

The Company Secretary
Scottish Hydro Electric Power
Distribution Plc
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Email: RIIO.ED1@ofgem.gov.uk
Date: 17 February 2020

Dear Company Secretary,

Erratum Notice - Modifications to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort

We recently made changes to all electricity distribution licences to resolve issues that Distribution Network Operators faced with regards to recovery of the costs associated with the appointment of a Supplier of Last Resort ("SoLR")¹. These changes ("the SoLR Changes") became effective on 2 May 2019.

In our notice relating to the SoLR Changes, changes to Scottish Hydro Electric Power Distribution plc (SHEPD) Special Conditions, which had been made in respect of costs associated with the Extend Interim Energy Solution for Shetland² ("the Shetland Changes") were not included.

The SoLR Changes and the Shetland Changes are self-contained and do not, therefore, interact with one another. However, with a view to correcting the description of the legal text of the licence accompanying our above-mentioned notice, we have included (at Appendix 1) corrected consolidated conditions C2A Restriction of Allowed Distribution Network Revenue and CRC2B Calculation of Allowed Pass-Through Items.

¹ <https://www.ofgem.gov.uk/publications-and-updates/decision-modifications-electricity-distribution-licence-recover-costs-associated-appointing-supplier-last-resort>

² <https://www.ofgem.gov.uk/publications-and-updates/decision-changes-shepds-licence-respect-costs-associated-extended-interim-energy-solution-shetland>

We are making no other changes. We will publish this Erratum Notice on our electronic public register.

Steve McMahon

Deputy Director, Systems & Networks

Signed on behalf of the Authority and authorised for that purpose

Appendix 1 - Consolidated CRC 2A Restriction of Allowed Distribution Network Revenue and CRC 2B Calculation of Allowed Pass-Through Items

CRC 2A. Restriction of Allowed Distribution Network Revenue

Introduction

2A.1 This condition:

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

Part A: Licensee's obligation

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

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

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

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

2A.4 In the Principal Formula:

- AR_t means the amount of Allowed Distribution Network Revenue in Regulatory Year t .
- BR_t means the amount of Base Demand Revenue in Regulatory Year t , as derived in accordance with the formula set out in Part C of this condition.
- IP_t means the incentive revenue adjustment made in Regulatory Year t , as derived in accordance with the formula set out in Part D of this condition.
- PT_t means the Allowed Pass-Through Items revenue adjustment made in Regulatory Year t , as derived in accordance with CRC 2B (Calculation of Allowed Pass-Through Items).
- NIA_t means the Network Innovation Allowance revenue adjustment made in Regulatory Year t , as derived in accordance with CRC 2H (The Network Innovation Allowance).

- LCN_t means the low carbon networks fund revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2J (Low Carbon Networks Fund).
- AUM_t means the total amount of any sums remaining unpaid pursuant to the requirements of a Clawback Direction given in accordance with the provisions of Part B of CRC 2K (Margins on licensee's Connection Activities) one year after the licensee has received that direction.
- CGSRA_t means the adjustment for payments made by the licensee in respect of its failure to achieve connections performance standards, as derived in accordance with CRC 2L (Revenue adjustments in respect of performance failures).
- PPL_t means the DPCR4 residual distribution losses incentive value revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2M (Adjustment of licensee's revenues for the residual distribution losses incentive).
- K_t means the correction factor revenue adjustment made in Regulatory Year t, as derived in accordance with the formula set out in Part E of this condition.

Part C: Calculation of Base Demand Revenue (BR_t)

2A.5 For the purposes of the Principal Formula, the amount of BR_t is derived in accordance with the following formula:

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

2A.6 In the formula for the BR_t term above:

- PU_t means the amount set against the licensee's name in Appendix 1 of this condition and represents the Opening Base Revenue Allowance for Regulatory Year t, as determined by the Authority in relation to the distribution of electricity to and from premises.
- MOD_t is zero in Regulatory Year 2015/16 and in each subsequent Regulatory Year is the value of the incremental change for Regulatory Year t to the licensee's Opening Base Revenue Allowance, as derived in accordance with the Annual Iteration Process set out in Parts A and B of CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- TRU_t is zero in Regulatory Years 2015/16 and 2016/17 and in each subsequent Regulatory Year is the revenue adjustment made in Regulatory Year t in respect of the actual value of the Retail Prices Index in Regulatory Year t-2

minus the assumed value of the Retail Prices Index in Regulatory Year t-2, as derived in accordance with paragraph 2A.9.

