

**Supplementary Annex 1: Draft
CRC licence changes for SSEH's
Shetland Energy Costs**

DRAFT

Scottish and Southern Energy Power
Distribution: Scottish Hydro Electric
Power Distribution
Special conditions

DRAFT

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

CRC 2B. Calculation of Allowed Pass-Through Items

Introduction

2B.1

~~4.1~~—~~The purpose of~~ This condition ~~is to provide for~~~~sets out~~ the calculation of the amount of the term PT (the allowed pass-through term) that applies in CRC ~~3~~32A (Restriction of Allowed Distribution ~~Charges: Use of System Charges~~).

~~4.2~~—Network Revenue).

~~2B.1~~2B.2 The ~~effect of the application of the~~ allowed pass-through term in CRC ~~3~~is to ensure that the level of2A amends the licensee's ~~Combined~~ Allowed Distribution Network Revenue so as calculated in accordance with that condition reflects to allow certain costs ~~—that can be specified below to~~ be passed through to users of the licensee's Distribution System through Use of System Charges.

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

~~2B.2~~2B.3 ~~4.3~~—For the purposes of Part B of CRC 32A, 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):

$$PT_t = LF_t + RB_t + TB_t + SMC_t + SMIT_t + RF_t + SEC_t + UNC_t$$

~~2B.3~~2B.4 In the Principal Formula:

- LF_t means the licence fee adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part B of this condition.
- RB_t means the Business Rates adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part C of this condition.
- TB_t means the Transmission Connection Point Charges adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part D of this condition.
- SMC_t means the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part E of this condition.
- $SMIT_t$ means the Smart Meter Information Technology Costs adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part F of this condition.

Chapter 2: Electricity Distribution Revenue Restriction

RF_t means the Ring Fence Costs adjustment in Regulatory Year t , as derived in accordance with Part G of this condition.

SEC_t means the Shetland Energy Costs, in Regulatory Year t , as derived in accordance with CRC2P (Calculation of Shetland energy costs).

5

~~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.~~

$UNCT$ means an amount in Regulatory Year t representing a relevant adjustment to the calculation of Allowed Demand Revenue arising from the application of either CRC ~~3F18~~ (Arrangements for the recovery of uncertain costs) or CRC ~~18A-2Q~~ (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland).

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:~~

Chapter 2: Electricity Distribution Revenue Restriction

~~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).

~~2B.4~~ ~~2B.5~~ ~~LA_t~~ is the amount of the licence fee payments allowance, and is derived from the following formula (see also and subject to paragraph ~~4~~~~2B.7~~ below): ~~LF_t~~ is derived in accordance with the following formula:

$$LF_t = \left(\frac{LFA_{t-2}}{RPIA_{t-2}} - LFE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

~~2B.5~~ ~~2B.6~~ In the ~~above~~ formula for ~~the LA term above~~ ~~LF_t~~:

~~LFA_{t-2}~~ means the amount of licence fee payments, in Regulatory Year t-2, made by the licensee in accordance with its obligations under standard condition 5 (Licensee's payments to the Authority).

~~LFE_{t-2}~~ means the amount of the licence fee allowance, in Regulatory Year t-2, and is represented by the amount set out in Appendix 1 of this condition that applies to the licensee.

~~RPIA_{t-2}~~ has the value given to it by Part C of CRC 2A.

~~PVF_t~~ has the value given to it by Part C of CRC 2A.

~~RPIF_t~~ has the value given to it by Part C of CRC 2A.

~~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):

~~4.8~~ In the formula for ~~PIAB~~ above:

~~2B.6~~ ~~2B.7~~ ~~RPI_t~~ is as defined in Part A of CRC 2, and is determined in accordance with ~~Regulatory Years 2015/16 and 2016/17~~, ~~LF_t~~ will have the ~~method set out there~~ value of zero.

Part C: Calculation of the Business Rates adjustment (RB)

~~2B.7~~ ~~2B.8~~ ~~4.9~~ For the purposes of the Principal Formula, and subject to paragraphs ~~2B.10~~ and ~~2B.11~~, ~~RB_t~~ is ~~calculated~~ ~~derived~~ in accordance with the following formula:

Chapter 2: Electricity Distribution Revenue Restriction

$$4.10 \text{---} RB_t = \left(\frac{RBA_{t-2}}{RPIA_{t-2}} - RBE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

~~2B.8~~ 2B.9 In the above formula for ~~the RB term above:~~ RB_t:

RBA_{t-2} means the amount, in Regulatory Year t-2, paid by the licensee in respect of Business Rates.

RBE_{t-2} means the amount of the allowance in respect of Business Rates, in Regulatory Year t-2, and is represented by the amount set out in Appendix 2 of this condition that applies to the licensee.

