

**Schedule 1: Modifications to  
the special conditions of the  
electricity distribution licences  
held by the four licensees  
owned by WPD**

Western Power Distribution  
(West Midlands) plc  
Special conditions

Western Power Distribution  
(East Midlands) plc  
Special conditions

Western Power Distribution  
(South Wales) plc  
Special conditions

Western Power Distribution  
(South West) plc  
Special conditions

CHAPTER 1: INTERPRETATION OF PART 4.....	4
CRC 1B. Interpretation of Part 4 .....	5
CHAPTER 2: ELECTRICITY DISTRIBUTION REVENUE RESTRICTION .....	14
CRC 2A. Restriction of Allowed Distribution Network Revenue .....	15
CRC 2C. Broad Measure of Customer Service Adjustment.....	24
CRC 2J. Low Carbon Networks Fund .....	50
CRC 2M. Adjustment of licensee’s revenues for the residual distribution losses incentive ..	57
CHAPTER 3: ANNUAL ITERATION PROCESS – ADJUSTMENTS TO THE REVENUE RESTRICTION.....	58
<b>CRC 3A. Legacy price control adjustments .....</b>	<b>59</b>
CHAPTER 4: PRICE CONTROL FINANCIAL INSTRUMENTS .....	67
CRC 4A. Governance of ED1 Price Control Financial Instruments.....	68
CHAPTER 5: OTHER REVENUE RESTRICTION RELATED CONDITIONS .....	72
CRC 5B. Restriction of charges for the provision of Legacy Metering Equipment.....	73
CRC 5C. Directly Remunerated Services.....	79
CRC 5D. Assessment of Network Asset Secondary Deliverables .....	84
CRC 5G. Net to gross adjustment for Load Related Expenditure .....	92

# **CHAPTER 1: INTERPRETATION OF PART 4**

## CRC 1B. Interpretation of Part 4

### Introduction

1B.1 This condition sets out the main provisions for the interpretation of Part 4 of the licence.

### Part A: Overview of defined terms and expressions

1B.2 Definitions of terms and expressions used in Part 4 of the licence are provided in this condition, or standard condition 1 (Definitions for the standard conditions), or in individual Charge Restriction Conditions.

1B.3 Part B of this condition sets out the main words and expressions used exclusively in Part 4 of this licence.

1B.4 Part C of this condition lists words and expressions that are defined in standard condition 1 and which have the same meaning when used in Part 4 of the licence.

1B.5 Where defined words and expressions are used in only one Charge Restriction Condition, their definitions are set out in that condition.

1B.6 All defined terms and expressions used in Part 4 have initial capital letters.

### Part B: Main terms and expressions used exclusively in Part 4

1B.7 In Part 4 of this licence, unless the context otherwise requires:

**Allowed Distribution Network Revenue**

means the revenue calculated in accordance with the formula for the AR term set out in Part B of CRC 2A (Restriction of Allowed Distribution Network Revenue).

**Allowed Pass-Through Items**

means any of the costs permitted to be passed through to users of the licensee's Distribution System through the PT term under CRC 2B (Calculation of Allowed Pass-Through Items).

**Annual Iteration Process**

means, in relation to the ED1 Price Control Financial Model, the process set out in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ED1 Price Control Financial Handbook that may be applicable to it.

**Authority's Website**

means [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

## Chapter 1: Interpretation of Part 4

<b>Average Specified Rate</b>	means the arithmetic mean value of the Bank of England's <del>O</del> official <del>B</del> bank <del>R</del> rate during the period in respect of which the calculation in question falls to be made.
<b>Base Demand Revenue</b>	means the revenue calculated in accordance with the formula set out in Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue).
<b>Baseline Specific Customer Funded Reinforcement</b>	means the total Specific Customer Funded Reinforcement allowed for Load Related Expenditure in the ED1 Final Determination.
<b>Charge Restriction Conditions</b>	has the meaning given to that term in CRC 1A (Overview of Part 4).
<b>Connection Activities</b>	means any and all of such activities that comprise or are associated with the provision, modification, or retention of a connection to the licensee's Distribution System as are able, in accordance with the licensee's Connection Charging Statement, to be undertaken by persons other than the licensee, where those activities are fully funded by the Customer (as described in Chapters 10 and 12 of the Authority's decision document published on 7 December 2009 under reference 145/09).
<b>Directly Remunerated Services</b>	means the services that comply with the General Principle set out in Part A of CRC 5C (Directly Remunerated Services).
<b>Distribution Services</b>	means all services provided by the licensee as part of its Distribution Business other than Directly Remunerated Services.
<b>Distribution Services Provider</b>	means any Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence have effect (whether in whole or in part).

## Chapter 1: Interpretation of Part 4

**ED1 Price Control Financial Handbook** means the document of that name that was published by the Authority on 21 May 2014 and came into effect on 1 April 2015, and that:

(a) includes specific information and advice about the operation of the Annual Iteration Process and the ED1 Price Control Financial Model; and

(b) contains, in particular, the ED1 Price Control Financial Methodologies, as modified from time to time in accordance with the provisions of CRC 4A (Governance of the ED1 Price Control Financial Instruments).

**ED1 Price Control Financial Instruments** means the ED1 Price Control Financial Handbook (which contains the ED1 Price Control Financial Methodologies) and the ED1 Price Control Financial Model.

**ED1 Price Control Financial Methodologies** means the methodologies that:

(a) are named as such in the ED1 Price Control Financial Handbook; and

(b) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,

as modified from time to time in accordance with the provisions of CRC 4A (Governance of ED1 Price Control Financial Instruments).

## Chapter 1: Interpretation of Part 4

<b>ED1 Price Control Financial Model</b>	<p>means the model of that name (with a suffix referring to the month of November in Regulatory Year t-1 as that term is defined for the purposes of CRC 4A) that:</p> <ul style="list-style-type: none"><li>(a) was first published by the Authority on 21 May 2014 and came into effect on 1 April 2015;</li><li>(b) is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Regulatory Year suffix) on the Authority's Website; and</li><li>(c) will be used by the Authority to determine the value of the term <math>MOD_t</math> through the application of the Annual Iteration Process,</li></ul> <p>as modified from time to time in accordance with the provisions of CRC 4A (Governance of ED1 Price Control Financial Instruments).</p>
<b>Gross Load Related Expenditure</b>	<p>means the total amount of expenditure incurred by the licensee, before the deduction of Specific Customer Funded Reinforcement, in respect of cost areas that make up Load Related Expenditure within the Price Control Period.</p>
<b>High Value Project Costs</b>	<p>means costs incurred, or expected to be incurred, by the licensee on any investment project with respect to its Distribution System that is reasonably forecast to cost the licensee £25 million or more (in 2012/13 prices) during the Price Control Period, and for which clear outputs, a needs case and a statement of costs have been provided to the Authority.</p>



## Chapter 1: Interpretation of Part 4

<b>Load Related Expenditure</b>	<p>means costs incurred by the licensee, after the deduction of Specific Customer Funded Reinforcement, in developing its Distribution System because of:</p> <ul style="list-style-type: none"><li>(a) system reinforcement associated with shared-asset connections;</li><li>(b) general reinforcement of the licensee's Distribution System;</li><li>(c) fault level reinforcement of the licensee's Distribution System;</li><li>(d) New Transmission Capacity Charges; or</li><li>(e) the accommodation of Distributed Generation and low-carbon devices onto the Distribution System</li></ul> <p>and, for the purposes of this definition, Load Related Expenditure does not include High Value Project Costs.</p>
<b>Local Connections Market</b>	<p>means the market for the procurement and provision of Connection Activities within the licensee's Distribution Services Area.</p>
<b>Metering Point Administration Service</b>	<p>means the service of that name that the licensee must operate and maintain in accordance with the requirements of standard condition 18 (Provision of and charges for Metering Point Administration Services) for the purpose of providing Metering Point Administration Services.</p>
<b>Network Innovation Allowance</b>	<p>has the meaning given to that term in CRC 2H (The Network Innovation Allowance).</p>
<b>Next Price Control Period</b>	<p>means the price control period beginning on 1 April 2023.</p>
<b>New Transmission Capacity Charges</b>	<p>means those elements of Transmission Connection Point Charges that are attributable (in whole or in part) to connection assets first becoming energised on or after 1 April 2015 pursuant to a requirement of the licensee for the provision of new or reinforced connection points between the GB Transmission System and the licensee's Distribution System.</p>
<b>Opening Base Revenue Allowance</b>	<p>means the value of base revenue determined by the Authority as set out for the licensee in Appendix 1 of CRC 2A (Restriction of Allowed Distribution Network Revenue).</p>

