

Schedule 1: CRC 3A

CRC 3A. Legacy price control adjustments

Introduction

- 3A.1 This condition establishes a framework for determining any revisions to the PCFM Variable Values for the licensee in respect of the legacy price control adjustments that are specified in Parts A, B, C and D of this condition for use in 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).
- 3A.2 The application of the mechanisms that are detailed in this condition means that, as a consequence of the Annual Iteration Process, the value of the term MOD for the licensee as calculated for Regulatory Year t for the purposes of CRC 2A (Restriction of Allowed Distribution Network Revenue) will result in an adjustment of the licensee's Base Demand Revenue in respect of, as applicable, the opening tax pool balances, Regulatory Asset Value (RAV) balance, and revenue allowance adjustments attributable to the licensee in respect of:
- (a) activities carried out by the licensee;
 - (b) incentivised performance by the licensee; and
 - (c) costs or expenditure incurred by the licensee,
- in Regulatory Years prior to Regulatory Year 2015/16 (the "legacy period"), in relation to one or more of the schemes and mechanisms referred to in this condition.
- 3A.3 This condition should be read and construed in conjunction with:
- (a) CRC 4A (Governance of ED1 Price Control Financial Instruments) and CRC 4B; and
 - (b) Chapters 13 to 16 of the ED1 Price Control Financial Handbook, which provide further explanation of the provisions set out in this condition.

Part A: Determination of revised PCFM Variable Values for opening tax pool balance adjustments

- 3A.4 This Part A provides for the determination and direction of revised PCFM Variable Values for the licensee for legacy price control adjustments to opening balances for:
- (a) the general tax pool for the licensee (LTPG values);
 - (b) the special tax pool for the licensee (LTPS values); and
 - (c) the deferred revenue expenditure tax pool for the licensee (LTPD and LTPC values),

where each of those terms has the meaning given in chapter 14 of the ED1 Price Control Financial Handbook.

- 3A.5 LTPG, LTPS, LTPD and LTPC values are contained only in the columns for Regulatory Years 2013/14 and 2014/15 in the PCFM Variable Values Table for the licensee.
- 3A.6 Subject to paragraphs 3A.28 and 3A.29 of this condition, the Authority will, by 30 November in each Regulatory Year t-1 determine whether any LTPG, LTPS, LTPD or LTPC values for the licensee should be revised in accordance with the methodology contained in chapter 14 of the ED1 Price Control Financial Handbook.
- 3A.7 If any of the values are to be revised, the Authority will direct the revision in accordance with Part F of this condition.

Part B: Determination of revisions to the PCFM Variable Value for legacy adjustments to revenue allowances other than those associated with the DPCR5 RAV Rolling Incentive mechanism (the OLREV values)

- 3A.8 This Part B provides for the determination and direction of revisions to the PCFM Variable Value for legacy price control adjustments to the licensee's revenue allowances (the OLREV value).
- 3A.9 The OLREV value is contained only in the column for Regulatory Year 2015/16 in the PCFM Variable Values Table for the licensee.
- 3A.10 The OLREV value for the licensee for Regulatory Year 2015/16 is set at zero as at 1 April 2015 because it represents an incremental change to revenue allowance adjustments that were taken into account in the calculation of the licensee's Opening Base Revenue Allowances, being the values for the PU term set out for the licensee in Appendix 1 of CRC 2A.

Determination of revised values for OLREV

- 3A.11 Subject to paragraphs 3A.28 and 3A.29, the Authority will, by 30 November in each Regulatory Year t-1, determine whether the OLREV value for the licensee for Regulatory year 2015/16 should be revised in accordance with paragraphs 3A.12 to 3A.15.
- 3A.12 Subject to paragraphs 3A.28 and 3A.29, the Authority will, by 30 November in each Regulatory Year t-1, determine the OLREV value for the licensee for Regulatory Year 2015/16 to be the sum of the amounts of the adjustments set out in column 1 of Table 1, where each such adjustment amount:
- (a) has been determined in accordance with the methodology set out in the section of chapter 15 of the ED1 Price Control Financial Handbook specified in column 2 of Table 1; and
 - (b) is stated in 2012/13 prices.

