

Schedule 2

ED1 Price Control Financial Handbook

Part 3

Legacy price control adjustment methodologies

13. Legacy price control financial adjustments overview

Section 1 - Introduction

13.1 This chapter introduces the methodologies contained in chapters 14, 15 and 16. These methodologies are used to determine revisions to PCFM Variable Values for the licensee associated with legacy price control financial adjustments.

13.2 The CRC that provides for legacy price control adjustments is CRC 3A (Legacy price control adjustments).

13.3 Legacy price control adjustments can arise with respect to:

- (a) activities carried out by the licensee;
- (b) incentivised performance by the licensee; and
- (c) costs or expenditure incurred by the licensee,

relating to Regulatory Years prior to Regulatory Year 2015/16 (the "legacy period"). Adjustments may be necessary where it was not possible to finalise values used in the calculation of the licensee's Opening Base Revenue Allowances either because complete data was not available in time, or because reviews, proposals or determinations were outstanding.

13.4 Legacy price control adjustments are divided into the following three categories, listed below with their associated PCFM Variable Values:

- (i) adjustments to opening tax pool balances – LTPG, LTPS, LTPD and LTPC values (see chapter 14);
- (ii) scheme-specific legacy price control adjustments to revenue allowances and legacy adjustments to RAV additions - OLREV and OLRAV values (see chapter 15); and
- (iii) adjustments to revenue allowances under the DPCR5 RAV Rolling Incentive mechanism - RIREV values (see chapter 16).

13.5 Revisions to the PCFM Variable Values set out in paragraph 13.4 affect the calculation of the value for MODt for the licensee under the Annual Iteration Process in the following ways:

- adjustments to opening tax pool balances are applied in the calculation of tax liability allowances;
- adjustments to RAV additions affect RAV balances¹ and give rise to adjusted return on RAV and depreciation amounts; and
- adjustments to revenue allowances (under scheme-specific legacy price control adjustments and the DPCR5 RAV Rolling Incentive mechanism) affect Fast Money amounts for the licensee, with adjustments profiled across the

¹ The RAV balance in the PCFM as at 1 April 2015 will have been determined at the time of final determinations for the RIIO-ED1 price control.

Price Control Period to mitigate allowed revenue volatility that might feed through to charges.

13.6 Opening LTPG, LTPS, LTPD and LTPC values for the licensee are set at zero because they relate to incremental changes to net tax pool additions that were taken into account in the calculation of Opening Base Revenue Allowances for the licensee.

13.7 Opening OLREV, OLRAV and RIREV values for the licensee are also set at zero because, in each case, they represent incremental changes to the values that were used in the calculation of the licensee's Opening Base Revenue Allowances. References in this paragraph to opening values for OLREV, OLRAV and RIREV mean the values in the PCFM Variable Values Table for the licensee as at 1 April 2015, before the direction of any revisions by the Authority.

13.8 The methodologies provide for the PCFM Variable Values to be revised as necessary during the Price Control Period. However, it is expected that legacy adjustments will be completed as part of the first four Annual Iteration Processes during the Price Control Period.

13.9 Where it is necessary to revise a PCFM Variable Value on more than one occasion, the effects of the further revisions will include a Time Value of Money Adjustment and will not affect any previously directed values of the term MOD.

13.10 Notice of any proposed revisions to the PCFM Variable Values referred to in this chapter will be given in accordance with the provisions of Part F of CRC3A. Any direction of revised OLREV and RIREV values will include a statement of the individual adjustment values used in their determination (see Tables 1 and 2 in CRC 3A).

13.11 Revised LTPG, LTPS, LTPD and LTPC values will be directed in nominal prices (see paragraphs 14.12, 14.18 and 14.24).

13.12 Revised OLREV, OLRAV and RIREV values will be directed in 2012/13 prices, consistent with the 2012/13 price base used in the PCFM.

Determination of revised OLREV, OLRAV and RIREV values

13.13 Revised OLREV, OLRAV and RIREV values for the licensee will be determined under the methodologies set out in chapters 15 and 16 of this handbook. The methodologies are set out in sections 2 and 3 of chapter 15 (for OLREV and OLRAV values) and section 2 of chapter 16 (for RIREV values). The methodologies address, as applicable:

- the Regulatory Years in the legacy period that are covered;
- the use of outturn values reported by the licensee in calculations;
- the schemes and mechanisms under which:
 - expenditure allowances for the licensee can be varied; and
 - inefficient actual expenditure by the licensee can be disallowed.

13.14 Each of the methodologies set out in chapters 15 and 16 is consistent with the underlying DPCR5 Price Control provision.

13.15 Where applicable, adjustment value calculations take account of provisional adjustments that were included in the calculation of Opening Base

Revenue Allowances for the licensee. Further information in this respect, where applicable, is included in the methodologies contained in chapters 15 and 16.

13.16 The methodologies set out in chapters 15 and 16 are diverse in detail, but have the following in common:

- (i) They refer to and are consistent with relevant price control decisions by the Authority relating to the adjustment values in question (and reference documents are set out at the start of each methodology).
- (ii) They refer to and are consistent with any relevant content in the ED1 Final Determination for the licensee.
- (iii) They provide for the calculation of a range of adjustment values that take into account:
 - the overall adjustments applicable to the licensee; and
 - any provisional adjustments included in the calculation of the licensee's Opening Base Revenue Allowances.

14. Legacy tax pool balances – financial adjustment methodologies

Reference documents

1. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Financial Methodologies](https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-%E2%80%93-financial-methodologies)
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-%E2%80%93-financial-methodologies>
2. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenue Cost assessment](https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-allowed-revenue-cost-assessment)
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-allowed-revenue-cost-assessment>
3. [\[DPCR5\] Electricity Distribution Price Control Cost, Volume and Revenue Reporting - Regulatory Instructions and Guidance](https://www.ofgem.gov.uk/ofgem-publications/46561/costandrevenue-reporting-rigv3clean1.pdf)
<https://www.ofgem.gov.uk/ofgem-publications/46561/costandrevenue-reporting-rigv3clean1.pdf>

Section 1 - Overview

14.1 The tax pool balances for the licensee contained in the ED1 Price Control Financial Model (PCFM) are used in the calculation of tax liability allowances. The three tax pools are:

- the general tax pool;
- the special rate tax pool; and
- the deferred revenue expenditure tax pool.

14.2 The general and special rate tax pools are pools within the meaning of the Capital Allowances Act 2001(CAA) relating respectively to items that are not long life (as defined in the CAA) and items that have an economic life of more than 25 years (as defined in the CAA). The deferred revenue expenditure tax pool is a tax pool provided for under case law² for assets which constitute a replacement (rather than an enhancement) of existing assets and which, prior to 1 April 2005, were treated as 100% tax deductible.

14.3 The opening tax pool balances for the general and special rate tax pools that were used in the calculation of Opening Base Revenue Allowances were derived using provisional values for overall Net Tax Pool Movements for Regulatory Years 2013/14 and 2014/15. The opening value of cumulative additions to the deferred revenue expenditure tax pool that was used in the calculation of Opening Base Revenue Allowances was based on provisional values for additions for Regulatory Years 2013/14 and 2014/15. In order to take account of updated values in recalculated base revenue figures produced under the Annual Iteration Process, the Authority can propose and determine revisions to four PCFM Variable Values:

² (Threlfall v Jones [1993] 66TC77, Herbert Smith v Honour [1999] 72TC130).

- LTPG values relating to the general tax pool;
- LTPS values relating to the special tax pool; and
- LTPD and LTPC values relating to the deferred revenue expenditure tax pool.

14.4 Each of the PCFM Variable Values referred to in paragraph 14.3 has an opening value of zero as at 1 April 2015, because each relates to an incremental change to the Net Tax Pool Movements that were taken into account in the calculation of Opening Base Revenue Allowances for the licensee.

14.5 There are two PCFM Variable Values associated with the deferred revenue expenditure tax pool because it is subject to 'straight line reduction', whereas the other two tax pools are subject to the 'reducing balance' approach. This requires an additional value to be included in calculations within the ED1 Price Control Financial Model (PCFM) because capital allowances under the straight-line method are calculated using actual spend in the legacy period meaning that both Net Tax Pool Movements and actual expenditure amounts need to be taken into account.

14.6 The PCFM Variable Values referred to in paragraph 14.3 are only contained in the columns for Regulatory Years 2013/14 and 2014/15 in the PCFM Variable Values Table for the licensee. These are the Regulatory Years for which provisional overall Net Tax Pool Movements were used in the modelling of Opening Base Revenue Allowances for the licensee. Inputting incremental changes to overall Net Tax Pool Movements in these Regulatory Year columns facilitates the recalculation of base revenue figures which in turn are used in the calculation of the term MOD under the Annual Iteration Process.

Section 2 – Derivation of revised LTPG values

14.7 On or after 31 July 2015, Ofgem will refer to worksheet "F13 Tax CA Pools" ('worksheet F13') in the most recently submitted DPCR5 Financial Issues Data Tables submitted by the licensee in accordance with the DPCR5 Cost and Revenue Reporting RIGs (see reference document 3).

14.8 Ofgem will refer to the subsection of worksheet F13 headed "Plant Pool & others" within the section headed "Distribution (DUoS excluding IFI and LCNF capex)", and will obtain Net Tax Pool Movements figures for the general tax pool for Regulatory Years 2013/14 and 2014/15 by summing:

- the 'Net Additions in the year' values shown in row 78 for Regulatory Years 2013/14 and 2014/15;
- the amount of any revision to the closing balance at 31 March 2013 and 31 March 2014 shown in row 76; and
- the negative writing down allowance ('WDA') values shown in row 80 for Regulatory Years 2013/14 and 2014/15.

14.9 In the event that any change to the row numbering in worksheet F13 has been made, the row labels referred to in paragraph 14.8 will be determinative.

14.10 For the avoidance of doubt, any determination by the Authority of:

- a DPCR5 High Value Projects - failure to deliver outputs adjustment (see chapter 15); or

- a DPCR5 Network Output Measures - failure to deliver outputs adjustment (see chapter 16),

will not result in a change to the overall Net Tax Pool Movements figures.

14.11 Ofgem will then check to see whether the overall Net Tax Pool Movements figures derived under paragraph 14.8 for Regulatory Years 2013/14 and 2014/15 ['A'] are different to the "General pool capital allowance pre-RIIO movement forecast" figures for the equivalent Regulatory Years that are contained as fixed input values for the licensee at row 386 of the Input worksheet in the PCFM ['B']. If either figure is different, then the Authority will determine that the LTPG value for the Regulatory Year concerned should be revised to equal ['A'] minus ['B'].

14.12 The Net Tax Pool Movements figures referred to in paragraph 14.11 are in nominal prices as reported by the licensee in the DPCR5 Financial Issues Data Tables. LTPG values will be determined and directed in the same nominal prices. This is an exception to the general rule that PCFM Variable Values representing financial values are determined and directed in the 2012/13 price base used in the PCFM. See also paragraphs **Error! Reference source not found.** and **Error! Reference source not found.** in relation to the use of values in nominal prices for tax related calculations.

Section 3 – Derivation of revised LTPS values

14.13 On or after 31 July 2015, Ofgem will refer to worksheet "F13 Tax CA Pools" ('worksheet F13') in the most recently submitted DPCR5 Financial Issues Data Tables submitted by the licensee in accordance with the DPCR5 Cost and Revenue Reporting RIGs (see reference document 3).

14.14 Ofgem will refer to the subsection of worksheet F13 headed "Long life assets (>25 yrs Pool)" within the section headed "Distribution (DUoS excluding IFI and LCNF capex)", and will obtain Net Tax Pool Movements figures for the special tax pool for Regulatory Years 2013/14 and 2014/15 by summing respectively:

- the 'Net Additions in the year' values shown in row 87 for Regulatory Years 2013/14 and 2014/15;
- the amount of any revision to the closing balance at 31 March 2013 and 31 March 14 shown in row 85; and
- the negative writing down allowance ('WDA') values shown in row 89 for Regulatory Years 2013/14 and 2014/15.

14.15 In the event that any change to the row numbering in worksheet F13 has been made, the row labels referred to in paragraph 14.14 will be determinative.

14.16 For the avoidance of doubt, any determination by the Authority of:

- a DPCR5 High Value Projects - failure to deliver outputs adjustment (see chapter 15); or
- a DPCR5 Network Output Measures - failure to deliver outputs adjustment (see chapter 16),

will not result in a change to the overall Net Tax Pool Movements figures.

14.17 Ofgem will then check to see whether the overall Net Tax Pool Movements figures derived under paragraph 14.14 for Regulatory Years 2013/14 and 2014/15 ['C'] are different to the "Special Rate capital allowance pre-RIIO movement

forecast" figures for the equivalent Regulatory Years that are contained as fixed input values for the licensee at row 390 of the Input worksheet in the PCFM ['D']. If either figure is different, then the Authority will determine that the LTPS value for the Regulatory Year concerned should be revised to equal ['C'] minus ['D'].

14.18 The Net Tax Pool Movements figures referred to in paragraph 14.17 are in nominal prices as reported by the licensee in the DPCR5 Financial Issues Data Tables. LTPS values will be determined and directed in the same nominal prices. This is an exception to the general rule that PCFM Variable Values representing financial values are determined and directed in the 2012/13 price base used in the PCFM. See also paragraphs **Error! Reference source not found.** and **Error! Reference source not found.** in relation to the use of values in nominal prices for tax related calculations.

Section 4 – Derivation of revised LTPD and LTPC values

14.19 On or after 31 July 2015, Ofgem will refer to worksheet "F13 Tax CA Pools" ('worksheet F13') in the most recently submitted DPCR5 Financial Issues Data Tables submitted by the licensee in accordance with the DPCR5 Cost and Revenue Reporting RIGs (see reference document 3).

14.20 Ofgem will refer to the subsection of worksheet F13 headed "Deferred revenue expenditure ("DRE")", within the section headed "Distribution (DUoS excluding IFI and LCNF capex)", and will obtain overall Net Tax Pool Movements figures for the deferred revenue expenditure tax pool for Regulatory Years 2013/14 and 2014/15 by summing respectively:

- the 'Net Additions in the year' values shown in row 96 for Regulatory Years 2013/14 and 2014/15;
- the amount of any 'Revisions' to the closing balance at 31 March 2013 and 31 March 14 shown in row 94; and
- the negative writing down allowance ('WDA') values shown in row 98 for Regulatory Years 2013/14 and 2014/15.

14.21 In the event that any change to the row numbering in worksheet F13 has been made, the row labels referred to in paragraph 14.20 will be determinative.

14.22 For the avoidance of doubt, any determination by the Authority of:

- a DPCR5 High Value Projects - failure to deliver outputs adjustment (see chapter 15); or
- a DPCR5 Network Output Measures - failure to deliver outputs adjustment (see chapter 16),

will not result in a change to the overall Net Tax Pool Movements figures.

14.23 Ofgem will then:

- (i) check so see whether the overall Net Tax Pool Movements values referred to in paragraph 14.20 for Regulatory Years 2013/14 and 2014/15 ['E'] are different to the "Deferred revenue expenditure pre-RIIO movement forecast" figures for the equivalent Regulatory Years that are contained as fixed input values for the licensee at row 394 of the Input worksheet in the PCFM ['F']. If either figure is different, then

the Authority will determine that the LTPD value for the Regulatory Year concerned should be revised to equal [E] minus [F]; and

- (ii) check to see whether the 'Net Additions in the year' and 'Revisions' figures referred to in paragraph 14.20 for Regulatory Years 2013/14 and 2014/15 [G] are different to the "DRE: Gross capex forecast" figures for the equivalent Regulatory Years that are contained as fixed input values for the licensee at row 398 of the Input worksheet in the PCFM [H]. If either figure is different, then the Authority will determine that the LTPC value for the Regulatory Year concerned should be revised to equal [G] minus [H].

14.24 The figures referred to in paragraph 14.23 are in nominal prices as reported by the licensee in the DPCR5 Financial Issues Data Tables. LTPD and LTPC values will be determined and directed in the same nominal prices. This is an exception to the general rule that PCFM Variable Values representing financial values are determined and directed in the 2012/13 price base used in the PCFM. See also paragraphs **Error! Reference source not found.** and **Error! Reference source not found.** in relation to the use of values in nominal prices for tax related calculations.

Section 5 – Determination and direction of revisions to LTPG, LTPS, LTPD and LTPC values

14.25 The information needed to derive provisional revisions to LTPG, LTPS, LTPD and LTPC values for the licensee is due to be reported by the licensee in accordance in with the deadline set in SLC46. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph 14.26, will use the values to determine revised LTPG, LTPS, LTPD and LTPC values for the licensee by 30 November 2015.

14.26 Subject to paragraphs 14.27 and 14.28, the Authority will determine further revisions to LTPG, LTPS, LTPD and LTPC values for the licensee if, with respect to the information referred to in paragraph 14.25:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to that information with regard to a possible restatement requirement (see also paragraph **Error!**

Reference source not found. in chapter 1); or

- (b) the licensee is required, under any provision of the licence to restate any of that information.

14.27 Further revisions to LTPG, LTPS, LTPD and LTPC values for the licensee of the type referred to in paragraph 14.26 may be determined by the Authority:

- (a) by 30 November 2016; and
- (b) by 30 November 2017.

14.28 No further revisions to LTPG, LTPS, LTPD and LTPC values for the licensee will be determined after 30 November 2017, but this is without prejudice to any requirement for the licensee to restate the information referred to in paragraph 14.25 for any other purpose.

14.29 Paragraph 3A.31 of CRC 3A requires the Authority to give the licensee at least 14 days' Notice setting out any proposed revisions to LTPG, LTPS, LTPD, and

LTPC values that it has determined, before directing the revisions. This means that the Authority will give notice to the licensee of any revisions that it has determined by 15 November in the Regulatory Year t-1 concerned. The Authority is required to have due regard to any representations made by the licensee and to give its reasons for any decisions in relation to them.

14.30 Having complied with the Notice requirements, the Authority will direct any required revisions to LTPG, LTPS, LTPD and LTPC values by 30 November in each applicable Regulatory Year t-1.

Delay in direction of revised PCFM Variable Values

14.31 If, for any reason, the Authority does not give a required direction of a revision to LTPG, LTPS, LTPD and LTPC values by 30 November in an applicable Regulatory Year t-1, CRC 3A requires that the value or values should be directed by the Authority as soon as is reasonably practicable, to facilitate the notification and direction of the value of the term MOD_t under CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).

15. Legacy price control adjustments – financial methodologies

Reference documents

1. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Financial Methodologies](#)
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-%E2%80%93-financial-methodologies>
2. [Decision letter on the pension deficit allocation methodology applicable to our funding in price controls of network operators’ pension deficits](#)
<https://www.ofgem.gov.uk/publications-and-updates/decision-letter-pension-deficit-allocation-methodology-applicable-our-funding-price-controls-network-operators%E2%80%99-pension-deficits.?docid=149&refer=Networks>
3. [Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology](#)
<https://www.ofgem.gov.uk/ofgem-publications/42761/nwo-triennial-pension-rigs-supplements-v1.0-12apr13.pdf>
4. [Strategy decision for the RII0-ED1 electricity distribution price control - Financial issues](#)
<https://www.ofgem.gov.uk/ofgem-publications/47071/riioed1decfinancialissues.pdf>
5. [\[DPCR5 \] Electricity Distribution Price Control Cost and Revenue Reporting - Regulatory Instructions and Guidance: Version 3.1](#)
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-cost-and-revenue-reporting-regulatory-instructions-and-guidance-version-3.1>
6. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenue - Cost assessment](#)
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-allowed-revenue-cost-assessment>
7. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenue - Cost assessment - appendix](#)
<https://www.ofgem.gov.uk/ofgem-publications/46749/fp3cost-assesment-network-investmentappendix.pdf>
8. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Incentives and Obligations](#)
<https://www.ofgem.gov.uk/ofgem-publications/46748/fp2incentives-and-obligations-final.pdf>
9. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenues and Financial Issues](#)
<https://www.ofgem.gov.uk/ofgem-publications/46769/fp5financial-issues.pdf>
10. [Open letter: Clawback of tax benefit due to excess gearing](#)

<https://www.ofgem.gov.uk/publications-and-updates/open-letter-clawback-tax-benefit-due-excess-gearing?docid=49&refer=Networks>

11. [Best practice guidelines for gas and electricity network operator credit cover \(58/05\)](#)
<https://www.ofgem.gov.uk/ofgem-publications/61607/9791-5805.pdf>
12. [Consultation letter - permitting reopener adjustment for London Power Networks plc \(6 November 2012\)](#)
<https://www.ofgem.gov.uk/ofgem-publications/46507/tmamindedtoconsultation061112.pdf>
13. [Electricity Distribution Price Control Network Asset Data and Performance Reporting – Network Outputs and Quality of Service Regulatory Instructions and Guidance: Version 2](#)
<https://www.ofgem.gov.uk/ofgem-publications/46606/nadprrigsv2published1.pdf>
14. [RIIO-ED1 final determinations for the slow-track electricity distribution companies](#)
<https://www.ofgem.gov.uk/ofgem-publications/91564/rrio-ed1finaldeterminationoverview.pdf>
15. [Ofgem’s determination of Scottish Hydro Electric Power Distribution plc’s \(SHEPD\) submission required under Charge Restriction Condition \(CRC\) 18A](#)
<https://www.ofgem.gov.uk/ofgem-publications/87381/ofgemdeterminationofshepdsundercrc18a.pdf>

Section 1 – Overview

- 15.1 This chapter contains the methodologies for determining:
- (a) the legacy price control adjustments to revenue allowances set out in Table 1 in CRC3A (Legacy price control adjustments) and revisions to the associated PCFM Variable Value (the OLREV value); and
 - (b) legacy adjustments to RAV additions and revisions to the associated PCFM Variable Value (the OLRAV value),
- for the licensee.
- 15.2 The methodologies referred to in paragraph 15.1 take into account any provisional adjustments that were included in the determination of the licensee’s Opening Base Revenue Allowances.