RPIA_{t-2} has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

~~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):~~

~~2B.10~~ In the formula In Regulatory Years 2015/16 and 2016/17, RB_t will have the value of zero.

~~2B.11~~ In paragraphs 2B.12 and 2B.13, the relevant valuation agency in England and Wales is the Valuation Office Agency and in Scotland is the Scottish Assessors Association.

~~4.11~~ Paragraphs 2B.13 to 2B.16 apply if the relevant valuation agency revalues any of the licensee's assets for the RA term above:

~~2B.9~~ 2B.12 RV_t is the purposes of setting 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.~~

~~2B.13~~ If, after reviewing the licensee's engagement with the relevant valuation agency with respect to a particular revaluation, the Authority considers that the licensee has not used its reasonable endeavours to minimise the amount of the Business Rates to which it is liable, the Authority may, subject to paragraphs 2B.14 and 2B.15, by Notice to the licensee specify that any positive value for RB_t for one or more Regulatory Years derived under the formula set out in paragraph 2B.8 is to be changed to a different value.

Chapter 2: Electricity Distribution Revenue Restriction

2B.14 A Notice under paragraph 2B.13 is of no effect unless the Authority has first consulted with the licensee.

2B.15 A Notice under paragraph 2B.13:

(a) may not specify a different value for RB_t for the Regulatory Year following the Regulatory Year in which the revaluation took place or for any earlier Regulatory Year; and

(b) may not specify a different value for RB_t that is less than zero.

2B.16 At any time after giving a Notice under paragraph 2B.13, the Authority may by a further Notice to the licensee nullify the original Notice and its effects.

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:

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 the Transmission Connection Point Charges adjustment (TB)

2B.17 For the purposes of the Principal Formula, and subject to paragraph 2B.19, TB_t is derived in accordance with the following formula:

$$TB_t = \left(\frac{PTPA_{t-2}}{RPIA_{t-2}} - PTPE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.18 In the above formula for TB_t :

$PTPA_{t-2}$ means the amount of Pass-through Transmission Connection Point Charges incurred by the licensee in Regulatory Year $t-2$.

$PTPE_{t-2}$ means the amount of the Pass-through Transmission Connection Point Charges allowance in Regulatory Year $t-2$, and is represented by the amount set out in Appendix 3 of this condition that applies to the licensee.

$RPIA_{t-2}$ has the value given to it by Part C of CRC 2A.

Chapter 2: Electricity Distribution Revenue Restriction

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

2B.19 4.14—In the Regulatory Years 2015/16 and 2016/17, TB_t will have the value of zero.

Part E: Calculation of the Smart Meter Communication Licensee Costs adjustment (SMC)

2B.20 For the purposes of the Principal Formula, and subject to paragraph 2B.22, SMC_t is derived in accordance with the following formula:

$$SMC_t = \left(\frac{SMCA_{t-2}}{RPIA_{t-2}} - SMCE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.21 In the above formula for SMC_t:

SMCA_{t-2} means the amount of Smart Meter Communication Licensee Costs incurred by the licensee in Regulatory Year t-2.

SMCE_{t-2} means the amount of the Smart Meter Communication Licensee Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 4 of this condition that applies to the licensee.

RPIA_{t-2} has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

2B.22 In the Regulatory Years 2015/16, 2016/17, 2023/24 and 2024/25, SMC_t will have the value of zero.

Part F: Calculation of the Smart Meter Information Technology Costs adjustment (SMIT)

2B.23 For the purposes of the Principal Formula, and subject to paragraph 2B.25, SMIT_t is derived in accordance with the following formula:

$$SMIT_t = \left(\frac{SMIA_{t-2}}{RPIA_{t-2}} - SMIE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t + SMITR_t$$

2B.24 In the above formula for SMIT_t:

SMIA_{t-2} means the amount of Smart Meter Information Technology Costs incurred by the licensee in Regulatory Year t-2.

SMIE_{t-2} means the amount of the Smart Meter Information Technology Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 5 of this condition that applies to the

Chapter 2: Electricity Distribution Revenue Restriction

licensee.

$RPIA_{t-2}$ has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

$RPIF_t$ has the value given to it by Part C of CRC 2A.

$SMITR_t$ means the adjustment to Smart Meter Information Technology Costs for the licensee in Regulatory Year t as a result of the SMIT review.

2B.25 In the Regulatory Years 2015/16, 2016/17, 2023/24 and 2024/25, $SMIT_t$ will have the value of zero.

2B.26 In 2020/21, the Authority will commence a review (the “SMIT review”) of the information technology costs that the licensee has incurred or plans to incur, during the Price Control Period, to enable it to use smart metering data for the operation and maintenance of its Distribution System.

2B.27 The SMIT review will determine whether the costs incurred or planned are falling or capable of falling within the definition of Smart Meter Information Technology Costs.

