

CRC 2H. The Network Innovation Allowance

Introduction

- 2H.1 This condition establishes arrangements to be known as the Network Innovation Allowance (NIA) for the purpose of calculating the value of the NIA term that applies in Part B of CRC 2A (Restriction of Allowed Distribution Network Revenue) with respect to the funding of innovative projects carried out by the licensee.
- 2H.2 This condition also makes appropriate provision for arrangements relating to the regulation, administration, and governance of the NIA.
- 2H.3 The effect of the application of the NIA term in Part B of CRC 2A is to adjust the calculation of the licensee's Allowed Distribution Network Revenue (whether upwards or downwards) in order to fund investment in innovation under the NIA.

Part A: Calculation of the amount of the NIA term

- 2H.4 For the purposes of Part B of CRC 2A, the NIA adjustment for the Regulatory Year t is derived in accordance with the following formula (in this condition, the Principal Formula):

$$NIA_t = ANIA_t - NIAR_t$$

- 2H.5 For the purposes of the Principal Formula:

NIA_t means the total allowed NIA_t adjustment in Regulatory Year t .

$ANIA_t$ means the total Allowable NIA Expenditure in Regulatory Year t and is derived in accordance with the appropriate formula set out in Part B below.

$NIAR_t$ means the amount of Unrecoverable Expenditure, being an amount recovered by the licensee in relation to the Regulatory Year t or a previous Regulatory Year under the NIA that the Authority has determined, in accordance with provisions set out in paragraph 2H.9 and the NIA Governance Document, to be unrecoverable (see Part C below).

- 2H.6 Expenditure incurred by the licensee may only be recovered under the NIA if it is Allowable NIA Expenditure.

Part B: Calculation of Allowable NIA Expenditure (ANIA)

- 2H.7 For the purposes of the Principal Formula the amount of ANIA is derived from the following formula:

$$ANIA_t = \min[(PTRA \times ENIA_t) + BPC_t], (NIAV \times BR_t)]$$

where:

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- PTRA is the pass-through factor and has the value of 0.9.
- ENIA_t means the Eligible NIA Expenditure for Regulatory Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with standard condition 46 (Regulatory Instructions and Guidance).
- BPC_t means the Eligible NIC Bid Preparation Costs for the Regulatory Year 2017/18, as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with the provisions of the RIGs issued under standard condition 46 (Regulatory Instructions and Guidance); but where the licensee is part of an Electricity Distribution Group, the amount of such costs recoverable by all of the licensees in that group cannot (except insofar as the Authority consents otherwise) be more in Regulatory Year 2017/18 than the lower of:
- (a) £175,000 in total; or
 - (b) 5 per cent of the amount applied for by the group under the Network Innovation Competition, as defined in CRC 5A (the Network Innovation Competition);
- in Regulatory Year 2018/19 and thereafter this term will take the value zero.
- NIAV means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition).
- BR_t means the Base Demand Revenue in Regulatory Year t, and is derived in accordance with Part C of CRC 2A.

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- 2H.8 For the purposes of the NIA, no more than 25 per cent of the Eligible NIA Expenditure in Regulatory Year t may be spent on the licensee's internal resources except insofar as the Authority otherwise directs.

Part C: Treatment of Unrecoverable Expenditure

- 2H.9 In any Regulatory Year t, the Authority may, by no later than 30 September in that year, specify by direction given to the licensee an amount for NIAR_t (Unrecoverable Expenditure) that will reduce the licensee's NIA revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

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Part D: The NIA Governance Document

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- 2H.10 The Authority will issue, and may from time to time revise, a document to be known as the NIA Governance Document for purposes connected with the regulation, governance, and administration of the NIA under this condition.
- 2H.11 The NIA Governance Document may, amongst other things, make provision about or impose requirements in respect of:
- (a) the eligibility criteria that projects must meet before Eligible NIA Projects can be started;
 - (b) the information that is to be published by the licensee before Eligible NIA Projects can be started;
 - (c) the circumstances in which the licensee will require permission from the Authority before beginning an Eligible NIA Project;
 - (d) the processes and procedures that will be in place for the assessment and approval (where necessary) of Eligible NIA Projects;
 - (e) arrangements for ensuring that relevant learning from Eligible NIA Projects can be captured and disseminated by the licensee to other Electricity Distributors and Transmission Licensees;
 - (f) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);
 - (g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and
 - (h) any other matters relating to the regulation, governance, or administration of the NIA.
- 2H.12 Where any provisions of the NIA Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the document were part of this condition.

Part E: Procedure for issuing the NIA Governance Document

- 2H.13 Before issuing the NIA Governance Document under this condition, the Authority, by Notice given to the licensee and all other Electricity Distributors with a condition of similar effect to this condition in their licence, will:
- (a) state that it proposes to issue the NIA Governance Document, and specify the date on which it proposes that this should take effect;
 - (b) set out the text of the NIA Governance Document and the Authority's reasons for proposing to issue it; and

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(c) specify the date (which will not be less than a period of 28 days from the date of the Notice) within which representations with respect to the proposed NIA Governance Document may be made.

2H.14 The Authority will consider any representations that are duly made and not withdrawn.

2H.15 The requirements of paragraph 2H.13 may be satisfied by action taken by the Authority before, as well as by action taken after, the coming into force of this condition.

2H.16 In paragraph 2H.13, “issuing the NIA Governance Document” includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

Part F: Interpretation

2H.17 Defined terms are to be read and given effect subject to any further clarification that may be set out in the NIA Governance Document in relation to such terms.

2H.18 For the purposes of this condition:

Allowable NIA Expenditure	means the amount calculated in accordance with Part B of this condition.
Electricity Distribution Group	means any group of Distribution Services Providers in which the licensee and every other Distribution Services Provider within the group are Affiliates.
Eligible NIA Expenditure	means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects and forms part of Allowable NIA Expenditure as set out in Part B of this condition.
Eligible NIA Project	means a project undertaken by the licensee that in the Authority’s view satisfies such requirements of the NIA Governance Document as are necessary to enable the project to be funded under the provisions of this condition.
Eligible NIC Bid Preparation Costs	means the amount of expenditure incurred or accrued by the licensee when preparing submissions for the Network Innovation Competition as defined in CRC 5A (The Network Innovation Competition) that satisfy such requirements of the NIA Governance Document as are necessary to enable Eligible NIA Projects to be funded under the provisions of this condition.

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NIA Governance Document

means the document issued by the Authority under Part D of this condition, subject to the requirements of Part E, relating generally to the establishment and operation of the NIA and including matters relating to the calculation of the Eligible NIA Expenditure.

NIA Percentage

means the percentage of Base Demand Revenue that the licensee may use for Eligible NIA Projects as set out in Appendix 1 of this condition.

Unrecoverable Expenditure

means expenditure incurred by a licensee on an NIA project that the Authority has determined does not satisfy the requirements of the NIA Governance Document.

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