Section 2 – Determination of legacy adjustments to revenue allowances (other than those associated with the DPCR5 RAV Rolling Incentive mechanism) and revisions to the OLREV value

- 15.3 This section sets out the methodologies for determining:
- (a) the legacy price control adjustments to revenue allowances set out in Table 1 in CRC3A; and
 - (b) revisions to the PCFM Variable Value for legacy adjustments to revenue allowances (the OLREV value).

15.4 The adjustments referred to in paragraph 15.3(a) are set out in Table 1 in CRC3A which is reproduced below. The methodologies in subsections (i) to (xi) of this section set out the key features and principles of the individual adjustment schemes but they do not attempt to reproduce all of the detailed criteria contained in relevant DPCR5 Price Control decisions. Therefore, reference is made to the Authority's previous price control decisions where appropriate.

Table 15.1 - Table 1 in CRC3A - Adjustments comprising the OLREV value

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

15.5 The DPCR5 Shetland adjustment is only relevant to SSEH. For all other licensees the value of this adjustment is zero.

i) DPCR5 Pension adjustment

References:

- i. Chapter 10 of reference document 1 specified at the start of this chapter.
- ii. Reference document 2 specified at the start of this chapter.
- iii. Reference document 3 specified at the start of this chapter.
- iv. Chapter 6 and Appendix 6 of Reference document 4 specified at the start of this chapter.
- v. Reference document 5 specified at the start of this chapter.

Overview

15.6 The term DPCR5 Pension adjustment means the adjustment described in this subsection, the basis for which is set out in Chapter 10 and Table 10.8 in reference document 1.

15.7 This subsection sets out the methodology for determining the DPCR5 Pension adjustment to allowed revenue for the licensee which is comprised of:

- (a) an adjustment relating to DPCR5 ongoing pension expenditure; and
- (b) an adjustment relating to DPCR5 Pension Protection Fund Levy expenditure.

Adjustment relating to DPCR5 ongoing pension expenditure

15.8 DPCR5 ongoing pension expenditure consists of:

- (a) the funding of defined benefit pension schemes in respect of pensionable service that took place on or after 1 April 2010;
- (b) the funding of defined contribution benefit schemes and Personal Accounts associated with Qualifying Workplace Pension Schemes under the provisions of the Pensions Act 2008; and
- (c) pension administration costs.

15.9 The overall adjustment relating to DPCR5 ongoing pension expenditure applies incentivised true-up rates to any underspend or overspend by the licensee against the allowances it was given at the outset of the DPCR5 Price Control period. It comprises an adjustment to the licensee's revenue allowances and an adjustment to the licensee's RAV additions, the latter also being used in determining revisions to the PCFM Variable Values for legacy adjustments to RAV additions (see section 3 of this chapter).

15.10 The following steps will be carried out to calculate the adjustment relating to DPCR5 ongoing pension expenditure:

- (i) Expenditure allowances for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (ii) Actual expenditure amounts for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (iii) The actual expenditure amounts obtained at step (ii) will be split into:
 - Slow Money components;

- Fast Money components (excluding business support and non-operational capex); and
 - business support and non-operational capex components, and totalled for the DPCR5 Price Control.
- (iv) The total amount of over or under spend will be calculated in 2012/13 prices.
- (v) The relevant incentive rate will be applied the value calculated at step(iv) to produce a value that is:
- 80% of any over spend; or
 - 50% of any under spend.
- (vi) The value obtained under step (v) will be allocated back to the components referred to in step (iii), with a percentage of the total value attributed to each Regulatory Year in DPCR5 that is equal to the percentage of the equivalent component of actual expenditure for the Regulatory Year concerned.
- (vii) The following values will be calculated, based on the allocation referred to in step (vi):
- (a) an amount of Fast Money;
 - (b) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
 - (c) an amount of return at WACC for DPCR5 (applied to the NNRRB),

for each Regulatory Year in DPCR5 in 2012/13 prices.

The amounts referred to in substeps (b) and (c) will be calculated on the basis of notional RAV balance impacts attributable to the over spend or under spend.

- (viii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vii) to put them on a common 2015/16 time value basis and the values will then then be totalled.

If the amount referred to in step (iv) is an under spend, then the total value will be a negative amount.

If the amount referred to in step (iv) is an over spend, then the total value will be a positive amount.

- (ix) An adjustment for the impact of corporation tax will be applied to the total obtained under step (viii), calculated as the total obtained under step (viii) multiplied by -1 and then multiplied by the corporation tax rate used in the modelling of DPCR5 Revenue Allowances for the licensee which is 28%.

If the total obtained under step (viii) is a positive amount, then the adjustment for the impact of corporation tax will involve the addition of a negative value.

If the total obtained under step (viii) is a negative amount, then the adjustment for the impact of corporation tax will involve the addition of a positive value.

- (x) Any provisional adjustment relating to the licensee's DPCR5 ongoing pension expenditure that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (ix).

15.11 The value obtained at step (x) in paragraph 15.10 is the adjustment relating to DPCR5 ongoing pension expenditure for the licensee.

15.12 In order to perform the steps set out in paragraph 15.10 the Authority will require the licensee's actual DPCR5 ongoing pension expenditure levels, analysed into:

- (a) amounts admissible to the licensee's RAV;
- (b) Fast Money components (excluding business support and non-operational capex); and
- (b) expenditure reportable by the licensee as business support and non-operational capex,

under the terms of the DPCR5 Price Control.

These expenditure levels are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

Adjustment to the licensee's RAV additions (see also section 3 of this chapter)

15.13 If the value obtained under step (iv) in paragraph 15.10 represents an under spend amount, then the amount of the overall notional RAV balance impact referred to in step (viii) in paragraph 15.10, less any provisional amount that was included in the calculation of the licensee's Opening Base Revenue Allowances will be added to the licensee's RAV additions. This involves multiplying the negative RAV balance impact by -1 to achieve a positive number to add to the RAV. This adjustment is required to ensure that the revenue adjustment calculated under paragraph 15.10, and this addition to the licensee's RAV, taken together, achieve the incentive effect due as a result of an underspend.

15.14 If the value obtained under step (iv) in paragraph 15.10 represents an over spend amount, then 25% of the overall notional RAV balance impact referred to in step (vii) in paragraph 15.10, less any provisional amount that was included in the calculation of the licensee's Opening Base Revenue Allowances. will be deducted from the licensee's RAV additions. This involves multiplying the positive RAV balance impact by -0.25 to achieve a negative number to be added to the RAV. This adjustment is required to ensure that the revenue adjustment calculated under paragraph 15.10, and this deduction from additions to the licensee's RAV, taken together, achieve the incentive effect due as a result of an overspend.

Adjustment relating to DPCR5 Pension Protection Fund Levy expenditure

15.15 The adjustment relating to DPCR5 Pension Protection Fund Levy expenditure consists of:

- (a) an amount of Fast Money;
- (b) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
- (c) an amount of return, at WACC for DPCR5,

relating to the differences between the licensee's actual DPCR5 Pension Protection Fund Levy expenditure, and the expenditure allowances it was given at the outset of the DPCR5 Price Control period.

15.16 The following steps are carried out to calculate the adjustment relating to DPCR5 Pension Protection Fund Levy expenditure:

- (i) Expenditure allowances for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (ii) An amount of depreciation (being annual values calculated as the applicable value divided by 20) associated with the expenditure allowances referred to in step (i) will be calculated for each Regulatory Year in DPCR5.
- (iii) An amount of return associated with the expenditure allowances referred to in step (i) will be calculated for each Regulatory Year in DPCR5 at WACC for DPCR5 (applied to the NNRRB).
- (iv) The amounts calculated under steps (ii) and (iii) will be added to the Fast Money amounts attributable to the expenditure allowances referred to in step (i) for each Regulatory Year in DPCR5.
- (v) Actual expenditure amounts will be obtained for each Regulatory Year in DPCR5 and restated in 2012/13 prices.
- (vi) Any exceptional adjustment amounts, in 2012/13 prices, will be deducted from the actual expenditure amounts referred to in step (v) – see paragraphs 15.21 to 15.23.
- (vii) An amount of depreciation (being annual values calculated as the applicable value divided by 20) associated with the actual expenditure amounts referred to in step (v) will be calculated for each Regulatory Year in DPCR5.
- (viii) An amount of return associated with the actual expenditure amounts referred to in step (v), or as applicable (vi), will be calculated for each Regulatory Year in DPCR5 at the WACC for DPCR5.
- (ix) The amounts calculated under steps (vii) and (viii) will be added to the Fast Money amounts attributable to the actual expenditure amounts referred to in step (v) for each Regulatory Year in DPCR5.
- (x) For each Regulatory Year of DPCR5, the total obtained at step (iv) will be deducted from the total obtained at step (ix).
- (xi) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (x) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (xii) An adjustment for the impact of corporation tax will be added to the total obtained under step (xi), calculated as the total obtained under step (xi) multiplied by -1 and then multiplied by the corporation tax rate used in the modelling of allowed revenues for the licensee for DPCR5.
- (xiii) Any provisional adjustment relating to the licensee's DPCR5 Pension Protection Fund Levy expenditure that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xii).

15.17 The value obtained at step (xiii) in paragraph 15.16 is the adjustment relating to DPCR5 Pension Protection Fund Levy expenditure for the licensee.

15.18 In order to perform the steps set out in paragraphs 15.16, the Authority will require the licensee's actual DPCR5 Pension Protection Fund Levy expenditure levels, analysed into:

- (a) network investment & closely associated indirect costs; and
- (b) business support and non-operational capex,

as expenditure reported by the licensee in accordance with applicable Regulatory Instructions and Guidance. These expenditure levels are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

15.19 The adjustment relating to DPCR5 Pension Protection Fund Levy expenditure does not involve an adjustment to the licensee's RAV additions unless there has been an exceptional deduction from the licensee's actual expenditure amounts (see steps (v) and (vi) in paragraph 15.16 and paragraphs 15.21 to 15.23.

Exceptional adjustments to DPCR5 Pension Protection Fund Levy expenditure

15.20 There are two cases in which the Authority can apply deductions to the licensee's DPCR5 Pension Protection Fund Levy expenditure values for the purpose of legacy price control adjustments which are set out in paragraphs 15.21 and 15.22.

15.21 The licensee was subject to an annual cap of £0.1m on the fixed element of DPCR5 Pension Protection Fund Levy and annual cap of £0.4m on the risk based element (in both cases in 2007/08 prices) – see paragraph 10.27 in reference document 1 specified at the start of this chapter. If the licensee's reported expenditure (in 2007/08 prices) breaches either of these caps then the Authority will apply a deduction equivalent to the excess amount for the Regulatory Year concerned.

15.22 If the Authority determines that the licensee has incurred excessive DPCR5 Pension Protection Fund Levy costs as a result of inadequately managing the risk factors taken into account by the Pension Protection Fund in setting the levy, then the Authority will apply a deduction, for the Regulatory Year concerned, equivalent to the amount it determines to be attributable to the inadequate risk management. Before determining that a deduction should be applied in respect of the licensee's management of risk factors, the Authority will consult with the licensee and consider any representations made by the licensee in response to that consultation.

15.23 If any deductions are applied to the licensee's DPCR5 Pension Protection Fund Levy expenditure in accordance with paragraph 15.21 or paragraph 15.22, then an amount equivalent to a notional overall RAV balance impact attributable to the deductions, less any provisional amount that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the licensee's RAV additions.

Determination of DPCR5 Pension adjustment value

15.24 The Authority will sum the adjustment relating to DPCR5 ongoing pension expenditure (see paragraph 15.11) and the adjustment relating to DPCR5 Pension Protection Fund Levy expenditure (see paragraph 15.17) to determine the DPCR5 Pension adjustment value for the licensee.

15.25 The values referred to in paragraphs 15.12 and 15.18 are due to be reported by the licensee to the Authority by 31 July 2015. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph 15.26, will use the values to determine the DPCR5 Pension adjustment value for the licensee by 30 November 2015.

15.26 Subject to paragraphs 15.27 and 15.28, the Authority will determine a revised DPCR5 Pension adjustment value for the licensee if, with respect to the values referred to in paragraph 15.25:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement or in relation to the provision set out in paragraph 15.22, (see also paragraph **Error! Reference source not found.** in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

15.27 A revised DPCR5 Pension adjustment value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

15.28 No further revisions to the DPCR5 Pension adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph 15.25 for any other purpose.

ii) DPCR5 Tax adjustment

References:

- i. Chapter 4 of reference document 9 specified at the start of this chapter
- ii. Chapter 7 of reference document 5 specified at the start of this chapter
- iii. Reference document 10 specified at the start of this chapter

Overview

15.29 This subsection sets out the methodology for determining the DPCR5 Tax adjustment to allowed revenue for the licensee which is comprised of:

- (a) an adjustment relating to the licensee's Gearing levels and debt interest costs during the DPCR5 Price Control period; and
- (b) an adjustment relating to the changed regulatory basis for setting tax liability allowances at the end of the DPCR5 Price Control period.

15.30 The term DPCR5 Tax Claw-back adjustment means the adjustment described in this subsection and, with respect to the adjustment relating to Gearing levels and debt interest costs, whose basis is set out in chapter 4 of reference document 8 and in reference document 9.

Adjustment relating to Gearing levels and debt interest costs

15.31 The DPCR5 Price Control included a tax claw-back mechanism applicable where, in any Regulatory Year:

- the licensee's actual Gearing exceeded the Gearing level assumed in modelling the licensee's DPCR5 Revenue Allowances; and
- the licensee's interest costs exceeded the interest costs assumed in modelling the licensee's DPCR5 Revenue Allowances,

meaning that the licensee would have had lower tax liabilities than those for which allowances had been given because of the tax shield effect of interest payments.

15.32 The following steps are carried out to calculate the adjustment relating to the licensee's Gearing levels and debt interest costs:

- (i) The licensee's finalised RAV balances (taking into account the finalised RAV additions referred to in paragraph 15.284) as at the end of each Regulatory Year in DPCR5, in nominal prices, will be obtained.
- (ii) The figures referred to in step (i) will be inflated to year end nominal prices as at 31 March at the end of each Regulatory Year concerned by multiplying them by the March/April RPI Factor for that Regulatory Year³.
- (iii) The licensee's overall net debt balances as at 31 March for each Regulatory Year in DPCR5, in nominal prices, will be obtained.
- (iv) Amounts outside of the definition of applicable net debt set out in reference document 10 will be deducted from the values obtained under step (iii).
- (v) The licensee's actual Gearing will be calculated for each Regulatory Year in DPCR5 by dividing each of the values obtained at step (iv) by the RAV value for the same Regulatory Year obtained at step (ii).
- (vi) The licensee's actual interest payment total for each Regulatory Year in DPCR5 will be obtained, in nominal prices, in accordance with the definition set out in reference document 10.
- (vii) Any interest received by the licensee during each Regulatory Year of DPCR5 that falls within the definition referred to in step (vi) will be deducted from the interest payment total for the Regulatory Year concerned.
- (viii) The interest costs assumed in modelling DPCR5 Revenue Allowances for the licensee will be obtained, in nominal prices, for each Regulatory Year in DPCR5.
- (ix) The interest costs obtained at step (viii) will be adjusted so that they reflect actual RPI values rather than the assumed RPI values used in modelling DPCR5 Revenue Allowances for the licensee.
- (x) The adjusted modelled interest cost values calculated at row (ix) will be deducted from the net interest payment values calculated at step (vii) for each Regulatory Year in DPCR5.
- (xi) For each Regulatory Year in DPCR5 a check will be made to see whether both of the following tests are passed:

The first test is passed if the licensee's actual Gearing calculated at step (v) is higher than the Gearing level assumed in modelling the licensee's DPCR5 Revenue Allowances.

The second test is passed if the value calculated at step (x) is a positive value.

³ See Glossary

- (xii) If, for any Regulatory Year in DPCR5, either of the tests in step (xi) has failed, then no adjustment relating to Gearing levels and debt interest costs will apply in respect of that year.
- (xiii) If, for any Regulatory Year in DPCR5, both of the tests in step (xi) are passed, then the value calculated at step (x) for the Regulatory Year concerned will be multiplied by the corporation tax rate used in DPCR5 modelling to calculate the licensee's tax benefit in nominal prices.
- (xiv) Any values for Regulatory Years in DPCR5 calculated at step (xiii) will be restated in 2012/13 prices.
- (xv) Any values restated at step (xiv) will be summed to obtain a total adjustment value.
- (xvi) Any provisional adjustment relating to Gearing levels and debt interest costs for the licensee that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the adjustment value calculated at step (xv).

15.33 Subject to step (xii), the value obtained at step (xvi) in paragraph 15.32 is the adjustment relating to Gearing levels and debt interest costs for the licensee.

15.34 In order to perform the steps set out in paragraph 15.32, the Authority will require the following information from the licensee:

- RAV balances as at the end of each Regulatory Year in DPCR5, in nominal prices - see step (i);
- net debt balances as at 31 March for each Regulatory Year in DPCR5 - see steps (iii) and (iv); and
- actual interest payment and interest received totals for each Regulatory Year in DPCR5.

These values will be reported by the licensee under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

15.35 The adjustment relating to Gearing levels and debt interest costs does not involve an adjustment to the licensee's RAV additions.

Adjustment relating to the changed basis for setting tax liability allowances

15.36 Up until (and including) Regulatory Year 2012/13 in the DPCR5 Price Control, the licensee was given tax liability allowances based on the actual payments it would be required to make to HM Revenue and Customs in the Regulatory Year concerned under relevant tax legislation (the 'old basis'). However, for Regulatory Years after 2012/13, the basis for setting tax liability allowances was changed so that they were based on the modelled tax charge applicable to the licensee for the Regulatory Year concerned (the 'new basis').

15.37 Because there was no Annual Iteration Process or other mechanism to update tax liability allowances during DPCR5, an adjustment in respect of Regulatory Years 2013/14 and 2014/15 is required. The overall adjustment process involves:

- (a) modelling the licensee's tax liability allowances for 2013/14 and 2014/15 on the new basis;
- (b) determining relevant amounts foregone by the licensee because the allowances it actually received during DPCR5 were set on the old basis;

- (c) checking that the amounts at (b) reflect modelled tax liabilities (as opposed to tax losses);
- (d) applying a materiality test to the foregone amounts referred to at (b) set at 120% of the modelled tax liability allowance for Regulatory Year 2015/16 for the licensee;
- (e) determining, if applicable, the value of the foregone amounts that is in excess of the modelled tax liability allowance for Regulatory Year 2015/16 for the licensee; and
- (f) applying, if applicable, a grossing up adjustment in respect of the tax on tax allowance effect.

15.38 The following steps are carried out to calculate the adjustment relating to the changed regulatory basis for setting tax liability allowances at the end of the DPCR5 Price Control period:

- (i) The licensee's tax liability allowances for Regulatory Years 2013/14 and 2014/15, modelled in nominal prices on the new basis, will be obtained from the financial issues pack.
- (ii) The figures referred to in step (i) will be deflated to 2012/13 prices.
- (iii) The licensee's tax liability allowance for Regulatory Year 2013/14, that was modelled in nominal prices on the old basis will be obtained from the financial issues pack.
- (iv) The figure referred to in step (iii) will be deflated to 2012/13 prices.
- (v) The figure calculated at step (iv) will be deducted from the figure calculated at step (ii) for Regulatory Year 2013/14. This will provide a value for the amount of allowance foregone by the licensee in respect of Regulatory Year 2013/14.
- (vi) The licensee's tax liability allowance for Regulatory Year 2015/16, modelled in nominal prices on the new basis will be obtained from the ED1 Price Control Financial Model.
- (vii) The figure referred to in step (vi) will be deflated to 2012/13 prices.
- (viii) The figure calculated at step (vii) will be multiplied by 0.5 to provide a proxy value for the amount of allowance foregone by the licensee in respect of Regulatory Year 2014/15. The factor of 0.5 represents two quarters of a year.
- (ix) The three values calculated at steps (ii) and (vii) will be summed to check that there is a positive value representing an overall tax liability.
- (x) The values calculated at steps (v) and (viii) will be summed to calculate the total amount of allowance foregone by the licensee in respect of Regulatory Years 2013/14 and 2014/15.
- (xi) The materiality test value will be calculated as 120 percent of the value calculated at step (vii).
- (xii) If the value calculated at step (x) is greater than the materiality test value calculated at step (xi), then step (xiii) will be performed; otherwise the adjustment relating to the changed basis for setting tax liability allowances for the licensee is zero.
- (xiii) The value at step (vii) will be deducted from the value at step (x) to calculate the amount of allowance foregone by the licensee in respect of Regulatory Years 2013/14 and 2014/15 that is in excess of a

threshold level equal to the licensee's tax liability allowance for Regulatory Year 2015/16 (in 2012/13 prices).