RPIF_t means the price index adjustment factor in Regulatory Year t, as derived in accordance with paragraph 2A.7.

2A.7 For the purposes of paragraph 2A.6, RPIF_t is derived in accordance with the following formula:

$$\text{RPIF}_t = \text{RPIA}_{t-2} \times (1 + \text{GRPIF}_{t-1}) \times (1 + \text{GRPIF}_t)$$

2A.8 In the above formula for RPIF_t:

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

$$\text{RPIA}_t = \frac{\text{RPI}_t}{\text{RPI}_{2012/13}}$$

where:

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

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

and:

$$\text{GRPIF}_t = (0.75 \times \text{GRPIF}_c) + (0.25 \times \text{GRPIF}_{c+1})$$

$$\text{GRPIF}_{t-1} = (0.75 \times \text{GRPIF}_{c-1}) + (0.25 \times \text{GRPIF}_c)$$

where:

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

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

$$\text{TRU}_t = \left(\frac{\text{RPIA}_{t-2} - \text{RPIF}_{t-2}}{\text{RPIA}_{t-2}} \right) \times \text{REV}_{t-2} \times \text{PVF}_{t-2} \times \text{PVF}_{t-1}$$

2A.10 In the above formula for TRU_t:

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

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

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

$$\text{REV}_{t-2} = \frac{\text{BR}_{t-2} + \text{PT}_{t-2} - \text{ESA}_{t-2} + \text{HB}_{t-2} - \text{UNC}_{t-2} + \text{IQ}_{t-2} + \text{LDR}_{t-2} + \text{SEVEC}_{t-2}}{\text{RPIF}_{t-2}}$$

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

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

PT_{t-2} means the amount of the Pass Through Costs in Regulatory Year t-2 as derived in accordance with Part A of CRC 2B.

ESA_{t-2} means the Excess Specified Amount in accordance with paragraph 38B.7 of standard condition 38B, Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019.

HB_{t-2} means the amount received by the licensee in Regulatory Year t-2 as the result of any direction given by the Secretary of State in accordance with section 184 of the Energy Act 2004 in relation to assistance for high-cost distributors (see also CRC 2N in connection with this).

UNC_{t-2} means an amount in Regulatory Year t-2 representing a relevant adjustment to the calculation of Allowed Demand Revenue arising from the application of CRC 2Q (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on

Shetland). Uncertain costs may also be recovered under CRC 3F (Arrangements for the recovery of uncertain costs).

- IQ_{t-2} means the interruptions-related quality of service incentive revenue adjustment made in Regulatory Year t-2, as derived in accordance with CRC 2D (Adjustment of licensee's revenues to reflect interruptions related quality of service performance), except in Regulatory Years t-2 beginning on 1 April 2015 and 1 April 2016 when IQ_{t-2} will be zero for the purposes of this calculation.
- LDR_{t-2} means the amount of the Losses Discretionary Reward scheme revenue adjustment made in Regulatory Year t-2, as derived in accordance with CRC 2G (The Losses Discretionary Reward).
- $SEVEC_{t-2}$ means the amount of the Shetland Extension Variable Energy Costs adjustment in Regulatory Year t-2, as derived in accordance with Part I of CRC 2B.

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

2A.13 For the purposes of the Principal Formula, the amount of IP_t is derived in accordance with the following formula:

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

2A.14 In the above formula for IP_t :

- BM_t means the broad measure of customer service revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2C (Broad Measure of Customer Service Adjustment).
- IQ_t means the interruptions-related quality of service incentive revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2D.
- ICE_t means the incentive on connections engagement revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2E (Incentive on Connections Engagement).
- TTC_t means the Time to Connect Incentive revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2F (Time to Connect Incentive).
- LDR_t means the Losses Discretionary Reward scheme revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2G.

Part E: Calculation of the correction factor (K_t)

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

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

2A.16 In the above formula for K_t:

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

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

I_t means the Average Specified Rate in Regulatory Year t.