Table 1: Adjustments comprising the OLREV value

Adjustment	Section of chapter 15 of the ED1 Price Control Financial Handbook containing methodology
DPCR5 Pension adjustment	Section 2 (i)
DPCR5 Tax adjustment	Section 2 (ii)
DPCR5 Distributed Generation adjustment	Section 2 (iii)
DPCR5 DUoS Bad Debts adjustment	Section 2 (iv)
DPCR5 Traffic Management Act Permit Costs adjustment	Section 2 (v)
DPCR5 Undergrounding and Worst Served Customer Improvements adjustment	Section 2 (vi)
DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels	Section 2 (vii)
DPCR5 High Volume Connections Volume Driver - adjustment resulting from revised allowance levels	Section 2 (viii)
DPCR5 High Value Projects Re-opener - adjustment resulting from revised allowance levels	Section 2 (ix)
DPCR5 Enhanced Physical Site Security and Black Start - adjustment resulting from revised allowance levels	Section 2 (x)
DPCR5 DPCR5 Shetland adjustment (see paragraph 3A.X)	Section 2(xi)

3A.13 Each of the adjustment terms listed in Table 1 has the meaning given for it in the specified section of chapter 15 of the ED1 Price Control Financial Handbook.

3A.14 The DPCR5 Shetland adjustment is only relevant to SSEH and for all other licensees the value of this adjustment is zero.

3A.15 Subject to paragraphs 3A.29 and 3A.30, having determined the OLREV value for the licensee for Regulatory Year 2015/16 by 30 November in any Regulatory Year t-1, the Authority will check whether it is different from the OLREV value contained in the PCFM Variable Values Table for the licensee that was used in the immediately preceding Annual Iteration Process. If the value is different, the Authority will direct that the value is to be revised to that determined under paragraph 3A.12.

3A.16 Any direction of a revision to the OLREV value for the licensee for Regulatory Year 2015/16 will be given in accordance with Part F of this condition.

Part C: Determination of revisions to the PCFM Variable Values for legacy adjustments to RAV additions (OLRAV values)

3A.17 Subject to paragraphs 3A.29 and 3A.30, the Authority will, by 30 November in each Regulatory Year t-1, determine whether the OLRAV value for the licensee for either or both of Regulatory Years 2013/14 or 2014/15 should be revised in accordance with paragraphs 3A.17 to 3A.19.

3A.18 Subject to paragraphs 3A.29 and 3A.30, the Authority will, by 30 November in each Regulatory Year t-1, determine the OLRAV values for the licensee for Regulatory Years 2013/14 and 2014/15 to be, respectively:

- (a) the finalised DPCR5 RAV Additions value for the licensee; minus
- (b) the DPCR5 RAV Additions value used in the determination of the licensee's Opening Base Revenue Allowances,

stated in 2012/13 prices, determined in accordance with the methodology set out in section 3 of chapter 15 of the ED1 Price Control Financial Handbook

3A.19 Subject to paragraphs 3A.29 and 3A.30, having determined the OLRAV values for the licensee for Regulatory Years 2013/14 and 2014/15 by 30 November in any Regulatory Year t-1, the Authority will check whether either is different from the OLRAV value for the equivalent Regulatory Year contained in the PCFM Variable Values Table for the licensee that was used in the immediately preceding Annual Iteration Process. If either value is different, the Authority will direct that the value concerned is to be revised to that determined under paragraph 3A.17.

3A.20 Any direction of a revision to the OLRAV values for the licensee will be given in accordance with Part F of this condition.

Part D: Determination of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value)

3A.21 This Part D provides for the determination and direction of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value).

3A.22 The RIREV value is contained only in the column for Regulatory Year 2015/16 in the PCFM Variable Values Table for the licensee.

3A.23 The RIREV value for the licensee for Regulatory year 2015/16 is set at zero as at 1 April 2015 because it represents an incremental change to revenue allowance adjustments that were taken into account in the calculation of the licensee's Opening

Base Revenue Allowances, being the values for the PU term set out for the licensee in Appendix 1 of CRC 2A.

Determination of revised values for RIREV

3A.24 Subject to paragraphs 3A.28 and 3A.29, the Authority will, by 30 November in each Regulatory Year t-1, determine whether the RIREV value for the licensee for Regulatory Year 2015/16 should be revised in accordance with paragraphs 3A.24 to 3A.27.

3A.25 Subject to paragraphs 3A.28 and 3A.29, the Authority will, by 30 November in each Regulatory Year t-1, determine the RIREV value for the licensee for Regulatory Year 2015/16 to be the sum of the amounts of the adjustments set out in column 1 of Table 2, where each such adjustment amount:

- (a) has been determined in accordance with the methodology set out in the section of chapter 16 of the ED1 Price Control Financial Handbook specified in column 2 of Table 2; and
- (b) is stated in 2012/13 prices.