## Chapter 1: Interpretation of Part 4

<b>PCFM Variable Value</b>	means a value held in the PCFM Variable Values Table for the licensee contained in the ED1 Price Control Financial Model: (a) that may be revised by a direction of the Authority following a determination under the relevant CRC; but (b) the revision of which does not constitute a modification of the ED1 Price Control Financial Model for the purposes of CRC 4A.
<b>Price Control Period</b>	means the period of eight Regulatory Years beginning on 1 April 2015 and ending on 31 March 2023 during which, subject to CRC <del>5H5K</del> (Disapplication), the Charge Restriction Conditions will have effect in this licence.
<b>Regulatory Asset Value (RAV)</b>	has the meaning given to that term in the glossary of the ED1 Price Control Financial Handbook.
<b>Regulatory Year t</b>	has the meaning given to that term in CRC 1B.9 (Interpretation of Part 4).
<b>Relevant Market Segment</b>	means any of the Relevant Market Segments that are described in or determined in accordance with Appendix 1 of CRC 2K (Margins on licensee's Connection Activities).
<b>Returned LCN Fund Royalties</b>	has the meaning given to that term in paragraph 2J.11 (Low Carbon Networks Fund).
<b>Returned Royalty Income</b>	has the meaning given to that term in Part C of CRC 5A (The Network Innovation Competition).
<b>Specific Customer Funded Reinforcement</b>	means the element of a connection project that is subject to the apportionment rules under the Common Connections Charging Methodology and charged to the person requesting the connection within the Price Control Period.
<b>Specific Customer Funded Reinforcement Percentage Band</b>	means the interval between the upper and lower threshold percentages set out against the licensee's name in Table 2 in CRC 5G (Net to gross adjustment for Load Related Expenditure) where the relevant percentages represent the licensee's Baseline Specific Customer Funded Reinforcement expressed as a percentage of Gross Load Related Expenditure.

## Chapter 1: Interpretation of Part 4

<b>Time Value of Money Adjustment</b>	has the meaning given to that term in the glossary of the ED1 Price Control Financial Handbook.
<b>Totex</b>	has the meaning given to that term in chapter 6 of the ED1 Price Control Financial Handbook.
<b>Totex Incentive Mechanism</b>	has the meaning given to that term in the glossary of the ED1 Price Control Financial Handbook.
<b>Totex Incentive Mechanism Adjustment</b>	has the meaning given to that term in chapter 6 of the ED1 Price Control Financial Handbook.
<b>Totex Incentive Strength Rate</b>	means the incentive rate for the licensee set out in Appendix 1 of CRC 3B (Determination of PCFM Variable Values relating to actual Totex expenditure for <del>the</del> Totex Incentive Mechanism Adjustments).
<b>Transmission Connection Point Charges</b>	means the sum of: (a) charges payable by the licensee that are levied by a Transmission Licensee as connection charges by direct reference to the number or nature of connections between the licensee's Distribution System and the GB Transmission System, and includes any associated Transmission Use of System Charges and any remote Transmission Asset Rentals payable by the licensee; and (b) charges payable by the licensee to another Authorised distributor in respect of units transported from that person's network.

### Part C: Terms and expressions defined in standard condition 1 (Part 2)

1B.8 The following words or expressions used in Part 4 of this licence have the meanings given to them in standard condition 1:

**Act**

**Affiliate**

**Appropriate Auditor**

**Authorised**

**Authority**

**Competition and Markets Authority**

**Connection Charges**  
**Customer**  
**Data Services**  
**Distributed Generation**  
**Distribution Business**  
**Distribution Connection and Use of System Agreement**  
**Distribution Losses**  
**Distribution Services Area**  
**Distribution System**  
**Domestic Customer**  
**Domestic Premises**  
**ED1 Final Determination**  
**Electricity Distributor**  
**Electricity Meter**  
**Electricity Supplier**  
**Exit Point**  
**Legacy Metering Equipment**  
**Margin**  
**Metering Equipment**  
**Notice**  
**Regulatory Year**  
**Related Undertaking**  
**Specified Information**  
**Transmission Licence**  
**Transmission Licensee**  
**Transmission System**  
**Unregulated Margin**  
**Use of System**  
**Use of System Charges**

## Chapter 1: Interpretation of Part 4

### Part D: References to Regulatory Years

1B.9 References to Regulatory Years have the following respective meanings:

- (a) Regulatory Year  $t$  refers:
  - (i) for the purposes of the conditions in Chapters 3 and 4 only, to the Regulatory Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the calculation of Base Demand Revenue under Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue); and
  - (ii) for the purposes of all other conditions in this Part 4, to the Regulatory Year in respect of which Allowed Distribution Network Revenue is (or will be) adjusted directly by the relevant calculation;
- (b) Regulatory Year  $t-1$  refers to the Regulatory Year immediately preceding Regulatory Year  $t$  (and similar expressions should be read accordingly); and
- (c) Regulatory Year  $t=2015/16$  refers to the Regulatory Year beginning on 1 April 2015 and ending on 31 March 2016 (and similar expressions should be read accordingly).

### Part E: Interpretation of “max” and “min” terms and “representations”

1B.10 Where the terms “max” and “min” are used in any formula in the Charge Restriction Conditions, then, for any two given amounts  $X$  and  $Y$ , “min ( $X,Y$ )” means  $X$  if  $X-Y$  is negative (and otherwise means  $Y$ ), and “max ( $X,Y$ )” means  $Y$  if  $X-Y$  is negative (and otherwise means  $X$ ).

1B.11 References to representations in the Charge Restriction Conditions include objections.

### Part F: General rules of interpretation

1B.12 The provisions of paragraphs 2.1, 2.3 and 2.10 of standard condition 2 (Interpretation of this licence) apply to Part 4 of this licence as if references in those provisions to the standard conditions of this licence were references to Part 4 of this licence.

# **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):

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

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

## Chapter 2: Electricity Distribution Revenue Restriction

failures).

$PPL_t$  means the DPCR4 residual distribution losses incentive value 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.

### 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:

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

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:

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



## Chapter 2: Electricity Distribution Revenue Restriction

where:

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

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

and:

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

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

where:

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

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

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

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

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

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

## Chapter 2: Electricity Distribution Revenue Restriction

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

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

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

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

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

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

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

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

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

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

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

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

### 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:

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

## Chapter 2: Electricity Distribution Revenue Restriction

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.

### Part E: Calculation of the correction factor ( $K_t$ )

2A.15 For the purposes of the Principal Formula, 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 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 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.

## Chapter 2: Electricity Distribution Revenue Restriction

### Part F: Interest adjustment for over-recoveries and under-recoveries of revenue

- 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, Regulated Distribution Network Revenue exceeds 106 per cent of Allowed Distribution Network Revenue,  $PR_{t-2}$  will have the value of 3;
  - (b) if, in respect of Regulatory Year t-2, Regulated Distribution Network Revenue is less than 94 per cent of Allowed Distribution Network Revenue,  $PR_{t-2}$  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 Regulated Distribution Network Revenue in respect of Regulatory Year t-2 has, for reasons outside the reasonable control of the licensee, either:
- (a) exceeded 106 per cent of Allowed Distribution Network Revenue; or
  - (b) been less than 94 per cent of Allowed Distribution Network Revenue.
- 2A.20 Where paragraph 2A.19 applies, the Authority may direct the licensee to change the value of  $PR_{t-2}$  to ~~1.5~~ a value which is not less than zero and not more than 3.

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

- 2A.21 Paragraph 2A.22 applies from 1 April 2018.
- 2A.22 If, in respect of two successive Regulatory Years t-2 and t-3, the licensee's Regulated Distribution Network Revenue in each of those Regulatory Years exceeds 110 per cent of Allowed Distribution Network Revenue for those Regulatory Years, the licensee:
- (a) must provide an explanation for that event in writing to the Authority by 31 July in the associated Regulatory Year t-1; and
  - (b) must not increase its Use of System Charges for the Regulatory Year t except and to the extent that the Authority has consented to such an increase.

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

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

## Chapter 2: Electricity Distribution Revenue Restriction

- 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 best 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).

## Chapter 2: Electricity Distribution Revenue Restriction

<b>Retail Prices Index Forecast Growth Rate</b>	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).
<b>Vanilla Weighted Average Cost of Capital</b>	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								
NPgN								
NPgY								
WMID	385.8	389.6	393.4	397.4	401.4	405.3	409.4	413.4
EMID	386.0	389.8	393.6	397.6	401.5	405.5	409.6	413.7
SWALES	198.7	200.6	202.5	204.6	206.7	208.7	210.8	212.9
SWEST	286.9	289.6	292.4	295.4	298.4	301.3	304.3	307.3
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## CRC 2C. Broad Measure of Customer Service Adjustment

### Introduction

- 2C.1 This condition sets out the mechanisms for calculating the amount of the term  $BM_t$  (the Broad Measure of Customer Service Adjustment) in Regulatory Year  $t$ .
- 2C.2 The application of the  $BM_t$  term in Part D of CRC 2A (Restriction of Allowed Distribution Network Revenue) adjusts the amount of the incentive revenue adjustment term ( $IP_t$ ), in order to reflect the performance of the licensee on customer service issues.