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

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

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

2A.18 For the purposes of Part E of this condition, the value of the interest rate adjustment PR_{t-2} is derived as follows:

- (a) if, in respect of Regulatory Year t-2, RD_{t-2} exceeds 106 per cent of AR_{t-2}, PR_{t-2} will have the value of 3;
- (b) if, in respect of Regulatory Year t-2, RD_{t-2} is less than 94 per cent of AR_{t-2}, PR_{t-2} will have the value of zero; and
- (c) in all other cases PR_{t-2} will have the value of 1.5.

2A.19 This paragraph applies where the Authority, having due regard to the purpose of this condition and after consulting with the licensee, is satisfied that RD_{t-2} in respect of Regulatory Year t-2 has, for reasons outside the reasonable control of the licensee, either:

- (d) exceeded 106 per cent of AR_{t-2}; or

(e) been less than 94 per cent of AR_{t-2} .

2A.20 Where paragraph 2A.19 applies, the Authority may direct the licensee to change the value of PR_{t-2} to a value which is not less than zero and not more than 3.

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

2A.21 Paragraph 2A.22 applies from 1 April 2018.

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

(f) must provide an explanation for that event in writing to the Authority by 31 July in the associated Regulatory Year t-1; and

(g) must not increase its Use of System Charges for the Regulatory Year t except and to the extent that the Authority has consented to such an increase.

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

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

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

(h) must provide an explanation for that event in writing to the Authority by 31 July in the associated Regulatory Year t-1; and

(i) must use its reasonable endeavours in setting Use of System Charges to recover the Allowed Distribution Network Revenue in Regulatory Year t.

Part I: Interpretation

2A.25 For the purposes of this condition:

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

means:

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

**Retail Prices Index
Forecast Growth
Rate**

means:

- (a) the growth rate (which is presented as a percentage) as defined as the “New forecasts (marked *)” in the HM Treasury document, “Forecasts for the UK Economy”, published in November each year; or
- (b) if that growth rate in respect of any year has not been published, such growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or
- (c) if there is a material change in the basis of that growth rate, such other growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances (provided that any index so determined may not have a retroactive effect on any formula or other provision of the Charge Restriction Conditions).

**Vanilla Weighted
Average Cost of
Capital**

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

APPENDIX 1

Values for the PU term (£m, 2012/13 prices) by licensee

(see paragraph 2A.6)

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

CRC 2B. Calculation of Allowed Pass-Through Items

Introduction

- 2B.1 This condition sets out the calculation of the amount of the term PT (the allowed pass-through term) that applies in CRC 2A (Restriction of Allowed Distribution Network Revenue).
- 2B.2 The allowed pass-through term in CRC 2A amends the licensee's Allowed Distribution Network Revenue so as to allow certain costs as specified below to be passed through to users of the licensee's Distribution System through Use of System Charges.

Part A: Calculation of Allowed Pass-Through Items (PT)

- 2B.3 For the purposes of Part B of CRC 2A, which establishes the calculation of Allowed Distribution Network Revenue, the total amount of the PT term is calculated in accordance with the following formula (in this condition, the Principal Formula):

$$PT_t = LF_t + RB_t + TB_t - HB_t + SMC_t + SMIT_t + RF_t + SEC_t + UNC_t + SEVEC_t + SNESRC_t + SLR_t + EBD_t$$

- 2B.4 In the Principal Formula:

- LF_t means the licence fee adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part B of this condition.
- RB_t means the Business Rates adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part C of this condition.
- TB_t means the Transmission Connection Point Charges adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part D of this condition.
- HB_t means the amount received by the licensee in Regulatory Year t as the result of any direction given by the Secretary of State in accordance with section 184 of the Energy Act 2004 in relation to assistance for high-cost distributors (see also CRC 2N in connection with this).
- SMC_t means the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part E of this condition.