2B.28 Before making the determination referred to in paragraph 2B.27, the Authority will consult with the licensee and any other party that the Authority considers appropriate.

2B.29 A determination under this Part may:

(c) set the value of $SMITR_t$ for any Regulatory Year, subject to paragraph 2B.30; and

(d) impose conditions with respect to the amounts and circumstances in which future costs may be passed through under the $SMIT_t$ term.

2B.30 In the Regulatory Years before 2021/22, $SMITR_t$ will have the value of zero.

Part G: Calculation of the Ring Fence Costs adjustment (RF)

2B.31 For the purposes of the Principal Formula, and subject to paragraph 2B.33, RF_t is derived in accordance with the following formula:

$$RF_t = \left(\frac{RFA_{t-2}}{RPIA_{t-2}} - RFE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.32 In the above formula for RF_t :

RFA_{t-2} means the amount of Ring Fence Costs incurred by the licensee in Regulatory Year t-2.

RFE_{t-2} means the amount of the Ring Fence Costs allowance in Regulatory

Chapter 2: Electricity Distribution Revenue Restriction

Year t-2, and is represented by the amount set out in Appendix 6 of this condition that applies to the licensee.

RPIA_{t-2} has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

~~2B.33~~ ~~TB~~ is calculated in the Regulatory Years 2015/16 and 2016/17, RF_t will have the value of zero.

Part H: Calculation of the Shetland Energy Costs (SEC)

~~2B.11~~ 2B.34 For the purposes of the Principal Formula, and subject to paragraph 2B.36, SEC_t is derived in accordance with the following formula:

$$4.15 \text{---} SEC_t = \left(\frac{SECA_{t-2}}{RPIA_{t-2}} - SECE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

~~2B.11~~ 2B.35 In the above formula for ~~the TB term above:~~ SEC_t:

SECA_{t-2} means the amount of Shetland Energy Costs incurred by the licensee in Regulatory Year t-2.

SECE_{t-2} means the amount of the Ring Fence Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 7 of this condition that applies to the licensee.

RPIA_{t-2} has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

~~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):~~

~~4.16 In the formula for the TA term above:~~

Chapter 2: Electricity Distribution Revenue Restriction

~~TV_t is the allowance in respect of the non-incentivised Transmission Connection Point Charges in 2007/08 prices, Regulatory Years 2015/16 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.~~

~~2B.12 2B.36 4.2016/17 Appendices 1 to 4 follow immediately below, SEC_t will have the value of zero.~~

Part I: Interpretation

2B.37 For the purposes of this condition:

Business Rates

means:

(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 (or any legislation amending or replacing those enactments); or

(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 (or any legislation amending or replacing those enactments).

Elective Communication Services

has the meaning given to that term in the Smart Energy Code.

Pass-through Transmission Connection Point Charges

means those elements of Transmission Connection Point Charges that do not qualify as New Transmission Capacity Charges.

Chapter 2: Electricity Distribution Revenue Restriction

Ring Fence Costs	<p>means the amount of the incremental costs necessarily incurred by the licensee in Regulatory Year t-2 as a direct result of complying with the additional regulatory requirements referred to in the Authority's letter dated 1 February 2013 entitled "Modifications to the ring fence conditions in network operator licences" and published on the Authority's Website, provided that those costs:</p> <p>(a) have been ascertained in accordance with the RIGs referred to in standard condition 46 (Regulatory Instructions and Guidance); and</p> <p>(b) have not been otherwise remunerated under any other provision of this licence.</p>
Smart Energy Code	<p>means the document of that name referred to in standard condition 21A (The Smart Energy Code), that is maintained for the purposes of that condition and is subject to modification pursuant to Condition 23 (Change control for Smart Energy Code), of the Smart Meter Communication Licence.</p>
Smart Meter Communication Licence	<p>means the licences granted under section 6(1A) of the Act and section 7AB(2) of the Gas Act 1986.</p>
Smart Meter Communication Licensee Costs	<p>means charges payable by the licensee (by virtue of the requirement for it to be a party to the Smart Energy Code) to the holder of the Smart Meter Communication Licence in accordance with section J of the Smart Energy Code, excluding any charges in respect of Elective Communication Services.</p>
Smart Meter Information Technology Costs	<p>means any information technology costs that the licensee reasonably incurs that are necessary to enable the licensee to use data from Smart Meters (within the meaning given to that term in Condition 1 of the Smart Meter Communication Licence) effectively for the efficient and economic operation, maintenance and development of its Distribution System, as further clarified in the RIGs.</p>
<u>Shetland Energy Costs</u>	<p><u>means the pass through items applicable to SEEH as defined in CRC2P.</u></p>

Chapter 2: Electricity Distribution Revenue Restriction

APPENDIX 1

Values for the **PFLFE** term (~~2007/08~~**(£m, 2012/13** prices) by licensee
(see ~~paragraph 4.7~~**Part B** of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	X	X	X	X	X	X	X	X