### Structure of this condition

- 2C.3 This condition is structured as follows.
- 2C.4 Part A provides for the calculation of the Broad Measure of Customer Service Adjustment through the use of two separate mechanisms.
- 2C.5 Part B provides for the calculation of the Customer Satisfaction Survey term. The next three parts, C to E, provide for the calculation of the Customer Satisfaction Survey term in Part B as follows:
- (a) Part C provides for the calculation of the particular contribution arising from the licensee's performance in relation to the supply interruptions element of the Customer Satisfaction Survey;
  - (b) Part D provides for the calculation of the particular contribution arising from the licensee's performance in relation to the connections element of the Customer Satisfaction Survey; and
  - (c) Part E provides for the calculation of the particular contribution arising from the licensee's performance in relation to the general enquiries element of the Customer Satisfaction Survey.
- 2C.6 Part F provides for the calculation of the complaints metric term.
- 2C.7 Part G provides for the calculation of the stakeholder engagement term.
- 2C.8 Part H sets out the process for modifying the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance.
- 2C.9 Part I deals with matters of interpretation.
- 2C.10 Tables 1 to 16 in the Appendix set out the incentive rates and revenue exposures for the relevant components of this condition.



## Chapter 2: Electricity Distribution Revenue Restriction

### Part A: Calculation of the Broad Measure of Customer Service Adjustment (BM<sub>t</sub>)

2C.11 For each of the Regulatory Years beginning on 1 April 2015 and 1 April 2016 the Broad Measure of Customer Service Adjustment (BM<sub>t</sub>) is calculated in accordance with the following formula:

$$BM_t = BM_{t-2} \times \left[ \left( 1 + \frac{I_{t-2}}{100} \right) \times \left( 1 + \frac{I_{t-1}}{100} \right) \right]$$

where, for the purposes of this paragraph only:

BM<sub>t-2</sub> is the adjustment to Allowed Distribution Network Revenue to reflect the licensee's performance in each of the Regulatory Years beginning on 1 April 2013 and 1 April 2014, and is calculated from the application of the appropriate provisions used to calculate the QC<sub>t</sub> term in Part D of CRC 8 (Adjustment of licensee's revenues to reflect quality of service performance) of this licence in the form in which that condition was in force at 31 March 2015.

I<sub>t</sub> means the Average Specified Rate, as defined in CRC 1B (Interpretation of Part 4) in Regulatory Year t.

2C.12 For the Regulatory Year beginning on 1 April 2017 and each Regulatory Year thereafter, the Broad Measure of Customer Service Adjustment (BM<sub>t</sub>) is calculated in accordance with the following formula:

$$BM_t = [CS_{t-2} + CM_{t-2} + SE_{t-2}] \times RPIA_{t-2}$$

where:

CS<sub>t-2</sub> (*the Customer Satisfaction Survey term*) means the adjustment to Allowed Distribution Network Revenue in respect of the licensee's Customer Satisfaction Survey performance in Regulatory Year t-2 in relation to the targets for the Customer Satisfaction Survey, and is calculated in accordance with the provisions of Part B of this condition.

CM<sub>t-2</sub> (*the complaints metric term*) means the negative adjustment (if any) to Allowed Distribution Network Revenue in respect of the licensee's performance in Regulatory Year t-2 in relation to the targets for the complaints metric, and is calculated in accordance with the provisions of Part F of this condition.

SE<sub>t-2</sub> (*the stakeholder engagement reward term*) means the positive adjustment (if any) to Allowed Distribution Network Revenue in Regulatory Year t-2 in relation to stakeholder engagement performance, pursuant to the provisions of Part G of this condition.

RPIA<sub>t-2</sub> has the meaning given in Part C of CRC 2A.

**Part B: Adjustments arising from the Customer Satisfaction Survey**

2C.13 The Customer Satisfaction Survey term ( $CS_t$ ) is calculated in accordance with the following formula:

$$CS_t = CSA_t + CSB_t + CSC_t$$

where:

$CSA_t$  (*the supply interruptions customer satisfaction term*) means the adjustment in respect of the licensee’s performance in Regulatory Year t in relation to the target for the supply interruptions element of the Customer Satisfaction Survey in that year, and is calculated in accordance with the formula in Part C of this condition.

$CSB_t$  (*the connections customer satisfaction term*) means the adjustment in respect of the licensee’s performance in Regulatory Year t in relation to the target for the connections element of the Customer Satisfaction Survey in that year, and is calculated in accordance with the formula in Part D of this condition.

$CSC_t$  (*the general enquiries customer satisfaction term*) means the adjustment in respect of the licensee’s performance in Regulatory Year t in relation to the target for the general enquiries element of the Customer Satisfaction Survey in that year, and is calculated in accordance with the formula in Part E of this condition.

**Part C: Supply interruptions element of the Customer Satisfaction Survey**

2C.14 In the calculation of the  $CS_t$  term, the  $CSA_t$  term refers to the supply interruptions element of the Customer Satisfaction Survey term.

2C.15 The value of the supply interruptions customer satisfaction term ( $CSA_t$ ) is calculated in accordance with either of the following formulae as appropriate:

If  $SIAS_t \geq SIIM_t$ , then:

$$CSA_t = \min(CSAU_t, ((SIAS_t - SIIM_t) \times SIPIR_t) - ((PUC_t \times 100) \times UCPIR))$$

If  $SIAS_t < SIIM_t$ , then:

$$CSA_t = \max(-CSAD_t, ((SIAS_t - SIIM_t) \times SIPIR_t) - ((PUC_t \times 100) \times UCPIR))$$

where:

$CSAU_t$  (*the maximum upside supply interruptions term*) means the maximum positive adjustment in respect of the supply interruptions element of the Customer Satisfaction Survey for the licensee, as set out in Table 1 ~~in the of~~ Appendix 1.

$SIAS_t$  (*the supply interruptions actual score term*) means the licensee’s

## Chapter 2: Electricity Distribution Revenue Restriction

actual performance for the supply interruptions element of the Customer Satisfaction Survey for Regulatory Year t, as measured in accordance with the RIGs.

$SIIM_t$  (*the supply interruptions target score term*) means the target score for the supply interruptions element of the Customer Satisfaction Survey for Regulatory Year t, such score being 8.2.

$SIRIR_t$  (*the supply interruptions reward incentive rate term*) means the licensee's reward incentive rate for the supply interruptions element of the Customer Satisfaction Survey in the Regulatory Year t as specified in Table 2 of Appendix 1.

$CSAD_t$  (*the maximum downside supply interruptions term*) means the maximum negative adjustment in respect of the supply interruptions element of the Customer Satisfaction Survey for the licensee, as specified in Table 7 of Appendix 1.

$SIPIR_t$  (*the supply interruptions penalty incentive rate term*) means the licensee's penalty incentive rate for the supply interruptions element of the Customer Satisfaction Survey in the Regulatory Year t as specified in Table 8 of Appendix 1.

$PUC_t$  (*the supply interruptions Unsuccessful Calls term*) means the proportion of calls to the licensee's Specified Lines that are Unsuccessful Calls, and is calculated in accordance with the following formula:

$$PUC_t = \frac{\text{Total number of Unsuccessful Calls}}{\text{Total Number of Calls}}$$

$UCPIR$  (*the Unsuccessful Calls penalty incentive rate term*) means the licensee's penalty incentive rate for the number of Unsuccessful Calls to the licensee's Specified Lines, as specified in Table 9 of Appendix 1.

### Part D: Connections element of the Customer Satisfaction Survey

2C.16 In the calculation of the  $CS_t$  term, the  $CSB_t$  term refers to the connections element of the Customer Satisfaction Survey term.

## Chapter 2: Electricity Distribution Revenue Restriction

2C.17 The value of the connections customer satisfaction term ( $CSB_t$ ) is calculated in accordance with either of the following formulae, as appropriate:

If  $CAS_t \geq CIM_t$  then:

$$CSB_t = \min (CSBU_t, ((CAS_t - CIM_t) \times CRIR_t))$$

If  $CAS_t < CIM_t$  then:

$$CSB_t = \max(-CSBD_t, ((CAS_t - CIM_t) \times CPIR_t))$$

where:

$CSBU_t$  (*the maximum upside connections term*) means the maximum positive adjustment in respect of the connections element of the Customer Satisfaction Survey for the licensee, as specified in Table 3 of Appendix 1.

$CAS_t$  (*the connections actual score term*) means the licensee's actual performance for the connections element of the Customer Satisfaction Survey for Regulatory Year t, as measured in accordance with the RIGs.

$CIM_t$  (*the connections target score term*) means the target score for the connections element of the Customer Satisfaction Survey for the Regulatory Year t, such score being 8.2.

$CRIR_t$  (*the connections reward incentive rate term*) means the licensee's reward incentive rate for the connections element of the Customer Satisfaction Survey in Regulatory Year t as specified in Table 4 of Appendix 1.

$CSBD_t$  (*the maximum downside connections term*) means the maximum negative adjustment in respect of the connections element of the Customer Satisfaction Survey for the licensee, as specified in Table 10 of Appendix 1.

