

## **Schedule 2: Proposed changes to CRC 2A and CRC 2M for the Licensee**

CRC 2A. Restriction of Allowed Distribution Network Revenue .....	2
CRC 2M. Adjustment of licensee's revenues for the residual distribution losses incentive ..	16

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## CRC 2A. Restriction of Allowed Distribution Network Revenue

### Introduction

2A.1 This condition:

- (a) establishes the charging restrictions that determine the level of Allowed Distribution Network Revenue that may be recovered by the licensee from Use of System Charges; and
- (b) sets out the obligation of the licensee in respect of those restrictions.

### Part A: Licensee's obligation

2A.2 The licensee, in setting Use of System Charges, must use its reasonable endeavours to ensure that, in Regulatory Year  $t$ , Regulated Distribution Network Revenue does not exceed its Allowed Distribution Network Revenue.

### Part B: Calculation of Allowed Distribution Network Revenue ( $AR_t$ )

2A.3 Allowed Distribution Network Revenue, in Regulatory Year  $t$ , is derived in accordance with the following formula (in this condition, the Principal Formula):

$$AR_t = BR_t + IP_t + PT_t + NIA_t + LCN_t - AUM_t + CGSRA_t + PPLDLGT_t - K_t$$

2A.4 In the Principal Formula:

$AR_t$	means the amount of Allowed Distribution Network Revenue in Regulatory Year $t$ .
$BR_t$	means the amount of Base Demand Revenue in Regulatory Year $t$ , as derived in accordance with the formula set out in Part C of this condition.
$IP_t$	means the incentive revenue adjustment made in Regulatory Year $t$ , as derived in accordance with the formula set out in Part D of this condition.
$PT_t$	means the Allowed Pass-Through Items revenue adjustment made in Regulatory Year $t$ , as derived in accordance with CRC 2B (Calculation of Allowed Pass-Through Items).
$NIA_t$	means the Network Innovation Allowance revenue adjustment made in Regulatory Year $t$ , as derived in accordance with CRC 2H (The Network Innovation Allowance).
$LCN_t$	means the low carbon networks fund revenue adjustment made in Regulatory Year $t$ , as derived in accordance with CRC 2J (Low Carbon Networks Fund).
$AUM_t$	means the total amount of any sums remaining unpaid pursuant to the requirements of a Clawback Direction given in accordance with the provisions of Part B of CRC 2K (Margins on licensee's Connection Activities) one year after the licensee has received that direction.
$CGSRA_t$	means the adjustment for payments made by the licensee in respect of its

failure to achieve connections performance standards, as derived in accordance with CRC 2L (Revenue adjustments in respect of performance failures).

**PPL**  
**DLGT<sub>t</sub>** means the DPCR4 residual distribution losses incentive value and Growth Term revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2M (Adjustment of licensee's revenues for the residual distribution losses incentive).

**K<sub>t</sub>** means the correction factor revenue adjustment made in Regulatory Year t, as derived in accordance with the formula set out in Part E of this condition. [Note: Part E differs depending on the licensee]

### Part C: Calculation of Base Demand Revenue (BR<sub>t</sub>)

2A.5 For the purposes of the Principal Formula, the amount of BR<sub>t</sub> is derived in accordance with the following formula:

$$BR_t = (PU_t + MOD_t + TRU_t) \times RPIF_t$$

2A.6 In the formula for the BR<sub>t</sub> term above:

**PU<sub>t</sub>** means the amount set against the licensee's name in Appendix 1 of this condition and represents the Opening Base Revenue Allowance for Regulatory Year t, as determined by the Authority in relation to the distribution of electricity to and from premises.

**MOD<sub>t</sub>** is zero in Regulatory Year 2015/16 and in each subsequent Regulatory Year is the value of the incremental change for Regulatory Year t to the licensee's Opening Base Revenue Allowance, as derived in accordance with the Annual Iteration Process set out in Parts A and B of CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).

