

Schedule 1: RIIO-ED1 slow-track CRC licence changes

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CHAPTER 2: ELECTRICITY DISTRIBUTION REVENUE RESTRICTION

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):

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

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

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failures).

D_{GLLG}T_t 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_t 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_t)

2A.5 For the purposes of the Principal Formula, the amount of BR_t 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_t term above:

PU_t 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_t 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_t 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_t 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_t is derived in accordance with the following formula:

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

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2A.8 In the above formula for $RPIF_t$:

$RPIA_t$ 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

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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.

[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.

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

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.

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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:

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

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

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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).

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

Part D: Calculation of the incentive revenue adjustment (IP_t)

2A.13 For the purposes of the Principal Formula, the amount of IP_t 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_t :

BM_t 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_t means the interruptions-related quality of service incentive revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2D.

ICE_t 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_t 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_t means the Losses Discretionary Reward scheme revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2G.

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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_t) [For ENWL]

2A.15 For the purposes of the Principal Formula for the licensee, subject to paragraph 2A.16, 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 For Regulatory Year 2015/16, K_t will have the value of zero and for Regulatory Year 2016/17 K_t 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_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.

Part E: Calculation of the correction factor (K_t) [For NPgN and NPgY]

2A.15 For the purposes of the Principal Formula for the licensee, subject to paragraph 2A.16, 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 For Regulatory Years 2015/16 and 2016/17 K_t is derived, respectively, in the following ways:

(a) For Regulatory Year 2015/16, K_t 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_t 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_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.

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_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.

Part E: Calculation of the correction factor (K_t) [For SPD and SPMW]

2A.15 For the purposes of the Principal Formula for the licensee, subject to paragraph 2A.16, 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 For Regulatory Years 2015/16 and 2016/17 K_t is derived, respectively, in the following ways:

(a) For Regulatory Year 2015/16, K_t 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_t will have the value of zero.

2A.17 In the above formulae for K_t :

RD_{t-1} 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_{t-2} means the Regulated Distribution Network Revenue in Regulatory Year t-2.

AR_{t-1} 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_{t-2} means the amount of the Allowed Distribution Network Revenue in Regulatory Year t-2.

I_t means the Average Specified Rate in Regulatory Year t.

PR_{t-1} means the interest rate adjustment as derived in accordance with Part F of this condition.

PR_{t-2} 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_{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;

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- (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.

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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).

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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.

APPENDIX 1

**Values for the PU term (£m, 2012/13 prices) by licensee
(see paragraph 2A.6)**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL	373.0	379.9	360.9	357.3	353.8	350.2	350.2	350.2
NPgN	249.1	246.5	246.5	246.5	246.5	246.5	246.5	246.5
NPgY	323.6	322.0	322.0	322.0	322.0	322.0	322.0	322.0
LPN	366.9	387.4	383.1	390.0	397.2	404.5	411.9	419.5
SPN	322.1	325.4	332.2	340.3	348.7	357.3	366.0	375.1
EPN	496.6	507.8	504.3	507.8	515.9	524.1	532.5	540.8
SPD	338.3	346.0	346.0	346.0	346.0	346.0	346.0	346.0
SPMW	304.6	310.9	310.9	310.9	310.9	310.9	310.9	310.9
SSEH	246.4	257.1	257.1	257.1	257.1	257.1	257.1	257.1
SSES	473.7	473.7	473.7	473.7	473.7	473.7	473.7	473.7

CHAPTER 3: ANNUAL ITERATION PROCESS – ADJUSTMENTS TO THE REVENUE RESTRICTION

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.

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- 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.29 and 3A.30 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.29 and 3A.30, 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.289 and 3A.2930, 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.

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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 Shetland adjustment (see paragraph 3A.14)	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.

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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.18 to 3A.20.

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.18.

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

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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.29 and 3A.30, 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.25 to 3A.28.

3A.25 Subject to paragraphs 3A.29 and 3A.30, 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	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.29 and 3A.30, 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

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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.1~~67~~ and 3A.~~2324~~ 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.1~~67~~ and 3A.~~2324~~ 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~~ 3A.32 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~~ 3A.32 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.

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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

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	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.

CRC 3E. Smart Meter Roll-out Costs

Introduction

- 3E.1 This condition establishes mechanisms to:
- (a) specify the opening values of the licensee's allowed expenditure for Smart Meter Roll-out Costs ("SMAE values");
 - (b) specify the basis on which the licensee's opening SMAE values can be revised; and
 - (c) determine any appropriate revisions to the PCFM Variable Values (relating to SMAE values) and the Regulatory Years to which revised SMAE values relate for use in the Annual Iteration Process for the ED1 PCFM as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- 3E.2 The SMAE values as at 1 April 2015 are equal to the amounts of allowed expenditure that were included in the calculation of Opening Base Revenue Allowances for the licensee at the beginning of the Price Control Period.
- 3E.3 The application of the mechanisms set out in this condition provides for:
- (a) the specification of the opening SMAE values at 1 April 2015;
 - (b) the direction of revised SMAE values so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Regulatory Year t for the purposes of Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue) will result in an adjustment of the licensee's Allowed Distribution Network Revenue in a manner that:
 - (i) reflects allowed expenditure amounts determined under Parts B and C of this condition; and
 - (i) takes account of revised SMAE values for the purposes of the Totex Incentive Mechanism Adjustment.
- 3E.4 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments), CRC 4B and chapter 8 of the ED1 Price Control Financial Handbook.

Part A: Opening SMAE values at 1 April 2015

- 3E.5 Table 1 in this condition sets out the opening SMAE values for the licensee as at 1 April 2015, for each Regulatory Year in the Price Control Period.

Table 1: Opening SMAE values for the licensee (£m, in 2012/13 prices)

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL	1.85	2.55	3.09	2.82	2.69	0.00	0	0
NPgN	0.79	1.36	2.04	2.33	2.28	1.66	0	0
NPgY	1.14	1.93	2.84	3.25	3.21	2.36	0	0
LPN	1.21	2.06	2.65	2.94	2.94	2.17	0	0
SPN	1.18	2.00	2.60	2.87	2.88	2.12	0	0
EPN	1.80	3.28	4.19	4.57	4.48	3.15	0	0
SPD	1.06	1.85	2.33	2.87	2.75	1.63	0	0
SPMW	0.65	1.20	1.53	1.83	1.75	1.06	0	0
SSEH	0.31	0.59	0.83	0.92	0.88	0.62	0	0
SSES	1.26	2.40	3.40	3.79	3.59	2.52	0	0

3E.6 The opening levels of allowed expenditure set out in Table 1 in this condition have been reflected in:

- (a) the licensee’s Opening Base Revenue Allowances, as specified for the licensee in Appendix 1 to CRC 2A; and
- (b) SMAE values contained in the PCFM Variable Values Table for the licensee as set out in the ED1 Price Control Financial Model as at 1 April 2015.

3E.7 The licensee must report on the total volume of Smart Meter Installations carried out in its Distribution Services Area in each Regulatory Year and the total number of cases where it has been required to intervene (“Smart Meter Interventions”) in each Regulatory Year in accordance with the RIGs issued under standard condition 46 (Regulatory Instructions and Guidance).

Part B: Determination of $SMAE_t$ values for the Regulatory Years 2015/16 to 2021/22 (annual value)

3E.8 For each of the Regulatory Years from 2015/16 to 2020/21 the annual value of SMAE will be derived in accordance with the following formula:

$$SMAE_{t-2} = (SMV_{t-2} \times SMUC) \div 1,000,000$$

where:

$SMAE_{t-2}$ means the Smart Meter allowed expenditure value for Regulatory Year t-2.

SMV_{t-2} means the total number of Smart Meter Interventions in the licensee's

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Distribution Services Area for Regulatory Year t-2.

SMUC means the licensee's allowed unit cost of Smart Meter Interventions specified in Appendix 1 to this condition (which, following consultation with the licensee, may be subject to revision to take account of unforeseen circumstances, as specified in a direction by the Authority).

3E.9 For Regulatory Year 2021/22 the annual value of SMAE will be zero, unless, following consultation with the licensee, the Authority directs that it should be a different value to take account of circumstances that were unforeseen at the time of the ED1 Final Determination.

Part C: Determination of $SMAE_t$ for Regulatory Year 2022/23 (true up value)

3E.10 For Regulatory Year 2022/23, unless the Authority directs otherwise, the value of SMAE will be derived in accordance with the following formula:

$$SMAE_{2022/23} = (TTFA/1,000,000) - \sum_{t=2015/16}^{2021/22} SMAE_t$$

where:

TTFA means the total revised allowance after the tapering factor adjustment has been applied and is derived in accordance with the following formula:

$$TTFA = (SMV_1 \times SMUC \times TF_1) + (SMV_2 \times SMUC \times TF_2) + (SMV_3 \times SMUC \times TF_3) + (SMV_4 \times SMUC \times TF_4)$$

SMV_i means the number of Smart Meter Interventions in the licensee's Distribution Service Area for Regulatory Years 2015/16 to 2021/22 inclusive in volume band i, its values being calculated in accordance with Table 2.