$CPIR_t$  (*the connections penalty incentive rate term*) means the licensee's penalty incentive rate for the connections element of the Customer Satisfaction Survey in Regulatory Year t as specified in Table 11 of Appendix 1.

### Part E: General enquiries element of the Customer Satisfaction Survey

2C.18 In the calculation of the  $CS_t$  term, the  $CSC_t$  term refers to the general enquiries element of the Customer Satisfaction Survey term.

## Chapter 2: Electricity Distribution Revenue Restriction

2C.19 The value of the connections customer satisfaction term ( $CSC_t$ ) is calculated in accordance with either of the following formulae, as appropriate:

If  $GAS_t \geq GIM_t$  then:

$$CSC_t = \min(CSCU_t, ((GAS_t - GIM_t) \times GRIR_t))$$

If  $GAS_t < GIM_t$  then:

$$CSC_t = \max(-CSCD_t, ((GAS_t - GIM_t) \times GPIR_t))$$

where:

$CSCU_t$  (*the maximum upside general enquiries term*) means the maximum positive adjustment in respect of the general enquiries element of the Customer Satisfaction Survey for the licensee, as specified in Table 5 of Appendix 1.

$GAS_t$  (*the general enquiries actual score term*) means the licensee's actual performance for the general enquiries element of the Customer Satisfaction Survey for Regulatory Year t, as measured in accordance with the RIGs.

$GIM_t$  (*the general target score term*) means the target score of the general enquiries element of the Customer Satisfaction Survey for Regulatory Year t, such score being 8.2.

$GRIR_t$  (*the general enquiries reward incentive rate term*) means the licensee's reward incentive rate for the general enquiries element of the Customer Satisfaction Survey in Regulatory Year t as specified in Table 6 of Appendix 1.

$CSCD_t$  (*the maximum downside general enquiries term*) means the maximum negative adjustment in respect of the general enquiries element of the Customer Satisfaction Survey for the licensee, as specified in Table 12 of Appendix 1.

$GPIR_t$  (*the general enquiries penalty incentive rate term*) means the licensee's penalty incentive rate for the general enquiries element of the Customer Satisfaction Survey in Regulatory Year t as specified in Table 13 of Appendix 1.

### Part F: Adjustments arising from complaints metric performance

2C.20 In the calculation of the value of  $BM_t$ , the term  $CM_t$  refers to the complaints metric term.

2C.21 The value of the  $CM_t$  term is calculated in accordance with either of the following formulae, as appropriate:

If  $CMP_t \leq TCM_t$ , then  $CM_t = 0$

and otherwise:

$$CM_t = \max(-ARCM_t, (TCM_t - CMP_t) \times IRCM_t)$$

## Chapter 2: Electricity Distribution Revenue Restriction

where:

$ARCM_t$  (*the complaints metric maximum penalty term*) means the maximum negative adjustment in respect of the complaints metric for the licensee, as specified in Table 14 of Appendix 1.

$CMP_t$  (*the complaints metric performance term*) is calculated in accordance with the following formula:

$$CMP_t = (PCUDPO_t \times 0.1) + (PCUDPT_t \times 0.3) + (PRC_t \times 0.5) + (POF_t \times 0.1)$$

where:

$PCUDPO_t$  (*the percentage of Complaints Unresolved after day plus one term*) means the number of Complaints Unresolved by the end of the first ~~w~~Working ~~d~~Day after the day on which the Complaint was first received, expressed as a proportion of total Complaints for Regulatory Year t as calculated for that year.

$PCUDPT_t$  (*the percentage of Complaints Unresolved after day plus 31 term*) means the number of Complaints Unresolved after the end of 31 calendar days from the end of the first ~~w~~Working ~~d~~Day after the day on which the Complaint was first received, expressed as a proportion of total Complaints for Regulatory Year t as calculated for that year.

$PRC_t$  (*the percentage of Repeat Complaints term*) means the number of Repeat Complaints, expressed as a proportion of total Complaints for Regulatory Year t as calculated for that year.

$POF_t$  (*the percentage of Energy Ombudsman findings term*) means the number of Energy Ombudsman Findings Against the Licensee, expressed as a proportion of total Complaints received for Regulatory Year t as calculated for that year.

$TCM_t$  (*the industry target term*) means the target value of the complaints metric for Regulatory Year t, such score being 8.33.

$IRCM_t$  (*the complaints metric incentive rate term*) means the incentive rate for the complaints metric for Regulatory Year t, as specified in Table 15 of Appendix 1.

### Part G: Adjustments arising from stakeholder engagement performance

- 2C.22 This part sets out the mechanism for calculating the amount of the term  $SE_t$  (the stakeholder engagement term).
- 2C.23 The maximum value of  $SE_t$  for each Regulatory Year that can be determined by the Authority for the licensee is set out in Table 16 of Appendix 1.
- 2C.24 In order to be eligible to be considered for a reward for stakeholder engagement, the licensee must demonstrate how it meets the criteria in respect of the Regulatory Year in question in accordance with such procedures and timescales as are set out in the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance published

## Chapter 2: Electricity Distribution Revenue Restriction

on the Authority's Website (which may be modified from time to time in accordance with the provisions in Part H of this condition).

- 2C.25 In addition to making provision for the matters to which paragraph 2C.24 refers, the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance may also make provision for:
- (a) the appointment, by the Authority, of persons who will assess the stakeholder submissions and make recommendations based on key assessment criteria;
  - (b) the key assessment criteria; and
  - (c) the manner and process by which the stakeholder engagement submissions will be assessed against the key assessment criteria and by which the Authority will allocate the stakeholder engagement reward.
- 2C.26 The value of the SE term for Regulatory Year t-2 will be determined by the Authority in accordance with the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance, by 30 November in Regulatory Year t-1.
- 2C.27 If, for any reason in any Regulatory Year, the Authority does not determine the value of the SE term for application by 30 November in Regulatory Year t-1, then the value of the SE term for Regulatory Year t-2 will be zero and any reward that the licensee is entitled to receive will be recoverable as soon as reasonably practicable thereafter in accordance with a mechanism notified by the Authority to the licensee for that purpose.

### **Part H: The process for issuing or modifying the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance**

- 2C.28 The Authority will issue, and may modify, the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance by issuing a direction for that purpose to every licensee in whose licence this condition has effect.
- 2C.29 A direction issued by the Authority under paragraph 2C.28 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to all licensees in whose licence this condition has effect, set out the text of the proposed Stakeholder Engagement and Consumer Vulnerability Incentive Guidance (or modifications to it) that it proposes to direct;
  - (b) specified in the Notice the reasons for the Authority's proposals;
  - (c) specified in the Notice the date on which it proposes that the provisions of the document to be issued (or modifications to it) should take effect;
  - (d) specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
  - (e) considered any representations duly received in response to the Notice.

## Chapter 2: Electricity Distribution Revenue Restriction

### Part I: Interpretation

2C.30 For the purposes of this condition:

<b>Broad Measure of Customer Service Adjustment</b>	means the composite incentive outlined in this condition, the application of which adjusts the licensee's revenue so as to reflect customer service performance.
<b>Complaint</b>	means any expression of dissatisfaction made to the licensee that is related to any one or more of its products, its services or the manner in which it has dealt with any such expression of dissatisfaction, and where either a response is provided by or on behalf of the licensee at the point at which contact is made or a response is explicitly or implicitly required or expected to be provided thereafter, as further clarified in the RIGs.
<b>Complaints Unresolved</b>	means any Complaints that are not Resolved Complaints.
<b>Customer Satisfaction Survey</b>	means the survey used to measure the extent to which Customers are satisfied with the service provided by the licensee in respect of the relevant Distribution System for the purposes of the Broad Measure of Customer Service Adjustment.
<b>Energy Ombudsman</b>	means the person appointed to investigate and resolve consumer complaints against (amongst others) the licensee pursuant to a redress scheme approved by the Authority under section 49 of the Consumers, Estate Agents and Redress Act 2007.
<b>Energy Ombudsman Findings Against the Licensee</b>	means any Energy Ombudsman decisions requiring the licensee to make a payment exceeding that previously offered to the complainant, or finding the licensee should change its processes beyond what it had previously indicated to the complainant, or both.
<b>Repeat Complaints</b>	means any Complaint in relation to which the complainant makes contact with the licensee to express dissatisfaction in respect of the same or substantially the same matter that was the subject of a previously Resolved Complaint within the previous 12 month period, as further clarified in the RIGs.
<b>Resolved Complaint</b>	means a Complaint in respect of which there remains no outstanding action to be taken by the licensee, as further clarified in the RIGs.