SMIT _t	means the Smart Meter Information Technology Costs adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part F of this condition.
RF _t	means the Ring Fence Costs adjustment in Regulatory Year t, as derived in accordance with Part G of this condition.
SEC _t	means the Shetland Variable Energy Costs, in Regulatory Year t, as derived in accordance with Part H of this condition.
UNC _t	means an amount in Regulatory Year t representing a relevant adjustment to the calculation of Allowed Demand Revenue arising from the application of CRC 2Q (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland). Uncertain costs may also be recovered under CRC 3F (Arrangements for the recovery of uncertain costs).
SEVECT	means the Shetland Extension Variable Energy Costs adjustment in Regulatory Year t, as derived in accordance with Part I of this condition.
SNESRCt	means the Shetland New Energy Solution Residual Costs adjustment in Regulatory Year t, as derived in accordance with Part J of this condition.
SLR _t	means the Supplier of Last Resort Costs adjustment in Regulatory Year t in accordance with Part K of this condition.
EBD _t	means the Eligible Bad Debt Costs adjustment in Regulatory Year t in accordance with Part L of this condition.

Part B: Calculation of the licence fee adjustment (LF)

2B.5 For the purposes of the Principal Formula, and subject to paragraph 2B.7, LF_t is derived in accordance with the following formula:

$$LF_t = \left(\frac{LFA_{t-2}}{RPIA_{t-2}} - LFE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.6 In the above formula for LF_t:

LFA _{t-2}	means the amount of licence fee payments, in Regulatory Year t-2, made by the licensee in accordance with its obligations under standard condition 5 (Licensee's payments to the Authority).
LFE _{t-2}	means the amount of the licence fee allowance, in Regulatory Year t-2, and is represented by the amount set out in Appendix 1 of this condition that applies to the licensee.
RPIA _{t-2}	has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

2B.7 In the Regulatory Years 2015/16 and 2016/17, LF_t will have the value of zero.

Part C: Calculation of the Business Rates adjustment (RB)

2B.8 For the purposes of the Principal Formula, and subject to paragraphs 2B.10 and 2B.11, RB_t is derived in accordance with the following formula:

$$RB_t = \left(\frac{RBA_{t-2}}{RPIA_{t-2}} - RBE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.9 In the above formula for RB_t:

RBA_{t-2} means the amount, in Regulatory Year t-2, paid by the licensee in respect of Business Rates.

RBE_{t-2} means the amount of the allowance in respect of Business Rates, in Regulatory Year t-2, and is represented by the amount set out in Appendix 2 of this condition that applies to the licensee.

RPIA_{t-2} has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

2B.10 In Regulatory Years 2015/16 and 2016/17, RB_t will have the value of zero.

2B.11 In paragraphs 2B.12 and 2B.13, the relevant valuation agency in England and Wales is the Valuation Office Agency and in Scotland is the Scottish Assessors Association.

2B.12 Paragraphs 2B.13 to 2B.16 apply if the relevant valuation agency revalues any of the licensee's assets for the purposes of setting Business Rates.

2B.13 If, after reviewing the licensee's engagement with the relevant valuation agency with respect to a particular revaluation, the Authority considers that the licensee has not used its reasonable endeavours to minimise the amount of the Business Rates to which it is liable, the Authority may, subject to paragraphs 2B.14 and 2B.15, by Notice to the licensee specify that any positive value for RB_t for one or more Regulatory Years derived under the formula set out in paragraph 2B.8 is to be changed to a different value.

2B.14 A Notice under paragraph 2B.13 is of no effect unless the Authority has first consulted with the licensee.

2B.15 A Notice under paragraph 2B.13:

- (a) may not specify a different value for RB_t for the Regulatory Year following the Regulatory Year in which the revaluation took place or for any earlier Regulatory Year; and
- (b) may not specify a different value for RB_t that is less than zero.

2B.16 At any time after giving a Notice under paragraph 2B.13, the Authority may by a further Notice to the licensee nullify the original Notice and its effects.

Part D: Calculation of the Transmission Connection Point Charges adjustment (TB)

2B.17 For the purposes of the Principal Formula, and subject to paragraph 2B.19, TB_t is derived in accordance with the following formula:

$$TB_t = \left(\frac{PTPA_{t-2}}{RPIA_{t-2}} - PTPE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.18 In the above formula for TB_t :

$PTPA_{t-2}$ means the amount of Pass-through Transmission Connection Point Charges incurred by the licensee in Regulatory Year $t-2$.

$PTPE_{t-2}$ means the amount of the Pass-through Transmission Connection Point Charges allowance in Regulatory Year $t-2$, and is represented by the amount set out in Appendix 3 of this condition that applies to the licensee.