TF_i means the tapering factor for the licensee in volume band i, as set out in Table 2, and subject to any revision to which, following consultation with the licensee, it may be subject to take account of unforeseen circumstances, as specified in a direction by the Authority.

TSMV means the total number of Smart Meter Installations in the licensee's Distribution Service Area for Regulatory Years 2015/16 to 2021/22 inclusive.

Table 2: Calculation of the licensee's tapering factor

Volume Band i	SMV_i	TF_i
1	$\min(SMV, 0.1 \times TSMV)$	1

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2	$\min(\max(\text{SMV} - (0.1 \times \text{TSMV}), 0), 0.05 \times \text{TSMV})$	0.75
3	$\min(\max(\text{SMV} - (0.15 \times \text{TSMV}), 0), 0.05 \times \text{TSMV})$	0.5
4	$\max(\text{SMV} - (0.2 \times \text{TSMV}), 0)$	0.25

Part D: Direction of revisions to SMAE values by the Authority

- 3E.11 Subject to paragraphs 3E.12 and 3E.13, the Authority will by 30 November in each Regulatory Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part E of this condition, specifying a revised SMAE value for Regulatory Year t-2.
- 3E.12 The first Regulatory Year t-1 for which the Authority will issue a direction under paragraph 3E.11 is Regulatory Year 2015/16, for the purposes of the Annual Iteration Process that will take place by 30 November 2016.
- 3E.13 The Authority may also include in a direction given under paragraph 3E.11 revisions to SMAE values for Regulatory Years earlier than Regulatory Year t-2 provided that:
- the revisions are necessary because one or more of the values used in the previous determination of the SMAE values concerned has been restated by the licensee under a requirement of this licence;
 - the revised SMAE values have been determined in accordance with the formula set out in paragraph 3E.8 of this condition; and
 - Regulatory Years earlier than Regulatory Year t-2 can be no earlier than Regulatory Year 2015/16.
- 3E.14 The Authority may also by direction revise the SMAE value for a Regulatory Year (a “further revision”), even though that SMAE value concerned may have been previously revised, provided that:
- the further revision is necessary to reflect a review by the Authority of the SMAE value that is applicable for the values of the terms in respect of the earlier Regulatory Years or to correct errors in relation to those values;
 - the further revised SMAE value for the earlier Regulatory Years is calculated in accordance with the formula set out in Parts B and C of this condition;
 - the further revised SMAE value for the earlier Regulatory Years is specified in a direction issued in accordance with the provisions of Part E of this condition; and
 - a Regulatory Year earlier than Regulatory Year t-2 can be no earlier than Regulatory Year 2015/16.

Part E: Procedure to be followed for the determination and direction of revised SMAE values

- 3E.15 Subject to, and in accordance with the provisions of Part D of this condition, revised SMAE values for the licensee will be directed by the Authority by 30 November in each Regulatory Year t-1.
- 3E.16 A direction under paragraph 3E.15 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee set out all of the revised SMAE values that it proposes to direct;
 - (b) stated in that Notice that those values have been determined in accordance with the provisions of Parts B, C and D (as applicable) 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 about its proposals; and
 - (d) considered any representations duly received in response to the Notice.
- 3E.17 Where the Authority directs any revised SMAE values for Regulatory Years earlier than Regulatory Year t the effect of using those revised SMAE 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.
- 3E.18 If, for any reason in any Regulatory Year t-1, the Authority does not make a direction in relation to revised SMAE 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 F: Interpretation

3E.19 For the purposes of this condition:

Smart Meter Installations	means the installation of a Smart Meter, where Smart Meter has the meaning given to that term in Condition 1 of the Smart Meter Communication Licence.
Smart Meter Interventions	means one or more of the activities listed in Appendix 2 ¹ that the licensee is required to undertake in respect of a given Smart Meter Installation. Following consultation with the licensee, the Authority may direct that additional activities be included within the scope of the Smart Meter Interventions to take account of unforeseen circumstances. When consulting on such a change, the Authority will also consult on consequential changes to TF_t and $SMUC_t$ values.
Smart Meter Roll-out Costs	means the costs incurred by the licensee in carrying out Smart Meter Interventions in relation to a Smart Meter Installation.

APPENDIX 1

Allowed unit cost of Smart Meter Interventions (£ per site, in 2012/13 prices)

Licensee	SMUC (£ per site)
ENWL	323
NPgN	354
NPgY	353
LPN	498
SPN	332
EPN	325
SPD	313
SPMW	295
SSEH	293
SSES	307

APPENDIX 2

On-site/physical activities

Cut-out changes	Work carried out on cut-outs in respect of a Smart Meter Installation.
Service Inspection	Inspections carried out in respect of a Smart Meter Installation.
Service Alterations	Work carried out by the licensee to relocate Customers' electricity service (supply cable and service cut-out) to an alternative location.
Abortive Calls	Incidences where the licensee is called out to conduct work in respect of a Smart Meter Installation and the customer is not present when the engineer arrives.
Asbestos Meterboards	Work to replace the licensee's cut-outs and meter boards where the meter board has been found to contain asbestos during a Smart Meter Installation.
Miscellaneous repairs/Safety repairs (SM)	Additional repair work that is carried out by the licensee in respect of a Smart Meter Installation and is not covered in any other reporting category.

CRC 3F. Arrangements for the recovery of uncertain costs [ENWL, NPgN, NPgY, SPD, SPMW, SSES only]

Introduction

3F.1 This condition establishes a mechanism:

- (a) to 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
- (a) 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).

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
Link Box Costs	UCLB values

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 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.

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3F.5 The opening PCFM Variable Values for the licensee for Specified Street Works Costs (being the opening value for UCSSW), Rail Electrification Costs (being the opening value for UCRE) and Link Box Costs (being the opening value for UCLB) 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 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.7 This Part provides for:

- (a) the proposal of relevant adjustments by the licensee or (in respect of High Value Projects) by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

(a) Proposal of relevant adjustments

3F.8 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) for all uncertain cost activities other than High Value Project Costs, constitutes a material amount as specified for the licensee in Appendix 2, 3, 4 or 5 (as the case may be) to this condition;
- (d) for High Value Project Costs passes the tests set out in Appendix 1;
- (e) relates to costs incurred or expected to be incurred after 1 April 2015; and
- (f) 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.

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- 3F.9 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 are 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.

(b) Application windows for relevant adjustment proposals

- 3F.10 The licensee may only give Notice of a proposed relevant adjustment during the following application windows:
- (a) for Link Box Costs the application window that opens on 1 July 2017 and closes on 31 July 2017; and
 - (b) for all other uncertain cost activities the application window that opens on 1 May 2019 and closes on 31 May 2019.
- 3F.11 The Authority may only give Notice of its intention to make a relevant adjustment in respect of High Value Project Costs, and may only do so at the end of the Price Control Period during the Notice window that opens on 1 December 2023 and closes on 31 December 2023.

(c) Authority's power to determine relevant adjustments

- 3F.12 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 sections of chapter 7 of the ED1 Price Control Financial Handbook:
- (a) section 2 – in respect of High Value Project Costs;
 - (b) section 3 – in respect of Enhanced Physical Site Security Costs;
 - (c) section 4 – in respect of Specified Street Works Costs;
 - (d) section 5 – in respect of Rail Electrification Costs; and
 - (e) section 6 – in respect of Link Box Costs.

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- 3F.13 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.14 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.15 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 levels 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
 - (d) take no account of the general financial performance of the licensee under the price control arrangements set out in the Charge Restriction Conditions of this licence.
- 3F.16 A determination under paragraph 3F.12 may confirm, reject, or amend the proposed relevant adjustment.
- 3F.17 Without limiting the general effect of paragraph 3F.16, a determination by the Authority of a relevant adjustment may 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 2022/23.
- 3F.18 A determination under paragraph 3F.12 will specify:
- (a) the uncertain cost activities that are the subject of the determination;
 - (b) the Regulatory Years to which the determination applies; and
 - (c) the revised total level of allowed expenditure (in 2012/13 prices) for the relevant uncertain cost activities specified under subparagraph 3F.18(a) for each of the Regulatory Years specified under subparagraph 3F.18(b).
- 3F.19 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 3F.8 within four months of the close of the application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to a revision to the allowed level of expenditure on the

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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

- 3F.20 This Part provides for the determination and direction of revisions to the following PCFM Variable Values for the licensee:
- (a) 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); and
 - (e) Link Box Costs (UCLB values).
- 3F.21 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.22 Revised PCFM Variable Values for the licensee, as determined under paragraph 3F.20, will be directed by the Authority by:
- (a) 30 November in Regulatory Year 2018/19 in respect of Link Box Costs; and
 - (b) 30 November in Regulatory Year 2019/20 in respect of all other uncertain cost activities.
- 3F.23 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 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.
- 3F.24 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.25 For the purposes of this condition:

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.

Link Box means a low voltage cable marshalling point with facilities for the insertion and removal of linking cables.

Link Box Costs means costs incurred or expected to be incurred by the licensee in efficiently managing the asset risk associated with Link Boxes, as may be further clarified in the RIGs.