## Chapter 2: Electricity Distribution Revenue Restriction

<b>Specified Lines</b>	means telephone lines having any of the following numbers: (a) the safety and security of supplies enquiry service telephone number operated by the licensee or by its appointed agents (or contractors); (b) the power outage telephone number (and its equivalents) (if different to the above) operated by the licensee or by its appointed agents (or contractors); and (c) telephone numbers operated by contractors or agents of the licensee who provide an overflow or crisis management facility during peak periods.
<b>Stakeholder Engagement and Consumer Vulnerability</b>	means the document of that name published on the Authority's Website for the purpose of this condition, as modified from time to time in accordance with that condition.
<b>Incentive Guidance</b>	
<b>Total Number of Calls</b>	the total number of calls to Specified Lines, as further clarified in the RIGs.
<b>Unsuccessful Calls</b>	means <del>a</del> calls to a Specified Line that <del>is</del> are either freely abandoned by the Customer or <del>fail</del> s because the Customer is unable to contact the licensee or its appointed agents (or contractors), as further clarified in the RIGs.

**Appendix 1 - Broad Measure of Customer Service Adjustment  
incentive rates and revenue exposures**

**Table 1: CSAU<sub>t</sub> – Maximum upside supply interruptions term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
EMID	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
SWALES	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
SWEST	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 2: SIRIR<sub>t</sub> – Supply Interruptions Reward Incentive Rate term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74
EMID	1.68	1.68	1.68	1.68	1.68	1.68	1.68	1.68
SWALES	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
SWEST	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 3: CSBU<sub>t</sub> – Maximum upside connections term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
SWALES	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
SWEST	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 4: CRIR<sub>t</sub> – Connections Reward Incentive Rate term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90
EMID	2.81	2.81	2.81	2.81	2.81	2.81	2.81	2.81
SWALES	1.34	1.34	1.34	1.34	1.34	1.34	1.34	1.34
SWEST	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 5: CSCU<sub>t</sub> – Maximum upside general enquiries term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
EMID	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
SWALES	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWEST	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 6: GRIR<sub>t</sub> – General Enquiries Reward Incentive Rate term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	1.16	1.16	1.16	1.16	1.16	1.16	1.16	1.16
EMID	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12
SWALES	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54
SWEST	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 7: CSAD<sub>t</sub> – Maximum downside supply interruptions term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
EMID	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
SWALES	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
SWEST	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								



Chapter 2: Electricity Distribution Revenue Restriction

**Table 8: SIPIR<sub>t</sub> – Supply Interruptions Penalty Incentive Rate term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87
EMID	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
SWALES	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
SWEST	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 9: UCPIR<sub>t</sub> – Unsuccessful Call Penalty Incentive Rate term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
EMID	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
SWALES	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
SWEST	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 10: CSBD<sub>t</sub> – Maximum downside connections term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
SWALES	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
SWEST	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 11: CPIR<sub>t</sub> – Connections Penalty Incentive Rate term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45
EMID	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
SWALES	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67
SWEST	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 12: CSCD<sub>t</sub> – Maximum downside general enquiries term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
EMID	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
SWALES	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWEST	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 13: GPIR<sub>t</sub> – General Enquiries Penalty Incentive Rate term (£m in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
EMID	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
SWALES	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27
SWEST	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 14: ARCM<sub>t</sub> – Complaints metric maximum penalty term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
SWALES	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
SWEST	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

Chapter 2: Electricity Distribution Revenue Restriction

**Table 15: IRCM<sub>t</sub> – Complaints Metric Incentive Rate term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31
EMID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
SWALES	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
SWEST	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								



Chapter 2: Electricity Distribution Revenue Restriction

**Table 16: SE<sub>t</sub> – Maximum stakeholder engagement reward (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
SWALES	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
SWEST	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## **CRC 2J. Low Carbon Networks Fund**

### **Introduction**

- 2J.1 This condition makes provision for the maintenance of arrangements (known as the Low Carbon Networks Fund) for determining the amount of the LCN term that applies in CRC 2A (Restriction of Allowed Distribution Network Revenue) for the purpose of incentivising the development of low carbon networks.
- 2J.2 The arrangements to which paragraph 2J.1 refers will apply in relation to the funding, regulation, and administration of:
- (a) Low Carbon Networks Fund projects that at any time within the period from 1 April 2010 to 31 March 2015 were the subject of a direction under Part C of CRC 13 (Low Carbon Networks Fund) of this licence in the form in which it was in force at 31 March 2015; and
  - (b) Low Carbon Networks Fund projects that at any time within that period were commenced pursuant to the provisions of that condition relating to the First Tier Funding Mechanism.

### **Part A: Funding mechanisms for Low Carbon Networks Fund functions**

- 2J.3 The following functions are to be discharged by the Low Carbon Networks Fund:
- (a) the recovery of funding for Eligible LCN Fund Projects raised through revenues contributed through the licensee's Use of System Charges between 1 April 2010 and 31 March 2015 ("the First Tier Funding Mechanism") that the Authority determines to be unrecoverable; and
  - (b) the funding of Eligible LCN Fund Projects and awards through revenues contributed through the Use of System Charges of all Distribution Services Providers ("the Second Tier and Discretionary Funding Mechanism") in accordance with Part B below and the LCN Fund Governance Document.
- 2J.4 The amount of the LCN term that is to be incorporated into the Allowed Distribution Network Revenue in accordance with the provisions of CRC 2A and this condition in respect of any Regulatory Year comprises the total of the allowed revenues of the licensee recovered from Use of System Charges under each particular funding mechanism set out in this licence condition in that year.

## Chapter 2: Electricity Distribution Revenue Restriction

2J.5 Accordingly, for the purposes of Part B of CRC 2A, which provides for the calculation of the licensee's Allowed Distribution Network Revenue, the amount of the LCN adjustment in Regulatory Year  $t$  is derived from the following formula (in this condition, the "LCN $_t$  Formula"):

$$\text{LCN}_t = \text{LCN2}_t - \text{LCN1}_t$$

where:

- (a) LCN $2_t$  is an amount determined under the Second Tier and Discretionary Funding Mechanism in accordance with Part ~~EB~~ of this condition and the LCN Fund Governance Document; and
- (b) LCN $1_t$  is an amount recovered by the licensee in relation to a previous Regulatory Year under the First Tier Funding Mechanism that the Authority has determined, in accordance with the provisions set out in the LCN Fund Governance Document, to be unrecoverable.

### **Part B: The Second Tier and Discretionary Funding Mechanism**

2J.6 The Second Tier and Discretionary Funding Mechanism relates to the recovery by, and apportionment among, the licensee and other Distribution Services Providers of:

- (a) Second Tier Funding;
- (b) Discretionary Funding;
- (c) Halted Project Revenues;
- (d) Disallowed Expenditure; and
- (e) Returned LCN Fund Royalties

2J.7 Second Tier Funding is the aggregate (for the licensee and all other Distribution Services Providers) of all the Approved Amounts in the 2015/16 Regulatory Year.

2J.8 Discretionary Funding is the aggregate (for the licensee and all other Distribution Services Providers) of the additional funding awarded by the Authority, on a discretionary basis in accordance with the LCN Fund Governance Document, in respect of Eligible LCN Fund Projects.

2J.9 Halted Project Revenues are revenues received (whether by the licensee or another Distribution Services Provider) under the Second Tier and Discretionary Funding Mechanism in respect of an Eligible LCN Fund Project that have not yet been spent, or otherwise committed, at the time that the Authority requires that Eligible LCN Fund Project to be halted in accordance with the provisions of the LCN Fund Governance Document or those of the relevant Project Direction.

2J.10 Disallowed Expenditure is revenue received (whether by the licensee or another Distribution Services Provider) under the Second Tier and Discretionary Funding Mechanism that the Authority determines not to have been spent in accordance with

## Chapter 2: Electricity Distribution Revenue Restriction

the provisions of the LCN Fund Governance Document or those of the relevant Project Direction.

- 2J.11 Returned LCN Fund Royalties are the revenues earned from intellectual property generated through Second Tier LCN Fund projects (whether by the licensee or another Distribution Services Provider), less Directly Attributable Costs, and that ~~is~~are payable to customers under the Second Tier and Discretionary Funding Mechanism, and is calculated in accordance with the provisions of the LCN Fund Governance Document.
- 2J.12 For the purpose of paragraph 2J.1~~3~~1, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Second Tier LCN Fund projects (whether by the licensee or another Distribution Services Provider) that must not have been remunerated by Use of System Charges, charges for Metering Point Administration Service, Legacy Metering Equipment Charges or revenue from Data Services or Directly Remunerated Services or by the Second Tier and Discretionary Funding Mechanism.
- 2J.13 For the purposes of the  $LCN_t$  Formula,  $LCN2_t$  is to be the amount specified for Regulatory Year  $t$  that is to be recovered by each Distribution Services Provider as ~~determined~~directed by the Authority under paragraph 2J.1~~6~~4 in relation to:
- (a) the Second Tier Funding specified for Regulatory Year  $t$ ;
  - (b) any Discretionary Funding specified for Regulatory Year  $t$ ;
  - (c) any Halted Project Revenues specified for Regulatory Year  $t$ ;
  - (d) any Disallowed Expenditure specified for Regulatory Year  $t$ ; and
  - (e) any Returned LCN Fund Royalties specified for Regulatory Year  $t$ .
- 2J.14 In each Regulatory Year  $t$ , as provided for by the LCN Fund Governance Document, the Authority will calculate and, by direction given to all of the Distribution Services Providers, specify in accordance with the appropriate provisions set out in the LCN Fund Governance Document:
- (a) the value for  $LCN2_t$  for each Distribution Services Provider (being the amount to be recovered by each Distribution Services Provider through Use of System Charges in order to contribute to its own or another Distribution Services Provider's Second Tier Funding and Discretionary Funding for that Regulatory Year);
  - (b) the net amounts to be transferred between Distribution Services Providers in order to ensure that each Distribution Services Provider receives an amount (if any) equal to the proportion of the Second Tier Funding and Discretionary Funding for that Regulatory Year that is attributable to the licensee's Eligible LCN Fund Projects (adjusted to take into account any Halted Project Revenue, Returned LCN Fund Royalties and Disallowed Expenditure); and

## *Chapter 2: Electricity Distribution Revenue Restriction*

- (c) the manner in which and the timescale over which the net amounts referred to in 2J.14(b) are to be transferred.
- 2J.15 The licensee must comply with any direction issued by the Authority under paragraph 2J.14.
- 2J.16 Eligibility, assessment, implementation, and other relevant matters relating to Eligible LCN Fund Projects under the Second Tier and Discretionary Funding Mechanism are provided for in or pursuant to the LCN Fund Governance Document issued by the Authority under Parts D and E of this condition.