Table 2: Adjustments comprising the RIREV value

Adjustment	Section of chapter 16 of the ED1 Price Control Financial Handbook containing methodology
Adjustment for items subject to the DPCR5 IQI Incentive Rates for the licensee	Section 2 (i)
DPCR5 High Value Projects - failure to deliver outputs adjustment	Section 2 (ii)
DPCR5 Network Output Measures - failure to deliver outputs adjustment	Section 2 (iii)
DPCR5 Rising and Lateral Mains - adjustment relating to the level of customer contributions	Section 2 (iv)
DPCR5 Workforce Renewal - adjustment resulting from overspend or underspend against allowances	Section 2 (v)

3A.26 Each of the adjustment terms listed in Table 2 has the meaning given for it in the specified section of chapter 16 of the ED1 Price Control Financial Handbook.

3A.27 Subject to paragraphs 3A.28 and 3A.29, having determined the RIREV value for the licensee for Regulatory Year 2015/16 by 30 November in any Regulatory Year t-1, the Authority will check whether it is different from the RIREV value contained in the PCFM Variable Values Table for the licensee that was used in the immediately

preceding Annual Iteration Process. If the value is different, the Authority will direct that the value is to be revised to that determined under paragraph 3A.24.

3A.28 Any direction of a revision to the RIREV value for the licensee for Regulatory Year 2015/16 will be given in accordance with Part F of this condition.

Part E: Provisions relevant to all legacy price control adjustments

3A.29 The first Regulatory Year in which the Authority will make the determinations referred to in paragraphs 3A.6, 3A.11, 3A.16 and 3A.23 is Regulatory Year 2015/16.

3A.30 The last Regulatory Year in which the Authority will make the determinations referred to in paragraphs 3A.6, 3A.11, 3A.16 and 3A.23 is Regulatory Year 2021/22.

3A.31 The effects of using revised PCFM Variable Values determined under this condition 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, for the avoidance of doubt, will not, in respect of any particular Annual Iteration Process, have any retroactive effect on a previously directed value of the term MOD.

Part F: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority

3A.32 Subject to, and in accordance with, the provisions of Parts A, B, C and D of this condition, revised LTPG, LTPS, LTPD, LTPC, OLREV, OLRAV and RIREV values for the licensee, determined by the Authority, will be directed by the Authority by 30 November in each Regulatory Year $t-1$.

3A.33 Any direction issued under paragraph 3A.31 will include a statement of the adjustment values set out in Tables 1 and 2 that were used in the determination of any revised OLREV and RIREV values.

3A.34 A direction under paragraph 3A.31 will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to the licensee set out the revised values of LTPG, LTPS, LTPD, LTPC, OLREV, OLRAV and RIREV that it proposes to direct;
- (b) stated in that Notice that these values have, as applicable, been determined in accordance with Parts A, B, C and D of this condition;
- (c) specified in the Notice the period (which will not be less than 14 days from the date of the Notice) within which the licensee may make any representations to the Authority about its proposals; and
- (d) considered any representations duly received in response to the Notice.

3A.35 If, for any reason in any Regulatory Year t-1, the Authority does not make a required direction in relation to revised LTPG, LTPS, LTPD, LTPC, OLREV, OLRAV or RIREV values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B and, in any event, before directing a value for MOD_t for the licensee under that paragraph.

Part G: Interpretation

3A.36 Expressions used in this condition are to be read and given effect subject to any further explanation or elaboration within the ED1 Price Control Financial Methodologies that may be applicable to them.

3A.37 For the purposes of this condition:

DPCR5 Distributed Generation	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 DUoS Bad Debts	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 Enhanced Physical Site Security and Black Start	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 High Value Projects Re-opener	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 High Volume Connections Volume Driver	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 IQI Incentive Rate	means a value set against the licensee's name in the table at Appendix 1 of Special Condition CRC 18 of the licence in the form that it was in on 31 March 2015.
DPCR5 Load Related Re-opener	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 Network Output Measures	has the meaning given in chapter 16 of the ED1 Price Control Financial Handbook.
DPCR5 Pension	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 RAV Additions	has the meaning given in chapter 15 of the ED1 Price

	Control Financial Handbook.
DPCR5 RAV Rolling Incentive	has the meaning given in chapter 16 of the ED1 Price Control Financial Handbook.
DPCR5 Rising and Lateral Mains	has the meaning given in chapter 16 of the ED1 Price Control Financial Handbook.
DPCR5 Tax	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 Traffic Management Act Permit Costs	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 Undergrounding and Worst Served Customer Improvements	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 Workforce Renewal	has the meaning given in chapter 16 of the ED1 Price Control Financial Handbook.