$RPIA_{t-2}$ has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

$RPIF_t$ has the value given to it by Part C of CRC 2A.

2B.19 In the Regulatory Years 2015/16 and 2016/17, TB_t will have the value of zero.

Part E: Calculation of the Smart Meter Communication Licensee Costs adjustment (SMC)

2B.20 For the purposes of the Principal Formula, and subject to paragraph 2B.22, SMC_t is derived in accordance with the following formula:

$$SMC_t = \left(\frac{SMCA_{t-2}}{RPIA_{t-2}} - SMCE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.21 In the above formula for SMC_t :

- SMCA_{t-2} means the amount of Smart Meter Communication Licensee Costs incurred by the licensee in Regulatory Year t-2.
- SMCE_{t-2} means the amount of the Smart Meter Communication Licensee Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 4 of this condition that applies to the licensee.
- RPIA_{t-2} has the value given to it by Part C of CRC 2A.
- PVF_t has the value given to it by Part C of CRC 2A.
- RPIF_t has the value given to it by Part C of CRC 2A.

2B.22 In the Regulatory Years 2015/16, 2016/17, 2023/24 and 2024/25, SMC_t will have the value of zero.

Part F: Calculation of the Smart Meter Information Technology Costs adjustment (SMIT)

2B.23 For the purposes of the Principal Formula, and subject to paragraph 2B.25, SMIT_t is derived in accordance with the following formula:

$$SMIT_t = \left(\frac{SMIA_{t-2}}{RPIA_{t-2}} - SMIE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t + SMITR_t$$

2B.24 In the above formula for SMIT_t:

- SMIA_{t-2} means the amount of Smart Meter Information Technology Costs incurred by the licensee in Regulatory Year t-2.
- SMIE_{t-2} means the amount of the Smart Meter Information Technology Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 5 of this condition that applies to the licensee.
- RPIA_{t-2} has the value given to it by Part C of CRC 2A.
- PVF_t has the value given to it by Part C of CRC 2A.
- RPIF_t has the value given to it by Part C of CRC 2A.
- SMITR_t means the adjustment to Smart Meter Information Technology Costs for the licensee in Regulatory Year t as a result of the SMIT review.

2B.25 In the Regulatory Years 2015/16, 2016/17, 2023/24 and 2024/25, SMIT_t will have the value of zero.

2B.26 In 2020/21, the Authority will commence a review (the “SMIT review”) of the information technology costs that the licensee has incurred or plans to incur, during the

Price Control Period, to enable it to use smart metering data for the operation and maintenance of its Distribution System.

2B.27 The SMIT review will determine whether the costs incurred or planned are falling or capable of falling within the definition of Smart Meter Information Technology Costs.

2B.28 Before making the determination referred to in paragraph 2B.27, the Authority will consult with the licensee and any other party that the Authority considers appropriate.

2B.29 A determination under this Part may:

- (a) set the value of $SMITR_t$ for any Regulatory Year, subject to paragraph 2B.30; and
- (b) impose conditions with respect to the amounts and circumstances in which future costs may be passed through under the $SMIT_t$ term.

2B.30 In the Regulatory Years before 2021/22, $SMITR_t$ will have the value of zero.

Part G: Calculation of the Ring Fence Costs adjustment (RF)

2B.31 For the purposes of the Principal Formula, and subject to paragraph 2B.33, RF_t is derived in accordance with the following formula:

$$RF_t = \left(\frac{RFA_{t-2}}{RPIA_{t-2}} - RFE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.32 In the above formula for RF_t :

RFA_{t-2} means the amount of Ring Fence Costs incurred by the licensee in Regulatory Year t-2.

RFE_{t-2} means the amount of the Ring Fence Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 6 of this condition that applies to the licensee.

$RPIA_{t-2}$ has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

$RPIF_t$ has the value given to it by Part C of CRC 2A.

2B.33 In the Regulatory Years 2015/16 and 2016/17, RF_t will have the value of zero.