### **Part C: Unrecoverable expenditure**

- 2J.17 For the purposes of the LCN<sub>t</sub> Formula, the amount of LCN<sub>1t</sub> is an amount recovered by the licensee in relation to Regulatory Year t or a previous Regulatory Year under the First Tier Funding Mechanism that the Authority has determined, in accordance with the provisions set out in the LCN Fund Governance Document, to be unrecoverable.
- 2J.18 In any Regulatory Year t, the Authority may set, by direction given to the licensee, an amount for LCN<sub>1t</sub> that will reduce the licensee's Allowed Distribution Network Revenue by the amount that the Authority has determined to be unrecoverable.

### **Part D: The LCN Fund Governance Document**

- 2J.19 The Authority will issue, and may from time to time revise, a document, to be known as the LCN Fund Governance Document, for purposes connected with the regulation, governance, and administration of the Low Carbon Networks Fund.
- 2J.20 The LCN Fund Governance Document may, amongst other things, make provision about or impose requirements in respect of:
  - (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of Eligible LCN Fund Projects;
  - (b) the criteria against which the funding of such projects will be assessed and approved (where necessary);
  - (c) the process and procedures that will be in place for the assessment, approval and financing of such projects' funding (where necessary);
  - (d) the arrangements for ensuring that relevant matters learnt from the implementation of Eligible LCN Fund Projects can be captured and disseminated;
  - (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects,

## *Chapter 2: Electricity Distribution Revenue Restriction*

as well as reporting on compliance with this condition and the LCN Fund Governance Document);

- (f) arrangements relating to intellectual property rights, including Returned LCN Fund Royalties, in respect of Eligible LCN Fund Projects; and
- (g) any other matters related to the regulation, governance, or administration of the Low Carbon Networks Fund.

2J.21 Where any provisions of the LCN Fund Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the document were part of this condition.

### **Part E: Procedure for issuing the LCN Fund Governance Document**

2J.22 The Authority will issue, and may modify, the LCN Fund Governance Document by issuing a direction for that purpose to every licensee in whose licence this condition has effect.

2J.23 A direction issued by the Authority under paragraph 2J.22 will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to all licensees in whose licence this condition has effect, set out the text of the proposed LCN Fund Governance Document (or modifications to it) that it proposes to direct;
- (b) specified in the Notice the reasons for the Authority's proposals;
- (c) specified in the Notice the date on which it proposes that the provisions of the document (or modifications to it) should take effect;
- (d) specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
- (e) considered any representations duly received in response to the Notice.

2J.24 The requirements of paragraphs 2J.22 and 2J.23 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

2J.25 For the purposes of paragraph 2J.22 the reference to issuing the LCN Fund Governance Document includes issuing any revision of it and the procedure provided for in paragraph 2J.23 will apply to any such revision.

## Chapter 2: Electricity Distribution Revenue Restriction

### Part F: Interpretation

2J.26 For the purposes of this condition:

<b>Approved Amount</b>	means an amount approved by the Authority in relation to a claim submitted by a Distribution Services Provider to receive funding for an Eligible LCN Fund Project under the Second Tier and Discretionary Funding Mechanism, where such claim complies in all respects with such requirements as are imposed by the LCN Fund Governance Document.
<b>Data Services</b>	means the totality of: (a) Metering Point Administration Services provided under and in accordance with the provisions of the Master Registration Agreement; and (b) Data Transfer Services provided by the Data Transfer Service.
<b>Directly Attributable Costs</b>	has the meaning given to that term in paragraph 2J.12.
<b>Disallowed Expenditure</b>	has the meaning given to that term in paragraph 2J.10.
<b>Discretionary Funding</b>	has the meaning given in paragraph 2J.8.
<b>Eligible LCN Fund Project</b>	means a project undertaken by a Distribution Services Provider that in the Authority's view satisfies such requirements of the LCN Fund Governance Document as are necessary to enable the project to be funded under the First Tier Funding Mechanism or the Second Tier and Discretionary Funding Mechanism (as the case may be).
<b>First Tier Funding Mechanism</b>	has the meaning given to that term in paragraph 2J.3(a).
<b>Halted Project Revenues</b>	has the meaning given to that term in paragraph 2J.9.

## *Chapter 2: Electricity Distribution Revenue Restriction*

<b>LCN Fund Governance Document</b>	means the document issued by the Authority under Part D of this condition including matters relating to the First Tier Funding Mechanism, the Second Tier and Discretionary Funding Mechanism and related matters, subject to the requirements of Part E.
<b>LCN<sub>t</sub> Formula</b>	has the meaning given to that term in paragraph 2J.5.
<b>Legacy Metering Equipment Charges</b>	means the charges levied by the licensee for the provision of Legacy Metering Equipment in accordance with the relevant Charging Statement prepared by the licensee under standard condition 36 (Charges for the provision of Legacy Metering Equipment and Data Services).
<b>Project Direction</b>	means a direction issued by the Authority pursuant to the LCN Fund Governance Document setting out the terms to be followed in relation to the Eligible LCN Fund Project as a condition of its being funded pursuant to the Second Tier and Discretionary Funding Mechanism.
<b>Second Tier and Discretionary Funding Mechanism</b>	has the meaning given to that term in paragraph 2J.6.
<b>Second Tier Funding</b>	has the meaning given to that term in paragraph 2J.7.



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

### Introduction

- 2M.1 The purpose of this condition is to establish the mechanism for calculating the amount of the term  $PPL_t$  (the DPCR4 residual distribution losses incentive value) that applies in Part B of CRC 2A (Restriction of Allowed Distribution Network Revenue).
- 2M.2 The effect of the application of the residual distribution losses incentive value in CRC 2A is to adjust the calculation of the licensee's Allowed Distribution Network Revenue, whether upwards or downward, in order to reflect the licensee's final performance under the distribution losses incentive scheme in the charge restriction period 1 April 2005 to 31 March 2010.

### Part A: Residual distribution losses incentive (PPL)

- 2M.3 For the purposes of this condition:
- $PPL_t$  is the amount of the residual distribution losses incentive arising in the charge restriction period 1 April 2005 to 31 March 2010, set in accordance with the provisions of paragraphs 2M.4 to 2M.6, that is to be recovered by the licensee.
- 2M.4 The value of  $PPL_t$  shall be calculated by reference to the methodology set out in the Authority's decision document published on 3 January 2013 under reference number 01/13.
- 2M.5 The amount of  $PPL_t$  assigned for recovery in respect of each Regulatory Year ~~will be~~ has been set in a direction given by the Authority ~~following consultation with the licensee and all other Distribution Services Providers~~ on 21 March 2014.
- 2M.6 That direction ~~will~~ sets out the period over which the value of  $PPL_t$  is to be recovered, taking account of the date on which the  $PPL_t$  direction is made.

# **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),

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

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

- 3A.5 LTPG, LTPS, LTPD and LTPC values are contained only in the columns for Regulatory Years 2013/14 and 2014/15 in the PCFM Variable Values Table for the licensee.
- 3A.6 Subject to paragraphs 3A.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

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

(b) is stated in 2012/13 prices.

**Table 1: Adjustments comprising the OLREV value**

<b>Adjustment</b>	<b>Section of chapter 15 of the ED1 Price Control Financial Handbook containing methodology</b>
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.

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

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

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

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**

<b>Adjustment</b>	<b>Section of chapter 16 of the ED1 Price Control Financial Handbook containing methodology</b>
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

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

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.3~~12~~ 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.3~~12~~ 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.



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

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<sub>t</sub> for the licensee under that paragraph.

#### **Part G: Interpretation**

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

3A.37 For the purposes of this condition:

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

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

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.