Rail Electrification Costs means costs incurred, or expected to be incurred, 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, lane rental scheme or equivalent and comprise:

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

all as further clarified in the RIGs.

APPENDIX 1:

**Opening level of allowed expenditure for High Value Project Costs
and tests for proposed relevant adjustments for each licensee**

(£m, in 2012/13 prices)

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

Table 1

	Opening level of allowed expenditure							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NPgN	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NPgY	10.73	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SPD	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SPMW	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SSES	4.43	4.42	8.83	8.76	0.00	0.00	0.00	0.00

Table 2

	Material amount	Total opening level of allowed expenditure (TUCHVPOV)
ENWL	6.21	0.0 <u>0</u>
NPgN	4.49	0.0 <u>0</u>
NPgY	5.86	10.7 <u>3</u>
SPD	6.47	0.0 <u>0</u>
SPMW	5.82	0.0 <u>0</u>
SSES	8.42	26.4 <u>4</u>

Tests for proposed relevant adjustments

A1.1 A proposed relevant adjustment in respect of High Value Project Costs must meet the following tests.

A1.2 The first test is that the following condition must be met:

$$(\max (\text{TUCHVVPF} - \text{TUCHVPOV} , \text{TUCHVPOV} - \text{TUCHVVPF})) > \text{MA} + (20\% \times \text{TUCHVPOV})$$

where:

TUCHVPOV means the total opening level of allowed expenditure that is defined as High Value Project Costs as set out in Table 2 plus any additional allowed expenditure determined under previous reopeners under this Condition.

TUCHVVPF means the proposed revised level of allowed expenditure that is defined as High Value Project Costs.

MA is the material amount set out for the licensee at Table 2 of this Appendix.

A1.3 The second test is that a relevant adjustment to UCHVP values proposed or made under this condition must not exceed:

(i) $\text{TUCHVVPF} - \text{TUCHVPOV} - (20\% \times \text{TUCHVPOV})$

where $\text{TUCHVVPF} > \text{TUCHVPOV}$; or

(ii) $\text{TUCHVVPF} - \text{TUCHVPOV} + (20\% \times \text{TUCHVPOV})$

where $\text{TUCHVVPF} < \text{TUCHVPOV}$

A1.4 In carrying out any calculations pursuant to these tests, allowed and actual expenditure in respect of High Value Project Costs will be considered:

- (a) on an aggregated basis for all activities that comprise High Value Projects;
- (b) on a total expenditure basis taking account of expenditures incurred, or expected to be incurred, over the entire Price Control Period; and
- (c) in 2012/13 prices.

APPENDIX 2:

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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NPgN	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NPgY	0.95	0.00	0.49	0.00	0.00	0.00	0.00	0.00	0.00
SPD	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SPMW	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.00
SSES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

APPENDIX 3:

The material amount for Specified Street Works Costs for each licensee

(£m, in 2012/13 prices)

(see paragraph 3F.8)

	Material amount
ENWL	6.21
NPgN	4.49
NPgY	5.86
SPD	6.47
SPMW	5.82
SSES	8.42

APPENDIX 4:

**The material amount for Rail Electrification Costs for each licensee
(£m, in 2012/13 prices)
(see paragraph 3F.8)**

	Material amount
ENWL	6.21
NPgN	4.49
NPgY	5.86
SPD	6.47
SPMW	5.82
SSES	8.42

APPENDIX 5:

**The material amount for Link Box Costs for each licensee
(£m, in 2012/13 prices)
(see paragraph 3F.8)**

	Material amount
ENWL	6.21
NPgN	4.49
NPgY	5.86
SPD	6.47
SPMW	5.82
SSES	8.42

CRC 3F. Arrangements for the recovery of uncertain costs [LPN, EPN and SPN only]

Introduction

3F.1 This condition establishes a mechanism:

- (a) to 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).

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
Link Box Costs	UCLB values

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 Costs 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 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.

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3F.5 The opening PCFM Variable Values for the licensee for Specified Street Works Costs (being the opening value for UCSSW), Rail Electrification Costs (being the opening value for UCRE) and Link Box Costs (being the opening value of UCLB) 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 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.7 This Part provides for:

- (a) the proposal of relevant adjustments by the licensee or (for High Value Project Costs and Link Box Costs) by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

(a) Proposal of relevant adjustments

3F.8 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 (subject to paragraph 3F.9), 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) for all uncertain cost activities other than High Value Project Costs constitutes a material amount as specified for the licensee in Appendix 2, 3, 4 or 5 or (as the case may be) to this condition;
- (d) for High Value Project Costs passes the tests set out in Appendix 1.
- (e) relates to costs incurred or expected to be incurred after 1 April 2015; and
- (f) 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.

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3F.9 In respect of Link Box Costs:

- (a) the licensee may only propose relevant adjustments to the allowed level of expenditure on Link Box Costs for any of the Regulatory Years from 2017/18 until the end of the Price Control; and
- (b) the Authority may only propose relevant adjustments to the allowed level of expenditure on Link Box Cost for either or both of the Regulatory Years 2015/16 and 2016/17 and may not propose greater negative adjustments to such allowed levels of expenditure than those set out in Appendix 5 of this condition .

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.

(b) Application windows for relevant adjustment proposals

3F.11 The licensee may only give Notice of a proposed relevant adjustment during the following application windows:

- (a) for Link Box Costs the application window that opens on 1 July 2017 and closes on 31 July 2017; and
- (b) for all other uncertain cost activities the application window that opens on 1 May 2019 and closes on 31 May 2019.

3F.12 The Authority may only give Notice of its intention to make a relevant adjustment in respect of High Value Project Costs and Link Box Costs and only during the following application windows:

- (a) for High Value Project Costs the application window at the end of the Price Control Period that opens on 1 December 2023 and closes on 31 December 2023; and
- (b) for Link Box Costs the application window that opens on 1 July 2017 and closes on 31 July 2017.

(c) Authority's power to determine relevant adjustments

3F.13 Where a proposal has been duly made by the licensee or the Authority 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 sections of chapter 7 of the ED1 Price Control Financial Handbook:

- (a) section 2 – in respect of High Value Project Costs;

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- (b) section 3 – in respect of Enhanced Physical Site Security Costs;
 - (c) section 4 – in respect of Specified Street Works Costs;
 - (d) section 5 – in respect of Rail Electrification Costs; and
 - (e) Section 6 – in respect of Link Box Costs.
- 3F.14 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.11 and the date on which such further or reformatted information or analysis is provided.
- 3F.15 The giving of Notice under paragraph 3F.14 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.16 In determining any revision under paragraph 3F.13, 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.16(a); and
 - (d) take no account of the general financial performance of the licensee under the price control arrangements set out in the Charge Restriction Conditions of this licence.
- 3F.17 A determination under paragraph 3F.13 may confirm, reject, or amend the proposed relevant adjustment.
- 3F.18 Without limiting the general effect of paragraph 3F.17, a determination by the Authority of a relevant adjustment may 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 2022/23.
- 3F.19 A determination under paragraph 3F.13 will specify:
- (a) the uncertain cost activities that are the subject of the determination;
 - (b) the Regulatory Years to which the determination applies; and
 - (c) the revised total level of allowed expenditure (in 2012/13 prices) for the relevant uncertain cost activities specified under 3F.19(a) for each of the Regulatory Years specified under 3F.19(b).

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3F.20 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 3F.8 within four months of the close of the application window, and the proposal has not been withdrawn, then the relevant adjustment, 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

3F.21 This Part provides for the determination and direction of revisions to the following PCFM Variable Values for the licensee:

- (a) 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); and
- (e) Link Box Costs (UCLB values).

3F.22 Determinations under paragraph 3F.21 are to be made in accordance with the provisions of chapter 7 of the ED1 Price Control Financial Handbook.

3F.23 Revised PCFM Variable Values for the licensee, as determined under paragraph 3F.21 will be directed by the Authority by:

- (a) 30 November in Regulatory Year 2018/19 in respect of Link Box Costs; and
- (b) 30 November in Regulatory Year 2019/20 in respect of all other uncertain cost activities.

3F.24 A direction under paragraph 3F.23 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 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.

3F.25 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.26 For the purposes of this condition:

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.

Link Box means a low voltage cable marshalling point with facilities for the insertion and removal of linking cables.

Link Box Costs means costs incurred or expected to be incurred by the licensee in efficiently managing the asset risk associated with Link Boxes, as may be further clarified in the RIGs.

Rail Electrification Costs means costs incurred or expected to be incurred, 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, lane rental scheme or equivalent and comprise:

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

all as further clarified in the RIGs.

APPENDIX 1:

Opening level of allowed expenditure for High Value Project Costs and tests for proposed relevant adjustments for each licensee

(£m, in 2012/13 prices)

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

Table 1

Opening level of allowed expenditure								
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
LPN	11.01	9.64	14.82	16.30	14.67	8.01	7.62	5.77
SPN	4.73	5.80	5.78	5.41	4.51	2.72	0.00	0.00
EPN	11.72	9.08	0.56	0.00	0.00	0.00	0.00	0.00

Table 2

	Material amount	Total opening level of allowed expenditure (TUCHVPOV)
LPN	7.44	87.84
SPN	6.52	29.08 9.95
EPN	9.72	21.436

Tests for proposed relevant adjustments

A1.1 A proposed relevant adjustment in respect of High Value Project Costs must meet the following tests.