DRAFT

APPENDIX 2

Values for the **RVRBE** term (~~2007/08~~£m, 2012/13 prices) by licensee
(see [paragraph 4.14](#) **Part C** of this condition)

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	X	X	X	X	X	X	X	X

DRAFT

APPENDIX 3

Values for the PTPE term (£m, 2012/13 prices) by licensee
(see Part D of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	X	X	X	X	X	X	X	X

DRAFT

APPENDIX 4

Values for the SMCE term (£m, 2012/13 prices) by licensee
(see Part E of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	X	X	X	X	X	X	X	X

DRAFT

APPENDIX 5

Values for the SMIE term (£m, 2012/13 prices) by licensee
(see Part F of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	X	X	X	X	X	X	X	X

DRAFT

APPENDIX 6

Values for the RFE term (£m, 2012/13 prices) by licensee
(see Part G of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	X	X	X	X	X	X	X	X

DRAFT

APPENDIX 7

Values for the SEC term (£m, 2012/13 prices) by licensee
(see Part H of this condition)

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	<u>4.76</u>	<u>4.63</u>	<u>4.66</u>	<u>6.05</u>	=	-	-	-

DRAFT

CRC 2N. Assistance for high-cost distribution areas for SSEH

Introduction

- 2N.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.
- 2N.2 ~~17.2~~—The payments to which paragraph ~~17.2N.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

- 2N.3 ~~17.3~~—The licensee must apply the benefit of any annual payment received by it under paragraph ~~17.2N.1~~ so as to reduce its Use of System Charges to Specified Suppliers in a manner that does not unduly discriminate between them and does not show undue preference to any Affiliate or Related Undertaking of the licensee.
- 2N.4 ~~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.
- 2N.5 ~~17.5~~—When deciding the level of the benefit to be allocated to a Specified Supplier under paragraph ~~17.2N.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

- 2N.6 ~~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

- 2N.7 ~~17.7~~—~~In~~ For the purposes of 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.

Chapter 2: Electricity Distribution Revenue Restriction

Specified Supplier

means an Electricity Supplier who takes electricity from the GB Transmission System and supplies it to Customers in the Specified Area.

DRAFT

APPENDIX 3

Calculation of CRC 2P. Shetland balancing costs – Energy Costs Pass-Through Items

(see paragraph 4.13 of Introduction

This condition)

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

2P.1 ~~A3.2—For sets out the purposes of Part D of this condition, calculation of SEC (the amount of the Shetland Energy Costs term MPA is calculated) that applies in accordance with the following formula: CRC2B.~~

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

2P.2 ~~TPCt—means the amount representing the annual cost of contracts with It does not provide for the recovery of the following costs, allowances for which are provided in base revenue. The starting values of the fixed amount allowances are defined in CRC3F, Appendix 4:~~

~~costs related to third party generators for supplying Demand Customers in Shetland contracts for the Regulatory Year t.~~

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

~~Ept—means the cost of environmental permits in respect of generation on Shetland in Regulatory Year t.~~

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

~~SHBt—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:~~

~~_____~~

~~_____ 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).~~

- (a) ~~LPSCt—means Power Purchase Agreements (PPA) plus contingency costs (if applicable) plus the capital and operating cost allowance for LPS in Regulatory Year t, calculated as follows (see also paragraphs A3.4 and A3.5 below):~~ Lerwick Power Station (LPS); and

Chapter 2: Electricity Distribution Revenue Restriction

~~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:~~

~~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:~~

~~(b) _____ costs associated with the development of the Integrated Plan submitted in accordance with CRC2Q, and meeting the conditions of the Authority's decision under CRC2Q. This excludes uncertain costs related meeting the conditions of the Authority's decision under CRC2Q. This also excludes internal staff costs and costs of staff from related parties including affiliates and related undertakings of the licensee as defined in standard licence condition 1.~~

Part A: Calculation of Shetland Energy Costs (SEC)

2P.3 The amount of the term SEC is derived in accordance with the following formula (in this condition, the Principal Formula):

$$SEC_t = LPSF_t + EP_t - SH_t$$

where:

- LPSF_t means the amount representing the cost of fuel purchased for use by 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.

Chapter 2: Electricity Distribution Revenue Restriction

CRC 18A2Q. Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland

Introduction

- 18A2Q.1** This condition requires the licensee to propose a trial of innovative options ("the Shetland Trial") and an integrated plan (that is informed by the Shetland Trial) to manage the supply and demand of electricity on Shetland ("the Integrated Plan for Shetland").
- 18A2Q.2** This condition also requires the licensee to propose incentive mechanisms to accompany the Shetland Trial and the Integrated Plan for Shetland.
- 18A2Q.3** This condition enables the licensee, when proposing the Shetland Trial and the Integrated Plan for Shetland and the relevant incentive mechanisms, 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 Trial Costs and Shetland Integrated Plan Costs.
- 18A2Q.4** This condition allows the Authority to review the Shetland Trial Costs and 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.
- 18A2Q.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 2Q+8A.10 below.

