window set out in paragraph 8(b) of CRC 19, and that Notice has not been withdrawn, the licensee may give Notice to the Authority that the relevant incentive mechanism and (if applicable) relevant adjustment will take effect from the adjustment date for all relevant purposes under the Charge Restriction Conditions.

Part G: Authority's discretion to initiate a review

18A.19 If a Notice is not served by the licensee in accordance with Parts B and C above, the Authority may initiate a review of the Shetland Integrated Plan Costs the licensee has incurred or is likely to incur.

18A.20 Subject to the conclusion of that review, the Authority may:

- (a) direct that an adjustment be made in respect of any Shetland Integrated Plan Costs incurred, or likely to be incurred, by the licensee during any Regulatory Year;
- (b) seek a competitive tender to manage supply and demand on Shetland; or
- (c) do both (a) and (b).

Part H: Treatment of a relevant adjustment

18A.21 The total amount of any relevant adjustment or adjustments in respect of any Regulatory Year t , whether determined by the Authority or made by the licensee under this condition, is to be treated (so far as it is possible to do so) as an adjustment to the amount of the term UNCT for the purposes of the calculations for which CRC4 (Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items) makes provision.

CRC 19. Duration of the Charge Restriction Conditions

Introduction

- 19.1 The purpose of this condition is to set out the process for a disapplication of the relevant CRCs in whole or in part.
- 19.2 In this condition, “the relevant CRCs” means any and all of the Charge Restriction Conditions except CRC 16 (Charging outside the Distribution Services Area), which is subject to a separate disapplication procedure that is set out in that condition.
- 19.3 Nothing in this condition overrides or limits the power of the Authority to modify any of the Conditions of this licence (including pursuant to a disapplication request received under this condition) at any time in accordance with the relevant provisions of the Act.

Part A: Categories of disapplication request

- 19.4 The licensee may ask the Authority to consent to the disapplication of the relevant Charge Restriction Conditions (in whole or in part) by giving the Authority a disapplication request under this condition.
- 19.5 A disapplication request may be a Metering Disapplication Request or a Special Disapplication Request.
- 19.6 A Metering Disapplication Request is a request for the disapplication of CRC 6 (Restriction of charges for the provision of Legacy Metering Equipment) or of any part or parts of that condition.
- 19.7 A Special Disapplication Request is a request for the disapplication of any of the other relevant CRCs or of any part or parts of those conditions.

Part B: Conditions are to continue subject to disapplication

- 19.8 The relevant CRCs apply (subject to any modifications) for as long as this licence continues in force, but will cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with this Part B and:
 - (a) the Authority agrees in Writing to the disapplication request; or
 - (b) the application of those CRCs (in whole or in part) is terminated by Notice given by the licensee in accordance with:
 - (i) Part D below in the case of a Metering Disapplication Request,
or
 - (ii) Part E below in the case of a Special Disapplication Request.
- 19.9 A disapplication request must:
 - (a) be in Writing addressed to the Authority;
 - (b) state whether it is a Metering Disapplication Request or a Special Disapplication Request;

- (c) specify those of the relevant CRCs (or any part or parts of them) to which the request relates; and
- (d) state the date that is proposed by the licensee (which must not be earlier than the appropriate date specified in Part C below) on and after which the specified relevant CRCs (or part or parts of them) would cease to have effect (“the disapplication date”).

19.10 A disapplication request or Notice served under this condition may be served in respect of a specified geographical area.

19.11 The licensee may withdraw a disapplication request at any time.

Part C: Earliest permitted disapplication dates

19.12 Except with the Authority’s consent, no disapplication following the delivery of a Metering Disapplication Request may have effect until whichever is the later of:

- (a) a date not less than three months after the delivery of the request; and
- (b) 1 July 2010.

19.13 Except with the Authority’s consent, no disapplication following the delivery of a Special Disapplication Request may have effect until whichever is the later of:

- (a) a date not less than six months after the delivery of the request; and
- (b) 1 April 2015.

Part D: Licensee’s rights under Metering Disapplication Request

19.14 If the licensee has given the Authority a Metering Disapplication Request that complies with the requirements of this condition, it may subsequently give the Authority a Notice that terminates the application of CRC 6 or the part or parts of it specified in the request:

- (a) in the circumstances described in paragraph 19.15, with effect from the disapplication (or any later) date (or from any earlier date to which the Authority may have consented under paragraph 19.11); or
- (b) in the circumstances described in paragraph 19.16, with effect from the disapplication (or any later) date, so long as the licensee gives Notice of the termination within 30 days after the publication of the report to which that paragraph refers.

19.15 The circumstances described in this paragraph are that the Authority has not done both of the following:

- (a) given Notice to the licensee within three months after receiving the disapplication request that it intends to make a reference to the Competition Commission under section 12 of the Act relating to the modification of CRC 6; and

(b) made such a reference within three months of giving that Notice.

19.16 The circumstances described in this paragraph are that:

- (a) the Competition Commission has made a report on a reference made by the Authority relating to the modification of CRC 6 (or of any part or parts of it) as specified in the Metering Disapplication Request; and
- (b) the Commission's report does not conclude that the termination of CRC 6, in whole or in part, would operate or might be expected to operate against the public interest.

Part E: Licensee's rights under Special Disapplication Request

19.17 If the licensee has given the Authority a Special Disapplication Request that complies with the requirements of this condition, it may subsequently give the Authority a Notice that terminates the application of the relevant CRCs or the part or parts of them specified in the request:

- (a) in the circumstances described in paragraph 19.18, with effect from the disapplication (or any later) date (or from any earlier date to which the Authority may have consented under paragraph 19.13); or
- (b) in the circumstances described in paragraph 19.20, with effect from the disapplication (or any later) date, so long as the licensee gives Notice of the termination within 30 days after the publication of the report to which that paragraph refers.

19.18 The circumstances described in this paragraph are that the Authority has not done both of the following:

- (a) given Notice to the licensee by the prescribed date (see paragraph 19.19 below) that it intends to make a reference to the Competition Commission under section 12 of the Act relating to the modification of the relevant CRCs; and
- (b) made such a reference with six months of giving that Notice.

19.19 The prescribed date for the purposes of paragraph 19.18 is the date that is the later of the ending of the period of three months after the Authority's receipt of the disapplication request and the beginning of the period of six months that ends with the disapplication date.

19.20 The circumstances described in this paragraph are that:

- (a) the Competition Commission has made a report on a reference made by the Authority relating to the modification of the relevant CRCs (or of any part or parts of them) as specified in the Special Disapplication Request; and
- (b) the Commission's report does not conclude that the termination of the relevant CRCs, in whole or in part, would operate or might be expected to operate against the public interest.