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A1.2 The first test is that the following condition must be met:

$$(\max (\text{TUCHVVPF} - \text{TUCHVPOV} , \text{TUCHVPOV} - \text{TUCHVVPF})) > \text{MA} + (20\% \times \text{TUCHVPOV})$$

where:

TUCHVPOV	means the total opening level of allowed expenditure that is defined as High Value Project Costs as set out in Table 2 plus any additional allowed expenditure determined under previous reopeners under this Condition.
TUCHVVPF	means the proposed revised level of allowed expenditure that is defined as High Value Project Costs.
MA	is the material amount set out for the licensee at Table 2 of this Appendix.

A1.3 The second test is that a relevant adjustment to UCHVP values proposed or made under this condition must not exceed:

(i) $\text{TUCHVVPF} - \text{TUCHVPOV} - (20\% \times \text{TUCHVPOV})$

where $\text{TUCHVVPF} > \text{TUCHVPOV}$; or

(ii) $\text{TUCHVVPF} - \text{TUCHVPOV} + (20\% \times \text{TUCHVPOV})$

where $\text{TUCHVVPF} < \text{TUCHVPOV}$

A1.4 In carrying out any calculations pursuant to these tests, allowed and actual expenditure in respect of High Value Project Costs will be considered:

- (a) on an aggregated basis for all activities that comprise High Value Projects;
 - (b) on a total expenditure basis taking account of expenditures incurred, or expected to be incurred, over the entire Price Control Period; and
- in 2012/13 prices.

APPENDIX 2:

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	
LPN	0.00	0.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SPN	0.54	0.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPN	0.05	0.48	0.65	0.66	0.00	0.00	0.00	0.00	0.00

APPENDIX 3:

The material amount for Specified Street Works Costs for each licensee

(£m, in 2012/13 prices)

(see paragraph 3F.8)

	Material amount
LPN	7.44
SPN	6.52
EPN	9.72

APPENDIX 4:

The material amount for Rail Electrification Costs for each licensee

(£m, in 2012/13 prices)

(see paragraph 3F.8)

	Material amount
LPN	7.44
SPN	6.52
EPN	9.72

APPENDIX 5:

Table 1

**The material amount for Link Box Costs for each licensee
(£m, in 2012/13 prices)
(see paragraph 3F.8)**

	Material amount
LPN	7.44
SPN	6.52
EPN	9.72

Table 2

**Maximum negative adjustments
(£m, in 2012/13 prices)
(see paragraphs 3F.9)**

	2015/16	2016/17
LPN	4.01	4.01
SPN	5.34	5.34
EPN	3.64	3.64

CRC 3F. Arrangements for the recovery of uncertain costs [SSEH only]

Introduction

- 3F.1 This condition establishes a mechanism:
- (a) to 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).
- 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
Link Box Costs	UCLB values
Shetland Uncertain Energy Costs	UCSFE values
Shetland Competitive Process Costs	UCCPC values
Subsea Cable Costs	UCSC values

- 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 the categories of cost set out in paragraph 3F.5 for each Regulatory Year, as at 1 April 2015 (that is, before

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any relevant adjustments have been made under the provisions of this condition), that were used in the calculation of the Opening Base Revenue Allowance for the licensee are set out in the Appendices to this condition shown against each cost category in paragraph 3F.5.

3F.5 The categories of cost and associated appendices referred to in paragraph 3F.4 are:

- (a) High Value Projects Costs – Appendix 1;
- (b) Enhanced Physical Site Security Costs – Appendix 2;
- (c) Shetland Uncertain Energy Costs – Appendix 6; and
- (d) Shetland Competitive Process Costs – Appendix 7.

3F.6 The opening level of allowed expenditure for the licensee for the categories of cost set out in paragraph 3F.7 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.7 The categories of cost referred to in paragraph 3F.6 are:

- (a) Specified Street Works Costs;
- (b) Rail Electrification Costs;
- (c) Link Box Costs; and
- (d) Subsea Cable Costs.

3F.8 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.9 This Part provides for:

- (a) the proposal of relevant adjustments by the licensee in respect of all of the cost categories set out in Table 1;
- (b) the proposal of relevant adjustments by the Authority in respect of:
 - (i) High Value Project Costs;
 - (ii) Shetland Uncertain Energy Costs; and
 - (iii) Shetland Competitive Process Costs.
- (c) the determination of relevant adjustments by the Authority; and
- (d) the deeming of relevant adjustments in certain circumstances.

(a) Proposal of relevant adjustments by the licensee

3F.10 The licensee may, by Notice to the Authority, propose a relevant adjustment to the allowed level of expenditure for:

- (a) Regulatory Year 2015/16 to Regulatory Year 2018/19 in respect of:
 - (i) Shetland Uncertain Energy Costs; and
 - (ii) Shetland Competitive Process Costs; and
- (b) any Regulatory Year during the Price Control Period for all other uncertain cost activities set out in Table 1.

3F.11 The licensee may only give Notice of a proposed change to an allowed level of expenditure during the following application windows:

- (a) a window that opens on 1 May 2016 and closes on 31 May 2016, or such later dates as directed by Ofgem, in respect of Subsea Cables Costs;
- (b) a window that opens on 1 May 2017 and closes on 31 May 2017 in respect of:
 - (i) Shetland Uncertain Energy Costs; and
 - (ii) Shetland Competitive Process Costs; and
- (c) a window that opens on 1 July 2017 and closes on 31 July 2017 in respect of Link Box Costs; and
- (d) a window that opens on 1 May 2019 and closes on 31 May 2019 in respect of all other uncertain cost categories.

3F.12 A proposal by the licensee of changes to an allowed expenditure level must comply with the requirements set out in paragraphs 3F.27 and 3F.28.

Authority's power to determine relevant adjustments

3F.13 Where a proposal has been duly made by the licensee under paragraph 3F.10, the Authority will, within four months of the close of the relevant 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 sections of chapter 7 of the ED1 Price Control Financial Handbook:

- (a) Section 2 – in respect of High Value Project Costs;
- (b) Section 3 – in respect of Enhanced Physical Site Security Costs;
- (c) Section 4 – in respect of Specified Street Works Costs;
- (d) Section 5 – in respect of Rail Electrification Costs;
- (e) Section 6 – in respect of Link Box Costs;
- (f) Section 7 – in respect of Shetland Uncertain Energy Costs;
- (g) Section 8 – in respect of Shetland Competitive Process Costs; and
- (h) Section 9 – in respect of Subsea Cable Costs.

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- 3F.14 If, within 10 working days of receipt of a proposal under paragraph 3F.10, 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 relevant closing date referred to in paragraph 3F.11 and the date on which such further or reformatted information or analysis is provided.
- 3F.15 The giving of Notice under paragraph 3F.14 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.16 In determining any revision under paragraph 3F.13, the Authority will:
- (a) consult with the licensee and other interested parties;
 - (b) have regard to the basis on which the opening levels 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 subparagraph 3F.16(a); and
 - (d) take no account of the general financial performance of the licensee under the price control arrangements set out in the Charge Restriction Conditions of this licence.
- 3F.17 A determination under paragraph 3F.13 may confirm, reject, or amend the proposed relevant adjustment.
- 3F.18 Without limiting the general effect of paragraph 3F.17, a determination by the Authority of a relevant adjustment may specify revisions to the allowed level of expenditure for the relevant uncertain cost activities for the licensee for any of the Regulatory Years specified in paragraph 3F.10.
- 3F.19 A determination under paragraph 3F.13 will specify:
- (a) the uncertain cost activity that is the subject of the determination;
 - (b) the Regulatory Years to which the determination applies; and
 - (c) the revised total level of allowed expenditure (in 2012/13 prices) for the uncertain cost activity specified under subparagraph 3F.19(a) for each of the Regulatory Years specified under subparagraph 3F.19(b).
- 3F.20 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 3F.10 within four months of the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to a revision to the allowed level of

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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.

(b) Proposal of relevant adjustments by the Authority

- 3F.21 The Authority may, by Notice to the licensee, propose a relevant adjustment to the allowed level of expenditure for:
- (a) Regulatory Year 2015/16 to Regulatory Year 2018/19 in respect of:
 - (i) Shetland Uncertain Energy Costs; and
 - (ii) Shetland Competitive Process Costs; and
 - (b) any Regulatory Year during the Price Control Period for High Value Project Costs.
- 3F.22 The Authority may only give Notice of a proposed change to an allowed level of expenditure during the following windows:
- ~~(a) a window that opens on 1 July 2017 and closes on 31 July 2017 in respect of Link Box Costs;~~
 - (a) a window that opens on 1 December 2017 and closes on 31 December 2017 in respect of:
 - (i) Shetland Uncertain Energy Costs; and
 - (ii) Shetland Competitive Process Costs; and
 - (b) a window that opens on 1 December 2023 and closes on 31 December 2023 (which is after the end of the Price Control Period) in respect of High Value Project Costs.
- 3F.23 A proposal by Authority of changes to an allowed expenditure level must comply with the requirements set out in paragraphs 3F.27 and 3F.28.