Part A: Shetland Trial Costs and Shetland Integrated Plan Costs

- 18A2Q.6** For the purposes of this condition, Shetland Trial Costs and 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 Shetland Trial and 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 adjustments

- 18A2Q.7** The licensee must present the Shetland Trial to the Authority by 31 October 2011 (or such later date with the consent of the Authority).
- 18A2Q.8** When presenting the Shetland Trial under paragraph 2Q+8A.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) must also propose relevant adjustments to the Charge Restriction Conditions, in respect of the Shetland Trial Costs.

Chapter 2: Electricity Distribution Revenue Restriction

- | [18A2Q.9](#) A relevant adjustment is one which the licensee believes would have the effect of enabling it to recover any of the Shetland Trial Costs that would otherwise not be recoverable under the Charge Restriction Conditions.
- | [18A2Q.10](#) The licensee must present the Integrated Plan for Shetland to the Authority by 31 July 2013.
- | [18A2Q.11](#) When presenting the Integrated Plan for Shetland under paragraph [2Q18A.10](#) above, the licensee, by Notice to the Authority, and in accordance with Part C below:
- (a) must propose a relevant incentive mechanism; and
 - (b) must also propose relevant adjustments to the Charge Restriction Conditions, in respect of the Shetland Integrated Plan Costs.
- | [18A2Q.12](#) 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 proposals

- | [18A2Q.13](#) The Authority will not consider the Shetland Trial or determine a relevant incentive mechanism if the Shetland Trial and a relevant incentive mechanism are not both presented by the licensee by 31 October 2011 (or such later date with the consent of the Authority) in accordance with Part B above.
- | [18A2Q.14](#) 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 July 2013 in accordance with Part B above.
- | [18A2Q.15](#) The Authority will not determine any relevant adjustment if it is not proposed either:
- (a) together with the Shetland Trial and the relevant incentive mechanism by the licensee by 31 October 2011 (or such later date with the consent of the Authority) in accordance with Part B above; or
 - (b) together with the Integrated Plan for Shetland and the relevant incentive mechanism by the licensee by 31 July 2013 in accordance with Part B above.
- | [18A2Q.16](#) 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:
 - (i) 1 April 2012 for the Shetland Trial Costs; and
 - (ii) 1 April 2014 for the Shetland Integrated Plan Costs;

Chapter 2: Electricity Distribution Revenue Restriction

- (d) include the licensee's Shetland Trial or Integrated Plan for Shetland; and
- (e) include a relevant incentive mechanism.

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

18A2Q.17 Where the licensee serves a Notice under Part B, subject to Part C above, the Authority may, within one month for the Shetland Trial and within four months for the Integrated Plan determine the relevant incentive mechanism and any relevant adjustments to the Charge Restriction Conditions in such manner as it considers appropriate, subject to paragraphs **2Q18A.18** and **2Q18A.19**.

18A2Q.18 In determining the relevant incentive mechanism and any relevant adjustments under Part D, the Authority may determine conditions ("relevant conditions") that the licensee must fulfil when undertaking the Shetland Trial or the Integrated Plan for Scotland.

18A2Q.19 In determining the relevant incentive mechanism, any relevant adjustment and any relevant conditions 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.

18A2Q.20 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

18A2Q.21 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.

18A2Q.22 Without prejudice to paragraph 18A.21, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of Shetland Trial Costs or 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

18A2Q.23 If the Authority has not determined the relevant incentive mechanism and (if applicable) relevant adjustment proposed by the licensee within four months of the Integrated Plan submission date, 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.

Chapter 2: Electricity Distribution Revenue Restriction

Part G: Authority's discretion to initiate a review

[18A2Q.24](#) 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.

[18A2Q.25](#) 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

[18A2Q.26](#) 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 ~~CRC 2B (Calculation of Allowed Pass-Through Items) CRC4 (Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items)~~ makes provision.

CRC 483F. Arrangements for the recovery of uncertain costs

Introduction

3F.1 18.1 This condition ~~enables the licensee~~ establishes a mechanism:

- (a) to ~~propose~~ specify the basis on which the licensee’s opening levels of allowed expenditure on uncertain cost activities, as specified in Table 1, can be revised; and
- (b) to determine any appropriate revisions to PCFM Variable Values for the licensee relating to uncertain cost activities and the Regulatory Years to which they relate, for the purposes of the Annual Iteration Process for the ED1 Price Control Financial Model as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).