**TRU<sub>t</sub>** is zero in Regulatory Years 2015/16 and 2016/17 and in each subsequent Regulatory Year is the revenue adjustment made in Regulatory Year t in respect of the actual value of the Retail Prices Index in Regulatory Year t-2 minus the assumed value of the Retail Prices Index in Regulatory Year t-2, as derived in accordance with paragraph 2A.9.

**RPIF<sub>t</sub>** means the price index adjustment factor in Regulatory Year t, as derived in accordance with paragraph 2A.7.

2A.7 For the purposes of paragraph 2A.6, RPIF<sub>t</sub> is derived in accordance with the following formula:

$$RPIF_t = RPIA_{t-2} \times (1 + GRPIF_{t-1}) \times (1 + GRPIF_t)$$

2A.8 In the above formula for RPIF<sub>t</sub>:

$RPIA_t$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months in Regulatory Year  $t$  divided by the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months 1 April 2012 to 31 March 2013 as derived in accordance with the following formula:

$$RPIA_t = \frac{RPI_t}{RPI_{2012/13}}$$

where:

$RPI_t$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Regulatory Year  $t$ .

$RPI_{2012/13}$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2012 to 31 March 2013.

and:

$$GRPIF_t = (0.75 \times GRPIF_c) + (0.25 \times GRPIF_{c+1})$$

$$GRPIF_{t-1} = (0.75 \times GRPIF_{c-1}) + (0.25 \times GRPIF_c)$$

where:

$GRPIF_c$  means the Retail Prices Index Forecast Growth Rate for calendar year  $c$ , where  $c$  denotes the calendar year in which Regulatory Year  $t$  begins and the expressions  $c-1$  and  $c+1$  are interpreted accordingly; and in each such case the Retail Prices Index Forecast Growth Rates for calendar years  $c-1$ ,  $c$  and  $c+1$  are taken from the November edition of the HM Treasury publication "Forecasts for the UK Economy", in Regulatory Year  $t-1$ .

2A.9 For the purposes of paragraph 2A.6,  $TRU_t$  is derived in accordance with the following formula:

$$TRU_t = \left( \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right) \times REV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

2A.10 In the above formula for  $TRU_t$ :

$REV_{t-2}$  means the amount (in 2012/13 prices) in Regulatory Year  $t-2$  of the combined value of all revenue adjustments for the licensee provided for in the provisions referred to in relevant Charge Restriction Conditions indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 2A.11.

$PVF_t$  means the present value adjustment term for Regulatory Year  $t$  and is calculated as one plus the Vanilla Weighted Average Cost of Capital for the licensee as derived by the Authority in accordance with the Annual Iteration Process, and the expressions  $PVF_{t-1}$  and  $PVF_{t-2}$  are to be interpreted

accordingly.

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[All licensees listed in paragraph 7 of CRC 1A other than SSEH]

2A.11 For the purposes of paragraph 2A.10,  $REV_{t-2}$  is derived in accordance with the following formula:

$$REV_{t-2} = \frac{BR_{t-2} + LF_{t-2} + RB_{t-2} + TB_{t-2} + SMC_{t-2} + SMIT_{t-2} + RF_{t-2} + GTA_{t-2} + IQ_{t-2} + LDR_{t-2}}{RPIF_{t-2}}$$

2A.12 In the above formula for  $REV_{t-2}$ :

$BR_{t-2}$  means the amount of Base Demand Revenue in Regulatory Year t-2, as derived in accordance with the formula set out in paragraph 2A.5.

$LF_{t-2}$  means the amount of the licence fee adjustment in Regulatory Year t-2 as derived in accordance with Part B of CRC 2B.

$RB_{t-2}$  means the amount of the Business Rates adjustment in Regulatory Year t-2 as derived in accordance with Part C of CRC 2B.

$TB_{t-2}$  means the amount of the Transmission Connection Point Charges adjustment in Regulatory Year t-2 as derived in accordance with Part D of CRC 2B.

$SMC_{t-2}$  means the amount of the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t-2 as derived in accordance with Part E of CRC 2B.

$SMIT_{t-2}$  means the amount of the Smart Meter Information Technology Costs adjustment in Regulatory Year t-2 as derived in accordance with Part F of CRC 2B.