- (xiv) The value calculated at step (xiii) will be divided by a value that is itself calculated as one minus the corporation tax rate used in modelling the licensee's tax liability allowance for Regulatory Year 2014/15. This will gross up the value calculated at step (xiii) to apply the tax allowance on tax allowance factor.
- (xv) Any provisional adjustment for the licensee relating to the changed basis for setting tax liability allowances that was included in the calculation of the licensee's Opening base Revenue Allowances will be deducted from the value calculated at step (xiv).

15.39 Subject to step (xii), the value obtained at step (xv) in paragraph 15.38 is the adjustment relating to the changed regulatory basis for setting tax liability allowances for the licensee.

15.40 In order to perform the steps set out in paragraph 15.38, the Authority will require:

- the licensee's tax liability allowances for Regulatory Years 2013/14 and 2014/15, modelled in nominal prices on the new basis;
- the licensee's tax liability allowance for Regulatory Year 2013/14, modelled in nominal prices on the old basis; and
- the licensee's tax liability allowance for Regulatory Year 2015/16, modelled in nominal prices on the new basis.

15.41 These values will be reported by the licensee under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

15.42 The adjustment relating to the changed basis for setting tax liability allowances does not involve an adjustment to the licensee's RAV additions.

Determination of DPCR5 Tax adjustment value

15.43 The Authority will sum the adjustment relating to Gearing levels and debt interest costs (see paragraph 15.33) and the adjustment relating to the changed basis for setting tax liability allowances (see paragraph 15.39) to determine the DPCR5 Tax adjustment value for the licensee in 2012/13 prices.

15.44 As noted at paragraphs 15.34 and 15.40, the values required by the Authority to determine the DPCR5 Tax adjustment value for the licensee will be reported by the licensee under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

15.45 The values referred to in paragraph 15.44 are due to be reported by the licensee to the Authority by 31 July 2015. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph 15.46, will use the values to determine the DPCR5 Tax adjustment value for the licensee by 30 November 2015.

15.46 Subject to paragraphs 15.47 and 15.48, the Authority will determine a revised DPCR5 Tax adjustment value for the licensee if, with respect to the values referred to in paragraph 15.44:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible

restatement requirement (see also paragraph **Error! Reference source not found.** in chapter 1); or

- (b) the licensee is required, under any provision of the licence to restate any of those values.

15.47 A revised DPCR5 Tax adjustment value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

15.48 No further revisions to the DPCR5 Tax adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph 15.44 for any other purpose.

iii) DPCR5 Distributed Generation adjustment

References:

- i. Chapter 5 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapter 3 of reference document 8 specified at the start of this chapter

Overview

15.49 This subsection sets out the methodology for determining the DPCR5 Distributed Generation adjustment to allowed revenue for the licensee.

15.50 The term DPCR5 Distributed Generation adjustment means the adjustment described in this subsection that relates to the remuneration and incentive mechanism for the connection of Distributed Generation (DG) capacity during DPCR5. The mechanism is set out in Chapter 5 in reference document 1 and in Special Condition CRC 11 of the licence in the form it was in on 31 March 2015 ("CRC 11").

15.51 All outstanding adjustments relating to the remuneration and incentive mechanism for the connection of DG capacity in DPCR4 were included in the calculation of the licensee's Opening Base Revenue Allowances.

15.52 The DPCR5 DG incentive mechanism comprised:

- (a) a 5.6% rate of return on 80% of eligible capital expenditure for a period of 15 years from the year of expenditure;
- (b) an incentive payment of £1,000 per year (in 2007/08 prices) for each megawatt of connected capacity for a period of 15 years from the year of connection;
- (c) a cap and collar on the percentage return represented by the revenue streams derived from the items in subparagraphs (a) and (b), with
 - the cap set at 11.2 percent; and

- the collar set at 3.6 percent;
- and
- (d) an operation and maintenance allowance of £1,000 per year (in 2007/08 prices) for each megawatt of connected capacity for a period of 15 years from the year of connection.

15.53 The overall adjustment relating to DPCR5 Distributed Generation to allowed revenue for the licensee takes into account:

- the licensee's projected revenue entitlements out to Regulatory Year 2029/30 (being 15 years from the end of DPCR5);
- amounts that were included in the licensee's allowed revenue during DPCR5; and
- the cap and collar referred to in paragraph 15.52(c).

15.54 The DPCR5 DG adjustment does not involve an adjustment to the licensee's RAV additions.

Calculation of the DPCR5 Distributed Generation adjustment value

15.55 The following steps are carried out to calculate the adjustment relating to DPCR5 DG:

- (i) Total incentivised DG capacity for each Regulatory Year in DPCR5 will be obtained.
- (ii) Incentive payments will be calculated by multiplying the totals in step (i) by the incentive rate of £1,000 per megawatt in 2007/08 prices.
- (iii) The values obtained under step (ii) will be inflated into nominal prices.
- (iv) The nominal value incentive payments for Regulatory Years after 2014/15 will be calculated using an RPI indexation factor of 3.1% to uplift the incentive payment value in the final year of DPCR5. For Regulatory Years from 2026/27 to 2029/30, the capacity total will be abated with respect to capacity for which the 15 year payment period has elapsed.
- (v) Use of System Capex amounts will be obtained for each Regulatory Year in DPCR5.
- (vi) The values obtained under step (v) will be inflated into nominal prices and totalled.
- (vii) The Use of System Capex subject to pass through for each regulatory Year in DPCR5 will be calculated by multiplying the values obtained in step (vi) by the pass through rate of 80%.
- (viii) Any Use of System Capex transferred to the licensee's RAV in accordance with Part K of CRC 11 will be deducted from the values obtained in step (vii).
- (ix) Rate of return payments on the Use of System Capex figures calculated at step (viii) will be projected for all Regulatory Years from 2010/11 to 2029/30 applying Time Value of Money Adjustments using the 5.6 percent rate of return referred to in paragraph 15.52(a).
- (x) Allowed revenue streams in nominal prices will be calculated using the sum of rate of return payments as calculated in step (ix) and the total incentive payments calculated in steps (iii) and (iv).

- (xi) Internal Rates of Return (IRRs) will be calculated:
 - a. for the DPCR5 period; and
 - b. for the entire period from 1 April 2011 to 31 March 2030.
- (xii) The Internal Rates of Return calculated at step (xi) will be compared to the cap and collar referred to in paragraph 15.52(c).
- (xiii) If the Internal Rate of Return referred to in step (xi)(b) is between the cap and collar percentages, then no adjustment under the cap or collar is applied.

If the Internal Rate of Return referred to at step (xi)(b) is lower than the collar rate of 3.6 percent then an adjustment will be made to the total allowed revenue streams referred to in step (x) such that the Internal Rate of Return matches the collar.

If the Internal Rate of Return at step (xi)(a) is above the cap rate of 11.2 percent, then an adjustment will be made to the total allowed revenue in regulatory year 2015/16 such that the Internal Rate of Return matches the cap.

If the Internal Rate of Return referred to in step (xi)(b) is above the cap rate of 11.2 percent, then an adjustment will be made to the total allowed revenue streams referred to in step (x) such that the Internal Rate of Return matches the cap.

If the total of Use of System Capex amounts values referred to at step (v) are zero, then the mechanism does not apply and the allowed revenue streams referred to in step (x) are set to zero.

- (xiv) Operational and maintenance allowances will be calculated by multiplying the totals in step (i) by the incentive rate of £1,000 per megawatt in 2007/08 prices.
- (xv) The values obtained under step (xiv) will be inflated into nominal prices.
- (xvi) The nominal value operational and maintenance allowances for Regulatory Years after 2014/15 will be calculated using an RPI indexation factor of 3.1% to uplift the operational and maintenance allowance value in the final year of DPCR5. For Regulatory Years from 2026/27 to 2029/30, the capacity total will be abated with respect to capacity for which the 15 year payment period has elapsed.
- (xvii) DG revenue for each Regulatory Year from 2015/16 to 2029/30 will be calculated by summing the value for each of those Regulatory Years included in the allowed revenue amounts obtained at steps (xiii) and (xvi).
- (xviii) The revenues amounts obtained at step (xvii) will be deflated to 2012/13 prices and then discounted to a single value for Regulatory Year 2015/16 using the Vanilla WACC percentage applicable to the licensee for Regulatory Year 2015/16.
- (xix) Any provisional adjustment relating to the DPCR5 remuneration and incentive mechanism for DG that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xviii).

15.56 The value obtained at step (xix) in paragraph 15.55 is the adjustment relating to DPCR5 DG adjustment values for the licensee.

15.57 In order to perform the steps set out in paragraphs 15.55, the Authority will require the following information with respect to the licensee:

- (a) total incentivised DG capacity connected;
- (b) total eligible capital expenditure; and
- (c) eligible capital expenditure transferred to the licensee's RAV.

for each Regulatory Year of DPCR5.

These items will be reported by the licensee under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

Determination of the DPCR5 Distributed Generation adjustment value

15.58 The values referred to in paragraph 15.57 are due to be reported by the licensee to the Authority by 31 July 2015. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph 15.59, will use the values to determine the DPCR5 Distributed Generation adjustment value for the licensee by 30 November 2015.

15.59 Subject to paragraphs 15.60 and 15.61, the Authority will determine a revised DPCR5 Distributed Generation adjustment value for the licensee if, with respect to the values referred to in paragraph 15.58:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph **Error! Reference source not found.** in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

15.60 A revised DPCR5 Distributed Generation adjustment value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

15.61 No further revisions to the DPCR5 Distributed Generation adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph 15.58 for any other purpose.

iv) DPCR5 DUoS Bad Debts adjustment

References:

- i. Chapter 3 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Reference document 11 specified at the start of this chapter

Overview

15.62 The term DPCR5 DUoS Bad Debts adjustment means the adjustment described in this subsection, the basis for which is set out in Chapter 3 in reference document 1.

15.63 The DPCR5 Price Control provided for bad debt costs in respect of distribution use of system (DUoS) charges, incurred by the licensee during the DPCR5 Price Control, to be reimbursed, subject to criteria set out in reference document 11.

15.64 This subsection sets out the methodology for determining the DPCR5 DUoS Bad Debts adjustment to allowed revenue for the licensee. The DPCR5 DUoS Bad Debts adjustment does not involve an adjustment to the licensee's RAV additions.

15.65 In order to determine the DPCR5 DUoS Bad Debts adjustment for the licensee the Authority will:

- (a) assess the eligible bad debt cost for the licensee for each Regulatory Year of DPCR5; and
- (b) calculate the adjustment to allowed revenue for the licensee arising from the eligible bad debt costs referred to in subparagraph (a).

Determination of eligible bad debt cost

15.66 The following steps are carried out to determine eligible bad debt costs for the licensee for each Regulatory Year of DPCR5:

- (i) By 30 April 2015, the Authority will send the licensee an electronic claim form for DPCR5 DUoS Bad Debts in Microsoft Excel ® format, copies of which can be completed and returned by the licensee at any time up to 30 June 2018, with bad debt cost values stated in 2012/13 prices.
- (ii) By 31 August in each Regulatory Year from 2015/16 to 2018/19, the Authority will evaluate any completed claim forms received from the licensee against the criteria set out in reference document 11.

If the Authority is of the opinion that any bad debt cost amount included by the licensee in a claim form should not be reimbursed, it will notify the licensee, and give the licensee 28 days in which to make any representations, which the Authority will duly consider before deciding whether the amount should be reimbursed or not.

- (iii) Having carried out steps (i) and (ii), the Authority will, by 31 October in each Regulatory Year from 2015/16 to 2018/19, determine an updated eligible bad debt cost for the licensee for each Regulatory Year of the DPCR5 price control.

15.67 Subject to paragraph 15.66 (i), the licensee may submit one or more updated claims in relation to any particular debtor.

15.68 If the Authority has not received any completed claim forms by 30 June 2018, then the eligible bad debt cost for the licensee for each Regulatory Year of the DPCR5 price control will be fixed at zero (see also paragraphs 15.71 to 15.73).

Calculation of adjustment to allowed revenue for the licensee

- 15.69 The following steps are carried out to calculate the adjustment:
- (i) By 31 October in each Regulatory Year from 2015/16 to 2018/19, DPCR5 Time Value of Money Adjustments will be applied to the updated eligible bad debt costs for the licensee for each Regulatory Year of DPCR5 obtained at step (iii) in paragraph 15.66 to put them on a common 2015/16 time value basis, and the values will then be totalled.
 - (ii) Any provisional adjustment relating to DPCR5 DUoS Bad Debts that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (i).

15.70 The value obtained at step (ii) in paragraph 15.69 is the adjustment relating to DPCR5 DUoS Bad Debts for the licensee.

Determination of the DPCR5 DUoS Bad Debts adjustment value

15.71 The Authority will determine a DPCR5 DUoS Bad Debts adjustment value for the licensee by 30 November 2015 for the purpose of determining the value of OLREV by 30 November 2015.

15.72 A revised DPCR5 DUoS Bad Debts adjustment value for the licensee will be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016;
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017; and
- (c) by 30 November 2018 for the purpose of determining the value of OLREV by 30 November 2018,

where that is required by the methodology set out in paragraphs 15.65 to 15.70.

15.73 No further revisions to the DPCR5 DUoS Bad Debts adjustment value for the licensee will be determined after 30 November 2018 for the purpose of determining a revised value of OLREV. However, if, after that date, the licensee makes a material recovery of bad debt amounts previously reimbursed through revisions to the value of OLREV, the Authority may take those recoveries into account in proposing the RIIO-ED2 price control arrangements for the licensee.

v) DPCR5 Traffic Management Act Permit Costs adjustment

References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapters 4 and 7 of reference document 6 specified at the start of this chapter
- iv. Reference document 12 specified at the start of this chapter

Overview

15.74 This subsection sets out how we will determine the DPCR5 Traffic Management Act⁴ Permit Costs adjustment to allowed revenue for the licensee. The term DPCR5 Traffic Management Act Permit Costs adjustment means the adjustment described in this subsection that relates to the DPCR5 traffic management permitting reopener that is set out in chapter 2 of reference document 1 and chapter 4 of reference document 6.

Supplementary Detailed Assessment Procedures

15.75 By ~~31 March 2016~~ 31 July 2016, the Authority will modify this handbook so that it sets out a detailed methodology (the "TMA Legacy Assessment Methodology") for assessing DPCR5 Traffic Management Permit Costs in accordance with CRC 4A (Governance of ED1 Price Control Financial Instruments).

15.76 The TMA Legacy Assessment Methodology will, in particular, set out the way in which the Authority will determine the input values marked ▲ in the calculation of adjustment set out in paragraph 15.85 below.

15.77 In formulating the TMA Legacy Assessment Methodology the Authority will take into account the following, without limitation:

- (a) the requirement to determine whether costs have been efficiently incurred by the licensee or not;
- (b) the policy set out in reference documents 2, 5, 6 and 12; and
- (c) further work on how to define and assess costs, undertaken by the Authority in conjunction with Electricity Distribution Network Operators during DPCR5.

Background to adjustment

15.78 Although some expenditure allowances for Traffic Management Act costs were deemed to be included in the calculation of DPCR5 Revenue Allowances for the licensee, these did not include any amounts in respect of permit requirements which were uncertain at the outset of DPCR5. The DPCR5 traffic management permitting reopener provides for the licensee to be given additional allowed revenue to reflect:

- (a) the number of cases where works projected at the outset of DPCR5 required the purchase of permits rather than the giving of notices;
- (b) the average cost of the permits referred to in subparagraph (a); and
- (c) an assumed rate of penalties and penalty costs associated with the permits referred to in subparagraph (a).

15.79 The total number of permit purchases, referred to in paragraph 15.77 (a) was made subject to a cap equal to the assumed number of required works notices for the whole of DPCR5 used in setting the licensee's DPCR5 Revenue Allowances.

15.80 The DPCR5 Traffic Management Act Permit Costs adjustment was made subject to a materiality test set at one percent of the licensee's DPCR5 Revenue

⁴ Traffic Management Act 2004

Allowance for Regulatory Year 2010/11. This value will be restated in 2012/13 prices for the purposes of this section (v).

DPCR5 reopener

15.81 The licensee was able to apply for an adjustment during DPCR5 in a window that ran from 1 July to 31 July 2012, where at least six months' worth of permit data was available. Adjustments to revenue allowances determined under this provision were collected by the licensee as a component of the term UNC under Special Condition CRC 18 (Arrangements for the recovery of uncertain costs) of the licence in the form it was in on 31 March 2015. Permit cost data not addressed through the DPCR5 reopener was logged up to be dealt with under the DPCR5 Traffic Management Act Permit Costs adjustment.

15.82 The reopener can be triggered by an application lodged by the licensee during a window that runs from 1 October 2016 to 31 October 2016. The licensee's application must comprise a performance assessment submission as detailed in the TMA Legacy Assessment Methodology.

15.83 In order to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee, the Authority will require as a minimum the following information for every scheme for each Regulatory Year in the DPCR5 Price Control period:

- (a) the number of permits obtained by the licensee instead of notices;
- (b) permitting condition costs;
- (c) the costs of permits incurred by the licensee during DPCR5;
- (d) the incremental administration costs incurred by the licensee in respect of permitting requirements;
- (e) the system implementation costs incurred by the licensee in respect of permitting requirements; and
- (f) the penalty costs borne by the licensee.

15.84 The adjustments referred to in paragraph 15.~~81~~~~83~~ will be provisionally determined by the Authority by 31 August 2017, using price control information reported by the licensee and the TMA detailed assessment procedures.

15.85 After making the provisional determination referred to in paragraph 15.~~82~~~~84~~ the Authority will consult with the licensee for at least 28 days and take into account any representations made by the licensee during that period.

15.86 Having carried out the consultation referred to in paragraph 15.8~~4~~~~3~~, the Authority will determine the input values to be used in the calculation of adjustment set out below (marked ▲).

Calculation of adjustment

15.87 The following steps will be carried out to apply the materiality test referred to in paragraph 15.79 and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee:

Materiality test

- (i) ▲The licensee’s efficient incremental administration costs associated with permitting requirements for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (ii) The values obtained under step (i) will be multiplied by the DPCR5 IQI Incentive Rate for the licensee to calculate the incremental administration costs amount to be taken into account for each Regulatory Year in DPCR5 in 2012/13 prices.
- (iii) ▲The licensee’s efficient permit costs for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (iv) ▲The efficient permit penalty costs borne by the licensee for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (v) ▲The licensee’s permitting condition costs⁵ associated with permitting requirements for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (vi) ▲The licensee’s system set up costs associated with permitting requirements for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (vii) The values obtained at steps (ii) to (vi) will be summed to give a total amount for each Regulatory Year of DPCR5 in 2012/13 prices.
- (viii) The values obtained at step (vii) will be summed to give a total value for DPCR5 in 2012/13 prices.
- (ix) The total value (restated in 2012/13 prices) of any DPCR5 reopener adjustment of the type referred to in paragraph **Error! Reference source not found:15.81** for the licensee will be deducted from the value calculated at step (viii).
- (x) The materiality test value will be calculated as one percent of the DPCR5 Revenue Allowance for the licensee for Regulatory Year 2010/11, restated in 2012/13 prices.

15.88 If the value calculated under step (ix) in paragraph 15.8587 is less than the materiality value calculated under step (x), then the calculated value of the DPCR5 Traffic Management Act Permit Costs adjustment for the licensee will be zero and steps (xi) to (xv) in paragraph 15.879 below will not be carried out.

15.89 If the value calculated under step (xi) in paragraph 15.8587 is greater than the materiality test value calculated under step (xi), then steps (xi) to (xvi) below will be carried out.

- (xi) The values obtained under step (i) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee’s RAV if the values calculated at step (i) had been taken into account.
- (xii) The values calculated at step (xi) will be used to calculate:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and

⁵ The costs associated with conditions imposed by local authorities or highway authorities.

- (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),
for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (xiii) The values obtained under step (i) will be multiplied by 15% to calculate the DPCR5 Fast Money amount for efficient incremental administration costs for each Regulatory Year in DPCR5 in 2012/13 prices.
- (xiv) The values obtained at steps (iii), (iv), (v), (vi), (xii) and (xiii) will be summed to give a total value for each Regulatory Year of DPCR5 in 2012/13 prices.
- (xv) DPCR5 Time Value of Money adjustments will be applied to the values calculated under step (xiv) to put them on a common 2015/16 time value basis and the values will then be totalled.

15.90 The following values will be deducted from the value calculated at step (xv) in paragraph 15.879 or, as applicable, the value of zero referred to in paragraph 15.868:

- (a) the total value (in 2012/13 prices) of any DPCR5 reopener adjustment of the type referred to in paragraph 15.810; and
- (b) any provisional DPCR5 Traffic Management Act Permit Costs adjustment (in 2012/13 prices) that was included in the calculation of the licensee's Opening Base Revenue Allowances.

Restatement of price control information

15.91 If, under any provision of the licence, before 31 July 2018, the licensee restates any price control information used in the determination of input values used in the calculation set out in paragraphs 15.857 to 15.889 above, the Authority will, by 31 September 2018, provisionally re-determine the information referred to in paragraph 15.813 using the restated information and the TMA detailed assessment procedures.

15.92 If applicable, after making any provisional re-determination referred to in paragraph 15.890 the Authority will consult with the licensee for at least 28 days and take into account any representations made by the licensee during that period.

15.93 If applicable, having carried out any consultation under paragraph 15.90, the Authority will re-determine the input values (marked ▲) to be used in a re-calculation of the adjustment value.