Part H: Calculation of the Shetland Variable Energy Costs adjustment (SEC)

2B.34 For the purposes of the Principal Formula, and subject to paragraph 2B.36, SEC_t is derived in accordance with the following formula:

$$SEC_t = \left(\frac{SECA_{t-2}}{RPIA_{t-2}} - SECE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.35 In the above formula for SEC_t:

- SECA_{t-2} means the amount of Shetland Variable Energy Costs incurred by the licensee in Regulatory Year t-2, in accordance with CRC 2P (Shetland Variable Energy Costs Pass-Through Items).
- SECE_{t-2} means the amount of Shetland Variable Energy Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 7 of this condition that applies to the licensee.
- RPIA_{t-2} has the value given to it by Part C of CRC 2A.
- PVF_t has the value given to it by Part C of CRC 2A.
- RPIF_t has the value given to it by Part C of CRC 2A.

2B.36 In the Regulatory Years 2015/16 and 2016/17, SEC_t will have the value of zero.

Part I: Calculation of the Shetland Extension Variable Energy Costs Adjustment (SEVEC_t)

2B.37 For the purposes of the Principal Formula, and subject to paragraph 2B.39, SEVEC_t is derived in accordance with the following formula:

$$SEVEC_t = \left(\frac{SEVECA_{t-2}}{RPIA_{t-2}} - SEVECE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

2B.38 In the above formula for SEVEC_t:

- SEVECA_{t-2} means the amount of the Shetland Extension Variable Energy Costs incurred by the licensee in Regulatory Year t-2, in accordance with CRC 2R (Shetland Extension Variable Energy Costs Pass-Through Items).
- SEVECE_{t-2} means the amount of the Shetland Extension Variable Energy Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 8 of this condition that applies to the licensee.
- RPIA_{t-2} has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

2B.39 In the Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19, SEVEC_t will have the value of zero.

Part J: Calculation of the Shetland New Energy Solution Residual Costs Adjustment (SNESRC_t)

2B.40 For the purposes of the Principal Formula, and subject to 2B.42, SNESRC_t is derived in accordance with the following formula:

$$\text{SNESRC}_t = \left(\frac{\text{SNESRCA}_{t-2}}{\text{RPIA}_{t-2}} - \text{SNESRCE} \right) \times \text{PVF}_{t-2} \times \text{PVF}_{t-1} \times \text{RPIF}_t$$

2B.41 In the above formula for SNESRC_t:

SNESRCA_{t-2} means the amount of Shetland New Energy Solution Residual Costs incurred by the licensee in Regulatory Year t-2.

SNESRCE_{t-2} Means the amount of the Shetland New Energy Soutlion Residual Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 9 of this condition that applies to the licensee

RPIA_{t-2} has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

2B.42 In the Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19, 2019/20, 2020/21, and 2022/23 SNESRC_t will have the value of zero.

Part K: Calculation of the Supplier of Last Resort adjustment (SLR)

2B.43 For the purposes of the Principal Formula, and subject to paragraph 2B.45, SLR_t is derived in accordance with the following formula:

$$\text{SLR}_t = \frac{\text{SLRA}_{t-2}}{\text{RPIA}_{t-2}} \times \text{PVF}_{t-2} \times \text{PVF}_{t-1} \times \text{RPIF}_t + \text{ESAt}$$

2B.44 In the above formula for SLR_t:

SLRA_{t-2} Means:

- (a) the amount of payments, in Regulatory Year t-2, made by the licensee to a Claimant in response to a Valid Claim, in

accordance with its obligations under paragraph 4 of standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019).

- (b) plus the correction of any shortfall or excess revenue recovery plus 12 months' interest relating to a Valid Claim recovered by the licensee under paragraph 3 of standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019);
- (c) less any Returned Costs from a Claimant_t in Regulatory Year t-2; and
- (d) plus any other reasonably incurred costs by the licensee as a result of conducting the processes set out in standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019) and standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019).

RPIA_{t-2} has the value given to it by Part C of CRC 2A.
 PVF_t has the value given to it by Part C of CRC 2A.
 RPIF_t has the value given to it by Part C of CRC 2A.
 ESA_t means the Excess Specified Amount in accordance with paragraph 38B.7 of standard condition 38B, Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019.

2B.45 In the Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20, SLR_t will have the value of zero.