$RF_{t-2}$  means the amount of the Ring Fence Costs adjustment in Regulatory Year t-2 as derived in accordance with Part G of CRC 2B.

$IQ_{t-2}$  means the interruptions-related quality of service incentive revenue adjustment made in Regulatory Year t-2, as derived in accordance with CRC 2D (Adjustment of licensee's revenues to reflect interruptions related quality of service performance), except in Regulatory Years t-2 beginning on 1 April 2015 and 1 April 2016 when  $IQ_{t-2}$  will be zero for the purposes of this calculation.

$LDR_{t-2}$  means the amount of the Losses Discretionary Reward scheme revenue adjustment made in Regulatory Year t-2, as derived in accordance with CRC 2G (The Losses Discretionary Reward).

$GTA_{t-2}$  means the amount of the Growth Term adjustment in Regulatory Year t-2, as derived in accordance with CRC 2M.

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[SSEH only]

2A.11 For the purposes of paragraph 2A.10,  $REV_{t-2}$  is derived in accordance with the following formula:

$$REV_{t-2} = \frac{BR_{t-2} + LF_{t-2} + RB_{t-2} + TB_{t-2} + SMC_{t-2} + SMIT_{t-2} + RF_{t-2} + SEC_{t-2} + RF_{t-2} + UNC_{t-2} + LDR_{t-2}}{RPIF_{t-2}}$$

2A.12 In the above formula for  $REV_{t-2}$ :

$BR_{t-2}$  means the amount of Base Demand Revenue in Regulatory Year t-2, as derived in accordance with the formula set out in paragraph 2A.5.

$LF_{t-2}$  means the amount of the licence fee adjustment in Regulatory Year t-2 as derived in accordance with Part B of CRC 2B.

$RB_{t-2}$  means the amount of the Business Rates adjustment in Regulatory Year t-2 as derived in accordance with Part C of CRC 2B.

$TB_{t-2}$  means the amount of the Transmission Connection Point Charges adjustment in Regulatory Year t-2 as derived in accordance with Part D of CRC 2B.

$SMC_{t-2}$  means the amount of the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t-2 as derived in accordance with Part E of CRC 2B.

$SMIT_{t-2}$  means the amount of the Smart Meter Information Technology Costs adjustment in Regulatory Year t-2 as derived in accordance with Part F of CRC 2B.

$RF_{t-2}$  means the amount of the Ring Fence Costs adjustment in Regulatory Year t-2 as derived in accordance with Part G of CRC 2B.

$SEC_{t-2}$  means the Shetland Variable Energy Costs, in Regulatory Year t-2, as derived in accordance with Part H of CRC 2B.

$UNC_{t-2}$  means an amount in Regulatory Year t-2 representing a relevant adjustment to the calculation of Allowed Demand Revenue arising from the application of CRC 2Q (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland). Uncertain costs may also be recovered under CRC 3F (Arrangements for the recovery of uncertain costs).

$IQ_{t-2}$  means the interruptions-related quality of service incentive revenue adjustment made in Regulatory Year t-2, as derived in accordance with CRC 2D (Adjustment of licensee's revenues to reflect interruptions related quality of service performance), except in Regulatory Years t-2 beginning on 1 April 2015 and 1 April 2016 when  $IQ_{t-2}$  will be zero for the purposes of this calculation.

LDR<sub>t-2</sub> means the amount of the Losses Discretionary Reward scheme revenue adjustment made in Regulatory Year t-2, as derived in accordance with CRC 2G (The Losses Discretionary Reward).

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**[All licensees listed in paragraph 7 of CRC 1A]**

**Part D: Calculation of the incentive revenue adjustment (IP<sub>t</sub>)**

2A.13 For the purposes of the Principal Formula, the amount of IP<sub>t</sub> is derived in accordance with the following formula:

$$IP_t = BM_t + IQ_t + ICE_t + TTC_t + LDR_t$$

2A.14 In the above formula for IP<sub>t</sub>:

BM<sub>t</sub> means the broad measure of customer service revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2C (Broad Measure of Customer Service Adjustment).