Determination of the DPCR5 Traffic Management Act Permit Costs adjustment value

15.94 The Authority will, by 30 November 2017, determine the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee to be the value calculated under paragraphs 15.867 to 15.890 for the purpose of determining the value of OLREV by 30 November 2017.

15.95 If the Authority has re-calculated the adjustment value under paragraph 15.923, it will, by 30 November 2018, determine the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee to be the value calculated under that paragraph for the purpose of determining the value of OLREV by 30 November 2018.

15.96 The DPCR5 Traffic Management Act Permit Costs adjustment does not involve:

- (a) an adjustment to the licensee's RAV additions; or
- (b) an adjustment under the DPCR5 RAV Rolling Incentive (except in respect of incremental administration costs associated with permitting requirements).

15.97 No further revisions to the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee will be determined after 30 November 2018 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph 15.92 for any other purpose.

vi) DPCR5 Undergrounding and Worst Served Customer Improvements adjustment

References:

- i. Chapter 7 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapters 9 and 15 of reference document 8 specified at the start of this chapter

15.98 This subsection sets out the methodology for determining the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment to allowed revenue for the licensee.

15.99 The term DPCR5 Undergrounding and Worst Served Customer Improvements adjustment means the adjustment described in this subsection that relates to:

- the undergrounding in Areas of Outstanding Natural Beauty and National Parks mechanism; and
- the worst served customer improvements mechanism,

that are set out in chapters 9 and 15 of reference document 8 respectively and as further clarified in the DPCR5 Undergrounding and Worst Served Customer Improvement Closeout Methodology.

Undergrounding in Areas of Outstanding Natural Beauty and National Parks mechanism

15.100 At the outset of the DPCR5 Price control, the licensee was given an allowance for expenditure on undergrounding distribution system assets to help preserve visual amenity in and around Areas of Outstanding Natural Beauty and National Parks. The allowance is specified in 2007/08 prices in Table 9.1 in reference document 8.

15.101 The licensee was required to 'log up' its expenditure, with the allowance amount acting as an overall cap. However, eligible expenditure in excess of the cap is included in the separate calculation of the overall adjustment for items subject to the DPCR5 IQI Incentive Rates for the licensee (see paragraph 15.106 and section 2 of chapter 16).

Worst served customer improvements mechanism

15.102 At the outset of the DPCR5 Price Control, the licensee was given an allowance for expenditure on projects to improve distribution system performance for customers who had experienced a large numbers of supply interruptions over a number of years. The allowance is specified in 2007/08 prices in Table 15.1 in reference document 8.

15.103 The licensee was required to 'log up' its expenditure, with the allowance amount acting as an overall cap. There was also an expenditure limit of £1,000 per customer (in 2007/08 prices) that applied on an average basis across all customers included in all projects across DPCR5. Eligible expenditure in excess of the cap/limit is included in the separate calculation of the overall adjustment for items subject to the DPCR5 IQI Incentive Rates for the licensee (see paragraph 15.106 and section 2 of chapter 16).

Calculation of consolidated DPCR5 Undergrounding and Worst Served Customer Improvements adjustment

15.104 The following steps are carried out to calculate the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value:

Initial steps with respect to DPCR5 Undergrounding expenditure

- (i) The overall DPCR5 Undergrounding expenditure allowance (cap) for the licensee will be obtained and restated in 2012/13 prices.
- (ii) The licensee's actual eligible DPCR5 Undergrounding expenditure for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (iii) The cumulative figure for actual DPCR5 Undergrounding expenditure for each Regulatory Year in DPCR5 will be calculated using the values obtained under step (ii).
- (iv) The amount of actual DPCR5 Undergrounding expenditure in excess of the cap referred to in step (i) will be calculated for each Regulatory Year in DPCR5 using the cumulative values calculated under step (iii).
- (v) Any positive (excess) value calculated under step (iv) will be deducted from the value obtained at step (ii) for the Regulatory Year concerned. In years where the spend is within the cap then no adjustment is made.

Initial steps with respect to DPCR5 Worst Served Customer Improvements expenditure

- (vi) The overall DPCR5 Worst Served Customer Improvements expenditure allowance (cap) for the licensee will be obtained and restated in 2012/13 prices.
- (vii) The expenditure limit per customer referred to in paragraph 15.103 will be restated in 2012/13 prices.
- (viii) The licensee's eligible actual DPCR5 Worst Served Customer Improvements expenditure for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (ix) The values calculated at step (viii) will be summed to give a total value of eligible actual expenditure for the whole of DPCR5.
- (x) The total number of customers included in eligible Worst Served Customer Improvements projects by the licensee during DPCR5 will be obtained.

- (xi) The total value of eligible actual expenditure calculated at step (ix) will be divided by the total number of customers obtained at step (x) to derive the actual expenditure per customer.
- (xii) If the value of actual expenditure per customer calculated at step (xi) is greater than the restated expenditure limit per customer referred to in step (vii), then a limit per customer reduction factor is calculated by dividing the expenditure limit per customer at step (vii) by the actual expenditure per customer at step (xi).
- (xiii) If the value of actual expenditure per customer calculated at step (xi) is less than or equal to the restated expenditure limit per customer referred to in step (vii), then the value of the limit per customer reduction factor is set to one.
- (xiv) The limit per customer reduction factors calculated in either step (xii) or step (xiii) will be applied to restated eligible actual expenditure for each Regulatory Year in DPCR5 calculated in step (viii). These values will be referred to as the residual eligible actual expenditure.
- (xv) The cumulative values for residual eligible actual expenditure for each Regulatory Year in DPCR5 will be calculated using the values obtained under step (xiv).
- (xvi) The cumulative values for residual eligible actual expenditure for each Regulatory Year calculated under step (xv) will be compared to the expenditure cap calculated in step (vi).
- (xvii) If the cumulative value for residual eligible actual expenditure in any Regulatory Year calculated under step (xv) is lower than or equal to the expenditure cap calculated at step (vi) no adjustment is made to the value of residual eligible actual expenditure calculated in step (xiv) for the Regulatory Year.
- (xviii) If the cumulative value for residual eligible actual expenditure in any Regulatory Year calculated under step (xv) is higher than the expenditure cap calculated at step (vi), and this is the first Regulatory Year the cumulative value exceeds the expenditure cap, the excess amount above the expenditure cap will be deducted from the value of residual eligible actual expenditure calculated in step (xiv) for the Regulatory Year.
- (xix) If the cumulative value for residual eligible actual expenditure in any Regulatory Year calculated under step (xv) is higher than the expenditure cap calculated at step (vi), and this is not the first Regulatory Year the cumulative value exceeds the expenditure cap, the residual eligible actual expenditure is set to zero for the Regulatory Year.

Consolidating steps to determine the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment

- (xx) The amounts calculated at steps (v) and, as applicable (xvii), (xviii) or (xiv) will be summed to give the consolidated amount of actual expenditure within the consolidated expenditure allowance for each Regulatory Year in DPCR5, taking account of the expenditure limit per customer applicable to Worst Served Customer Improvements projects.
- (xxi) The values calculated at step (xx) will be multiplied by 15% to calculate DPCR5 Fast Money amounts for DPCR5 Undergrounding and

Worst Served Customer Improvements for each Regulatory Year in DPCR5.

- (xxii) The values calculated at step (xx) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated at step (xx) had been taken into account.
- (xx) The values calculated at step (xix) will be used to calculate:
 - (a) an amount of depreciation (being the applicable value divided by 20); and
 - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (xxi) The values calculated at steps (xviii) and (xx) will be summed for each Regulatory Year in DPCR5.
- (xxii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (xxi) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (xxiii) Any provisional adjustment relating to DPCR5 Undergrounding and Worst Served Customer Improvements that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xxii).

15.105 The value obtained at step (xxiii) in paragraph ~~15.104~~~~15.104~~ is the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment for the licensee.

15.106 The DPCR5 Undergrounding and Worst Served Customer Improvements adjustment does not involve an adjustment to the licensee's RAV additions. However, the licensee's actual expenditure amounts are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

15.107 The Authority will review the values reported by the licensee and associated performance information in accordance with the DPCR5 Undergrounding and Worst Served Customer Improvements Closeout Methodology.

Determination of the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value

15.108 The Authority will complete a review of the DPCR5 Undergrounding and Worst Served Customer Improvement expenditure and associated performance for the licensee by 30 November 2015.

15.109 Subject to paragraphs ~~15.110~~~~15.110~~ and ~~15.111~~~~15.111~~, the Authority will determine a revised DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value for the licensee if, with respect to the values referred to in paragraph 15.107:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality, with regard to a possible restatement requirement or in relation to required circuit improvements, it had attached to those values (see also paragraph **Error! Reference source not found.** in chapter 1); or

- (b) the licensee is required, under any provision of the licence to restate any of those values.

15.110 A revised DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016;
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017; and
- (c) by 30 November 2018 for the purpose of determining the value of OLREV by 30 November 2018.

15.111 No further revisions to the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value for the licensee will be determined after 30 November 2018 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph 15.107 for any other purpose.

vii) DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels

References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter.
- ii. Reference document 5 specified at the start of this chapter.
- iii. Chapter 7 of reference document 6 and Appendix 4 in reference document 8 specified at the start of this chapter.

Overview

15.112 This subsection sets out how we will determine the DPCR5 Load-Related Re-opener adjustment to allowed revenue for the licensee, using a two stage process:

- (i) determining revised expenditure allowance amounts; and
- (ii) calculating the allowed revenue adjustment.

15.113 The term DPCR5 Load-Related Re-opener (in this subsection the 're-opener') means the provision for reviewing the licensee's expenditure allowances for:

- (a) low volume high cost connections; and
- (b) general reinforcement,

over DPCR5, for the purpose of making any necessary adjustment to the licensee's revenue allowances. The provision is explained in this subsection and in chapter 2 of reference document 1 and chapter 7 of reference document 6.

Supplementary Detailed Assessment Procedures

15.114 By 31 ~~March~~ July 2016, the Authority will modify this handbook so that it sets out a detailed methodology (the "Load Related Re-opener Legacy Assessment Methodology") for assessing DPCR5 Load related Re-opener costs in accordance with CRC 4A (Governance of ED1 Price Control Financial Instruments).

15.115 The Load Related Re-opener Legacy Assessment Methodology will, in particular, set out the way in which the Authority will determine the input values marked ▲ in the calculation of adjustment set out in paragraph 15.13840 below.

15.116 In formulating the Load Related Re-opener Legacy Assessment Methodology, the Authority will take into account the following, without limitation:

- (a) the requirement to determine whether costs have been efficiently incurred by the licensee or not;
- (b) the policy set out in reference documents 1, 6 and 8; and
- (c) further work on how to define and assess costs, undertaken by the Authority in conjunction with Electricity Distribution Network Operators during DPCR5.

Background to adjustment

15.117 Baseline expenditure allowances for the licensee were specified as an aggregate amount (in 2007/08 prices), for the whole of DPCR5, in Special Condition CRC 18 of the licence in the form it was in on 31 March 2015.

15.118 The re-opener provided for the licensee to be given additional amounts of allowed revenue, through revisions to expenditure allowance amounts, where qualifying expenditure was materially more than the baseline expenditure allowances set at the start of the DPCR5 Price Control. It also provided for reductions to the licensee's allowed revenue where qualifying expenditure was materially less than baseline expenditure allowances.

15.119 The reopener can be triggered by:

- (a) a review by the Authority of the licensee's reported expenditure levels for DPCR5 (see paragraphs 15.123 to 15.128); or.
- (b) an application lodged by the licensee during a window that runs from 1 ~~May~~ October 2016 to 31 ~~May~~ October 2016.

15.120 By 31 October 2016, the licensee will submit to the Authority a performance assessment submission as detailed in the Load Related Re-opener Legacy Assessment Methodology.

Adjustment threshold and materiality test

15.121 The DPCR5 Load related Re-opener adjustment is subject to an adjustment threshold (for both upward and downward adjustments). In accordance with the threshold, only a portion of total DPCR5 qualifying expenditure (or saved expenditure), restated in 2012/13 prices, that is:

- (a) above a figure calculated as 120 per cent; or
- (b) below a figure calculated as 80 per cent,

of the aggregate baseline expenditure allowances figure referred to in paragraph 15.117, restated in 2012/13 prices, (in this subsection a 'post-threshold' amount) will be taken into account for the purposes of any calculation of a DPCR5 Load related Re-opener adjustment.

15.122 The DPCR5 Load related Re-opener adjustment is subject to a materiality test set at one percent of the licensee's DPCR5 Revenue Allowance for Regulatory Year 2010/11, restated in 2012/13 prices. The test is applied to a post-threshold

amount (see paragraph 15.121), multiplied by the DPCR5 IQI Incentive Rate for the licensee.

Re-opener upon Authority review

15.123 A review by the Authority will only be commenced if:

- (a) the licensee's total DPCR5 qualifying expenditure (taking into account the factors in paragraph ~~15.132~~~~15.132~~) is sufficiently lower than its aggregate baseline expenditure allowances for there to be a post-threshold amount (see paragraph 15.121); and
- (b) the materiality test set out in paragraph ~~15.122~~~~15.122~~ is passed.

15.124 Subject to paragraph ~~15.123~~~~15.123~~, if the Authority commences a review, and forms a preliminary view (taking into account the factors in paragraph 15.132) that reduced expenditure allowance amounts should be used to calculate a DPCR5 Load related Re-opener adjustment for the licensee, it will apprise the licensee of that preliminary view and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph ~~15.125~~~~15.125~~.

15.125 Having considered any comments received from the licensee under paragraph ~~15.124~~~~15.124~~, the Authority will, by 31 ~~May~~ ~~March~~ 2017, initiate a consultation with the licensee, network users, suppliers and other stakeholders. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to its review.

15.126 Where applicable, having considered any information received in response to its consultation, the Authority will, by ~~31 August 2017~~ ~~30 September 2017~~, decide whether reduced expenditure allowance amounts should be used to calculate a DPCR5 Load related Re-opener adjustment for the licensee.

15.127 In making any decision to use reduced expenditure allowance amounts to calculate an adjustment, the Authority will decide:

- (a) the proportion of the aggregate allowance figure referred to in paragraph 15.117 that should be attributed to each Regulatory Year of DPCR5; and
- (b) the proportion of the post-threshold reduction amount that should be attributed to each Regulatory Year of DPCR5,

for the purpose of that calculation, having regard to the timing profile of actual expenditure reported by the licensee.

15.128 If the Authority decides to use reduced expenditure allowance amounts to calculate a DPCR5 Load related Re-opener adjustment for the licensee it will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before calculating a DPCR5 Load-Related Re-opener adjustment under paragraph ~~15.140~~~~15.140~~.

Re-opener upon licensee's application

15.129 The licensee can apply for a re-opener during, and only during, the application window that runs from 1 ~~May~~ ~~October~~ 2016 to 31 ~~May~~ ~~October~~ 2016.

15.130 The licensee may only apply for a re-opener if:

- (a) the licensee's total DPCR5 qualifying expenditure is sufficiently higher than its aggregate baseline expenditure allowances for there to be a post-threshold amount (see paragraph ~~15.121~~~~15.121~~); and

- (b) the materiality test set out in paragraph ~~15.122~~~~15.122~~ is passed.

15.131 A re-opener application by the licensee must be prepared having regard to the provisions set out in reference documents 1 and 6 and must set out:

- (a) the proportion of the aggregate allowance figure referred to in paragraph ~~15.117~~~~15.117~~; and
- (b) the proportion of a post-threshold change to expenditure allowance amounts,

that the licensee considers should be attributed to each Regulatory Year of DPCR5, having regard to the timing profile of actual expenditure reported by the licensee, for the purpose of calculating a DPCR5 Load related Re-opener adjustment.

15.132 A reopener application must include information requirements as specified in the Load Related Re-opener Legacy Assessment Methodology. This will include but not be limited to:

- (a) the costs incurred by the licensee on low volume high cost connections and general reinforcement activity during each Regulatory Year of DPCR5;
- (b) the variances of outturn values from values used in setting the licensee's DPCR5 Revenue Allowances in respect of:
 - (i) the number of low volume high cost connections carried out by the licensee; and
 - (ii) the proportion of costs for low volume high cost connections met by customer contributions;
- (c) the licensee's performance, with respect to accuracy and timeliness, in collecting customer contributions for connections work;
- (d) the relationship between activity levels and costs for:
 - (i) low volume high cost connections; and
 - (ii) general reinforcement;
- (e) the numbers of connections carried out by independent connection providers where the licensee was required to carry out associated non-contestable work;
- (f) load index output deliverables of the type referred to in reference document 6;
- (g) demand side management initiatives undertaken by the licensee; and
- (h) any other matters that the licensee considers are pertinent to its application.

15.133 If a re-opener application is received by the Authority during the application window referred to in paragraph ~~15.129~~~~15.129~~, it will check that the requirements set out in the Load Related Re-opener Legacy Assessment Methodology have been met and that the application:

- (a) is based on information about low volume high cost connections and general reinforcement costs that was not available when the licensee's DPCR5 Revenue Allowances were derived;
- (b) relates to low volume high cost connections and general reinforcement costs incurred by the licensee during the DPCR5 price control period and does not include Real Price Effects;

- (c) relates to low volume high cost connections and general reinforcement costs that cannot be recovered under any other provision of the licence;
- (d) does not include costs on DPCR5 High Value Projects (see subsection ix));
- (e) includes direct costs on a net basis, setting customer contributions (relating to direct costs)⁶ off against costs, and in 2012/13 prices; and
- (f) is based on efficient expenditure.

15.134 Having made an initial review of the information referred to in paragraph ~~15.132~~~~15.132~~ and carried out the checks referred to in paragraph ~~15.133~~~~15.133~~, the Authority will ask the licensee to submit any additional information or clarifications it requires and will allow the licensee a reasonable amount of time to provide any such information.

15.135 After considering the information referred to in paragraphs ~~15.132~~~~15.132~~ and ~~15.134~~~~15.134~~ in accordance with the Load Related Re-opener Legacy Assessment Methodology, the Authority will reach a preliminary view on whether to confirm, reject or amend the proposed changes to the licensee's expenditure allowance amounts referred to in paragraph ~~15.131~~~~15.131~~. The Authority will apprise the licensee of its initial view and allow the licensee at least 28 days in which to provide comments, before initiating a consultation under paragraph ~~15.136~~~~15.136~~.

15.136 Having considered any comments received from the licensee under paragraph ~~15.135~~~~15.135~~ the Authority will, by 31 May 2017, initiate a consultation with the licensee, network users, suppliers and other stakeholders. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to the licensee's re-opener application.

15.137 Where applicable, having considered any information received in response to its consultation, the Authority will, by ~~31~~ 30 September 2017, decide whether to confirm, reject or amend the proposed changes to the licensee's expenditure allowance amounts referred to in paragraph ~~15.131~~~~15.131~~ for the purpose of calculating a DPCR5 Load-Related Re-opener adjustment. In making its decision, the Authority will carry out its assessment in accordance with the Load Related Re-opener Legacy Assessment Methodology.

15.138 The Authority will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before using the revised expenditure allowance amounts to calculate a DPCR5 Load-Related Re-opener adjustment under paragraph ~~15.140~~~~15.140~~.

15.139 If the licensee does not apply for a re-opener during the application window that runs from 1 ~~May~~ October 2016 to 31 ~~May~~ October 2016, then the change to the licensee's expenditure allowance amounts under this provision (a re-opener upon the licensee's application), for the purposes of calculating the DPCR5 Load-related Re-opener adjustment for the licensee, will be zero.

Calculation of DPCR5 Load-related Re-opener adjustment

⁶ Except for contribution amounts released from the licensee's balance sheet that relate to connections carried out before DPCR5.

15.140 If the Authority decides that revised expenditure allowance amounts should be used to calculate a DPCR5 Load-Related Re-opener adjustment as a result of:

- a re-opener upon Authority review (see paragraphs ~~15.123~~~~15.123~~ to ~~15.128~~~~15.128~~); or
- a re-opener upon licensee application (see paragraphs ~~15.129~~~~15.129~~ to ~~15.138~~~~15.138~~),

then the following steps will be carried out to calculate the DPCR5 Load-Related Re-opener adjustment value:

- (i) ▲ The efficient post-threshold change (reduction or increase) to the licensee's expenditure allowance amount for each Regulatory Year of DPCR5 will be assessed and stated in 2012/13 prices (see paragraphs ~~15.127~~~~15.127~~ and ~~15.131~~~~15.131~~).
- (ii) The values obtained under step (i) will be multiplied by 15% to calculate DPCR5 Fast Money amounts for the DPCR5 Load-related Re-opener adjustment for each Regulatory Year in DPCR5.
- (iii) The values obtained at step (i) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated at step (i) had been taken into account.
- (iv) The values calculated at step (iii) will be used to calculate:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
 - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (v) The values obtained at steps (ii) and (iv) will be summed to give a total value for each Regulatory Year of DPCR5.
- (vi) DPCR5 Time Value of Money adjustments will be applied to the values calculated under step (v) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (vii) Any provisional DPCR5 Load-related Re-opener adjustment that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (vi).

15.141 The value obtained at step (vii) in paragraph ~~15.140~~~~15.140~~ is the DPCR5 Load-Related Re-opener adjustment for the licensee.