Formatted: Outline numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 1 cm + Tab after: 2.27 cm + Indent at: 2.27 cm

3F.2 The categories of cost related to uncertain cost activities referred to in this condition and the associated PCFM Variable Values are set out in Table 1 below:

Table 1: Categories of cost related to uncertain cost activities and associated PCFM Variable Values

Category of cost	PCFM Variable Value name
High Value Project Costs	UCHVP values
Enhanced Physical Site Security Costs	UCEPS values
Specified Street Works Costs	UCSSW values
Rail Electrification Costs	UCRE values
<u>Shetland Interim Costs</u>	<u>UCSIC values</u>
<u>Competitive Process and Integrated Plan Costs</u>	<u>UCCPC values</u>

3F.3 The PCFM Variable Value for the licensee, for each uncertain cost activity, for a particular Regulatory Year, revised in accordance with this condition as applicable, represents the total amount of allowed Totex expenditure (in 2012/13 prices) for that uncertain cost activity for that Regulatory Year.

3F.4 The opening levels of allowed expenditure for the licensee, for High Value Project Costs and Enhanced Physical Site Security for each Regulatory Year, as at 1 April 2015 (that is, before any relevant adjustments have been made under the provisions of

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

this condition), are set out in Appendix 1 and 2 to this condition and were used in the calculation of the Opening Base Revenue Allowance for the licensee.

3F.5 The opening PCFM Variable Values for the licensee for Specified Street Works Costs (being the opening value for UCSSW) and Rail Electrification Costs (being the opening value for UCRE) for each Regulatory Year, as at 1 April 2015 (that is, before any relevant adjustments have been made under the provisions of this condition) are, respectively, zero.

3F.6 The opening PCFM Variable Value for the licensee for **Shetland Interim Costs and Competitive Process and Integrated Plan Costs** (being the opening value for UCSIC and UCCPC respectively) for each Regulatory Year, as at 1 April 2015 (that is, before any relevant adjustments have been made under the provisions of this condition) are defined in Appendix 4 and Appendix 5 respectively.

3F.7 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments) and CRC 4B.

Part A: Proposal and determination of relevant adjustments to allowed levels of expenditure on uncertain cost activities

3F.8 This Part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority to determine;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

Formatted: Outline numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 1 cm + Tab after: 2.27 cm + Indent at: 2.27 cm

(a) Proposal of relevant adjustments

3F.9 The licensee (subject to paragraphs 3F.9 and 3F.10) may, by Notice to the Authority, and the Authority (subject to paragraphs 3F.9 and 3F.11) may, by Notice to the licensee, propose a relevant adjustment to the allowed level of expenditure on any uncertain cost activity listed in Table 1 for any Regulatory Year during the Price Control Period, provided that the proposed change to the level of allowed expenditure:

- (a) is based on information about the actual or forecast level of efficient expenditure on the uncertain cost activity that was either unavailable or did not qualify for inclusion when the licensee's Opening Base Revenue Allowance was derived;
- (b) takes account of any relevant adjustments previously determined under this condition;
- (c) constitutes a material amount as specified for the licensee in Appendix 1, 2, 3, 4 or 5 (as the case may be) to this condition;

Formatted: Outline numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 1 cm + Tab after: 2.27 cm + Indent at: 2.27 cm

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

- (d) relates to costs incurred or expected to be incurred after 1 April 2015, except for the costs that relate to the Competitive Process and Integrated Plan Costs that have been incurred before this; and
- (e) constitutes an adjustment to allowed expenditure that (excluding any Time Value of Money Adjustment) cannot be made under the provisions of any other condition of this licence.

3F.10 A proposal made under paragraph 3F.8 must include statements setting out:

- (a) the uncertain cost activities to which the proposal relates;
- (b) the changes to the licensee's allowed level of expenditure that is proposed and the Regulatory Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's allowed level of expenditure.

Formatted: Outline numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 1 cm + Tab after: 2.27 cm + Indent at: 2.27 cm

(b) Application windows for relevant adjustment proposals

3F.11 The licensee may only give Notice of a proposed relevant adjustment during the application window that opens on 1 May 2019 and closes on 31 May 2019, except in relation to Shetland Interim Costs and Competitive Process and Integrated Plan Costs for which the licensee may only give such Notice during the application window that opens on [1 May 2016 or 1 May 2017] and closes on [31 May 2016 or 31 May 2017].

Formatted: Indent: Left: 0 cm, Hanging: 0.63 cm

3F.12 The Authority may only give Notice of its intention to make a relevant adjustment in respect of High Value Project Costs at the end of the Price Control Period during the Notice window that opens on 1 December 2023 and closes on 31 December 2023.

3F.13 The Authority may only give Notice of its intention to make a relevant adjustment in respect of Shetland Interim Costs and Competitive Process and Integrated Plan Costs during the Notice window that opens on [1 December 2016 or 1 December 2017] and closes on [31 December 2016 or 31 December 2017].