IQ<sub>t</sub> means the interruptions-related quality of service incentive revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2D.

ICE<sub>t</sub> means the incentive on connections engagement revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2E (Incentive on Connections Engagement).

TTC<sub>t</sub> means the Time to Connect Incentive revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2F (Time to Connect Incentive).

LDR<sub>t</sub> means the Losses Discretionary Reward scheme revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2G.

**Part E: Calculation of the correction factor ( $K_t$ ) [For LPN, SPN, EPN, SSEH and SSES]**

2A.15 For the purposes of the Principal Formula for the licensee, subject to paragraph 2A.17,  $K_t$  is derived in accordance with the following formula:

$$K_t = (RD_{t-2} - AR_{t-2}) \times \left(1 + \left(\frac{I_{t-2} + PR_{t-2}}{100}\right)\right) \times \left(1 + \left(\frac{I_{t-1} + 1.5}{100}\right)\right)$$

2A.16 In the above formula for  $K_t$ :

$RD_{t-2}$  means the Regulated Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where  $RD_{t-2}$  is the Regulated Combined Distribution Network Revenue, as defined in CRC 2 (Definitions for the Charge Restriction Conditions) of this licence in the form in which it was in force at 31 March 2015.

$AR_{t-2}$  means the amount of the Allowed Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where  $AR_{t-2}$  is the Combined Allowed Distribution Network Revenue, as derived in accordance with Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges) of this licence in the form in which it was in force at 31 March 2015.

$I_t$  means the Average Specified Rate in Regulatory Year t.

$PR_{t-2}$  means the interest rate adjustment as derived in accordance with Part F of this condition.

2A.17 In Regulatory Year 2015/16,  $K_t$  will have the value of zero.



**Part E: Calculation of the correction factor (K<sub>t</sub>) [For ENWL]**

2A.15 For the purposes of the Principal Formula for the licensee, subject to paragraph 2A.16, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = (RD_{t-2} - AR_{t-2}) \times \left(1 + \left(\frac{I_{t-2} + PR_{t-2}}{100}\right)\right) \times \left(1 + \left(\frac{I_{t-1} + 1.5}{100}\right)\right)$$

2A.16 For Regulatory Year 2015/16, K<sub>t</sub> will have the value of zero and for Regulatory Year 2016/17 K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = \left(RD_{t-2} - AR_{t-2} + \left(10.24 \times \frac{RPI_{t-2}}{RPI_{2012/13}}\right)\right) \times \left(1 + \left(\frac{I_{t-2} + PR_{t-2}}{100}\right)\right) \\ \times \left(1 + \left(\frac{I_{t-1} + 1.5}{100}\right)\right)$$

2A.17 In the above formulae for K<sub>t</sub>:

RD<sub>t-2</sub> means the Regulated Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where RD<sub>t-2</sub> is the Regulated Combined Distribution Network Revenue, as defined in CRC 2 (Definitions for the Charge Restriction Conditions) of this licence in the form in which it was in force at 31 March 2015.

AR<sub>t-2</sub> means the amount of the Allowed Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where AR<sub>t-2</sub> is the Combined Allowed Distribution Network Revenue, as derived in accordance with Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges) of this licence in the form in which it was in force at 31 March 2015.

I<sub>t</sub> means the Average Specified Rate in Regulatory Year t.

PR<sub>t-2</sub> means the interest rate adjustment as derived in accordance with Part F of this condition.

**Part E: Calculation of the correction factor (K<sub>t</sub>) [For NPgN and NPgY]**

2A.15 For the purposes of the Principal Formula for the licensee, subject to paragraph 2A.16, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = (RD_{t-2} - AR_{t-2}) \times \left(1 + \left(\frac{I_{t-2} + PR_{t-2}}{100}\right)\right) \times \left(1 + \left(\frac{I_{t-1} + 1.5}{100}\right)\right)$$

2A.16 For Regulatory Years 2015/16 and 2016/17 K<sub>t</sub> is derived, respectively, in the following ways:

(a) For Regulatory Year 2015/16, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = -ESTR \times \left(1 + \left(\frac{I_{t-2} + 1.5}{100}\right)\right) \times \left(1 + \left(\frac{I_{t-1} + 1.5}{100}\right)\right)$$

(b) For Regulatory Year 2016/17, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = \left( RD_{t-2} - AR_{t-2} + \left( ESTR \times \left( 1 + \frac{0.5}{100} \right) \right) \right) \times \left( 1 + \left( \frac{I_{t-2} + PR_{t-2}}{100} \right) \right) \\ \times \left( 1 + \left( \frac{I_{t-1} + 1.5}{100} \right) \right)$$

2A.17 In the above formulae for K<sub>t</sub>:

RD<sub>t-2</sub> means the Regulated Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where RD<sub>t-2</sub> is the Regulated Combined Distribution Network Revenue, as defined in CRC 2 (Definitions for the Charge Restriction Conditions) of this licence in the form in which it was in force at 31 March 2015.

AR<sub>t-2</sub> means the amount of the Allowed Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where AR<sub>t-2</sub> is the Combined Allowed Distribution Network Revenue, as derived in accordance with Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges) of this licence in the form in which it was in force at 31 March 2015.

ESTR means the total value of the energy supplier temporary rebate undertaken in 2013/14, and takes the value £15.49m for NPgN and £13.06m for NPgY.

I<sub>t</sub> means the Average Specified Rate in Regulatory Year t.

PR<sub>t-2</sub> means the interest rate adjustment as derived in accordance with Part F of this condition.

**Part E: Calculation of the correction factor (K<sub>t</sub>) [For SPD and SPMW]**

2A.15 For the purposes of the Principal Formula for the licensee, subject to paragraph 2A.16, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = (RD_{t-2} - AR_{t-2}) \times \left(1 + \left(\frac{I_{t-2} + PR_{t-2}}{100}\right)\right) \times \left(1 + \left(\frac{I_{t-1} + 1.5}{100}\right)\right)$$

2A.16 For Regulatory Years 2015/16 and 2016/17 K<sub>t</sub> is derived, respectively, in the following ways:

(a) For Regulatory Year 2015/16, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = (RD_{t-1} - AR_{t-1}) \times \left(1 + \left(\frac{I_{t-1} + PR_{t-1}}{100}\right)\right)$$

(b) For Regulatory Year 2016/17, K<sub>t</sub> will have the value of zero.

2A.17 In the above formulae for K<sub>t</sub>:

RD<sub>t-1</sub> means the Regulated Combined Distribution Network Revenue in Regulatory Year t-1, as defined in CRC 2 (Definitions for the Charge Restriction Conditions) of this licence in the form in which it was in force at 31 March 2015.

RD<sub>t-2</sub> means the Regulated Distribution Network Revenue in Regulatory Year t-2.

AR<sub>t-1</sub> means the Combined Allowed Distribution Network Revenue in Regulatory Year t-1, as derived in accordance with Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges) of this licence in the form in which it was in force at 31 March 2015.

AR<sub>t-2</sub> means the amount of the Allowed Distribution Network Revenue in Regulatory Year t-2.

I<sub>t</sub> means the Average Specified Rate in Regulatory Year t.

PR<sub>t-1</sub> means the interest rate adjustment as derived in accordance with Part F of this condition.

PR<sub>t-2</sub> means the interest rate adjustment as derived in accordance with Part F of this condition.

**Part F: Interest adjustment for over-recoveries and under-recoveries of revenue [For all licensees listed in paragraph 7 of CRC 1A other than-SPD and SPMW]**

2A.18 For the purposes of Part E of this condition, the value of the interest rate adjustment PR<sub>t-2</sub> is derived as follows:

(a) if, in respect of Regulatory Year t-2, RD<sub>t-2</sub> exceeds 106 per cent of AR<sub>t-2</sub>, PR<sub>t-2</sub> will have the value of 3;

- (b) if, in respect of Regulatory Year t-2,  $RD_{t-2}$  is less than 94 per cent of  $AR_{t-2}$ ,  $PR_{t-2}$  will have the value of zero; and
  - (c) in all other cases  $PR_{t-2}$  will have the value of 1.5.
- 2A.19 This paragraph applies where the Authority, having due regard to the purpose of this condition and after consulting with the licensee, is satisfied that  $RD_{t-2}$  in respect of Regulatory Year t-2 has, for reasons outside the reasonable control of the licensee, either:
- (a) exceeded 106 per cent of  $AR_{t-2}$ ; or
  - (b) been less than 94 per cent of  $AR_{t-2}$ .
- 2A.20 Where paragraph 2A.19 applies, the Authority may direct the licensee to change the value of  $PR_{t-2}$  to a value which is not less than zero and not more than 3.