15.142 The DPCR5 Load-Related Re-opener adjustment does not involve an adjustment to the licensee's RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step (iii) in paragraph 15.140) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

Determination of the DPCR5 Load-related Re-opener adjustment value

15.143 No revision to the DPCR5 Load-related Re-opener adjustment value for the licensee will be determined by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016.

15.144 [not used]

15.145 The Authority will use any revised expenditure allowance amounts resulting from a re-opener upon the Authority's review or upon the licensee's application to determine the DPCR5 Load-related Re-opener adjustment value for the licensee by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

15.146 No further revisions to the DPCR5 Load-related Re-opener adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without any prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.141~~~~15.139~~ for any other purpose.

viii) DPCR5 High Volume Connections Volume Driver - adjustment resulting from revised allowance levels

References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Chapter 7 of reference document 6 and Appendix 4 of reference document 7 specified at the start of this chapter
- iii. Chapter 10 of reference document 8 specified at the start of this chapter
- iv. Reference document 5

Overview

15.147 This subsection sets out the methodology for determining the DPCR5 High Volume Connections Volumes Driver adjustment to allowed revenue for the licensee, using a two stage process:

- (i) determining revised expenditure allowance amounts; and
- (ii) calculating the allowed revenue adjustment.

15.148 The term DPCR5 High Volume Connections Volume Driver (in this subsection the 'volume driver') means the provision for reviewing the licensee's expenditure allowances for:

- (a) small scale low voltage domestic and one-off commercial connections;
- (b) connections at low voltage but which involved some works at high voltage; and
- (c) all other low voltage connections (involving low voltage works only),

during DPCR5, for the purpose of making any necessary adjustment to the licensee's revenue allowances. The provision is explained in this subsection and in chapter 2 of reference document 1 and chapter 7 of reference document 6.

15.149 The volume driver provided for the licensee to be given additional (or reduced) amounts of allowed revenue, through revisions to expenditure allowance amounts, where:

- (a) the number of connections in one of more of the categories set out in paragraph ~~15.148~~~~15.148~~ was higher (or lower) than the forecast level used in setting the licensee's DPCR5 Revenue Allowances;

- (b) the percentage of costs covered by customer contributions for connections in one of more of the categories set out in paragraph ~~15.148~~~~15.148~~ was higher (or lower) than the forecast level used in setting the licensee's DPCR5 Revenue allowances; or
- (c) a higher than expected number of connections were carried out by independent connection providers in the licensee's Distribution Services Area.

15.150 Revisions to the licensee's expenditure allowance amounts in respect of the items set out in subparagraphs ~~15.149~~~~15.149~~(a) and (b) will be calculated using the approach set out in paragraphs ~~15.159~~~~15.159~~ to ~~15.161~~~~15.161~~.

15.151 Revisions to the licensee's expenditure allowance amounts in respect of the item set out in subparagraph ~~15.149~~~~15.149~~(c) will be subject to the application and review process set out in paragraphs ~~15.162~~~~15.162~~ to ~~15.170~~~~15.170~~ below.

15.152 The baseline expenditure allowance for the licensee is specified as an aggregate amount, in 2007/08 prices, for the whole of DPCR5, in Table 2 of appendix 4 in reference document 7.

Apportionment of DPCR5 High Volume Connections that were contracted prior to the start of DPCR5

15.153 For DPCR5 High Volume Connections contracted after the start of DPCR5 (in this subsection 'DPCR5 contracted HVC'), categorisation information is held by the licensee.

15.154 Some DPCR5 High Volume Connections were contracted prior to the start of DPCR5 (in this subsection 'pre-DPCR5 contracted HVC') and categorisation information is not held by the licensee.

15.155 For the purpose of steps (i), (ii) and (iii) set out in paragraph ~~15.159~~~~15.159~~ below, the percentages of pre-DPCR5 contracted HVC to be included in the categories set out in paragraph ~~15.148~~~~15.148~~ will be determined according to the DPCR5 High Volume Connections Closeout Methodology.

15.156 The percentage of pre-DPCR5 contracted HVC to be included in the 'small scale low voltage domestic and one-off commercial connections' category is derived by dividing:

- (a) the number of DPCR5 contracted HVC, completed during DPCR5, that are included in the 'small scale low voltage domestic and one-off commercial connections' category;

by

- (b) the total number of DPCR5 contracted HVC completed during DPCR5.

15.157 The percentage of pre-DPCR5 contracted HVC to be included in the 'connections at low voltage but which involved some works at high voltage' category is derived by dividing:

- (a) the number of DPCR5 contracted HVC, completed during DPCR5, that are included in the 'connections at low voltage but which involved some works at high voltage' category;

by

- (b) the total number of DPCR5 contracted HVC completed during DPCR5.

15.158 The percentage of pre-DPCR5 contracted HVC to be included in the 'all other low voltage connections (involving low voltage works only)' category is derived by dividing:

- (a) the number of DPCR5 contracted HVC, completed during DPCR5, that are included in the 'all other low voltage connections (involving low voltage works only)' category;

by

- (b) the total number of DPCR5 contracted HVC completed during DPCR5.

Calculation of revised expenditure allowance amounts in respect of connection numbers and contribution levels

15.159 By 31 May 2016, the Authority will carry out the following steps to calculate revised expenditure allowance amounts in respect of connection numbers and contribution levels:

- (i) For small scale low voltage domestic and one-off commercial connections:
 - (a) the number of connections carried out by the licensee; and
 - (b) the percentage of costs subject to recovery through use of system charges (as opposed to connection charges),will be obtained for each Regulatory Year of DPCR5.
- (ii) For connections at low voltage but which involved some works at high voltage:
 - (a) the number of connections carried out by the licensee; and
 - (b) the percentage of costs subject to recovery through use of system charges (as opposed to connection charges),will be obtained for each Regulatory Year of DPCR5.
- (iii) For other low voltage connections (involving low voltage works only):
 - (a) the number of connections carried out by the licensee; and
 - (b) the percentage of costs subject to recovery through use of system charges (as opposed to connection charges),will be obtained for each Regulatory Year of DPCR5.
- (iv) The revised expenditure allowance amount in respect of small scale low voltage domestic and one-off commercial connections for each Regulatory Year in DPCR5 will be calculated as, the number obtained at step (i)(a) multiplied by the percentage obtained at step (i)(b) multiplied by the value for the licensee specified in the eighth column ('Final Proposals (FP) – Small scale') of Table 4 in Appendix 4 of reference document 7, restated in 2012/13 prices and multiplied by 1000, except where that value is zero, in which case it will be deemed to be equal to the highest value in that column, restated in 2012/13 prices .

- (v) The revised expenditure allowance amount in respect of other low voltage connections (involving low voltage works only) for each Regulatory Year in DPCR5 will be calculated as, the number obtained at step (ii)(a) multiplied by the percentage obtained at step (ii)(b) multiplied by the value for the licensee specified in the ninth column ('Final Proposals (FP) – All other') of Table 4 in Appendix 4 of reference document 7, restated in 2012/13 prices, and multiplied by 1000.
- (vi) The revised expenditure allowance amount in respect of other low voltage connections (involving high voltage works only) for each Regulatory Year in DPCR5 will be calculated as, the number obtained at step (iii)(a) multiplied by the percentage obtained at step (iii)(b) multiplied by the value for the licensee specified in the tenth column ('Final Proposals (FP) – LV with HV') of Table 4 in Appendix 4 of reference document 7, restated in 2012/13 prices,.
- (vii) The values calculated at steps (iv), (v) and (vi) will be totalled and divided by 1 million for each Regulatory Year in DPCR5, to restate values from £ to £m.

15.160 The values obtained at step (vii) in paragraph ~~15.159~~~~15.159~~ are the revised expenditure allowance amounts in respect of connection numbers and contribution levels for the licensee.

15.161 In order to perform the steps set out in paragraph ~~15.159~~~~15.159~~, the Authority will require the values referred to in steps (i), (ii) and (iii) of that paragraph. These values, or data from which they can be derived, are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

Review of expenditure allowances in respect of independent connection provider activity levels

15.162 The licensee can apply for an additional revision to expenditure allowance amounts in respect of independent connection provider activity levels during, and only during, a window that runs from 1 January 2016 to 31 January 2016.

15.163 An application of the type referred to in paragraph ~~15.162~~~~15.162~~ must provide evidence ~~in accordance with the DPCR5 High Volume Connections Driver Closeout Methodology~~ and must set out the revision, in 2012/13 prices, that the licensee proposes should be made to its expenditure allowance amount for each Regulatory Year in DPCR5.

15.164 If the costs referred to in paragraph ~~15.163~~~~15.163~~(b) are included in any DPCR5 Load-Related Re-opener application by the licensee (see subsection vii), then they must not also be included in an application under this subsection.

15.165 If an application is received by the Authority during the window referred to in paragraph ~~15.162~~~~15.162~~, it will review any evidence provided under paragraph ~~15.163~~~~15.163~~ and will

- (a) take account of any relevant factors identified in its review of values relating to connection numbers and contribution levels referred to in paragraph ~~15.161~~~~15.161~~; and
- (b) ask the licensee to submit any additional information it requires, allowing the licensee a reasonable amount of time to provide any such information.

15.166 After considering the information referred to in paragraphs ~~15.163~~~~15.163~~ and ~~15.165~~~~15.162~~, the Authority will reach a preliminary view on whether to confirm, reject or amend the proposed revision to the licensee's expenditure allowance amounts in respect of independent connection provider activity levels.

15.167 Having reached the preliminary view referred to in paragraph ~~15.166~~~~15.166~~, the Authority will apprise the licensee of it, and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph ~~15.168~~~~15.168~~.

15.168 Having considered any comments received from the licensee under paragraph ~~15.167~~~~15.167~~, the Authority will, by 31 May 2016, initiate a consultation with the licensee, network users, suppliers and other stakeholders. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to the licensee's application.

15.169 Where applicable, having considered any information received in response to its consultation, the Authority will, by 31 August ~~2016~~~~7~~, decide whether to confirm, reject or amend the proposed revision to the licensee's expenditure allowance amounts for Regulatory Years in DPCR5 in respect of independent connection provider activity levels.

15.170 The Authority will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before using the revised expenditure allowance amounts in the calculation of a DPCR5 High Volume Connections Volume Driver adjustment under paragraph ~~15.171~~~~15.171~~.

Calculation of DPCR5 High Volume Connections Volume Driver adjustment

15.171 The following steps are carried out to calculate the DPCR5 High Volume Connections Volume Driver adjustment value:

- (i) The values obtained at step (vii) in paragraph 15.159 will be added to any revision amounts decided upon under paragraph 15.169 for each Regulatory Year in DPCR5.
- (ii) The aggregate baseline expenditure allowance referred to in paragraph 15.152 will be restated in 2012/13 prices, divided by five, and an equal part allocated to each Regulatory Year in DPCR5.
- (iii) The value obtained at step (ii) for each Regulatory Year in DPCR5 will be subtracted from the value obtained at step (i) for the same Regulatory Year.
- (iv) The values obtained under step (iii) will be multiplied by 15% to calculate DPCR5 Fast Money amounts for the DPCR5 High Volume Connections Volume Driver adjustment for each Regulatory Year in DPCR5.
- (v) The values obtained at step (iii) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated at step (iii) had been taken into account.
- (vi) The values calculated at step (v) will be used to calculate:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);and

- (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),
for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (vii) The values calculated at steps (iv) and (vi) will be summed for each Regulatory Year in DPCR5.
- (viii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vii) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (ix) Any provisional adjustment relating to the DPCR5 High Volume Connections Volume Driver that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (viii).

15.172 The value obtained at step (ix) in paragraph 15.171 is the DPCR5 High Volume Connections Volume Driver adjustment for the licensee.

15.173 The DPCR5 High Volume Connections Volume Driver adjustment does not involve an adjustment to the licensee's RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step (v) in paragraph 15.171) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

Determination of the DPCR5 High Volume Connections Volume Driver adjustment value

15.174 No revision to the DPCR5 High Volume Connections Volume Driver adjustment value for the licensee will be determined by 30 November 2015 for the purpose of determining the value of OLREV by 30 November 2015.

15.175 The Authority will determine a DPCR5 High Volume Connections Volume Driver adjustment value for the licensee by 30 November 2016.

15.176 No further revisions to the DPCR5 High Volume Connections Volume Driver adjustment value for the licensee will be determined after 30 November 2016 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.172~~~~15.161~~ for any other purpose.

ix) DPCR5 High Value Projects Re-opener - adjustment resulting from revised allowance levels

References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapters 3 and 7 of reference document 6 specified at the start of this chapter
- iv. Chapter 19 and appendix 7 of reference document 8 specified at the start of this chapter
- v. Reference document 13 specified at the start of this chapter

Overview

15.177 This subsection sets out how we will determine the DPCR5 High Value Projects Re-opener adjustment to allowed revenue for the licensee, using a three stage process:

- (i) determining revisions to expenditure allowance amounts:
 - (a) in relation to activity and cost levels; and
 - (b) relating to the achievement of agreed network outputs;
- (ii) calculating the allowed revenue adjustment in respect of the revision at subparagraph (i) (a) for inclusion in the calculation of the OLREV value for the licensee; and
- (iii) calculating any allowed revenue adjustment in respect of the revision at subparagraph (i) (b) that will constitute the 'DPCR5 High Value Projects - failure to deliver outputs' adjustment for inclusion in the calculation of the RIREV value for the licensee (see section 2 of chapter 16).

15.178 The term DPCR5 High Value Projects Re-opener adjustment means the provision for reviewing the licensee's expenditure allowances in respect of:

- (a) activity and cost levels; and
- (b) the achievement of agreed network outputs,

in respect of large investment projects that were expected to be carried out during DPCR5, that is set out in this subsection and in the reference documents noted above.

Supplementary Detailed Assessment Procedures

15.179 By 31 ~~March~~ ~~July~~ 2016, the Authority will modify this handbook so that it sets out a detailed methodology (the "High Value Projects Re-opener Legacy Assessment Methodology") for assessing DPCR5 High Value Projects Re-opener costs in accordance with CRC 4A (Governance of ED1 Price Control Financial Instruments).

15.180 The High Value Projects Re-opener Legacy Assessment Methodology will, in particular, set out the way in which the Authority will determine the input values marked ▲ in the calculation of adjustment set out in paragraph ~~15.220~~~~15.220~~ below.

15.181 In formulating the High Value Projects Re-opener Legacy Assessment Methodology the Authority will take into account the following, without limitation:

- (a) the requirement to determine whether costs have been efficiently incurred by the licensee or not;
- (b) the policy set out in reference documents 1, 5, 6, 8 and 13;
- (c) further work on how to define and assess costs, undertaken by the Authority in conjunction with Electricity Distribution Network Operators during DPCR5.

15.182 *Background to adjustment* Baseline expenditure allowances for the licensee were specified as an aggregate amount (in 2007/08 prices), for the whole of DPCR5, in Special Condition CRC 18 of the licence in the form it was in on 31 March 2015.

15.183 The re-opener can be triggered by:

- (a) a review by the Authority of the licensee's reported expenditure levels and network outputs for DPCR5; and

- (b) an application lodged by the licensee during a window that runs from 1 ~~May~~ October 2016 to 31 ~~May~~ October 2016.

15.184 ~~By 31 October 2016, the licensee will submit to the Authority a performance assessment submission as detailed in the High Value Projects Re-opener Legacy Assessment Methodology.~~

Adjustment threshold and materiality test

15.185 Subject to paragraph ~~15.187~~15.187, the DPCR5 High Value Projects Re-opener adjustment is subject to an adjustment threshold (for both upward and downward adjustments). Under the threshold, only a portion of total DPCR5 High Value Projects expenditure (or saved expenditure), taking into account the factors in paragraph ~~15.210~~15.210, restated in 2012/13 prices, that is:

- (a) above a figure calculated as 120 per cent; or
(b) below a figure calculated as 80 per cent,

of the aggregate baseline expenditure allowances figure referred to in paragraph ~~15.182~~15.182, restated in 2012/13 prices, (in this subsection a 'post-threshold' amount) will be taken into account for the purposes of any calculation of a High Value Projects adjustment.

15.186 Subject to paragraph ~~15.187~~15.187, the DPCR5 High Value Projects Re-opener adjustment is subject to a materiality test set at one percent of the licensee's DPCR5 Revenue Allowance for Regulatory Year 2010/11, restated in 2012/13 prices. The test is applied to a post-threshold amount (see paragraph ~~15.185~~15.185), multiplied by the DPCR5 IQI Incentive Rate for the licensee.

15.187 The review of achievement of DPCR5 High Value Projects outputs referred to in paragraph ~~15.177~~15.177(b) and paragraphs ~~15.194~~15.194 to ~~15.205~~15.205 below is not subject to the adjustment threshold or materiality test and associated changes to expenditure allowance amounts do not count towards the adjustment threshold and materiality test amounts set out in paragraphs ~~15.185~~15.185 and ~~15.186~~15.186. However, the factors relating to any adjustment resulting from the Authority's Review of expenditure allowance amounts in relation to activity and cost levels or a reopener upon the licensee's application, will be taken into account by the Authority in any review of the achievement of DPCR5 High Value Projects outputs by the licensee.

Review of expenditure allowances by the Authority in relation to activity and cost levels

15.188 A review by the Authority will only be commenced if:

- (a) the licensee's total DPCR5 High Value Projects expenditure is sufficiently lower than its aggregate baseline expenditure allowances for there to be a post-threshold amount (see paragraph ~~15.185~~15.185); and
(b) the materiality test set out in paragraph ~~15.186~~15.186 is passed.

15.189 Subject to paragraph ~~15.88~~15.188, if the Authority commences a review, and forms a preliminary view, taking into account the factors in paragraph ~~15.210~~15.210, that reduced expenditure allowance amounts should be used to calculate a DPCR5 High Value Projects Re-opener adjustment for the licensee, it will apprise the licensee of that preliminary view and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph ~~15.190~~15.190.

15.190 Having considered any comments received from the licensee under paragraph ~~15.189~~~~15.189~~ the Authority will, by 31 ~~May~~ ~~March~~ 2017, initiate a consultation with the licensee, network users, suppliers and other stakeholders. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to its review.

15.191 Where applicable, having considered any information received in response to its consultation, the Authority will, by ~~31 August~~ ~~30 September~~ 2017, decide whether reduced expenditure allowance amounts should be used to calculate a DPCR5 High Value Projects Re-opener adjustment for the licensee. In making its decision, the Authority will apply the DPCR5 High Value Projects Re-opener Legacy Assessment Methodology.

15.192 In making any decision to use reduced expenditure allowance amounts to calculate an adjustment, the Authority will decide:

- (a) the proportion of the aggregate allowance figure referred to in paragraph ~~15.182~~~~15.182~~ that should be attributed to each Regulatory Year of DPCR5; and
- (b) the proportion of the post-threshold reduction amount that should be attributed to each Regulatory Year of DPCR5,

for the purpose of that calculation, having regard to the timing profile of actual expenditure reported by the licensee.

15.193 If the Authority decides to use reduced expenditure allowance amounts to calculate a DPCR5 High Value Projects Re-opener adjustment for the licensee it will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before calculating a DPCR5 High Value Projects Re-opener adjustment under paragraph ~~15.220~~~~15.220~~.

Review of achievement of DPCR5 High Value Projects outputs by the licensee

Supplementary Detailed Assessment Procedures

15.194 By 31 ~~March~~ ~~July~~ 2016, the Authority will modify this handbook so that it sets out a detailed methodology (the "High Value Projects Outputs Review Methodology") for assessing DPCR5 High Value Projects outputs, in accordance with CRC 4A (Governance of ED1 Price Control Financial Instruments).

15.195 In formulating the High Value Projects Outputs Review Methodology the Authority will take into account the following, without limitation:

- (a) the policy set out in reference documents 1, 5, 6, 8 and 13; and
- (b) further work on how to define and assess outputs, undertaken by the Authority in conjunction with Electricity Distribution Network Operators during DPCR5.

15.196 The High Value Projects Outputs Review Methodology will, in particular, set out the way in which the Authority will determine any outputs gap value referred to in paragraph ~~15.199~~~~15.199~~ below.

15.197 By 31 October 2016, the licensee will submit to the Authority a performance assessment submission as detailed in the High Value Projects Outputs Review Methodology.

15.198 After 31 ~~July~~ ~~October~~ 2016, the Authority will commence a qualitative DPCR5 High Value Projects outputs performance assessment with respect to the

licensee in accordance with the High Value Projects Outputs Review Methodology. The purpose of the assessment is to determine whether any output gap has arisen which should lead to a downward adjustment to the licensee's allowed revenue (a DPCR5 High Value Projects - failure to deliver outputs adjustment).

15.199 Having carried out the assessment referred to in paragraph ~~15.194~~~~15.194~~, the Authority will reach a preliminary view on any outputs gap that has arisen. If the Authority's view is that no outputs gap has arisen, then no further action with respect to a DPCR5 High Value Projects, failure to deliver outputs adjustment will be taken.

15.200 If the Authority's view is that an outputs gap has arisen, then it will value the outputs gap for each Regulatory Year in DPCR5 in accordance with the High Value Projects Outputs Review Methodology.

15.201 The Authority will then

- (a) multiply the values referred to in paragraph ~~15.200~~~~15.200~~ by the DPCR5 IQI Incentive Rate for the licensee multiplied by a factor of 1.025;
- (b) apply DPCR5 Time Value of Money Adjustments to the values calculated under subparagraph (a) to put them on a common 2015/16 time value basis and then total the values for the whole of DPCR5; and
- (c) multiply the total value calculated under subparagraph (b) by minus 1, so that it is a negative value.