Process for determining changes to allowed expenditure levels

- 3F.24 Before determining any changes to allowed expenditure levels with respect to a proposal it has made under paragraph 3F.21, the Authority will:
- (a) consult with the licensee and other interested parties;
 - (b) have regard to the basis on which the opening levels 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 subparagraph 3F.24(a); and
 - (d) take no account of the general financial performance of the licensee under the price control arrangements set out in the Charge Restriction Conditions of this licence.

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- 3F.25 A determination by the Authority of a relevant adjustment may specify revisions to the allowed level of expenditure for the relevant uncertain cost activities for the licensee for any of the Regulatory Years specified in paragraph 3F.21.
- 3F.26 A determination of changes to allowed expenditure levels under paragraph 3F.25 will specify:
- (a) the uncertain cost activity that is the subject of the determination;
 - (b) the Regulatory Years to which the determination applies; and
 - (c) the revised total level of allowed expenditure (in 2012/13 prices) for the uncertain cost activity specified under subparagraph 3F.26(a) for each of the Regulatory Years specified under subparagraph 3F.26(b).

(c) Requirements relating to all proposals of changes to allowed expenditure

- 3F.27 A proposed change to an allowed level of expenditure of the type referred to in paragraph 3F.10 or 3F.21 must:
- (a) be based on auditable evidence and justification 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 Allowances were derived;
 - (b) take account of any relevant adjustments previously determined under this condition;
 - (c) for all uncertain cost activities other than High Value Project Costs constitute a material amount as specified for the licensee in Appendix 2, 3, 4,5, 6 or 7 (as the case may be) to this condition;
 - (d) for High Value Project Costs passes the tests set out in Appendix 1;
 - (e) relate to costs incurred or expected to be incurred after 1 April 2015; and
 - (f) constitute 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.28 A proposed change to an allowed level of expenditure of the type referred to in paragraph 3F.10 or 3F.21 must include statements setting out:
- (a) the uncertain cost category to which the proposal relates;
 - (b) the changes to the licensee's allowed level of expenditure that are 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.

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

- 3F.29 This Part provides for the determination and direction of revisions to the following PCFM Variable Values for the licensee:
- (a) 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);
 - (e) Link Box Costs (UCLB values);
 - (f) Shetland Uncertain Energy Costs (UCSFE values);
 - (g) Shetland Competitive Process Costs (UCCPC values); and
 - (h) Subsea Cable Costs (UCSC values).
- 3F.30 Determinations under paragraph 3F.29 are to be made in accordance with the provisions of chapter 7 of the ED1 Price Control Financial Handbook.
- 3F.31 Revised PCFM Variable Values for the licensee, as determined under paragraph 3F.29 will be directed by the Authority by:
- (a) 30 November in Regulatory Year 2016/17 in respect of Subsea Cable Costs or such later date as directed by the Authority;
 - (b) 30 November in Regulatory Year 2017/18 in respect of Uncertain Energy Costs and Shetland Competitive Process Costs;
 - (c) 30 November in Regulatory Year 2018/19 in respect of Link Box Costs;
 - (d) 30 November in Regulatory Year 2019/20 in respect of all other uncertain cost activities.
- 3F.32 A direction under paragraph 3F.31 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 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.

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3F.33 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.34 For the purposes of this condition:

Determination Letter	means the Authority’s open letter entitled “Ofgem’s determination of Scottish Hydro Electric Power Distribution plc’s (SHEPD) submission required under Charge Restriction Condition (CRC) 18A” dated 22 April 2014
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.
Link Box	means a low voltage cable marshalling point with facilities for the insertion and removal of linking cables.
Link Box Costs	means costs incurred, or expected to be incurred, by the licensee in efficiently managing the asset risk associated with Link Boxes, as may be further clarified in the RIGs.
Rail Electrification Costs	means costs incurred, or expected to be incurred, 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.

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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, lane rental scheme or equivalent and comprise:

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

all as further clarified in the RIGs.

Shetland Uncertain Energy Costs

means costs incurred, or expected to be incurred by SSEH during the period between 1 April 2015 and the implementation of the enduring solution for Shetland, referred to in the Determination Letter, to the extent that these costs are not otherwise recoverable under the Charge Restriction Conditions of this licence.

Shetland Competitive Process Costs

means the costs incurred, or expected to be incurred by SSEH in implementing the competitive process referred to in the Determination Letter.

Subsea Cable Costs

means costs incurred, or expected to be incurred, by the licensee in applying recognised and approved measures to protect cables laid on the seabed beyond laying the cable on the seabed and securing it from the low tide mark as the cable emerges from the water in accordance with licensing requirements imposed by Marine Scotland.

APPENDIX 1:

**Opening level of allowed expenditure for High Value Project Costs
and tests for proposed relevant adjustments for SSEH**

(£m, in 2012/13 prices)

(see paragraphs 3F.4 and 3F.2)

Table 1

Opening level of allowed expenditure								
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Table 2

	Material Amount	Total opening level of allowed expenditure (TUCHV _{OV})
SSEH	4.54	0.00

Tests for proposed relevant adjustments

A proposed relevant adjustment in respect of High Value Project Costs must meet the following tests.

A1.1 The first test is that the following condition must be met:

$$(\max (\text{TUCHVVPF} - \text{TUCHVPOV} , \text{TUCHVPOV} - \text{TUCHVVPF})) > \text{MA} + (20\% \times \text{TUCHVPOV})$$

where:

TUCHVPOV	means the total opening level of allowed expenditure that is defined as High Value Project Costs as set out in Table 2 plus any additional allowed expenditure determined under previous reopeners under this Condition.
TUCHVVPF	means the proposed revised level of allowed expenditure that is defined as High Value Project Costs.
MA	is the material amount set out for the licensee at Table 2 of this Appendix.

A1.2 The second test is that a relevant adjustment to UCHVP values proposed or made under this condition must not exceed:

(i) $\text{TUCHVVPF} - \text{TUCHVPOV} - (20\% \times \text{TUCHVPOV})$

where $\text{TUCHVVPF} > \text{TUCHVPOV}$; or

(ii) $\text{TUCHVVPF} - \text{TUCHVPOV} + (20\% \times \text{TUCHVPOV})$

where $\text{TUCHVVPF} < \text{TUCHVPOV}$

A1.3 In carrying out any calculations pursuant to these tests, allowed and actual expenditure in respect of High Value Project Costs will be considered:

- on an aggregated basis for all activities that comprise High Value Projects;
- on a total expenditure basis taking account of expenditures incurred, or expected to be incurred, over the entire Price Control Period; and
- in 2012/13 prices.

APPENDIX 2:

**Opening level of allowed expenditure for Enhanced Physical Site
Security Costs and the material amount for SSEH**

(£m, in 2012/13 prices)

(see paragraphs 3F.4 and 3F.27)

	Opening level of allowed expenditure								Material amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
SSEH	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

APPENDIX 3:

The material amount for Specified Street Works Costs for SSEH

(£m, in 2012/13 prices)

(see paragraphs 3F.27)

	Material amount
SSEH	4.54

APPENDIX 4:

The material amount for Rail Electrification Costs for SSEH

(£m, in 2012/13 prices)

(see paragraphs 3F.27)

	Material amount
SSEH	4.54

APPENDIX 5:

The material amount for Link Box Costs for SSEH

(£m, in 2012/13 prices)

(see paragraphs 3F.27)

	Material amount
SSEH	4.54

APPENDIX 6:

**Opening level of allowed expenditure for Shetland Uncertain
Energy Costs and the material amount for SSEH**

(£m, in 2012/13 prices)

(See paragraphs 3F.4 and 3F.27)

	Opening level of allowed expenditure								Material amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
SSEH	20.80	21.09	21.27	21.96	0.00	0.00	0.00	0.00	8.51

APPENDIX 7:

**Opening level of allowed expenditure for Shetland Competitive
Process Costs and the material amount for SSEH**

(£m in 2012/13 prices)

(See paragraphs 3F.4 and 3F.27)

	Opening level of allowed expenditure								Material amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
SSEH	1.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10

APPENDIX 8:

The material amount for Subsea Costs for each licensee

(£m, in 2012/13 prices)

(see paragraphs 3F.27)

	Material amount
SSEH	4.54

CHAPTER 5: OTHER REVENUE RESTRICTION RELATED CONDITIONS

CRC 5B. Restriction of charges for the provision of Legacy Metering Equipment

Introduction

5B.1 This condition establishes the restrictions on charges for the provision of Legacy Metering Equipment and sets out the obligation of the licensee in respect of those restrictions.

Part A: Licensee's obligation

5B.2 The licensee, in setting charges for the provision of Legacy Metering Equipment in accordance with standard condition 34 of this licence (Requirement to offer terms for the provision of Legacy Metering Equipment), must ensure that those charges do not exceed the limits imposed by each of Parts B to F of this condition.