Part L: Calculation of the Eligible Bad Debt adjustment (EBD)

2B.46 For 2022/23, subject to paragraph 2B.47, EBD_t is derived in accordance with the following formula:

$$EBD_t = \frac{(EBDA_{t-3} - RBD_{t-3})}{RPIA_{t-3}} \times PVF_{t-3} \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t + IBDA_t$$

2B.47 EBD_t is derived in the following ways:

- (a) For Regulatory Year 2021/22, EBD_t is derived in accordance with the following formula:

$$EBD_t = \left(HBD + \frac{(EBDA_{t-3} - RBD_{t-3})}{RPIA_{t-3}} \right) \times PVF_{t-3} \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t + IBDA_t$$

(b) For Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21, EBD_t will have the value of zero.

2B.48 In the above formulae for EBD_t :

HBD	Means the aggregate value directed by the Authority which the licensee has been directed to recover in respect of historic bad debts incurred between 1 April 2015 and 31 March 2018, which will be in 2012/13 prices and will include any interest.
$EBDA_{t-3}$	Means the aggregate value directed by the Authority in accordance with paragraph 2B.49 below and that value shall be equal to the value of the bad debt the licensee has incurred with respect to Use of System Charges owed to the licensee by one or more Defaulting Electricity Suppliers.
RBD_{t-3}	Means the aggregate amount of debt recovered by the licensee, in Regulatory Year t-3, where the licensee has been credited by the administrator of a Defaulting Electricity Supplier, and where the licensee subsequently recovered the costs via the EBDA term.
$RPIA_{t-3}$	has the value given to it by Part C of CRC 2A.
PVF_t	has the value given to it by Part C of CRC 2A.
$RPIF_t$	has the value given to it by Part C of CRC 2A.
$IBDA_t$	Means the aggregate amount of Valid Bad Debt Claims requiring payment in the Regulatory Year t, in accordance the licensee's obligations under paragraph 4 of standard condition 38C. (Treatment of Valid Bad Debt Claims).

2B.49 Where the licensee has incurred bad debts with respect to Use of System Charges owed to the licensee by one of more Defaulting Electricity Suppliers within a given Regulatory Year, within three months of the end of that Regulatory Year the licensee shall submit to the Authority a statement in a form that has been prescribed by the Authority setting out the amount of the bad debt arising as a result of the Defaulting Electricity Supplier(s)' insolvency during that Regulatory Year, together with any prior year adjustments following receipt of the Final Reconciliation Settlement Run for the final day of supply by the Former Electricity Supplier.

2B.50 The Authority shall by Notice to the licensee direct the value of the EBDA term to be used in the calculation of the Eligible Bad Debt Cost adjustment set out in 2B.46 and 2B.47 provided that the amount specified in the statement submitted in 2B.49 is

adjusted only for any amount of the bad debt that has arisen because of the licensee's failure to follow good industry practice detailed in Schedule 1 ('Cover') of the Distribution Connection and Use of System Agreement ("the DCUSA") and proportion of the value of bad debt relative to the age of that bad debt at the time of the Defaulting Electricity Supplier's insolvency, calculated as shown in Appendix 10 of this condition.

- 2B.51 If, within three months of receiving the statement from the licensee referred to in paragraph 2B.49, the Authority has not made a direction under that paragraph, the EBDA adjustment proposed by the licensee will be deemed to have been made.
- 2B.52 The licensee may submit a statement under paragraph 2B.49 with respect to each Defaulting Electricity Supplier and, where more than one such statement is submitted in the Regulatory Year, the EBDA term shall reflect the cumulative effect of each statement and the requirements of paragraph 2B.53 will apply with respect to each such statement.
- 2B.53 A direction issued by the Authority under paragraph 2B.50 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee, set out the terms of the proposed direction;
 - (b) specified in the Notice the reasons for the Authority's proposed adjustments;
 - (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
 - (d) given due consideration to any representations received in response to the Notice.

Part M: Interpretation

2B.54 For the purposes of this condition:

Business Rates	means: (a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988 (or any legislation amending or replacing those enactments); or (b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government (Scotland) Act 1975 or the Local Government (Scotland) Act 1994 (or any legislation amending or replacing those enactments).
Elective Communication Services	has the meaning given to that term in the Smart Energy Code.
Defaulting Electricity Supplier	means an Electricity Supplier whose insolvency has resulted in the licensee incurring bad debt. The timing and definition of insolvency is as per the Insolvency Act 1986.
Final Reconciliation Settlement Run	has the meaning given to that term in Section U2.3 of the Balancing and Settlement Code (BSC).
Former Electricity Supplier	means an Electricity Supplier whose supply licence has been revoked.
Pass-through Transmission Connection Point Charges	means those elements of Transmission Connection Point Charges that do not qualify as New Transmission Capacity Charges.