(c) Authority's power to determine relevant adjustments to the

3F.14 Where a proposal has been duly made by the licensee under paragraph 3F.8, the Authority will, within four months of the close of the application window, determine any revisions that are to be made to the licensee's allowed level of expenditure for the uncertain cost activities concerned and the Regulatory Years to which those revisions relate, in accordance with the methodologies set out in the following parts of chapter 7 of the ED1 Price Control Financial Handbook:

- (a) Part 2 – in respect of High Value Project Costs;
- (b) Part 3 – in respect of Enhanced Physical Site Security Costs;
- (c) Part 4 – in respect of Specified Street Works Costs;
- (d) Part 5 – in respect of Rail Electrification Costs;
- (e) Part 6 – in respect of Shetland Interim Costs; and

Formatted: Outline numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 1 cm + Tab after: 2.27 cm + Indent at: 2.27 cm

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

(f) Part 7 – in respect of Competitive Process and Integrated Plan Costs.

3F.15 If, within 10 working days of receipt of a proposal under paragraph 3F.8, the Authority gives Notice to the licensee:

(a) specifying any further information or analysis, or reformatting of the information or analysis already provided, that it reasonably considers is required in order to assess the proposal; and

(b) requesting the licensee to provide that further or reformatted information or analysis,

the application window will be treated as remaining open for the purposes of this Part A until the later of the closing date referred to in paragraph 3F.10 and the date on which such further or reformatted information or analysis is provided.

3F.16 The giving of Notice under paragraph 3F.13 shall not preclude the Authority from making such further requests for information or analysis, or for the reformatting of information or analysis already provided, as it may consider it requires to assess the proposal.

3F.17 In determining any revision under paragraph 3F.12, the Authority will:

(a) consult with the licensee and other interested parties;

(b) have regard to the basis on which the opening level of allowed expenditure for the relevant uncertain cost activities were set for the licensee;

(c) have regard to comments duly received in response to the consultation conducted under paragraph 3F.15(a); and

(a)(d) take no account of the general financial performance of the licensee under the price control arrangements set out in 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: of this licence.

(a) Specific Security Expenditure Items;

(b) RLM System Costs;

(c) TMA Permitting Costs;

(d) High Value Project Costs; and

(e) Load Related Costs.

Formatted: Outline numbered +
Level: 1 + Numbering Style: a, b, c, ...
+ Start at: 1 + Alignment: Left +
Aligned at: 1 cm + Tab after: 2.27 cm
+ Indent at: 2.27 cm

Formatted: Outline numbered +
Level: 1 + Numbering Style: a, b, c, ...
+ Start at: 1 + Alignment: Left +
Aligned at: 1 cm + Tab after: 2.27 cm
+ Indent at: 2.27 cm

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

~~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 conditions within 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);~~

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

~~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.~~

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

~~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

~~3F.18 18.18 The power of the Authority to determine a relevant adjustment under Part D is a power to under paragraph 3F.12 may confirm, reject, or vary/amend the proposed relevant adjustment proposed by the licensee.~~

~~3F.19 18.19 Without prejudice to limiting the general effect of paragraph ~~18.18~~3F.16, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely specify revisions to the allowed level of expenditure for the relevant uncertain cost activities for the licensee for any Regulatory Year within the period 2015/16 to be incurred by the licensee in subsequent 2022/23.~~

~~3F.20 A determination under paragraph 3F.12 will specify:~~

- ~~(a) the uncertain cost activities that are the subject of the determination;~~
- ~~(b) the Regulatory Years within the category of costs to which the relevant adjustment relates; determination applies; and~~

Formatted: Outline numbered +
Level: 1 + Numbering Style: a, b, c, ...
+ Start at: 1 + Alignment: Left +
Aligned at: 1 cm + Tab after: 2.27 cm
+ Indent at: 2.27 cm

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

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

(c) ~~18.20~~—the revised total level of allowed expenditure (in 2012/13 prices) for the relevant uncertain cost activities specified under 3F.18(a) for each of the Regulatory Years specified under 3F.18(b).