15.202 If the Authority forms a preliminary view that an outputs gap has arisen and it has valued that gap under paragraph ~~15.200~~~~15.200~~ and calculated a possible adjustment value under paragraph ~~15.201~~~~15.201~~, it will apprise the licensee of its preliminary view and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph ~~15.203~~~~15.203~~.

15.203 Having considered any comments received from the licensee under paragraph ~~15.202~~~~15.202~~, the Authority will, by 31 ~~March~~ ~~May~~ 2017, initiate a consultation with the licensee, network users, suppliers and other stakeholders. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to its view.

15.204 Where applicable, having considered any information received in response to its consultation, the Authority will, by ~~30~~~~July~~ ~~September~~ 2017, decide whether any DPCR5 High Value Projects - failure to deliver outputs adjustment should be included in the calculation of a revised RIREV value for the licensee (see section 2 of chapter 16). In making its decision, the Authority will apply the DPCR5 High Value Projects Outputs Review Methodology.

15.205 If the Authority decides that a DPCR5 High Value Projects - failure to deliver outputs adjustment should be applied, it will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before including a value in the calculation of a revised RIREV value for the licensee.

Reopener upon licensee application

15.206 The licensee may apply for a re-opener during, and only during, an application window that runs from 1 ~~May~~ ~~October~~ 2016 to 31 ~~May~~ ~~October~~ 2016.

15.207 The licensee may only apply for a re-opener if:

- (a) the licensee's total DPCR5 High Value Projects expenditure is sufficiently higher than its aggregate baseline expenditure allowances for there to be a post-threshold amount (see paragraph ~~15.185~~~~15.185~~); and
- (b) the materiality test set out in paragraph ~~15.186~~~~15.186~~ is passed.

15.208 A re-opener application by the licensee must be prepared having regard to the provisions set out in chapter 2 of reference document 1 and chapter 7 of reference document 6 as further clarified by the High Value Projects Re-opener Legacy Assessment Methodology and must set out the changes that are proposed to the licensee's expenditure allowance amounts for the purpose of calculating a DPCR5 High Value Projects Re-opener adjustment.

15.209 A re-opener application by the licensee must set out:

- (a) the proportion of the aggregate baseline expenditure allowance figure referred to in paragraph ~~15.182~~~~15.182~~; and
- (b) the proportion of a post-threshold change to expenditure allowance amounts,

that the licensee considers should be attributed to each Regulatory Year of DPCR5, having regard to the timing profile of actual expenditure reported by the licensee, for the purpose of calculating a DPCR5 High Value Projects Re-opener adjustment.

15.210 A re-opener application by the licensee must include information as specified in the High Value Projects Re-opener Legacy Assessment Methodology. This will include but not be limited to information on the following:

- (a) the costs incurred and output volumes achieved by the licensee for each Regulatory Year of DPCR5, showing unit costs for each output type included in DPCR5 High Value Project outputs reporting under relevant Regulatory Instructions and Guidance;
- (b) the revised expenditure allowance amounts that the licensee considers should apply for each Regulatory year of DPCR5;
- (c) reasons for any increases in unit and total costs compared to baseline amounts including changes to the scope of works included in projects;
- (d) the impact on costs of any external factors including changes to legislation, economic conditions, planning requirements and resource constraints;
- (e) developments relating to:
 - (i) technical complexities encountered and solutions developed;
 - (ii) new methods of working and other innovations;
 - (iii) asset condition and loading surveys, and their impact on costs;
- (f) interactions between DPCR5 High Value Projects and other requirements and any impact on costs;
- (g) the actions taken by managers of the licensee to optimise outputs and mitigate costs in the context of the matters set out in subparagraphs (a) to (f); and
- (h) any other information that the licensee considers is pertinent to its application.

15.211 A re-opener application by the licensee must not include:

- (a) costs included in a DPCR5 Load-related Re-opener application or any other expenditure allowance review application by the licensee;
- (b) costs relating to Real Price Effects.

15.212 If a re-opener application is received by the Authority during the application window referred to in paragraph ~~15.206~~~~15.206~~, it will check that the requirements set out in paragraph ~~15.207~~~~15.207~~ have been met and that the application:

- (a) is based on information about High Value Project costs that was not available when the licensee's DPCR5 Revenue Allowances were derived;
- (b) relates to High Value Project costs incurred by the licensee during the DPCR5 price control period;
- (c) relates to High Value Project costs that cannot be recovered under any other provision of the licence;
- (d) does not include costs included in a DPCR5 Load-Related Re-opener application or any other expenditure allowance review application by the licensee); and
- (e) is based on efficient expenditure.

15.213 Having made an initial review of the information referred to in paragraph ~~15.210~~~~15.210~~ and carried out the checks referred to in paragraph ~~15.212~~~~15.212~~, the Authority will ask the licensee to submit any additional information or clarifications it requires and will allow the licensee a reasonable amount of time to provide any such information.

15.214 After reviewing the information referred to in paragraph ~~15.210~~~~15.210~~ and ~~15.213~~~~15.213~~, the Authority will reach a preliminary view on whether to confirm, reject or amend the proposed changes to the licensee's expenditure allowance amounts referred to in paragraph ~~15.209~~~~15.209~~ for the purpose of determining a DPCR5 High Value Projects Re-opener adjustment. In reaching its preliminary view, the Authority will apply the High Value Projects Re-opener Legacy Assessment Methodology .

15.215 Having reached the preliminary view referred to in paragraph ~~15.214~~~~15.214~~, the Authority will apprise the licensee of its preliminary view and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph ~~15.216~~~~15.216~~.

15.216 Having considered any comments received from the licensee under paragraph ~~15.215~~~~15.215~~, the Authority will, by 31 May 2017, initiate a consultation with the licensee, network users, suppliers and other stakeholders. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to the licensee's reopener application.

15.217 Where applicable, having considered any information received in response to its consultation, the Authority will, by 31 September 2017, decide whether to confirm, reject or amend the proposed changes to the licensee's expenditure allowance amounts for the purpose of calculating a DPCR5 High Value Projects Re-opener adjustment. In making its decision, the Authority will apply the DPCR5 High Value Projects Re-opener Closeout Methodology.

15.218 The Authority will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before using the revised expenditure allowance amounts to calculate a DPCR5 High Value Projects Re-opener adjustment under paragraph ~~15.220~~~~15.220~~.

15.219 If the licensee does not apply for a re-opener during the application window that runs from 1 ~~May~~ ~~October~~ 2016 to 31 ~~May~~ ~~October~~ 2016, then the change to the licensee's expenditure allowance amounts under this provision (a re-opener upon the licensee's application), for the purposes of calculating the DPCR5 High Value Projects adjustment for the licensee, will be zero.

Calculation of DPCR5 High Value Projects Re-opener adjustment

15.220 If the Authority decides that revised expenditure allowance amounts should be used to calculate a DPCR5 High Value Projects Re-opener adjustment following:

- a re-opener upon Authority review (see paragraphs ~~15.188~~~~15.188~~ to ~~15.193~~~~15.193~~); or
- a re-opener upon licensee application (see paragraphs ~~15.206~~~~15.206~~ to ~~15.218~~~~15.218~~),

then the following steps will be carried out to calculate the DPCR5 High Value Projects Re-opener adjustment value:

- (i) ▲The efficient post-threshold change (reduction or increase) to the licensee's expenditure allowance amount for each Regulatory Year of DPCR5 will be obtained and stated in 2012/13 prices (see paragraphs ~~15.192~~~~15.192~~ and ~~15.209~~~~15.209~~).
- (ii) The values obtained under step (i) will be multiplied by 15% to calculate DPCR5 Fast Money amounts for the DPCR5 High Value Projects Re-opener adjustment for each Regulatory Year in DPCR5.
- (iii) The values obtained at step (i) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated at step (i) had been taken into account.
- (iv) The values calculated at step (iii) will be used to calculate:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);
and
 - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),
for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (v) The values obtained at steps (ii) and (iv) will be summed to give a total value for each Regulatory Year of DPCR5.
- (vi) DPCR5 Time Value of Money adjustments will be applied to the values calculated under step (v) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (vii) Any provisional DPCR5 High Value Projects Re-opener adjustment that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (vi).

15.221 The value obtained at step (vii) in paragraph ~~15.220~~15.220 is the DPCR5 High value Projects Re-opener adjustment for the licensee.

15.222 The DPCR5 High value Projects Re-opener adjustment does not involve an adjustment to the licensee's RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step (iii) in paragraph ~~15.220~~15.220) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

Determination of DPCR5 High Value Projects Re-opener adjustment value for inclusion in the OLREV value

15.223 No revision to the DPCR5 High Value Projects Re-opener adjustment value for inclusion in the OLREV value for the licensee will be determined by 30 November 2016 for the purpose for the purpose of determining the value of OLREV by 30 November 2016.

15.224 The Authority will use any revised expenditure allowance amounts resulting from a re-opener upon the Authority's review or upon the licensee's application to determine the High Value Projects adjustment value for inclusion in the OLREV value for the licensee by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

15.225 No further revisions to the DPCR5 High Value Projects Re-opener adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV. ~~but this is without prejudice to any requirement for the licensee to restate values referred to in paragraph 15.213 for any other purpose.~~

x) DPCR5 Enhanced Physical Site Security and Black Start - adjustment resulting from revised allowance levels

References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapter 7 of reference document 6 and Appendix 6 in reference document 8 specified at the start of this chapter

Overview

15.226 This subsection sets out the methodology for determining the DPCR5 Enhanced Physical Site Security and Black Start adjustment to allowed revenue for the licensee, using a two stage process:

- (i) determining efficient expenditure levels; and
- (ii) calculating the allowed revenue adjustment.

15.227 The term DPCR5 Enhanced Physical Site Security and Black Start adjustment means the provision for determining the licensee's efficient expenditure on:

- (a) Enhanced Physical Site Security; and
- (b) Black Start capability (including emergency batteries),

for DPCR5, described in this subsection and set out in paragraphs 7.37 to 7.40 in chapter 7 of reference document 6 and appendix 6 in reference document 7 and calculating any associated adjustment to the licensee's allowed revenue for RIIO-ED1.

Materiality test

15.228 The DPCR5 Enhanced Physical Site Security and Black Start adjustment is subject to a materiality test set at one percent of the licensee's DPCR5 Revenue Allowance for Regulatory Year 2010/11. This value will be restated in 2012/13 prices for the purposes of this methodology.

Logging up of expenditure

15.229 No baseline expenditure allowances were included in the calculation of the licensee's DPCR5 Revenue Allowances. The licensee was required to report its expenditure levels on Enhanced Physical Site Security and Black Start capability annually during DPCR5 under relevant Regulatory Instructions and Guidance. In this way, the costs were 'logged up' to be considered by the Authority with regard to an adjustment to the licensee's allowed revenues for RIIO-ED1.

Review of logged up expenditure by the Authority

15.230 The licensee is due to report its logged up expenditure on Enhanced Physical Site Security and Black Start capability for DPCR5 by 31 July 2015, with supporting information to show that:

- its expenditure was pursuant to:
 - mandatory requirements;
 - or, with respect to Black Start capability,
 - relevant engineering technical recommendations;
- it followed any official guidance relating to measures being fit for purpose and value for money;
- costs were efficiently incurred, for example by demonstrating that competitive tendering was used in procurement; and
- the risks, costs and benefits associated with alternative solutions were considered, where permissible.

15.231 The licensee may also include any other information it considers should be taken into account by the Authority.

15.232 Having received the licensee's submission, the Authority will check:

- that all the information required under relevant Regulatory Instructions and Guidance has been included by the licensee; and
- that reported costs were incurred by the licensee on Enhanced Physical Site Security and Black Start capability during DPCR5 and that they cannot be recovered under any other provision of the licence.

15.233 In considering the licensee's submission, the Authority will also review the annual cost reporting submissions made by the licensee during DPCR5 and the outcome of any enquiries raised in relation to those submissions.

15.234 If the Authority requires any further information to make its decision in relation to the licensee's expenditure levels it will, by 31 January 2016, ask the licensee to submit it, allowing the licensee a reasonable amount of time for the purpose.

15.235 If, having completed the review referred to in paragraphs ~~15.232~~~~15.232~~, the Authority is satisfied that the licensee's reported expenditure on Enhanced Physical Site Security and Black Start capability has been efficient then it will, subject to the materiality test referred to in paragraph ~~15.228~~~~15.228~~ use the reported expenditure values to calculate a DPCR5 Enhanced Physical Site Security and Black Start adjustment for the licensee under paragraph ~~15.237~~~~15.237~~.

15.236 If, having completed the review referred to in paragraphs ~~15.232~~~~15.232~~ to ~~15.234~~~~15.234~~, the Authority decides that the licensee's reported expenditure on Enhanced Physical Site Security and Black Start capability should be curtailed for the purpose of calculating a DPCR5 Enhanced Physical Site Security and Black Start adjustment, it will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before using the reduced values to calculate an adjustment under paragraph ~~15.237~~~~15.237~~.

Calculation of DPCR5 Enhanced Physical Site Security and Black Start - adjustment

15.237 The following steps will be carried out to apply the materiality test referred to in paragraph ~~15.228~~~~15.228~~:

Materiality test

- (i) The licensee's efficient expenditure amount for each Regulatory Year in DPCR5 will be obtained. The values will be restated in 2012/13 prices.
- (ii) The values obtained at step (i) will be totalled, and the total will be multiplied by the DPCR5 IQI Incentive Rate for the licensee.
- (iii) The materiality test value will be calculated as one percent of the DPCR5 Revenue Allowance for the licensee for Regulatory Year 2010/11, restated in 2012/13 prices.

15.238 If the value calculated under step (ii) in paragraph ~~15.237~~~~15.237~~ is less than the materiality value calculated under step (iii), then the calculated value of the DPCR5 Enhanced Physical Site Security and Black Start adjustment for the licensee will be zero and the steps set out in paragraph 15.239 below will not be carried out.

15.239 If the value calculated under step (ii) in paragraph ~~15.237~~~~15.237~~ is greater than the materiality test value calculated under step (iii), then the steps set out below will be carried out to calculate the DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee:

- (i) The values obtained at step (i) in paragraph ~~15.237~~~~15.237~~ will be multiplied by 15% to calculate DPCR5 Fast Money amounts for Enhanced Physical Site Security and Black Start capability costs for each Regulatory Year in DPCR5.
- (ii) The values obtained at step (i) in paragraph ~~15.237~~~~15.237~~ will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated under that step had been taken into account.

- (iii) The values calculated at step (ii) will be used to calculate:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
 - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),
 for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (iv) The values obtained at steps (i) and (iii) will be summed to give a total value for each Regulatory Year of DPCR5.
- (v) DPCR5 Time Value of Money adjustments will be applied to the values calculated under step (iv) to put them on a common 2015/16 time value basis and the values will then be totalled.

15.240 Any provisional DPCR5 Enhanced Physical Site Security and Black Start – adjustment that was included in the calculation of the licensee’s Opening Base Revenue Allowances will be deducted from the value calculated at step (v) in paragraph ~~15.239~~15.239 or, as applicable, the value of zero referred to in paragraph ~~15.238~~15.238.

15.241 The value obtained under paragraph ~~15.240~~15.240 is the DPCR5 Enhanced Physical Site Security and Black Start adjustment for the licensee.

15.242 The DPCR5 Enhanced Physical Site Security and Black Start adjustment does not involve an adjustment to the licensee’s RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step (ii) in paragraph ~~15.239~~15.239) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

Determination of the DPCR5 Enhanced Physical Site Security and Black Start adjustment value

15.243 The Authority will determine the DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016.

15.244 Subject to paragraphs ~~15.245~~15.245 and ~~15.246~~15.246, the Authority will determine a revised DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee if, with respect to the values referred to in paragraph ~~15.230~~15.230:

- (a) the Authority apprised the licensee, by ~~30~~30 November 2016, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph **Error! Reference source not found.** in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

15.245 A revised DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee may be determined by the Authority by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

15.246 No further revisions to the DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.230~~[15.230](#) for any other purpose.

xi) DPCR5 Shetland adjustment

References:

- i. Reference document 15 specified at the start of this chapter.

Overview

15.247 This subsection only applies to SSEH. It sets out the methodology for determining:

- (a) a DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment; and
- (b) a DPCR5 NINES Project allowances adjustment,

for SSEH.

15.248 The two adjustments set out in paragraph 15.247 together constitute the DPCR5 Shetland adjustment for SSEH.

15.249 The terms Shetland Integrated Plan and Shetland Competitive Process have the meanings given in the Authority's open letter entitled "Ofgem's determination of Scottish Hydro Electric Power Distribution plc's (SHEPD) submission required under Charge Restriction Condition (CRC) 18A" dated 22 April 2014 (see reference document 15 specified at the start of this chapter).

15.250 The term NINES Project means the trial for innovative options to manage the supply and demand of electricity on Shetland that SSEH was required to propose under Special Condition CRC 18A of its licence in the form it was in on 31 March 2015.

15.251 It should be noted that the adjustment set out in this subsection does not cover:

- (a) costs relating to energy provision on Shetland that were categorised as pass-through costs for DPCR5; and
- (b) any costs relating to energy provision on Shetland (including Shetland Competitive Process costs) incurred during the Price Control Period.

DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment

15.252 The basis for funding DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process costs (ie costs incurred by SSEH during DPCR5) was set out in reference document 15 specified at the start of this chapter.

15.253 DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process costs are considered under two headings:

- (a) costs invoiced to SSEH under the terms of contracts with unrelated parties; and
- (b) costs incurred directly by SSEH or recharged to it by an Affiliate or a Related Undertaking of SSEH where the arrangements were made on an arms length basis and on normal commercial terms.

15.254 An amount of £1.58m (in 2012/13 prices) in respect of DPCR5 Shetland Integrated Plan and DPCR5 Competitive Process costs was taken into account in the calculation of Opening Base Revenue Allowances for SSEH.

Application by SSEH for reimbursement of additional DPCR5 Shetland Integrated Plan and DPCR5 Competitive Process costs

15.255 Subject to paragraph ~~15.256~~15.256, it is open to SSEH to apply for additional costs to be reimbursed under the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment. Any such application must be made by 31 December 2015 and must include the information set out in paragraph ~~15.258~~15.258.

DPCR5 Shetland Integrated Plan costs

15.256 With respect to DPCR5 Shetland Integrated Plan costs, SSEH may only apply for the reimbursement of costs incurred directly by it, or recharged or invoiced to it by one of its Affiliates or Related Undertakings (see paragraph ~~15.253~~15.253(b)).

DPCR5 Shetland Competitive Process costs

15.257 With respect to DPCR5 Shetland Competitive Process costs, SSEH may apply for the reimbursement of:

- (a) costs incurred directly by it, or recharged or invoiced to it by one of its Affiliates or Related Undertakings, where the arrangements were made on an arms length basis and on normal commercial terms; and
- (b) costs invoiced to it under the terms of contracts with unrelated parties.

Information requirements

15.258 The information referred to in paragraph ~~15.255~~15.255 that SSEH must include in any application for reimbursement of additional costs is:

- (a) a breakdown of the costs by the Regulatory Years in DPCR5 in which they were incurred;
- (b) a narrative statement describing the activities giving rise to the costs, setting out, in particular:
 - why the activities were necessary; and
 - evidence that costs were efficiently incurred.
- (c) information on the amount of time worked by staff employed by SSEH (or its Affiliates or Related Undertakings) on development of the Shetland Integrated Plan and Competitive Process during DPCR;
- (d) information on the costs of the time worked referred to in subparagraph (b) with reference to staff grades and charging rates;

- (e) information on the amounts recharged or invoiced to SSEH by Affiliates or Related Undertakings and evidence that arrangements were made on an arms length basis and on normal commercial terms;
- (f) a description of relevant contractual arrangements between SSEH and Affiliates or Related Undertakings; and
- (g) any other matters that the licensee considers are pertinent to its application.

15.259 The information referred to in subparagraphs (c), (d), (e) and (f) of paragraph ~~15.258~~~~15.258~~ must be derived from management information such as time sheets and management accounts used by the licensee, and which are available for submission under paragraph ~~15.261~~~~15.261~~ below if necessary.

15.260 Any application under paragraph ~~15.255~~~~15.255~~ must be in respect of costs, stated in 2012/13 prices, that cannot be recovered under any other provisions of the licence.

Review and determination by the Authority

15.261 Having made an initial review of the information referred to in paragraph ~~15.258~~~~15.258~~, the Authority will ask the licensee to submit any additional information or clarifications it requires and will allow the licensee a reasonable amount of time to provide any such information.

15.262 The Authority will complete a review of SSEH's application by 31 July 2016 and, having done so, will consult the licensee on its provisional determination of revised amounts of costs that should be reimbursed, giving the licensee at least 28 days in which to respond.

15.263 The Authority will consider any representations made by SSEH in response to the consultation referred to in paragraph ~~15.262~~~~15.262~~ and, having done so, will by 31 October 2016 determine either:

- (a) that no additional costs should be reimbursed under the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment, in which case the value of the adjustment will be zero; or
- (b) that an amount of additional costs should be reimbursed under the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment.