Returned Costs	means costs received by the licensee from a Claimant relating to the restatement of a Valid Claim under standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019), standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019), or standard condition 38 (Treatment of payment claims for last-resort supply), including but not limited to, the difference between actual and estimated costs, where the Claimant was credited by the administrator of a Former Electricity Supplier in relation to whose customers the Claimant has been appointed as Supplier of Last Resort, and where the Claimant subsequently made a Valid Claim to recover a proportion of those recovered costs.
Ring Fence Costs	means the amount of the incremental costs necessarily incurred by the licensee in Regulatory Year t-2 as a direct result of complying with the additional regulatory requirements referred to in the Authority's letter dated 1 February 2013 entitled "Modifications to the ring fence conditions in network operator licences" and published on the Authority's Website, provided that those costs: <ul style="list-style-type: none"> (a) have been ascertained in accordance with the RIGs referred to in standard condition 46 (Regulatory Instructions and Guidance); and (b) have not been otherwise remunerated under any other provision of this licence.
Smart Energy Code	means the document of that name referred to in standard condition 21A (The Smart Energy Code), that is maintained for the purposes of that condition and is subject to modification pursuant to Condition 23 (Change control for Smart Energy Code), of the Smart Meter Communication Licence.
Smart Meter Communication Licence	means the licences granted under section 6(1A) of the Act and section 7AB(2) of the Gas Act 1986.

Smart Meter Communication Licensee Costs	means charges payable by the licensee (by virtue of the requirement for it to be a party to the Smart Energy Code) to the holder of the Smart Meter Communication Licence in accordance with section J of the Smart Energy Code, excluding any charges in respect of Elective Communication Services.
Smart Meter Information Technology Costs	means any information technology costs that the licensee reasonably incurs that are necessary to enable the licensee to use data from Smart Meters (within the meaning given to that term in Condition 1 of the Smart Meter Communication Licence) effectively for the efficient and economic operation, maintenance and development of its Distribution System, as further clarified in the RIGs.
Shetland Variable Energy Costs	means the pass through items applicable to SSEH as defined in CRC2P (Shetland Variable Energy Costs Pass-Through Items).
Shetland Extension Variable Energy Costs	means the costs arising from the application of CRC 2R (Shetland Extension Variable Energy Costs Pass-Through Items).
Shetland New Energy Solution Residual Costs	means the costs incurred by SSEH as a result of running the Shetland Competitive Process, which are not Shetland Competitive Process Costs.

APPENDIX 1

Values for the LFE term (£m, 2012/13 prices) by licensee

(see Part B of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

APPENDIX 2

Values for the RBE term (£m, 2012/13 prices) by licensee

(see Part C of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	24.8	24.8	24.8	24.8	24.8	24.8	24.8	24.8

APPENDIX 3

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

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	14.4	14.4	15.1	16.1	17.0	17.7	18.5	18.3

APPENDIX 4

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

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0

APPENDIX 5

Values for the SMIE term (£m, 2012/13 prices) by licensee

(see Part F of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	1.1	0.0	0.0	0.0	0.3	0.0	0.0	0.0

APPENDIX 6

Values for the RFE term (£m, 2012/13 prices) by licensee

(see Part G of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

APPENDIX 7

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

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	4.63	4.66	6.05	6.43	0.00	0.00	0.00	0.00

APPENDIX 8

Values for the SEVECE term (£m, 2012/13 prices) by licensee

(see Part I of this condition)

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	0.00	0.00	0.00	0.00	1.6	2.0	1.9	2.1

APPENDIX 9

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

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	0.00	0.00	0.00	0.00	4.7	0.00	0.00	0.00

APPENDIX 10

Proportion of recoverable bad debt in respect of use of system charges overdue for payment at the date of the Defaulting Electricity Supplier's insolvency

No. of business days past due	Percentage of face value recoverable
Not yet due	100
0 – 30	100
31 – 35	90
36 – 40	80
41 – 45	70
46 – 50	60
51 – 55	50
56 – 60	35
61 – 65	20
>65	5