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

5B.3 The total charge set by the licensee in respect of the provision of a Single-Phase Single-Rate Credit Electricity Meter must at no time exceed the value derived from the following formula:

$$SCRM_t = \text{£}1.12 \times PIT_t + AF_t$$

5B.4 In the formula for the SRCM term above:

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

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

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

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

5B.5 The total charge set by the licensee in respect of the provision of a Single-Rate Token Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

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

5B.6 In the formula for the TPPM term above:

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

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

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

- 5B.7 The total charge set by the licensee in respect of the provision of a Single-Rate Key Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

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

- 5B.8 In the formula for the KPPM term above:

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

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

5B.9 The total charge set by the licensee in respect of the provision of a Single-Rate Smartcard Prepayment Electricity Meter must at no time exceed the value derived from the following formula:

$$\text{SPPM}_t = \left(\left[\left(\frac{\text{SPPMAV}}{\text{LS}_t} \right) \times \left[1 + \left[(1 + \text{LSW}_t) \times \left(\frac{6.9}{100} - \frac{6.9}{200} \times \frac{\text{LSW}_t}{\text{LS}_t} \right) \right] \right] + \text{£}0.242 \right) \times \text{PIT}_t + \text{AF}_t \right)$$

5B.10 In the formula for the SPPM term above:

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

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

LS_t is the current expected life (in years) of a Single-Rate Smartcard Prepayment Electricity Meter, and has the value of 7.

LSW_t is the value of LS_t rounded down to the nearest integer, and hence has the value of 7.

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

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

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

5B.11 The total charge set by the licensee in respect of the provision under standard condition 34 of this licence of any type of Electricity Meter that is not within the types of Electricity Meter covered by Parts B to E of this condition must at no time exceed the value derived from the following formula:

$$\text{MAPPC}_t = \left[\frac{\text{MEAP}_i}{\text{ELA}_i} + \text{MEAP}_i \times \frac{6.9}{200} + 0.242 \right] \times \text{PIT}_t + \text{AF}_t$$

5B.12 In the formula for the MAPPC term above:

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

MEAP_i is the Modern Equivalent Asset Purchase Price of the Electricity Meter type

i as at 1 June 2003 or the nearest determinable date after 1 June 2003.

ELA_i is the current expected economic life (in years) of the Electricity Meter type i.

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

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

i is an Electricity Meter type covered under paragraph 5B.13 and not covered by Parts B to E of this condition.

5B.13 The following types of Electricity Meter (without limitation, and subject to the licensee's right to subdivide any such type in order to facilitate cost-reflective charging) are those that are covered by the provisions of this Part F:

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

Part G: Calculation of the price index adjustment

5B.14 For the purposes of Parts B to F of this condition, the price index adjustment is calculated in accordance with the following formula:

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

5B.15 In the formula for the PIT term above:

PIT_t has the value of 1 in the Regulatory Year beginning on 1 April 2002, and then in each subsequent Regulatory Year has the value derived from the formula itself.

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

Part H: Determination and application of the adjustment factor

- 5B.16 This paragraph applies where the licensee considers that the expected asset life of a type of Electricity Meter specified in paragraph 5B.17 has fallen below the level assumed for the purposes of establishing the relevant charge restriction under this condition because of a decision by an Electricity Supplier to replace the technology associated with that type of Electricity Meter with technology associated with another type of Electricity Meter specified in paragraph 5B.17.
- 5B.17 The types of Electricity Meter to which paragraph 5B.16 refers are these:
- (a) a Token Prepayment Electricity Meter (whether single-rate or multi-rate);
 - (b) a Key Prepayment Electricity Meter (whether single-rate or multi-rate);
 - (c) a Smartcard Prepayment Electricity Meter (whether single-rate or multi-rate) and;
 - (d) a Single-Phase Single-Rate Credit Electricity Meter.
- 5B.18 If paragraph 5B.16 applies, the licensee may, by Notice to the Authority, propose a relevant adjustment factor (AF_i) to be applied uniformly to each of the formulas set out in Parts B to F of this condition in respect of the charging restrictions established by this condition.
- 5B.19 A relevant adjustment factor is one which, in the licensee's opinion, would have the effect of enabling the licensee to recover 30 per cent of the efficient costs incurred or likely to be incurred as a consequence of the Electricity Supplier's decision to which paragraph 5B.16 refers.
- 5B.20 The Notice served by the licensee under paragraph 5B.18 must:
- (a) set out the basis (including by reference to the effects of the Electricity Supplier's decision) on which the licensee has calculated the relevant adjustment factor; and
 - (b) state both the start date and the end date of the period in respect of which the licensee seeks the Authority's consent for the relevant adjustment to have effect (the "Adjustment Period").
- 5B.21 In giving that Notice, the licensee must have regard to any relevant guidelines published by the Authority for the purposes of this condition.
- 5B.22 The Authority may, within 28 days of receiving the Notice from the licensee in accordance with this Part H, determine both the relevant adjustment factor and the Adjustment Period in such manner as it considers appropriate, subject to paragraph 5B.23.
- 5B.23 In making its determination, the Authority must:
- (a) consult with the licensee; and

- (b) have particular regard both to the purposes of this condition and to any relevant guidelines published by the Authority under it.
- (c) ~~means, in relation to any energised or de-energised Exit Point on the licensee's Distribution System, the person who is taking, or is deemed to be taking, a supply of electricity through that Exit Point.~~

5B.24 If the Authority has not determined the relevant adjustment factor within 28 days of receiving the licensee's Notice, and that Notice has not been withdrawn, the licensee may apply the relevant adjustment factor in the manner specified in paragraph 5B.18 for the duration of the Adjustment Period.

Part I: Interpretation

5B.25 For the purposes of this condition:

Adjustment Period	has the meaning give to that term in paragraph 5B.20.
Modern Equivalent Asset Purchase Price	in relation to any type of Electricity Meter, means the purchase price of a new Electricity Meter of the same functionality as that type.
Single-Phase Single-Rate Credit Electricity Meter	means an induction type (or electronic) alternating current single-phase two-wire single-rate credit Electricity Meter.
Single-Rate Key Prepayment Electricity Meter	means an Electricity Meter that requires the use of a key to enable information to be transferred to that meter from a point of sale for electricity, and vice versa.
Single-Rate Smartcard Prepayment Electricity Meter	means an Electricity Meter that requires the use of a smartcard to enable information to be transferred to that meter from a point of sale for electricity credit, and vice versa.
Single-Rate Token Prepayment Electricity Meter	means an Electricity Meter that requires the use of a token to enable information to be transferred to that meter from a point of sale for electricity credit, and vice versa.

CRC 5D. Assessment of Network Asset Secondary Deliverables

Introduction

5D.1 This condition:

- (a) establishes the Network Asset Secondary Deliverables for the Price Control Period as set out in the Network Assets Workbook;
- (b) sets out the basis on which the Authority intends to make its assessment of the licensee's delivery of the Network Asset Secondary Deliverables; and
- (c) specifies the incentive reward that may be provided for over-delivery and the penalty that may be imposed for under-delivery of the Network Asset Secondary Deliverables.

Part A: Reporting on the delivery of Network Asset Secondary Deliverables

5D.2 The licensee must, by 31 July 2023, provide a report to the Authority setting out its performance against its Network Asset Secondary Deliverables over the Price Control Period.

5D.3 The report must include (where relevant) detailed explanations together with all appropriate supporting evidence for:

- (a) the licensee's performance against its Network Asset Secondary Deliverables
- (b) any performance against its Network Asset Secondary Deliverables equivalent to or better than that set out in the Network Assets Workbook;
- (c) any Justified Over-Delivery against its Network Asset Secondary Deliverables; and
- (d) any Justified Under-Delivery against its Network Asset Secondary Deliverables.

5D.4 The licensee must provide such further analysis or information, in such manner and in accordance with such timescales, as the Authority considers is reasonably necessary to enable it to undertake its assessment for the purposes of making its determination under Part B of this condition.

Part B: Authority's determination with respect to Network Asset Secondary Deliverables.

5D.5 The Authority will assess the licensee's performance in delivering the Network Asset Secondary Deliverables (having particular regard to the report that was submitted by the licensee in accordance with Part A above) for the purpose of determining what, if any, adjustments should be made to the licensee's allowed revenue in the Next Price Control Period.

5D.6 In making its assessment under paragraph 5D.5, the Authority will consider the licensee's performance in delivering the Network Asset Secondary Deliverables by

assessing the change delivered by the licensee as measured in terms of monetised risk in accordance with the Risk Index, forming part of the Network Asset Indices, at the end of the Price Control Period against the Network Asset Secondary Deliverables set out for the licensee in its Network Assets Workbook for the end of the Price Control Period.

5D.7 The assessment referred to in paragraphs 5D.5 and 5D.6 will be based:

- (a) only on the change in the Network Asset Indices associated with asset replacement (NAW3), refurbishment (NAW4) and high value projects where the primary driver is either asset replacement or refurbishment activity (NAW7); and
- (b) only on the assets that are included in the licensee's Network Assets Workbook.