~~3F.21~~ 3F.21 If the Authority has not determined ~~the~~ relevant adjustment ~~proposed~~ in relation to a proposal duly made by the licensee under paragraph 3F.8 within four months of the close of the appropriate application window, and ~~that Notice~~ the proposal has not been withdrawn, ~~the licensee may give Notice to the Authority that~~ then the relevant adjustment ~~will take effect from the adjustment date for all relevant purposes under the Charge Restriction Conditions, insofar as it relates to a revision to the allowed level of expenditure on the relevant uncertain cost activities for the licensee for the Regulatory Years specified in the proposal, will be deemed to have been made.~~

Part B: Procedure to be followed for the determination and direction of revised PCFM Variable Values

This Part G: RLM System Costs

~~3F.22~~ 3F.22 18.21—At the close of the first application window the Authority will review the RLM System Costs of provides for the determination and direction of revisions to the following PCFM Variable Values for 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_t 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~~

(a) ~~(b)~~—any adjustment in respect of any Regulatory Year t that may High Value Project Costs (UCHVP values)

(b) Enhanced Physical Site Security Costs (UCEPS values);

(c) Specified Street Works Costs (UCSSW values);

(d) Rail Electrification Costs (UCRE values);

Formatted: Font:

Formatted: Outline numbered +
Level: 1 + Numbering Style: a, b, c, ...
+ Start at: 1 + Alignment: Left +
Aligned at: 1 cm + Tab after: 2.27 cm
+ Indent at: 2.27 cm

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

- (e) Shetland Interim Costs (UCSIC values); and
- (f) Competitive Process and Integrated Plan Costs.

3F.23 Determinations under paragraph 3F.20 are to be made in accordance with the provisions of chapter 7 of the ED1 Price Control Financial Handbook.

~~3F.4~~3F.24 Revised PCFM Variable Values for the licensee, as determined under paragraph 3F.20 will be directed by the Authority ~~under Part G of this condition.~~

by 30 November in Regulatory Year 2019/20.

3F.25 A direction under paragraph 3F.22 will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to the licensee set out all of the revised PCFM Variable Values that it proposes to direct;
- (b) stated in that Notice that those values have been determined in accordance with Part ~~I~~-B of this condition;
- (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority; and
- (d) considered any representations duly received in response to the Notice.

Formatted: Outline numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 1 cm + Tab after: 2.27 cm + Indent at: 2.27 cm

3F.26 Where the Authority directs any revised PCFM Variable Values for Regulatory Years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year t, and will not have any retroactive effect on a previously directed value of the term MOD.

Part C: Interpretation

~~3F.5~~3F.27 ~~18.25~~ For the purposes of this condition, the following definitions apply:

Enhanced Physical Site Security Costs	means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee's Distribution System as may be further clarified in the RIGs.
--	---

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

Rail Electrification Costs means costs, other than those recoverable from a third party, associated with the diversion of electric lines or electrical plant to facilitate rail electrification projects approved for funding by the Secretary of State for Transport, as may be further clarified in the RIGs.

Specified Street Works Costs means the costs incurred, or expected to be 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,

all as further clarified in the RIGs.

Shetland Interim Costs Means the costs incurred, or expected to be incurred by SSEH during the interim period between 1 April 2015 and the new enduring solution for managing supply and demand on Shetland, to the extent that these costs are not recoverable under any other part of this licence.

Competitive Process and Integrated Plan Costs Means the potential uncertain costs of meeting the conditions of the Authority's decision under CRC2Q, including internal staff costs and costs of staff from related parties including affiliates and related undertakings of the licensee as defined in standard licence condition 1 associated with the development of the Integrated Plan submitted in accordance with CRC2Q, and meeting the conditions of the Authority's decision under CRC2Q.

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

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.

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

APPENDIX 2 ~~to this condition~~);

Opening level of allowed expenditure for Enhanced Physical Site Security Costs and the material amount for each licensee

(£m, in 2012/13 prices)

(see paragraphs 3F.4 and 3F.8)

	Opening level of allowed expenditure								Material amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
ENWL	X	X	X	X	X	X	X	X	X
NPgN	X	X	X	X	X	X	X	X	X
NPgY	X	X	X	X	X	X	X	X	X
LPN	X	X	X	X	X	X	X	X	X
SPN	X	X	X	X	X	X	X	X	X
EPN	X	X	X	X	X	X	X	X	X
SPD	X	X	X	X	X	X	X	X	X
SPMW	X	X	X	X	X	X	X	X	X
SSEH	X	X	X	X	X	X	X	X	X
SSES	X	X	X	X	X	X	X	X	X

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:

- (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;

*Chapter 3: Annual Iteration Process - Adjustments to the Revenue
Restriction*

~~but exclude High Value Project~~

DRAFT

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

APPENDIX 3:

The material amount for Specified Street Works Costs-

~~RLM System Costs~~ means the costs incurred by the **for each 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).**

(£m, in 2012/13 prices)

(see paragraphs 3F.8)

	Material amount
ENWL	X
NPgN	X
NPgY	X
LPN	X
SPN	X
EPN	X
SPD	X
SPMW	X
SSEH	X
SSES	X

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

APPENDIX 4:

Opening level of allowed expenditure for Shetland Interim Costs and the material amount for SSEH
(£m in 2012/13 prices)

		Opening level of allowed expenditure							Material amount
		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH		20.19	20.39	20.38	21.14	-	-	-	16.42
									-XXX

~~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.

Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction

|

DRAFT