**Part F: Interest adjustment for over-recoveries and under-recoveries of revenue [For SPD and SPMW]**

- 2A.18 For the purposes of Part E of this condition, for Regulatory Years 2017/18 onwards the values of the interest rate adjustments  $PR_{t-2}$  is derived as follows:
- (a) If, in respect of Regulatory Year t-2,  $RD_{t-2}$  exceeds 106 per cent of  $AR_{t-2}$ ,  $PR_{t-2}$  will have the value of 3;
  - (b) if, in respect of Regulatory Year t-2,  $RD_{t-2}$  is less than 94 per cent of  $AR_{t-2}$ ,  $PR_{t-2}$  will have the value of zero; and
  - (c) in all other cases  $PR_{t-2}$  will have the value of 1.5.
- 2A.19 If the Authority, having due regard to the purpose of this condition and after consulting with the licensee, is satisfied that  $RD_{t-2}$  in respect of Regulatory Year t-2 has, for reasons outside the reasonable control of the licensee, either:
- (a) exceeded 106 per cent of  $AR_{t-2}$ ; or
  - (b) been less than 94 per cent of  $AR_{t-2}$ ,
- it may direct the licensee to change the value of  $PR_{t-2}$  to a value which is not less than zero and not more than 3.
- 2A.20 For the Regulatory Year 2015/16 paragraphs 2A.18 and 2A.19 shall apply to the derivation of  $PR_{t-1}$  as if the terms  $PR_{t-1}$ ,  $AR_{t-1}$ , and  $RD_{t-1}$  were substituted for the terms  $PR_{t-2}$ ,  $AR_{t-2}$ , and  $RD_{t-2}$ .

**Part G: Treatment of charges in the event of over-recovery**

- 2A.21 Paragraph 2A.22 applies from 1 April 2018.
- 2A.22 If, in respect of two successive Regulatory Years t-2 and t-3, the licensee's Regulated Distribution Network Revenue in each of those Regulatory Years exceeds 110 per cent of Allowed Distribution Network Revenue for those Regulatory Years, the licensee:

- (a) must provide an explanation for that event in writing to the Authority by 31 July in the associated Regulatory Year t-1; and
- (b) must not increase its Use of System Charges for the Regulatory Year t except and to the extent that the Authority has consented to such an increase.

**Part H: Treatment of charges in the event of under-recovery**

2A.23 Paragraph 2A.24 applies from 1 April 2018.

2A.24 If, in respect of two successive Regulatory Years t-2 and t-3, the licensee's Regulated Distribution Network Revenue in each of those Regulatory Years is less than 90 per cent of the Allowed Distribution Network Revenue for those Regulatory Years, the licensee:

- (a) must provide an explanation for that event in writing to the Authority by 31 July in the associated Regulatory Year t-1; and
- (b) must use its reasonable endeavours in setting Use of System Charges to recover the Allowed Distribution Network Revenue in Regulatory Year t.

**Part I: Interpretation**

2A.25 For the purposes of this condition:

**Regulated Distribution Network Revenue** means the revenue derived by the licensee from Use of System Charges made for the provision of Distribution Services to Customers in respect of a Regulatory Year.

**Retail Prices Index** means:

- (a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or
- (b) if that index in respect of any month relevant for the purposes of the Charge Restriction Conditions has not been published, such price index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or
- (c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances (provided that any index so determined may not have a retroactive effect on any formula or other provision of the Charge Restriction Conditions).