# **CHAPTER 4: PRICE CONTROL FINANCIAL INSTRUMENTS**

## CRC 4A. Governance of ED1 Price Control Financial Instruments

### Introduction

- 4A.1 This condition establishes a change control framework for each of the following ED1 Price Control Financial Instruments:
- (a) the ED1 Price Control Financial Handbook, which contains the ED1 Price Control Financial Methodologies; and
  - (b) the ED1 Price Control Financial Model
- to enable the Authority to effectively implement the ED1 Final Determination.
- 4A.2 Each of the ED1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 4A.3) may be modified by the Authority in accordance with the provisions of Parts A and B of this condition.
- 4A.3 Parts A and B of this condition are without prejudice to the power of the Authority to modify any part of this condition (including any ED1 Price Control Financial Instrument) under section 11A of the Act.

### Part A: Assessment of the likely impact of an intended modification

- 4A.4 Before initiating any modification of an ED1 Price Control Financial Instrument, the Authority will assess whether that modification would be likely to have a significant impact on any of the following persons:
- (a) the licensee;
  - (b) any other Distribution Services Provider;
  - (c) any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
  - (d) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.
- 4A.5 In making the assessment required by paragraph 4A.4, the Authority will:
- (a) have particular regard to any impact that an intended modification would be likely to have on the licensee's financial ratios, on any component of the licensee's allowed revenues, or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and
  - (b) in respect of modifications to the ED1 Price Control Financial Model, have regard to any views expressed by the ED1 Price Control Financial Model Working Group.
- 4A.6 For the purposes of paragraph 4A.4, it is to be presumed (subject to paragraph 4A.7) that a modification that serves to correct a manifest error contained in an ED1 Price

## Chapter 4: Price Control Financial Instruments

Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.

- 4A.7 The presumption established by paragraph 4A.6 is without prejudice to the licensee's right under paragraph 4A.13~~1~~ to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 4A.4 or 4A.5(a).

### **Part B: Circumstances in which a modification may (and may not) be made**

- 4A.8 If, having carried out the required assessment under Part A of this condition, the Authority considers that an intended modification of an ED1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 4A.4, it may (subject to the requirements of paragraph 4A.9), modify that instrument in accordance with paragraph 4A.10.
- 4A.9 A modification of an ED1 Price Control Financial Instrument under this Part B will be of no effect unless, before making it, the Authority has **first**:
- (a) by Notice to the licensee and all other Distribution Services Providers~~s~~, set out the proposed modification and the date from which the Authority proposes that it should have effect;
  - (b) explained in that Notice why in the Authority's opinion the modification is necessary;
  - (c) set out in the Notice the Authority's view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 4A.4;
  - (d) published that Notice on the Authority's website;
  - (e) specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposal; and
  - (f) considered any representations duly received in response to the Notice.
- 4A.10 Having complied with the requirements of paragraph 4A.9, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism or method by which that date is to be determined).
- 4A.11 If the licensee demonstrates in representations referred to under paragraph 4A.9(e) that it reasonably considers that the proposed modification would be likely to have a significant impact of the type referred to in paragraph 4A.4 or 4A.5(a), the Authority may not make the modification under this Part B.

## *Chapter 4: Price Control Financial Instruments*

### **Part C: Availability and updating of ED1 Price Control Financial Instruments**

- 4A.12 This Part C has effect in relation to the publication and availability of the ED1 Price Control Financial Handbook, including the constituent ED1 Price Control Financial Methodologies and the ED1 Price Control Financial Model.
- 4A.13 The Authority will ensure that any modifications of the ED1 Price Control Financial Handbook, including the constituent ED1 Price Control Financial Methodologies, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ED1 Price Control Financial Handbook maintained on the Authority's Website.
- 4A.14 The Authority will ensure that any modifications of the ED1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ED1 Price Control Financial Model maintained on the Authority's Website.
- 4A.15 Without limiting the general effect of paragraph 4A.14, the Authority will, subject to paragraph 4A.16, by not later than 30 November in each Regulatory Year t-1:
- (a) publish on the Authority's Website, in Microsoft Excel ® format, the version of the ED1 Price Control Financial Model that will be used to determine the value of the term MOD with respect to Regulatory Year t for the purposes of Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue);
  - (b) ensure that the electronic name of the file is "ED1 PCFM" followed by "November 20XX" where 20XX represents the calendar year containing the month of November in Regulatory Year t-1;
  - (c) ensure that the words "ED1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November in Regulatory Year 20XX/XX" (where 20XX/XX is the format used for expressing Regulatory Year t-1) are included as text within the file itself; and
  - (d) publish an up-to-date schedule of any modifications that have been made to the ED1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.
- 4A.16 The first Regulatory Year in respect of which the Authority will publish a version of the ED1 Price Control Financial Model on the Authority's Website for the purposes of paragraph 4A.15 will be Regulatory Year 2015/16 and the last Regulatory Year with respect to those purposes will be 2021/22.

### **Part D: Interpretation**

- 4A.17 This condition must be read and construed in conjunction with CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).

## *Chapter 4: Price Control Financial Instruments*

4A.18 For the purposes of this condition:

**ED1 Price Control  
Financial Model  
Working Group** means the working group identified in and whose  
governance arrangements are set out in chapter 1  
of the ED1 Price Control Financial Handbook.

# **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:

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

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<sub>t</sub> is the current expected life (in years) of a Single-Rate Token Prepayment Electricity Meter, and has the value of 9.72.
- LTW<sub>t</sub> is the value of LT<sub>t</sub> rounded down to the nearest integer, and hence has the value of 9.
- PIT<sub>t</sub> is the price index adjustment, and has the value determined in accordance with Part G of this condition.
- AF<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> is the current expected life (in years) of a Single-Rate Key Prepayment Electricity Meter, and has the value of 9.34.
- LKW<sub>t</sub> is the value of LK<sub>t</sub> rounded down to the nearest integer, and hence has the value of 9.
- PIT<sub>t</sub> is the price index adjustment, and has the value determined in accordance with Part G of this condition.
- AF<sub>t</sub> 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<sub>t</sub>** 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<sub>t</sub>** is the current expected life (in years) of a Single-Rate Smartcard Prepayment Electricity Meter, and has the value of 7.

**LSW<sub>t</sub>** is the value of LS<sub>t</sub> rounded down to the nearest integer, and hence has the value of 7.

**PIT<sub>t</sub>** is the price index adjustment, and has the value determined in accordance with Part G of this condition.

**AF<sub>t</sub>** 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<sub>t</sub>** 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<sub>i</sub> 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<sub>i</sub> is the current expected economic life (in years) of the Electricity Meter type i.
- PIT<sub>t</sub> is the price index adjustment, and has the value determined in accordance with Part G of this condition.
- AF<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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<sub>i</sub>) 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:

<b>Adjustment Period</b>	has the meaning give to that term in paragraph 5B.20.
<b>Modern Equivalent Asset Purchase Price</b>	in relation to any type of Electricity Meter, means the purchase price of a new Electricity Meter of the same functionality as that type.
<b>Single-Phase Single-Rate Credit Electricity Meter</b>	means an induction type (or electronic) alternating current single-phase two-wire single-rate credit Electricity Meter.
<b>Single-Rate Key Prepayment Electricity Meter</b>	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.
<b>Single-Rate Smartcard Prepayment Electricity Meter</b>	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.
<b>Single-Rate Token Prepayment Electricity Meter</b>	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 5C. Directly Remunerated Services**

### **Introduction**

- 5C.1 This condition sets out the basis on which services provided by the licensee may be treated as Directly Remunerated Services for the purposes of the Charge Restriction Conditions.
- 5C.2 Directly Remunerated Services are services that comply with the General Principle set out in Part A of this condition.
- 5C.3 The services listed in Appendix 1, in particular, are Directly Remunerated Services to the extent that they comply with the General Principle set out below.

### **Part A: Statement of General Principle**

- 5C.4 The General Principle is that a service provided by the licensee as part of the normal activities of its Distribution Business within the Distribution Services Area is to be treated as a Directly Remunerated Service if and to the extent that the service so provided is not already remunerated under any of the income categories set out in paragraph 5C.5.
- 5C.5 The income categories referred to in paragraph 5C.4 are:
- (a) income from charges levied by the licensee in respect of the provision of:
    - (i) Use of System, in accordance with the relevant Charging Statement prepared and published by the licensee under standard condition 14 (Charges for Use of System and connection);
    - (ii) Metering Point Administration Services, in accordance with the MPAS Charging Statement prepared and published by the licensee under standard condition 18 (Provision of and charges for Metering Point Administration Services); and
    - (iii) Legacy Metering Equipment and Data Services, in each case in accordance with the relevant statement prepared and published by the licensee under standard condition 36 (Charges for the provision of Legacy Metering Equipment and Data Services); and
  - (b) Returned Royalty Income associated with an activity carried out under any provision of CRC 5A (The Network Innovation Competition); and
  - (c) Returned LCN Fund Royalties associated with an activity carried out under any provision of CRC 2J (Low Carbon Networks Fund).