15.264 If the Authority determines that an amount of additional costs should be reimbursed then it will, by 31 October 2016, determine the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment for SSEH to be a value derived as:

- the amount of additional costs that it has determined should be reimbursed, with DPCR5 Time Value of Money adjustments to put them on a common 2015/16 time value basis;
less
- the amount, in respect of DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustments, that was provisionally included in the calculation of Opening Base Revenue Allowances for SSEH.

15.265 Subject to paragraph ~~15.263~~~~15.263~~(a), the value obtained under paragraph 15.264 is the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment value for SSEH.

15.266 The DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment does not involve an adjustment to the licensee's RAV additions.

DPCR5 NINES Project allowances adjustment

15.267 In a letter dated 25 November 2011, addressed to SSEH, the Authority determined that SSEH should be given a total funding amount for the NINES project of £15.33m in 2011/12 prices.

15.268 The Authority also determined that the following amounts (in 2011/12 prices) should be recovered by SSEH as value of the term UNC under Special Condition CRC 4 (Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items) of its licence in the form it was in on 31 March 2015:

- £3.96m in Regulatory Year 2012/13;
- £1.05m in Regulatory Year 2013/14; and
- £1.06m in Regulatory Year 2014/15.

15.269 There is therefore a residual amount of £9.24m (in 2011/12 prices) to be recovered from the total funding amount referred to in paragraph ~~15.267~~~~15.267~~. This amount, restated in 2012/13 prices is £9.53m

15.270 The Authority will, by 31 October 2015, determine the DPCR5 NINES Project allowances adjustment for SSEH to be a value derived as £9.53m minus the amount, in respect of the DPCR5 NINES Project allowances adjustment, that was provisionally included in the calculation of Opening Base Revenue Allowances for SSEH.

15.271 The terms of funding for the NINES project did not provide for any additions to SSEH's RAV balance and the DPCR5 NINES Project allowances adjustment does not involve an adjustment under the DPCR5 RAV Rolling Incentive.

15.272 It should be noted that the DPCR5 NINES Project allowances adjustment is separate from, and does not interact with, the provision relating to the cost of integrating solutions from the NINES project set out in paragraph **Error! Reference source not found.**(d) in section 7 of chapter 7 of this handbook.

Determination of the DPCR5 Shetland adjustment value

15.273 The Authority will, by 30 November 2015, determine the DPCR5 Shetland adjustment value to be £6.96m (in 2012/13 prices) representing the DPCR5 NINES Project allowances adjustment provided for in paragraphs ~~15.267~~~~15.267~~ to ~~15.272~~~~15.272~~, for the purpose of determining the value of OLREV by 30 November 2015.

15.274 The Authority will, by 30 November 2016, determine the DPCR5 Shetland adjustment value to be the value determined under paragraph ~~15.273~~~~15.273~~ plus the value determined under paragraph 15.265 for the purpose of determining the value of OLREV by 30 November 2016.

15.275 No further revisions to the DPCR5 Shetland adjustment value for the licensee will be determined after 30 November 2016 for the purpose of determining a revised value of OLREV.

xii) Determination of the OLREV value for the licensee

15.276 This subsection sets out the methodology by which the Authority will determine the value of OLREV for the licensee and subsequently direct any revisions to that value under section 4 of this chapter, and in accordance with Part B of CRC 3A.

15.277 The Authority will determine the value of OLREV for the licensee by 30 November in each Regulatory Year from 2015/16 to 2018/19, by summing the most recently determined values for each of the ten adjustments set out in Table 1 in CRC3A.

15.278 Timings for the determination of each adjustment are set out in the respective subsections of this section.

15.279 The OLREV value is only contained in the column for Regulatory Year 2015/16 in the PCFM Variable Values Table for the licensee. The opening value of OLREV for the licensee, as at 1 April 2015, will be zero (see also paragraph 13.7 in chapter 13). Functionality within the PCFM means that the change to the licensee's revenue allowance, represented by the OLREV value, is spread across recalculated base revenue figures for the whole Price Control Period with Time Value of Money Adjustments.

15.280 Determinations of the OLREV value for the licensee will be in 2012/13 prices.

Section 3 – Determination of revisions to the PCFM Variable Values for legacy adjustments to DPCR5 RAV Additions (OLRAV values)

References:

- i. Chapter 1 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapter 2 of reference document 9 specified at the start of this chapter

15.281 This section sets out the methodology by which the Authority will determine revised OLRAV values for the licensee in accordance with Part C of CRC 3A, for direction under section 4.

15.282 OLRAV values are only contained in the columns for Regulatory Years 2013/14 and 2014/15 in the PCFM Variable Values Table for the licensee. The opening OLRAV values for the licensee, as at 1 April 2015, will be zero (see also paragraph 13.7 in chapter 13).

Calculation of revised OLRAV values

15.283 At the outset of RIIO-ED1, the Authority derived estimated values for RAV additions relating to Regulatory Years 2013/14 and 2014/15 in accordance with the applicable DPCR5 Cost, Volume and Revenue Reporting Regulatory Instructions and Guidance (see reference document 4).

15.284 By 31 October 2015, the Authority will derive finalised RAV additions values for the licensee for Regulatory Years 2013/14 and 2014/15 by:

- (a) obtaining the RAV additions value for:
 - (i) Regulatory Year 2013/14; and
 - (ii) Regulatory Year 2014/15,for the licensee displayed at the top of worksheet C4 (RAV) due to be submitted by the licensee by 31 July 2015 in accordance with the version of the Electricity Distribution Price Control Cost and Revenue Reporting - Regulatory Instructions and Guidance that were valid for reporting of 2014/15 actual costs and restating them in 2012/13 prices;
- (b) adding to the values obtained at subparagraph (a), any adjustment due in respect of refunded connection charges to distributed generators for the Regulatory Year concerned, in 2012/13 prices, to the extent that such addition is not already included in the value at subparagraph (a); and
- (c) applying:
 - (i) any adjustment relating to DPCR5 ongoing pension expenditure referred to in paragraphs 15.13 and 15.14;
 - (ii) any adjustment relating to DPCR5 Pension Protection Fund Levy expenditure referred to in paragraph 15.19; and
 - (iii) any adjustment due in respect of the true up of forecast costs to actual costs for ongoing pension costs in Regulatory Year 2009/10⁷,in each case in 2012/13 prices.

Derivation of revised OLRAV values

15.285 A revised OLRAV value for the licensee will be derived by deducting the estimated RAV additions for Regulatory Years 2013/14 and 2014/15 referred to in paragraph ~~15.238~~~~15.283~~ (restated in 2012/13 prices) from the finalised RAV additions derived under paragraph 15.284.

Determination of the OLRAV value

15.286 The values referred to in paragraph ~~15.284~~~~15.284~~, are due to be reported by the licensee under applicable Regulatory Instructions and Guidance by 31 July 2015. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph ~~15.287~~~~15.287~~, will use the values to determine a revised OLRAV value for the licensee by 30 November 2015.

⁷ This value will be unchanged from that used to derive the estimated RAV additions referred to in paragraph 15.283

15.287 Subject to paragraphs ~~15.288~~15.288 and ~~15.289~~15.289, the Authority will determine a revised OLRAV value for the licensee if, with respect to the values referred to in paragraph 15.284:

(a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph **Error! Reference**

source not found. in chapter 1); or

(b) the licensee is required, under any provision of the licence to restate any of those values.

15.288 A revised OLRAV value for the licensee may be determined by the Authority:

(a) by 30 November 2016; and

(b) by 30 November 2017.

15.289 No further revisions to the OLRAV value for the licensee will be determined after 30 November 2017, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.284~~15.284 for any other purpose.

Section 4 – Direction of revisions to the OLREV value and to OLRAV values

15.290 Paragraph 3A.34 of CRC 3A requires the Authority to give the licensee at least 14 days' notice setting out any proposed revisions to the OLREV value and to OLRAV values that it has determined, before directing the revisions. This means that the Authority will give notice to the licensee of any revisions that it has determined by 15 November in each Regulatory Year $t-1$. The Authority is required to have due regard to any representations made by the licensee and to give its reasons for any decisions in relation to them.

15.291 Having complied with the notice requirements, the Authority will direct any required revisions to:

- the OLREV value by 30 November in each Regulatory from 2015/16 to 2018/19; and
- The OLRAV value by 30 November in each Regulatory from 2015/16 to 2017/18.

Delay in direction of revised PCFM Variable Values

15.292 If, for any reason, the Authority does not give a required direction of a revision to the OLREV value or to OLRAV values by 30 November in a particular Regulatory Year, CRC 3A requires that the value or values should be directed by the Authority as soon as is reasonably practicable, to facilitate the notification and direction of the value of the term MOD_t under CRC 4B (Annual Iteration Process for the PCFM).

16. Legacy DPCR5 RAV Rolling Incentive adjustments - financial methodologies

Reference documents

1. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Financial Methodologies](https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-%E2%80%93-financial-methodologies)
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-%E2%80%93-financial-methodologies>
2. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Incentives and Obligations](https://www.ofgem.gov.uk/ofgem-publications/46748/fp2incentives-and-obligations-final.pdf)
<https://www.ofgem.gov.uk/ofgem-publications/46748/fp2incentives-and-obligations-final.pdf>
3. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenue - Cost assessment](https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-allowed-revenue-cost-assessment)
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-allowed-revenue-cost-assessment>
4. [Network Outputs and Quality of Service Regulatory Instructions and Guidance - Version 2](https://www.ofgem.gov.uk/ofgem-publications/46606/nadprrigsv2published1.pdf)
<https://www.ofgem.gov.uk/ofgem-publications/46606/nadprrigsv2published1.pdf>
5. Electricity Distribution Price Control Review Final Proposals - Allowed revenue - Cost assessment appendix
<https://www.ofgem.gov.uk/ofgem-publications/46749/fp3cost-assesment-network-investmentappendix.pdf>

Section 1 - Overview

16.1 This chapter contains the methodologies for determining legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism set out in Table 2 in CRC3A (Legacy price control adjustments) and revisions to the associated PCFM Variable Value (the RIREV value) for the licensee.

16.2 The methodologies referred to in paragraph 16.1 take into account any provisional adjustments that were included in the determination of the licensee's Opening Base Revenue Allowances.

Overview of the DPCR5 RAV Rolling Incentive

16.3 Paragraphs 16.5 to 16.12 below provide a high level description of the DPCR5 RAV Rolling Incentive. The detailed and definitive provisions, including a worked example, are set out in chapter 2 of reference document 1. References in CRC 3A and in this handbook to the DPCR5 RAV Rolling Incentive mean the RAV Rolling Incentive Mechanism described in this section.

16.4 The RAV Rolling Incentive was the main expenditure incentive mechanism in the DPCR5 price control. It has been superseded by the Totex Incentive Mechanism in the RIIO-ED1 Price Control (see chapter 6).

16.5 Total expenditure allowances were set for the licensee at the outset of DPCR5 for costs covered by the DPCR5 Equalised Incentive.

16.6 An incentive strength rate was also set for the licensee at the outset of the price control period as a result of analysis of the licensee's expenditure proposals compared to Ofgem's view of expenditure requirements. An incentive strength rate of, for example, 45% would mean that the licensee would retain 45 percent of any underspend (versus its expenditure allowances) but bear 45% of any overspend. This can be viewed as the 'intended effect'. The effective incentive strength rates ("IQI Incentive Rates") for the licensee were set out in Appendix 1 of Special Condition CRC 18 (Arrangements for the recovery of uncertain costs) of the licence in the form it was in on 31 March 2015.

16.7 The DPCR5 RAV Rolling Incentive only operated directly on the Slow Money component of costs covered by the DPCR5 Equalised Incentive. Accordingly, the incentive strength percentage used in calculations was adjusted downwards in calculations to achieve the overall intended effect. For example, an incentive strength rate of 45% is adjusted to 35% for use in DPCR5 RAV Rolling Incentive calculations.

16.8 After the end of the DPCR5 price control period, a full set of expenditure allowances and actual expenditure figures will be available. Calculations can therefore be made of:

- (i) the income due under the intended effect referred to above; and
- (ii) the actual revenue effects that the licensee can be considered to have experienced during DPCR5.

16.9 The expenditure allowances referred to in paragraph 16.8 include any revisions applied in accordance with the adjustment methodologies set out in subsection (v) and subsections (vii) to (x) in section 2 of chapter 15.

16.10 The calculations referred to in paragraph 16.8 are carried out in constant 2012/13 prices and incorporate DPCR5 Time Value of Money Adjustments so that the intended and actual outcomes can be compared on a common 2015/16 time value basis.

16.11 Depending on the timing of any over/under-spend by the licensee during the five years of DPCR5, the values referred to at subparagraphs 16.8 (i) and (ii) may be different. A key feature of the DPCR5 RAV Rolling Incentive was that the intended effect should be achieved whatever the timing profile of under/over-expenditure. Consequently, if the figures at 16.8 (i) and (ii) are found to be different, a true-up adjustment is applied, which might be a positive or negative value in both over and under-spend scenarios. If the values match, then no further adjustment is due.

16.12 Under the terms of the DPCR5 price control, the Slow Money component of all efficient expenditure covered by the DPCR5 Equalised Incentive in the DPCR5 period is included in the RAV balance brought forward at the start of the RIIO-ED1 Price Control Period. Accordingly, the full incentive effect of the DPCR5 RAV Rolling Incentive will have been achieved with respect to the DPCR5 price control period once any provisional/legacy adjustments in respect of a difference of the type referred to in paragraph 16.11 have been applied.

Scheme specific variations

16.13 There are two items that are subject to particular treatment under the wider RAV Rolling Incentive.

Customer contribution levels for DPCR5 Rising and Lateral Mains

16.14 In setting the licensee's DPCR5 expenditure allowances for work on Rising and Lateral Mains, the Authority used an assumption that the licensee would receive no contributions from customers.

16.15 The adjustment relating to the level of customer contributions is based on the premise that, all other things being equal, a higher level of contributions will represent a saving that should be shared between the licensee and consumers. A special incentive strength rate of ten percent applies, meaning that the licensee retains ten percent of any increase in customer contribution levels with 90 percent being recouped for customers.

16.16 This adjustment only applies to SP Distribution plc and SP Manweb plc -see subsection (iv) in section 2 of this chapter.

DPCR5 Workforce Renewal

16.17 The licensee's expenditure allowances for DPCR5 Workforce Renewal, that were included in the calculation of its DPCR5 Revenue Allowances, were subject to a "use it or lose it" mechanism.

16.18 Any overspend in respect of DPCR5 Workforce Renewal is subject to the normal incentive strength rate for the licensee referred to in paragraph 16.6. However, any underspend is subject to a zero percent incentive strength rate, meaning that 100% of any underspend is recouped for customers - see subsection (v) in section 2 of this chapter.

Adjustments in respect of failure to deliver outputs

16.19 The Authority's final proposals for the DPCR5 Price Control also provided for adjustments to be made to the licensee's revenue allowances in certain circumstances in the event of a gap between the adjusted outputs the licensee was expected to achieve and the outputs it actually achieved - see subsections (ii) and (iii) in section 2 of this chapter.

Section 2 – Determination of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value)

16.20 This section sets out the methodologies for determining the adjustment values that comprise the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism.

16.21 The adjustment values referred to in paragraph 16.20 are set out in Table 2 in CRC3A which is reproduced below. The methodologies in subsections (i) to (v) of this section set out the key features and principles of the individual adjustment mechanisms but they do not attempt to reproduce all of the detailed criteria contained in relevant DPCR5 price control decisions. Therefore, reference is made to the Authority's previous price control decisions where appropriate.

16.22 Table 2 in CRC3A is reproduced below.

Table 16.1 - Table 2 in CRC3A - Adjustments comprising the RIREV value

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

i) Adjustment for items subject to DPCR5 IQI Incentive Rates

References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Chapter 19 and appendix 7 of reference document 2 specified at the start of this chapter
- iii. Reference document 4 specified at the start of this chapter

16.23 This subsection sets out the methodology for determining adjustments to the licensee’s allowed revenue for RIIO-ED1 in respect of items subject to DPCR5 IQI Incentive Rates (see definition in Glossary).

Calculation of adjustment for items subject to DPCR5 IQI Incentive Rates

16.24 The following steps will be carried out to calculate the adjustment for items subject to DPCR5 IQI Incentive Rates:

Calculation of intended incentive effect (see paragraph 16.8(i))

- (i) The licensee’s actual DPCR5 Slow Money expenditure will be obtained for each Regulatory Year in DPCR5 in 2012/13 prices (see paragraph 16.26).

- (ii) The licensee's adjusted total expenditure allowance for DPCR5 Slow Money expenditure will be obtained for each Regulatory Year in DPCR5 in 2012/13 prices (see paragraph 16.27).
- (iii) The value obtained at step (ii) will be deducted from the value obtained at step (i) to calculate an over or (under) spend value for each Regulatory year in DPCR5.
- (iv) The values calculated at step (iii) will be multiplied by the Adjusted DPCR5 IQI Incentive Rate for the licensee for the Regulatory Year concerned.
- (v) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (iv) to put them on a common 2015/16 time value basis and the values will then be totalled to give the intended incentive effect amount.

Calculation of incentive gain or loss that the licensee can be considered to have experienced during DPCR5 (see paragraph 16.8(ii))

- (vi) The values obtained at step (iii) will be used to calculate a notional value attributable to:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);
and
 - (b) return, at the WACC for DPCR5 (applied to the NNRRB),
 in respect of the licensee's under or over spend for each Regulatory Year in DPCR5.
- (vii) The values calculated at steps (vi)(a) and (b) will be summed for each Regulatory Year in DPCR5.
- (viii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vii) to put them on a common 2015/16 time value basis and the values will then be totalled.

Calculation of adjustment for items subject to DPCR5 IQI Incentive Rates

- (ix) The value calculated at step (v) will be deducted from the value calculated at step (viii).
- (x) Any provisional adjustment for items subject to DPCR5 IQI Incentive Rates that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (ix).

16.25 The value obtained at step (x) in paragraph 16.24 is the adjustment for items subject to the DPCR5 IQI Incentive Rates for the licensee for the licensee.

Derivation of values used in calculation of adjustment for items subject to DPCR5 IQI Incentive Rates

Total actual DPCR5 Slow Money expenditure for each Regulatory Year in DPCR5

16.26 The Authority will derive the licensee's total actual DPCR5 Slow Money expenditure for each Regulatory Year in DPCR5 as:

- the RAV additions value for the licensee for the Regulatory Year concerned shown at the head of worksheet C4 (RAV) due to be submitted by the licensee by 31 July 2015 in accordance with the applicable DPCR5 Cost, Volume and Revenue Reporting Regulatory Instructions and Guidance (see reference document 4), restated in 2012/13 prices;

less

- the consolidated amount of actual expenditure within the consolidated expenditure allowance for DPCR5 Undergrounding and Worst Served Customer Improvements for each Regulatory Year in DPCR5 obtained at step (xix) in paragraph 15.104 in 2012/13 prices
- the DPCR5 Slow Money component of DPCR5 ongoing pension expenditure;
- the DPCR5 Slow Money component of DPCR5 Pension Protection Fund Levy expenditure;
- the DPCR5 Slow Money component of DPCR5 Workforce Renewal expenditure;
- the amount of customer contributions received for Rising and Lateral Mains (SP Distribution plc and SP Manweb plc only).

Adjusted total capex allowance for each Regulatory Year in DPCR5

16.27 The Authority will derive the licensee's adjusted total capex allowance for each Regulatory Year in DPCR5 by taking the opening capex allowance set against the licensee's name in Table 16.2 below for the year concerned and adding to it the each of the adjustment values set out in paragraphs 16.28 to 16.3416.33, in each case for the same Regulatory Year and stated in 2012/13 prices.

Table 16.2 – Opening capex allowances (£m in 2012/13 prices)

Licensee ⁸	Regulatory Year				
	2010/11	2011/12	2012/13	2013/14	2014/15
ENWL	170.51	190.08	191.57	163.20	168.25
NPgN	119.65	120.64	127.08	131.44	127.48
NPgY	164.81	167.41	164.04	166.84	173.07
LPN	139.77	150.50	162.62	174.39	187.41
SPN	139.41	153.25	168.28	184.17	201.07

⁸ Acronyms refer to the Electricity Distribution Network Operators as set out in paragraph 1A. 7 of CRC 1A.

EPN	216.19	228.96	243.40	257.25	271.77
SPD	127.67	135.42	138.40	146.65	142.49
SPMW	173.57	167.83	179.62	172.89	174.58
SSEH	88.94	85.85	85.50	84.57	88.67
SSES	227.74	230.35	236.21	232.26	223.89

16.28 The first of the adjustment values referred to in paragraph 16.27 is the change to the licensee's expenditure allowance amount determined under subsection vii) of section 2 in chapter 15 for the purpose of determining the DPCR5 Load related Re-opener adjustment value for the licensee, multiplied by 85 percent.

16.29 The second of the adjustment values referred to in paragraph 16.27 is the change to the licensee's expenditure allowance amount determined under subsection viii) of section 2 in chapter 15 for the purpose of determining the DPCR5 High Volume Connections Re-opener adjustment value for the licensee, multiplied by 85 percent.

16.30 The third of the adjustment values referred to in paragraph 16.27 is the change to the licensee's expenditure allowance amount determined under subsection ix) of section 2 in chapter 15 for the purpose of determining the DPCR5 High Value Projects adjustment value for the licensee, multiplied by 85 percent.