**Retail Prices Index  
Forecast Growth  
Rate**

means:

(a) the growth rate (which is presented as a percentage) as defined as the “New forecasts (marked \*)” in the HM Treasury document, “Forecasts for the UK Economy”, published in November each year; or

(b) if that growth rate in respect of any year has not been published, such growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or

(c) if there is a material change in the basis of that growth rate, such other growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances (provided that any index so determined may not have a retroactive effect on any formula or other provision of the Charge Restriction Conditions).

**Vanilla Weighted  
Average Cost of  
Capital**

has the meaning given to that term in the glossary of the ED1 Price Control Financial Handbook.

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## CRC 2M. Adjustment of licensee's revenues for the residual distribution losses incentive

### Introduction

- 2M.1 The purpose of this condition is to establish the mechanism for calculating the amount of the term **DLGT PPL<sub>t</sub>** (the DPCR4 residual distribution losses incentive **and Growth Term**) that applies in Part B of CRC 2A Restriction of Allowed Distribution Network Revenue).
- 2M.2 The effect of the application of the ~~residual distribution losses incentive~~ **DLGT** value in CRC 2A is to adjust the calculation of the licensee's Allowed Distribution Network Revenue, whether upwards or downward, in order to reflect the licensee's final performance under the distribution losses incentive scheme **and the Growth Term** in the charge restriction period 1 April 2005 to 31 March 2010.

### Part A: Calculation of the DPCR4 ~~residual distribution losses incentive~~ (**PPL**) and Growth Term (**DLGT**)

- 2M.3 The value of the **DLGT<sub>t</sub>** term is derived in accordance with the following formula:

$$\text{DLGT}_t = \text{PPL}_t + \text{GTA}_t$$

- ~~2M.3~~ 2M.4 For the purposes of this condition:

**PPL<sub>t</sub>** is the amount of the residual distribution losses incentive arising in the charge restriction period 1 April 2005 to 31 March 2010, set in accordance with the provisions ~~of paragraphs 2M.4 to 2M.6~~ Part B of this condition, that is to be recovered by the licensee.

**GTA<sub>t</sub>** means the Growth Term adjustment in Regulatory Year t, as derived in accordance with the provisions of Part C of this condition.

### Part B: Calculation of the residual distribution losses incentive (**PPL**)

- ~~2M.4~~ 2M.5 The value of **PPL<sub>t</sub>** shall be calculated by reference to the methodology set out in the Authority's decision document published on 3 January 2013 under reference number 01/13.
- ~~2M.5~~ 2M.6 The amount of **PPL<sub>t</sub>** assigned for recovery in respect of each Regulatory Year has been set in a direction given by the Authority on 21 March 2014.
- ~~2M.6~~ 2M.7 That direction also sets out the period over which the value of **PPL<sub>t</sub>** is to be recovered, taking account of the date on which the **PPL<sub>t</sub>** direction is made.

### Part C: Calculation of the Growth Term adjustment (**GTA**)



2M.8 For the purposes of the formula in paragraph 2M.3, and subject to paragraph 2M.10,  $GTA_t$  is derived in accordance with the following formula:

$$GTA_t = GTAA \times RPIF_t$$

2M.9 In the above formula for  $GTA_t$ :

**GTAA** means the value of the Growth Term in 2012/13 prices set out in Appendix 1 of this condition, which is set out in the Authority's decision document dated 21 March 2014 entitled "Decision on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism" and includes the appropriate time value of money adjustments.

**RPIF<sub>t</sub>** has the value given to it by Part C of CRC 2A.

2M.10 In all Regulatory Years except 2016/17,  $GTA_t$  will have the value of zero.

#### **Part D: Interpretation**

2M.11 For the purposes of this condition:

**Growth Term** means the final value required to close out the DPCR4 growth term, derived in accordance with the Authority's decision document dated 21 March 2014 entitled "Decision on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism".

## APPENDIX 1

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

Licensee	GTAA
ENWL	0.60
NPgN	-0.04
NPgY	-0.54
LPN	-0.55
SPN	-0.22
EPN	-0.38
SPD	0.42
SPMW	1.04