### **Part B: Specific categories of Directly Remunerated Service**

- 5C.6 Appendix 1, while not limiting the scope of the General Principle, sets out certain categories of service provided by the licensee that are to be treated as Directly Remunerated Services to the extent that they comply with the General Principle.

- 5C.7 Charges levied in respect of Directly Remunerated Services provided within categories DRS1, DRS2, DRS3, DRS4 and DRS 7 of Appendix 1 must be set at a level that will allow the licensee to recover:
- (a) its reasonable costs;
  - (b) a reasonable rate of return on the capital outlay represented by any expenditure incurred by the licensee during the period before payment is received of any amounts due by the person requiring the service in question; and
  - (c) in respect of DRS1, a Margin, where that is consistent with the provisions of CRC 2K.
- 5C.8 Charges levied in respect of Directly Remunerated Services provided within categories DRS5 and DRS9 of Appendix 1 are to be set at a level that will allow the licensee to recover its reasonable costs and a reasonable margin in providing the service in question.
- 5C.9 The total Net Revenue from charges levied in respect of Directly Remunerated Services provided within category DRS8 of Appendix 1 (Value Added Services) during any Regulatory Year is to be included as a component of the ACO value for the licensee (as that term is defined in CRC 3B (Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments)) for the same Regulatory Year.

### **Part C: Authority's power to give directions**

- 5C.10 Where the Authority (having particular regard to the General Principle) is satisfied:
- (a) that any service treated by the licensee as a Directly Remunerated Service should not be so treated; or
  - (b) that any service not treated by the licensee as a Directly Remunerated Service should be so treated,
- it may give the licensee a direction to that effect.
- 5C.11 Where a direction is given under paragraph 5C.10, the licensee must, as the case may be, either:
- (a) stop treating the service or services specified in the direction as Directly Remunerated Services; or
  - (b) begin treating the service or services specified in the direction as Directly Remunerated Services,
- from the date of the direction or such later date as may be specified in it.

### **Part D: Interpretation**

- 5C.12 The descriptions of categories of Directly Remunerated Service set out in Appendix 1 are to be read and given effect subject to any further explanation or elaboration of any



of those descriptions that may be set out in the RIGs issued by the Authority under standard condition 46 (Regulatory Instructions and Guidance) of this licence.

5C.13 For the purposes of this condition:

**Net Revenue** means the difference between the revenue received from charges for Value Added Services (as defined in Appendix 1) in a particular Regulatory Year and the marginal costs directly associated with the provision of those services in the same Regulatory Year, being in each case: (a) ascertained on a normal accruals basis and in accordance with any RIGs that apply for the purposes of this condition; and (b) for the purposes of paragraph 5C.9, expressed as a negative figure when the revenue received exceeds the associated marginal costs.

**Value Added Services** has the meaning given in Appendix 1 of this condition.

## APPENDIX 1

### Specific categories of Directly Remunerated Service

**DRS1. Connection services:** This category consists of the carrying out of works (including any necessary reinforcement works or diversionary works) for the purposes of providing, installing, operating, repairing, or maintaining electric lines or electrical plant (but only to the extent that the service is not already remunerated under one of the charges mentioned in paragraph 5C.5).

**DRS2. Diversionary works under an obligation:** This category consists of the relocating of any electric line or electrical plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9(1) (general duties of licence holders) or section 16 (duty to connect on request) of the Act.

**DRS3. Works required by any alteration of premises:** This category consists of the moving of any electric line, electrical plant, or Electricity Meter that forms part of the licensee's Distribution System to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.

**DRS4. Top-up, standby, and enhanced system security:** This category consists of the provision of electric lines and electrical plant to the extent required by any user of the licensee's Distribution System:

- (a) for the specific purpose of enabling the delivery of top-up or standby supplies of electricity; or
- (b) to provide a higher degree of security than is required for the purposes of complying with paragraph 24.1 of standard condition 24 (Distribution System planning standard and quality of performance reporting).

to the extent that they are provided under an agreement that provides for the licensee to recover its costs from the user concerned.

**DRS5. Revenue protection services:** This category consists of the provision, at the request of any third party (which could include an Affiliate or a Related Undertaking of the licensee), of services relating to the prevention of Electricity Meter interference and other forms of illegal abstraction of electricity.

**DRS6. Metering Services:** This category consists of the provision of any Metering Service (other than the provision of Legacy Metering Equipment) that is not already remunerated under any other charge in respect of a Directly Remunerated Service.

**DRS 7. Smart Meter Roll-out rechargeable services:** This category consists of services provided directly or indirectly to Electricity Suppliers, and associated with the roll-out of Smart Meters (within the meaning given to that term in Condition 1 of the Smart Meter Communication Licence), that:

- (a) are provided under the provisions of the service level agreement that is appended to the Distribution Connection and Use of System Agreement;
- (b) are not remunerated under one of the charges mentioned in paragraph 5C.5 or under any other charge for a Directly Remunerated Service; and

- (c) give rise to costs that fall outside the definition of Smart Meter Roll-out Costs for the purposes of CRC 3E (Smart Meter Roll-out Costs).

**DRS8. Value Added Services:** This category consists of services that utilise Relevant Assets, as defined in standard condition 1 (Definitions for the standard conditions), under commercial arrangements between the licensee and another person (who must not be an Affiliate or Related Undertaking of the licensee), involving:

- (a) the installation of equipment for the purpose of electronic communications or data transfer;
- (b) the display of any advertising or promotional material; or
- (c) any service specified in a direction given by the Authority for the purposes of this condition that, in the absence of such a direction, would be included in category DRS9 (Miscellaneous),

in each case subject to any further explanation or clarification as set out in the RIGs published under standard condition 46 (Regulatory Instructions and Guidance).

**DRS9. Miscellaneous:** This category consists of the provision of any other service (including electric lines or electrical plant) that:

- (a) is for the specific benefit of any third party who requests it; and
- (b) is not remunerated under one of the charges mentioned in paragraph 5C.5 or under any other charge for a Directly Remunerated Service.

## 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 ~~in accordance with the relevant specifications set out in the Network Assets Workbook;~~
- (b) any performance against its Network Asset Secondary Deliverables equivalent to or better than ~~those that~~ set out in the Network Assets Workbook;
- (c) any Justified Over-Delivery ~~of against its~~ Network Asset Secondary Deliverables; and
- (d) any Justified Under-Delivery ~~of 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) ~~and~~, 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 ~~to a higher specification than, those~~ 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 ~~justified~~ 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 ~~of~~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<sub>t</sub>.
- 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 ~~that have~~ against which there has been an over-delivered~~y~~ 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 ~~1226~~ 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 ~~as~~ 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 ~~If the Authority is satisfied that the Rebased Network Asset Secondary Deliverables comply with paragraph 5D.18 it will direct that 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 Secondary Deliverables and 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 be amended accordingly 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.

~~If the Authority is not satisfied that the Rebased Network Asset Secondary Deliverables comply with paragraph 5D.18 it may direct the licensee to amend 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.~~

5D.22 A direction issued by the Authority under paragraph 5D.1921 will be of no effect unless ~~the requirements of paragraphs 5D.22 and 5D.23 are fulfilled.~~

~~The first requirement is that~~, before issuing ~~the direction 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 5628 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:

- (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.2430 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 ~~of~~ 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 ~~because information unavailable at the time of the ED1 Final Determination~~ 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 ~~investment~~ 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 ~~of~~ 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 ~~because information unavailable at the time of the ED1 Final Determination~~ 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 investment 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**  
**Network Asset Indices**

has the meaning given to that term in paragraph 5D.23.

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 21 May 2014.

**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 (%)**

<b>Licensee</b>	
ENWL	
NPgN	
NPgY	
WMID	5
EMID	4
SWALES	13
SWEST	8
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

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**

<b>Licensee</b>	<b>Upper threshold</b>	<b>Lower threshold</b>
ENWL		
NPgN		
NPgY		
WMID	10	0
EMID	9	0
SWALES	18	8
SWEST	13	3
LPN		
SPN		
EPN		
SPD		
SPMW		
SSEH		
SSES		

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				
NPgN				
NPgY				
WMID	409	831	13	0
EMID	460	785	15	0
SWALES	120	958	15	1
SWEST	233	1050	19	1
LPN				
SPN				
EPN				
SPD				
SPMW				
SSEH				
SSES				

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)**

<b>Licensee</b>	
ENWL	
NPgN	
NPgY	
WMID	11.5
EMID	13.3
SWALES	8.0
SWEST	8.7
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	



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

<u>Licensee</u>	
<u>ENWL</u>	
<u>NPgN</u>	
<u>NPgY</u>	
<u>WMID</u>	<u>234.7</u>
<u>EMID</u>	<u>310.5</u>
<u>SWALES</u>	<u>62.9</u>
<u>SWEST</u>	<u>104.6</u>
<u>LPN</u>	
<u>SPN</u>	
<u>EPN</u>	
<u>SPD</u>	
<u>SPMW</u>	
<u>SSEH</u>	
<u>SSES</u>	

**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:

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