5D.8 In making its assessment under paragraph 5D.5, the Authority will, among other things, take account of:

- (a) any trade-offs between asset replacement and asset refurbishment; and
- (b) any trade-offs between other asset categories,

that the licensee is able to demonstrate have delivered either Network Asset Secondary Deliverables equivalent to, or delivered to a higher specification than the Network Asset Secondary Deliverables set out in the Network Assets Workbook.

5D.9 Where, having first taken account of the matters set out in paragraph 5D.8, the Authority determines that some or all of the Network Asset Secondary Deliverables have been the subject of an under-delivery that is not a Justified Under-Delivery:

- (a) the incremental cost of delivering to the Network Asset Secondary Deliverables will not be provided for in the licensee's revenue allowance for the Next Price Control Period; and
- (b) a negative adjustment of 2.5 per cent (post tax) of the avoided costs associated with the under-delivery will be made to the licensee's revenue allowance for the Next Price Control Period.

5D.10 In making any adjustments under 5D.9(a) the Authority will make an adjustment to revenues in the Next Price Control Period to reverse any proportion of revenues included in MOD_t associated with outperformance of allowances included in Opening Base Revenues for the Network Asset Secondary Deliverables to which that paragraph refers.

- 5D.11 Where the Authority determines that the licensee has demonstrated Justified Over-Delivery against the Network Asset Secondary Deliverables:
- (a) the cost of that over-delivery will be provided for through the licensee's revenue allowance for the Next Price Control Period; and
 - (b) the licensee will receive, by means of a positive adjustment of its revenue allowance for the Next Price Control Period, a reward of 2.5 per cent (post tax) of the incremental costs associated with the over-delivery.
- 5D.12 In making any adjustments under 5D.11(a) the Authority will make an adjustment equivalent to the cost of the over-delivery, less any proportion of that cost that has already been provided for via adjustments to revenue included in MOD_t.
- 5D.13 Any determination by the Authority under this Part B will be made in a direction to the licensee that sets out the substance of the determination and specifies the date from which it is to have effect, or a mechanism or method by which that date is to be determined.
- 5D.14 A direction issued by the Authority under paragraph 5D.13 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee and any other interested parties, stated that it proposes to make the determination;
 - (b) set out in that Notice the substance of the proposed determination;
 - (c) explained in the Notice the reasons for and the effects of the proposed determination;
 - (d) specified in the Notice, the date (which may not be less than 56 days from the date of the Notice) by which the licensee may make representations to the Authority about the proposed determination; and
 - (e) considered any representations duly received in response to the Notice.
- 5D.15 Where the Authority determines that the licensee has a Justified Under-Delivery or that none of the Network Asset Secondary Deliverables against which there has been an over-delivery are justified, no adjustment will be made to the licensee's revenue allowance in respect of this condition for the Next Price Control Period.

Part C: Rebasing and Modification of the Network Assets Workbook

- 5D.16 The Network Assets Workbook forms part of this licence condition and must be revised from time to time in accordance with this Part C.

Rebasing and modification in accordance with the Common Network Asset Indices Methodology

- 5D.17 Within 26 weeks from the date of implementation or modification of the Common Network Asset Indices Methodology, or any later date to which the Authority consents, the licensee must develop and submit for approval to the Authority a revised set of Network Asset Secondary Deliverables (“Rebased Network Asset Secondary Deliverables”) in accordance with the Common Network Asset Indices Methodology, which are trued up to take account of actual data up to and including 31 March 2015.
- 5D.18 The Rebased Network Asset Secondary Deliverables must:
- (a) be consistent with the Common Network Asset Indices Methodology;
 - (b) remain equally as challenging as those set out in the Network Assets Workbook that was applicable at 1 April 2015, as calculated using the values for Average Probability of Asset Failure and Average Consequence of Asset Failure applied at that time adjusted for any modification to RIGs or Common Network Asset Indices Methodology ~~that results in activities falling newly into scope or ceasing to be within scope of asset replacement or refurbishment activities;~~
 - (c) be in the same format as the Network Assets Workbook; and
 - (d) be based on actual rather than forecast data up to and including 31 March 2015.

Modification of values for Average Probability of Asset Failure and Average Consequence of Asset Failure

- 5D.19 The Authority may by Notice require the licensee to provide it with a proposal for revised values for Average Probability of Asset Failure and Average Consequence of Asset Failure for specified asset categories together with evidence demonstrating the accuracy of such proposals, as both in accordance with the Common Network Asset Indices Methodology.
- 5D.20 A Notice under paragraph 5D.19 must allow the licensee at least 28 days from the date of the Notice to make the relevant proposal.
- 5D.21 On receipt of a proposal and evidence which duly complies with paragraph 5D.19 the Authority will then direct the licensee to revise its values for Average Probability of Asset Failure and Average Consequence of Asset Failure in the Network Assets Workbook in accordance with that proposal so that the Network Asset Secondary Deliverables remain as equally challenging as those set out in the Network Assets Workbook that was applicable at 1 April 2015.

5D.22 A direction issued by the Authority under paragraph 5D.21 will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to the licensee and any other interested parties, stated that it proposes to make the determination;
- (b) set out in that Notice the substance of the proposed determination;
- (c) explained in the Notice the reasons for and the effects of the proposed determination;
- (d) specified in the Notice, the date (which may not be less than 28 days from the date of the Notice) by which the licensee may make representations to the Authority about the proposed determination; and
- (e) considered any representations duly received in response to the Notice.

Modification in consequence of the direction of an allowance under a Specified Uncertainty Mechanism

5D.23 Whenever the licensee applies under a Specified Uncertainty Mechanism for an amendment to its allowed expenditure it must also set out in the relevant Application Notice any associated amendments, if applicable, to its Network Asset Secondary Deliverables (“Modified Network Asset Secondary Deliverables”) as comply with paragraph 5D.24 below.

5D.24 The requirements of this paragraph are that the proposed Modified Network Asset Secondary Deliverables must:

- (a) indicate any Network Asset Secondary Deliverables which are associated with the amendment;
- (b) (where not associated with the amendment) remain as equally challenging as equivalent Network Asset Secondary Deliverables set out in the Network Assets Workbook that was applicable at 1 April 2015
- (c) (where associated with the amendment) be consistent with the change in allowed expenditure and be similarly challenging to those Network Asset Secondary Deliverables set out in the Network Assets Workbook that was applicable at 1 April 2015;
- (d) be in the same format as the Network Assets Workbook; and
- (e) be based on actual rather than forecast data up to and including 31 March 2015.

5D.25 If the Authority, as the case may be:²³

- (a) is satisfied that the Rebased Network Asset Secondary Deliverables comply with paragraph 5D.18; or
- (b) has decided to direct an amendment to the licensee's allowed expenditure under the Specified Uncertainty Mechanism and it is satisfied that the Modified Network Asset Secondary Deliverables comply with paragraph 5D.24,

it will direct that the Network Asset Secondary Deliverables and Network Assets Workbook be modified accordingly.

5D.26 If the Authority, as the case may be:

- (a) is not satisfied that the Rebased Network Asset Secondary Deliverables comply with paragraph 5D.18; or
- (b) has decided to direct an amendment to the licensee's allowed expenditure under the Specified Uncertainty Mechanism but is not satisfied that the Modified Network Asset Secondary Deliverables comply with paragraph 5D.24,

it may direct the licensee to modify the Network Asset Secondary Deliverables and Network Assets Workbook in accordance with such Rebased Network Asset Secondary Deliverables as, in the Authority's opinion, comply with the provisions of paragraph 5D.18, or 5D.24 as appropriate.

Procedure for directions

5D.27 A direction issued by the Authority under paragraph 5D.25 or 5D.26 will be of no effect unless the requirements of paragraphs 5D.28 and 5D.29 are fulfilled.

5D.28 The first requirement is that, before issuing the direction, the Authority has:

- (a) by Notice to the licensee and any other interested parties, stated that it proposes to make the determination;
- (b) set out in that Notice the substance of the proposed determination;
- (c) explained in the Notice the reasons for and the effects of the proposed determination;
- (d) specified in the Notice, the date (which may not be less than 56 days from the date of the Notice) by which the licensee may make representations to the Authority about the proposed determination; and
- (e) considered any representations duly received in response to the Notice.

5D.29 The second requirement is that the licensee has not demonstrated in representations referred to under paragraph 5D.28(d) that it reasonably considers that the proposed direction would be likely to have a significant detrimental impact on its ability to carry out its obligations under this licence.

Part D: Guidance for the purposes of this condition

- 5D.30 The Authority may, after consulting with the licensee and any other interested parties, issue, and from time to time revise, guidance about the procedure that it will follow and the matters it will take into account in assessing the licensee's performance in delivering its Network Asset Secondary Deliverables.
- 5D.31 Guidance under paragraph 5D.30 may, in particular, set out the principles, methods of assessment, and types of criteria that are likely to be applied by the Authority in making any determinations under Part B of this condition with respect to funding and the adjustment of revenue allowances during the Next Price Control Period.