16.31 The fourth of the adjustment values referred to in paragraph 16.27 is:

- (a) zero if the materiality test referred to in subsection x) of section 2 in chapter 15 is not passed;

or, if that materiality test is passed,

- (b) the amount of expenditure on Enhanced Physical Site Security and Black Start capability used to calculate a DPCR5 Enhanced Physical Site Security and Black Start adjustment for the licensee under the provisions of subsection x) of section 2 in chapter 15, multiplied by 85 percent.

16.32 The fifth of the adjustment values referred to in paragraph 16.27 is:

- (a) zero if the materiality test referred to in subsection v) of section 2 in chapter 15 is not passed;

or, if that materiality test is passed,

- (b) the amount of expenditure on TMA permit incremental administration costs used in the calculation of a DPCR5 Traffic Management Act Permit Costs adjustment for the licensee under the provisions of subsection v) of section 2 in chapter 15, multiplied by 85 percent.

16.33 The sixth of the adjustment values referred to in paragraph 16.27 is the change to the licensee's expenditure allowance amount determined under subsection xi) of section 2 in chapter 15 for the purpose of determining the DPCR5 Shetland Integrated Plan and Competitive Process adjustment value for the licensee, multiplied by 85 percent.

16.34 The seventh and last of the adjustment values referred to in paragraph 16.27 is the change to the licensee's expenditure allowance amount determined under the Rising and Lateral mains reopener, referred to in chapter 2 of reference document 1 and chapter 7 of reference document 7, that was taken into account in the calculation of the licensee's Opening Base revenue Allowances, multiplied by 85 percent. This paragraph only applies to SP Distribution plc and SP Manweb plc.

Determination of adjustment for items subject to DPCR5 IQI Incentive Rates

16.35 The latest date by which any of the values used in the calculation of the adjustment for items subject to DPCR5 IQI Incentive Rates can be revised is 30 Nov 2018.

16.36 The Authority will determine a provisionally revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee by 30 November 2015 for the purpose of determining the value of RIREV by 30 November 2015.

16.37 The Authority will also determine

- (a) a revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016;
- (b) a revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017; and
- (c) a revised value for the adjustment for items subject to to DPCR5 IQI Incentive Rates for the licensee by 30 November 2018 for the purpose of determining the value of RIREV by 30 November 2018.

16.38 A revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates may also be determined by the Authority by 30 November 2019 for the purpose of determining the value of RIREV by 30 November 2019, if that is necessary to take account of:

- (a) any requirement for the licensee to restate the values referred to in paragraph 16.26; or
- (b) a revision to any of the adjustment values referred to in paragraphs 16.28 to 16.33.

16.39 No further revisions to the value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee will be determined after 30 November 2019 for the purpose of determining a revised value of RIREV, but this is without prejudice to any requirement for the licensee to restate values referred to in this subsection for any other purpose.

ii) DPCR5 High Value Projects - failure to deliver outputs adjustment

16.40 This subsection sets out the methodology for determining adjustments to the licensee's allowed revenue for RIIO-ED1 in respect of a failure to deliver outputs relating to DPCR5 High Value Projects.

16.41 The term DPCR5 High Value Project means a project identified as such in this subsection, in subsection ix) of section 2 in chapter 15, or in reference documents 1, 2, 3 and 4.

Determination of the DPCR5 High Value Projects - failure to deliver outputs adjustment

16.42 The DPCR5 High Value Projects - failure to deliver outputs adjustment value is derived in accordance with paragraphs 15.194 to 15.205 in chapter 15.

16.43 No revised DPCR5 High Value Projects - failure to deliver outputs adjustment value for the licensee will be determined by the Authority:

- (a) by 30 November 2015 for the purpose of determining the value of RIREV by 30 November 2015; or
- (b) by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016.

~~If, under the methodology set out in subsection ix) of section 2 in chapter 15, the Authority decides that a DPCR5 High Value Projects - failure to deliver outputs adjustment should be included in the calculation of a revised RIREV value for the licensee, then the Authority will determine a revised DPCR5 High Value Projects - failure to deliver outputs adjustment value for the licensee by 30 November 2018 for the purpose of determining the value of RIREV by 30 November 2018.~~

16.44 If, under the methodology set out in subsection ix) of section 2 in chapter 15, the Authority decides that a DPCR5 High Value Projects - failure to deliver outputs adjustment should be included in the calculation of a revised RIREV value for the licensee, then the Authority will determine a revised DPCR5 High Value Projects - failure to deliver outputs adjustment value for the licensee by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017.

16.45 No further revisions to the DPCR5 High Value Projects - failure to deliver outputs adjustment value for the licensee will be determined after 30 November 2018⁷ for the purpose of determining a revised value of RIREV.

iii) DPCR5 Network Output Measures - failure to deliver outputs adjustment

16.46 This subsection sets out the methodology for determining adjustments to the licensee's allowed revenue for RIIO-ED1 in respect of a failure to deliver outputs relating to DPCR5 Network Output Measures.

16.47 The term DPCR5 Network Output Measure means a measure referred to in reference documents 1, 2 and 4 and which will be further clarified in the DPCR5 Network Output Measures Closeout Methodology.

16.48 The Authority will determine the DPCR5 Network Output Measures Closeout Methodology by 31 ~~March~~ July 2016, which it will apply when determining adjustments to the licensee's allowed revenue for RIIO-ED1 in respect of a failure to deliver outputs relating to DPCR5 Network Output Measures.

16.49 By 31 ~~March~~ July 2016, the Authority will modify this handbooks so that it sets out a detailed method (the "DPCR5 Network Output Measures – failure to deliver outputs adjustment methodology") for assessing a failure to deliver outputs relating to DPCR5 Network Output Measures, in accordance with CRC 4A (Governance of ED1 Price Control Financial Instruments).

16.50 In determining the DPCR5 Network Output Measures Closeout Methodology, the Authority will take into account the following, without limitation:

- (a) reference documents 1, 2 and 4;
- (b) the network output commitments agreed by the licensee at the outset of DPCR5;
- (c) the principle that any reduced output volumes, with respect to each relevant output unit type referred to in applicable Regulatory Instructions and Guidance, should result from efficient decisions by the licensee that were in the interests of customers;
- (d) information on outputs achieved, submitted by the licensee under relevant Regulatory Instructions and Guidance;
- (e) additional information provided by the licensee covering:
 - updates to assumptions used in setting network output requirements including, for example, assumptions about the pre-existing (ie at the outset of DPCR5) condition of assets;
 - changes to output assessment techniques and calculation methodologies;
 - external factors including economic conditions, planning requirements and resource constraints; and
 - management actions taken in light of evolving risk evaluations, having due regard to any output assessment processes developed by Ofgem, with the participation of the licensee, during DPCR5 or RIIO-ED1;
- (f) developments in the Network Output Measures RIGs reporting during DPCR5; and
- (g) developments in the Network Output Measures risk points analysis for measuring delivery of the Network Output Measures deliverables during DPCR5.

16.51 By 31 October 2016, the licensee will submit to the Authority a performance assessment submission as detailed in the DPCR5 Network Output Measures – Failure to Deliver Outputs Adjustment Methodology.

16.52 After 31 ~~July~~ October 2016, the Authority will commence an outputs performance assessment with respect to the licensee, in accordance with chapter 19 and appendix 7 of reference document 2 and as further clarified by the DPCR5 Network Outputs Measures Closeout Methodology. The purpose of the assessment is to determine whether any network outputs gap has arisen which should lead to a

downward adjustment to the licensee's allowed revenue (a DPCR5 Network Output Measures - failure to deliver outputs adjustment).

16.53 In carrying out the assessment referred to in paragraph 16.51, the Authority will have regard to the scope of its separate performance assessment with respect to DPCR5 High Value Projects outputs (see subsection ii)) to ensure that:

- (a) all output performance is reviewed; and
- (b) the mutual exclusivity of adjustments in respect of DPCR5 High Value Projects and DPCR5 Network Output Measures is observed.

16.54 Having carried out the assessment described in paragraphs 16.51 and 16.53, the Authority will reach a preliminary view on any outputs gap that has arisen. If the Authority's view is that no outputs gap has arisen, then no further action with respect to a DPCR5 Network Output Measures - failure to deliver outputs adjustment will be taken.

16.55 If the Authority's view is that an outputs gap has arisen, then it will value the outputs gap for each Regulatory Year in DPCR5 in accordance with the DPCR5 Network Output Measures Closeout Methodology.

16.56 The Authority will then

- (a) multiply the values referred to in paragraph 16.55 by the DPCR5 IQI Incentive Rate for the licensee multiplied by a factor of 1.025;
- (b) apply DPCR5 Time Value of Money Adjustments to the values calculated under subparagraph (a) to put them on a common 2015/16 time value basis and then total the values for the whole of DPCR5; and
- (c) multiply the total value calculated under subparagraph (b) by minus 1, so that it is a negative value.

16.57 If the Authority forms a preliminary view that a network outputs gap has arisen and it has valued that gap under paragraph 16.55 and calculated a possible adjustment value under paragraph 16.56, it will apprise the licensee of its preliminary view and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph 16.58.

16.58 Having considered any comments received from the licensee under paragraph 16.57, the Authority will, by 31 ~~March~~ May 2017, initiate a consultation with the licensee, network users, suppliers and other stakeholders. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to its view.

16.59 Where applicable, having considered any information received in response to its consultation, the Authority will, by ~~30th July~~ September 2017 decide whether any DPCR5 Network Output Measures - failure to deliver outputs adjustment should be included in the calculation of a revised RIREV value for the licensee. In making its decision, the Authority will apply the DPCR5 Network Outputs Measures Closeout Methodology.

16.60 If the Authority decides that a DPCR5 Network Output Measures - failure to deliver outputs adjustment should be applied it will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before including a value in the calculation of a revised RIREV value for the licensee.

Determination of the DPCR5 Network Output Measures - failure to deliver outputs adjustment

16.61 No revised DPCR5 Network Output Measures - failure to deliver outputs adjustment value for the licensee will be determined by the Authority by 30 November 2015 for the purpose of determining the value of RIREV by 30 November 2015.

16.62 No revised DPCR5 Network Output Measures - failure to deliver outputs adjustment value for the licensee will be determined by the Authority by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016.

16.63 If, under the methodology set out in this subsection, the Authority decides that a DPCR5 Network Output measures - failure to deliver outputs adjustment should be included in the calculation of a revised RIREV value for the licensee, then the Authority will determine a revised DPCR5 Network Output Measures - failure to deliver outputs adjustment value for the licensee by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017.

16.64 No further revisions to the DPCR5 Network Output Measures - failure to deliver outputs adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of RIREV.

(iv) DPCR5 Rising and Lateral Mains - adjustment relating to the level of customer contributions

References:

- i. Chapters 2 of reference document 1 specified at the start of this chapter
- ii Chapter 7 and Appendix 6 of reference document 3 specified at the start of this chapter

16.65 This subsection sets out the methodology for determining the adjustment to the licensee's allowed revenue for RIIO-ED1 relating to the level of customer contributions for DPCR5 Rising and Lateral Mains. It only applies to SP Distribution plc and SP Manweb plc and only applies directly to the portion of contribution amounts attributable to DPCR5 Slow Money expenditure.

16.66 The term DPCR5 Rising and Lateral Mains means the mains that carry electricity to individual dwellings within larger premises connected to a public electricity network (for example individual flats within a block of flats), in the context of this subsection and chapter 2 of reference document 1 and chapter 7 of reference document 3.

Calculation of DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions

16.67 In setting the licensee's DPCR5 expenditure allowances for work on Rising and Lateral Mains, the Authority used an assumption that the licensee would receive no contributions from customers. The actual amount of customer contributions for Rising and Lateral Mains received by the licensee for each Regulatory Year in DPCR5 are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance.

16.68 The Authority will review the reported values and will use them to calculate the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee.

16.69 The following steps are carried out to calculate the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions:

- (i) The actual amount of customer contributions for Rising and Lateral Mains will be obtained in 2012/13 prices and expressed as a negative value for each Regulatory Year in DPCR5.
- (ii) The values obtained at step (i) will be multiplied by 85 percent.

Calculation of intended incentive effect

- (iii) The values obtained at step (i) for each Regulatory Year of DPCR5 will be multiplied by the RLM Adjusted Incentive Rate for the licensee.
- (iv) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (iii) to put them on a common 2015/16 time value basis and the values will then be totaled to give the intended incentive effect amount, where a positive value represents an amount that is due to be recouped for consumers.

Calculation of revenue effect that the licensee can be considered to have experienced during DPCR5

- (v) The values obtained at step (ii) are used to calculate a notional value attributable to:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);
and
 - (b) return, at the WACC for DPCR5 (applied to the NNRRB),

in respect of the customer contributions for each Regulatory Year in DPCR5.

- (vi) The values calculated at steps (v)(a) and (b) will be summed for each Regulatory Year in DPCR5.
- (vii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vi) to put them on a common 2015/16 time value basis and the values will then be totalled to give the revenue effect that the licensee can be considered to have experienced, where a negative value represents a benefit enjoyed by the licensee.

Calculation of DPCR5 Rising and Lateral Mains - adjustment relating to the level of customer contributions

- (viii) The value calculated at step (iv) will be deducted from the value calculated at step (vii).
- (ix) Any provisional adjustment for the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (viii).

16.70 The value obtained at step (ix) in paragraph 16.69~~8~~ is the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions for the licensee.

Determination of the DPCR5 Rising and Lateral Mains - adjustment relating to the level of customer contributions

16.71 The Authority will determine a revised DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee for the licensee by 30 November 2015.

16.72 Subject to paragraphs 16.73~~2~~ and 16.74~~3~~, the Authority will determine a revised DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee if, with respect to the values referred to in paragraph 16.70:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph **Error! Reference source not found.** in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

16.73 A revised DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017.

16.74 No further revisions to the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of RIREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph 16.70 for any other purpose under any provision of the licence.

(v) DPCR5 Workforce Renewal - adjustment resulting from overspend or underspend against allowance

References:

- i. Chapters 2 and 4 of reference document 3 specified at the start of this chapter

16.75 This subsection sets out the methodology for determining the adjustment to the licensee's allowed revenue for RIIO-ED1 relating to any overspend or underspend against its expenditure allowances for DPCR5 Workforce Renewal. The adjustment relates only to the capitalised portions of expenditure allowances and actual expenditure amounts.

16.76 The term DPCR5 Workforce Renewal means the replacement of staff in the circumstances, and for the reasons, set out in chapters 2 and 4 of reference document 3 specified at the start of this chapter and further clarified in RIGs. The

costs associated with DPCR5 Workforce Renewal include relevant employee costs and costs for associated activities such as recruitment and training.

16.77 The licensee's expenditure allowances for DPCR5 Workforce Renewal are set out against its name in Table 16.3 below.

Table 16.3 - Opening expenditure allowances for DPCR5 Workforce Renewal (£m in 2012/13 prices)

Licensee ⁹	Regulatory Year				
	2010/11	2011/12	2012/13	2013/14	2014/15
ENWL	5.69	5.87	5.77	5.35	4.69
NPgN	0.78	1.59	2.16	2.46	2.46
NPgY	1.27	2.52	3.54	3.96	3.96
LPN	3.53	3.53	2.76	3.31	3.53
SPN	4.53	4.19	3.86	3.75	3.86
EPN	6.32	6.65	5.54	5.65	5.98
SPD	1.03	1.34	4.33	4.44	4.61
SPMW	1.31	1.64	5.30	5.18	5.27
SSEH	1.58	1.58	1.58	1.58	1.58
SSES	3.04	3.04	3.04	3.04	3.04

16.78 The licensee's actual expenditure amounts for DPCR5 Workforce Renewal are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance.

16.79 The Authority will review the reported values and will use them to calculate the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance for the licensee.

Calculation of DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance

⁹ Acronyms refer to the Electricity Distribution Network Operators as set out in paragraph 1A. 7 of CRC 1A.

16.80 The following steps will be carried out to calculate the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance:

- (i) The licensee's overall opening expenditure allowance will be obtained for each Regulatory Year in DPCR5 in 2012/13 prices from Table 16.3 above and will be multiplied by 85 percent to calculate the DPCR5 Slow Money element.
- (ii) The licensee's actual expenditure amount for each Regulatory Year in DPCR5 will be obtained from the licensee's submissions under relevant Regulatory Instructions and Guidance and will be restated in 2012/13 prices and will then be multiplied by 85 percent to calculate the DPCR5 Slow Money element.
- (iii) The values calculated at step (i) will be deducted from the values calculated at step (ii) to calculate an over or underspend value relating to DPCR5 Slow Money expenditure for each Regulatory Year in DPCR5 in 2012/13 prices.
- (iv) The values calculated at step (iii) will be totalled to calculate an overall over or underspend value relating to DPCR5 Slow Money expenditure for DPCR5 in 2012/13 prices.
- (v) If the value calculated at step (iv) is a positive value (an overall overspend), then steps (vii) to (xiii) will be carried out and steps (xiv) to (xxi) below will not apply.
- (vi) If the value calculated at step (iv) is a negative value (an overall underspend), then steps (xiv) to (xviii) below will be carried out and steps (vii) to (xiii) below will not apply.

Calculation of adjustment in event of overall overspend

Calculation of intended incentive effect

- (vii) The values calculated at step (iii) will be multiplied by the Adjusted DPCR5 IQI Incentive Rates for the licensee.
- (viii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vii) to put them on a common 2015/16 time value basis and the values will then be totalled to give the intended incentive effect amount.

Calculation of incentive loss experienced by the licensee during DPCR5

- (ix) The values calculated at step (iii) will be used to calculate a notional value attributable to:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);
and
 - (b) return, at the WACC for DPCR5 (applied to the NNRRB),in respect of the licensee's overspend for each Regulatory Year in DPCR5.
- (x) The values calculated at steps (ix)(a) and (b) will be summed for each Regulatory Year in DPCR5.

- (xi) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (x) to put them on a common 2015/16 time value basis and the values will then be totalled.

Calculation of DPCR5 Workforce Renewal adjustment

- (xii) The value calculated at step (viii) will be deducted from the value calculated at step (xi).
- (xiii) Any provisional adjustment for the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xii).

Calculation of adjustment in event of overall underspend

Calculation of incentive gain experienced by the licensee during DPCR5

- (xiv) The values calculated at step (iii) will be split into:
 - (a) DPCR5 Slow Money amounts (being 85 percent); and
 - (b) DPCR5 Fast Money amounts (being 15 percent).
- (xv) The values calculated at step (xiv)(a) will be used to calculate a notional value attributable to:
 - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
 - (b) return, at the WACC for DPCR5 (applied to the NNRRB),in respect of the licensee's underspend for each Regulatory Year in DPCR5.
- (xvi) The values calculated at steps (xiv)(b) and (xv)(a) and (b) will be summed for each Regulatory Year in DPCR5.
- (xvii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (xvi) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (xviii) Any provisional adjustment for the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xvii).

16.81 The value obtained at:

- (a) step (xiii); or, as applicable,
- (b) step (xviii) (which can only be a negative value) in paragraph 16.809,

is the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance for the licensee in 2012/13 prices.

Determination of the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance

16.82 The Authority will determine a revised DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance value for the licensee by 30 November 2015.

16.83 Subject to paragraphs 16.84~~3~~ and 16.85~~4~~, the Authority will determine a revised DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance value for the licensee if, with respect to the values referred to in paragraph 16.78~~7~~:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph **Error! Reference source not found.** in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

16.84 A revised DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017.

16.85 No further revisions to the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of RIREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph 16.78 for any other purpose under any provision of the licence.

Section 3 – Determination of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value)

16.86 This section sets out the methodology by which the Authority will determine the value of RIREV for the licensee for the purpose of directing any revisions to that value under section 4, and in accordance with Part D of CRC 3A.

16.87 The Authority will determine the value of RIREV for the licensee by 30 November in each Regulatory Year from 2015/16 to 2021/22, by summing the most recently determined values for each of the five adjustments set out in Table 2 in CRC3A.

16.88 Timings for the determination of each adjustment are set out in the respective subsections of this section.

16.89 The RIREV value is only contained in the column for Regulatory Year 2015/16 in the PCFM Variable Values Table for the licensee. The opening value of RIREV for the licensee, as at 1 April 2015, will be zero (see also paragraph 13.7 in chapter 13). Functionality within the PCFM means that the change to the licensee's revenue allowance, represented by the RIREV value, is spread across recalculated

base revenue figures for the whole Price Control Period with appropriate Time Value of Money Adjustments.

16.90 Determinations of the RIREV value for the licensee will be in 2012/13 prices.

Section 4 – Direction of revisions to the RIREV value

16.91 Paragraph 3A.34 of CRC 3A requires the Authority to give the licensee at least 14 days' notice setting out any proposed revision to the RIREV value that it has determined, before directing the revision. This means that the Authority will give notice to the licensee of any revision that it has determined by 15 November in each Regulatory Year t-1. The Authority is required to have due regard to any representations made by the licensee and to give its reasons for any decisions in relation to them.

16.92 Having complied with the notice requirements, the Authority will direct any required revision to the RIREV value by 30 November in each Regulatory Year t-1.

Delay in direction of revised RIREV Value

16.93 If, for any reason, the Authority does not give a required direction of a revision to the RIREV value by 30 November in any Regulatory Year t-1, CRC 3A requires that the value should be directed by the Authority as soon as is reasonably practicable, to facilitate the notification and direction of the value of the term MOD_t under CRC 4B (Annual Iteration Process for the PCFM).