Part F: Interpretation

- 5D.32 For the purposes of this condition:

Average Consequence of Asset Failure	means the value used to represent the consequence of failure for each asset category in the Network Assets Workbook for the purposes of the calculation of monetised risk.
Average Probability of Asset Failure	means the value used to represent the probability of failure for each Health Index rating 1 to 5 in the Network Assets Workbook for the purposes of the calculation of monetised risk.
Common Network Asset Indices Methodology	has the meaning given to that term in standard condition 51 (Network Asset Indices Methodology).
Justified Over-Delivery	means a delivery against the Network Asset Secondary Deliverables that is above the level set out and approved in the Network Asset Workbook and that in the Authority's opinion was justified based on analysis that indicates that: (a) the actual level of risk was higher than that set out in the Network Asset Workbook and delivery of Network Asset Secondary Deliverables above the level set out was required by the licensee to mitigate that risk; or (b) the level of expenditure otherwise represented an efficient use of the licensee's resources, even if the actual level of risk remained unchanged.
Justified Under-Delivery	means a delivery against the Network Asset Secondary Deliverables that is below the level set out and approved in the Network Asset Workbook and that in the Authority's opinion was justified based on analysis that indicates that: (a) the actual level of risk was lower than that set out in the Network Asset Workbook and delivery of the level of Network Asset Secondary Deliverables set out was not required; or

	(b) the level of expenditure otherwise represented an efficient use of the licensee’s resources, even if the actual level of risk remained unchanged.
Modified Network Asset Secondary Deliverables	has the meaning given to that term in paragraph 5D.23.
Network Asset Indices	has the meaning given to that term in standard condition 51.
Network Asset Secondary Deliverables	means the asset health, criticality and risk secondary deliverables set out for the licensee in the Network Assets Workbook.
Network Assets Workbook	means the file of that name in Microsoft Excel ® format containing worksheets setting out the Network Asset Secondary Deliverables first published by the Authority on 3[*] February 2015.
Rebased Network Asset Secondary Deliverables	has the meaning given to that term in paragraph 5D.17.
Risk Index	has the meaning given to that term in standard condition 51.
Specified Uncertainty Mechanism	means any of the conditions in Chapter 3 of this Part 4.

CRC 5G. Net to gross adjustment for Load Related Expenditure

Introduction

5G.1 This condition:

- (a) sets out the Baseline Number of Connection Projects
- (b) sets out the Baseline Percentage of the Gross Load Related Expenditure that the licensee is expected to deliver through Specific Customer Funded Reinforcement charged to the Customer during the Price Control Period;
- (c) sets out the circumstances under which the Authority may make adjustments to the licensee’s Base Demand Revenue in the Next Price Control Period where the Actual Percentage of Gross Load Related Expenditure provided by Specific Customer Funded Reinforcement during the Price Control Period (in this condition “Relevant Expenditure”) falls outside the Specific Customer Funded Reinforcement Percentage Band; and
- (d) establishes a framework for how any such adjustments would be directed.

Part A: Load Related Expenditure Parameters

5G.2 The Baseline Percentage of Gross Load Related Expenditure that the licensee is expected to deliver through Specific Customer Funded Reinforcement during the Price Control Period is set out in Table 1 below.

Table 1: Baseline Percentage of Gross Load Related Expenditure expected to be delivered for through Specific Customer Funded Reinforcement (%)

Licensee	
ENWL	7%
NPgN	5%
NPgY	3%
LPN	2%
SPN	5%
EPN	10%
SPD	3%
SPMW	11%
SSEH	19%

SSES	7%
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5G.3 The Specific Customer Funded Reinforcement Percentage Band is set out in Table 2 below.

Table 2: The Specific Customer Funded Reinforcement Percentage Band

Licensee	Upper threshold	Lower threshold
ENWL	12%	2%
NPgN	10%	0%
NPgY	8%	0%
LPN	7%	0%
SPN	10%	0%
EPN	15%	5%
SPD	8%	0%
SPMW	16%	6%
SSEH	24%	14%
SSES	12%	2%

5G.4 The Baseline Number of Connection Projects are set out in Table 3 below.

Table 3: Baseline Number of Connection Projects involving Specific Customer Funded Reinforcement by voltage

Licensee	LV	HV	EHV	132kV
ENWL	387	304	22	0
NPgN	680	104	0	0
NPgY	1112	136	0	0
LPN	48	486	0	0
SPN	104	1030	0	8
EPN	209	2835	0	16
SPD	722	91	2	0
SPMW	1200	330	8	14
SSEH	2412	1586	100	0
SSES	6216	918	33	0

5G.5 The Baseline Specific Customer Funded Reinforcement levels are set out in Table 4 below.

Table 4: Baseline Specific Customer Funded Reinforcement (£m, in 2012/13 prices)

Licensee	
ENWL	10.7
NPgN	4.8
NPgY	2.7
LPN	8.8
SPN	10.4
EPN	40.5
SPD	4.0
SPMW	19.6
SSEH	30.0
SSES	17.0

Table 5: Baseline Gross Load Related Expenditure (£m, in 2012/13 prices)

Licensee	
ENWL	146.0
NPgN	103.6
NPgY	102.8
LPN	360.9
SPN	226.8
EPN	401.0
SPD	144.5
SPMW	185.7
SSEH	161.0
SSES	250.1

Part B: Circumstances under which the Authority would make a net to gross Load Related Expenditure adjustment

- 5G.6 This Part B sets out the circumstances under which the Authority may make adjustments to the licensee’s Base Demand Revenue in the Next Price Control Period.
- 5G.7 Where the Authority gives Notice of proposed relevant adjustments under paragraph 3G.13 of CRC 3G (Revising the allowed level of Load Related Expenditure), the licensee will not be subject to an additional net to gross Load Related Expenditure adjustment.
- 5G.8 The licensee must report to the Authority by 31 July 2023 whether its Relevant Expenditure has fallen outside a Specific Customer Funded Reinforcement Percentage Band and, if so, whether in its opinion there is a justified reason for not making an adjustment in the Next Price Control Period.
- 5G.9 Where the licensee’s Relevant Expenditure has fallen outside its Specific Customer Funded Reinforcement Percentage Band, the licensee must include a detailed explanation of the following in the report required under paragraph 5G.8:
- (a) reasons for any changes in the Number of Connection Projects in the Price Control Period relative to the Baseline Number of Connection Projects;

- (b) reasons why reinforcement that was forecast to be funded through Load Related Expenditure at the outset of the Price Control Period has in fact been delivered through Specific Customer Funded Reinforcement;
- (c) any changes in the licensee's use of contractors to deliver activities defined as Gross Load Related Expenditure during the Price Control Period;
- (d) any changes in network loading that may be relevant to the Relevant Expenditure falling outside the Specific Customer Funded Reinforcement Percentage Band;
- (e) whether any of the changes outlined above are due to the use of demand-side response or use of other non-traditional reinforcement solutions; and
- (f) any other factor relevant to the Relevant Expenditure falling outside the Specific Customer Funded Reinforcement Percentage Band.

5G.10 The licensee must provide such further analysis or information, in such manner and in accordance with such timescales, as the Authority considers is reasonably necessary to enable it to undertake its assessment for the purposes of making its determination under Part C.

5G.11 If the Authority considers that the licensee has not presented adequate justification for why the Relevant Expenditure has fallen outside a Specific Customer Funded Reinforcement Percentage Band, it will, subject to Part C, determine the value of relevant adjustments.

5G.12 The relevant adjustments will be made in the Next Price Control Period.

Part C: Procedure for a determination given by the Authority

5G.13 The Authority will assess whether relevant adjustments are required under this licence condition alongside and at the same time as carrying out any end of period review under licence condition CRC 3G.

5G.14 Where the Authority gives Notice of a proposed relevant adjustment under paragraph 5G.11, it will, by 30 November 2024, determine any revisions that are to be made to the licensee's Base Demand Revenue for the Next Price Control Period.

5G.15 A determination by the Authority under Part B of this condition will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to the licensee and to any other interested parties, stated that it proposes to make the determination;
- (b) set out in that Notice the substance of the proposed determination;
- (c) explained in the Notice the reasons for and the effects of the proposed determination;

- (d) specified in the Notice the date (which may not be less than a period of 56 days from the date of the Notice) within which the licensee may make representations concerning the proposed determination; and
- (e) considered any representations duly received in response to the Notice.

Part D: Interpretation

5G.16 For the purposes of this condition:

Actual Percentage of Gross Load Related Expenditure provided for through Specific Customer Funded Reinforcement	means the Specific Customer Funded Reinforcement expressed as a percentage of Gross Load Related Expenditure.
Baseline Gross Load Related Expenditure	means the total amount of Gross Load Related Expenditure allowed for Load Related Expenditure (in 2012/13 prices) in the ED1 Final Determination, as set out in the table in the Appendix to Table 5 of <u>Table 5 of</u> this condition.
Baseline Number of Connection Projects	means the number of connection projects involving Specific Customer Funded Reinforcement allowed for Load Related Expenditure in the ED1 Final Determination.
Justified	means that the overall level of recovery of Gross Load Related Expenditure is consistent with the principles applied in respect of Load Related Expenditure in the ED1 Final Determination.
Number of Connection Projects	means the volume of connection projects involving Specific Customer Funded Reinforcement.