

**Western Power Distribution  
(South Wales) plc  
Special conditions**

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.  
Western Power Distribution (South Wales) plc (company number: 2366985): Special Conditions Consolidated – 28 June 2019

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

## CRC 1A. Overview of Part 4

### Introduction

- 1A.1 Part 4 of the licence contains the special conditions applicable to the licensee, in accordance with the ~~Terms~~ terms of Part 1 of the licence.
- 1A.2 The special conditions are also referred to as the Charge Restriction Conditions or CRCs.

### Part A: Scope of Part 4

- 1A.3 Part 4 sets out restrictions on the revenues that the licensee may recover and contains related provisions.
- 1A.4 The provisions in Part 4 are further described in the introduction to each of the Charge Restriction Conditions.

### Part B: Structure of Part 4

- 1A.5 Part 4 is divided into chapters.
- 1A.6 The contents of those chapters are summarised in the table below.

Chapter	Summary
Chapter 1	Overview and structure of Part 4 and general provisions relating to its interpretation, including common definitions.
Chapter 2	The main provisions relating to the Principal Formula set out in CRC 2A (Restriction of Allowed Distribution Network Revenue) that determines the level of Allowed Distribution Network Revenue that the licensee may recover from Use of System Charges.
Chapter 3	Adjustments to Allowed Distribution Network Revenue that arise from the operation of the Annual Iteration Process.
Chapter 4	Provisions relating to the governance of the ED1 Price Control Financial Instruments and the overall operation of the Annual Iteration Process, both of which supplement the operation of the Principal Formula in CRC 2A.
Chapter 5	Other provisions relating to restrictions on the revenues that the licensee may recover.

**Part C: References to licensed Electricity Distributors**

1A.7 The following acronyms are used within Part 4 of this licence to refer to the following licensed Electricity Distributors:

ENWL	refers to Electricity North West Ltd (registered number 2366949).
NPgN	refers to Northern Powergrid (Northeast) Ltd (registered number 2906593).
NPgY	refers to Northern Powergrid (Yorkshire) plc (registered number 4112320).
WMID	refers to Western Power Distribution (West Midlands) plc (registered number 3600574).
EMID	refers to Western Power Distribution (East Midlands) plc (registered number 2366923).
SWALES	refers to Western Power Distribution (South Wales) plc (registered number 2366985).
SWEST	refers to Western Power Distribution (South West) plc (registered number 2366894).
LPN	refers to London Power Networks plc (registered number 3929195).
SPN	refers to South Eastern Power Networks plc (registered number 3043097).
EPN	refers to Eastern Power Networks plc (registered number 2366906).
SPD	refers to SP Distribution plc (registered number SC189125).
SPMW	refers to SP Manweb plc (registered number 2366937).
SSEH	refers to Scottish Hydro Electric Power Distribution plc (registered number SC213460).
SSES	refers to Southern Electric Power Distribution plc (registered number 4094290).

## CRC 1B. Interpretation of Part 4

### Introduction

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

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

- 1B.2 Definitions of terms and expressions used in Part 4 of the licence are provided in this condition, or standard condition 1 (Definitions for the standard conditions), or in individual Charge Restriction Conditions.
- 1B.3 Part B of this condition sets out the main words and expressions used exclusively in Part 4 of this licence.
- 1B.4 Part C of this condition lists words and expressions that are defined in standard condition 1 and which have the same meaning when used in Part 4 of the licence.
- 1B.5 Where defined words and expressions are used in only one Charge Restriction Condition, their definitions are set out in that condition.
- 1B.6 All defined terms and expressions used in Part 4 have initial capital letters.

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

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

<b>Allowed Distribution Network Revenue</b>	means the revenue calculated in accordance with the formula for the AR term set out in Part B of CRC 2A (Restriction of Allowed Distribution Network Revenue).
<b>Allowed Pass-Through Items</b>	means any of the costs permitted to be passed through to users of the licensee's Distribution System through the PT term under CRC 2B (Calculation of Allowed Pass-Through Items).
<b>Annual Iteration Process</b>	means, in relation to the ED1 Price Control Financial Model, the process set out in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ED1 Price Control Financial Handbook that may be applicable to it.
<b>Authority's Website</b>	means <a href="http://www.ofgem.gov.uk">www.ofgem.gov.uk</a> .

## *Chapter 1: Interpretation of Part 4*

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



## *Chapter 1: Interpretation of Part 4*

<b>ED1 Price Control Financial Handbook</b>	<p>means the document of that name that was published by the Authority on 21 May 2014 and came into effect on 1 April 2015, and that:</p> <ul style="list-style-type: none"><li>(a) includes specific information and advice about the operation of the Annual Iteration Process and the ED1 Price Control Financial Model; and</li><li>(b) contains, in particular, the ED1 Price Control Financial Methodologies, as modified from time to time in accordance with the provisions of CRC 4A (Governance of the ED1 Price Control Financial Instruments).</li></ul>
<b>ED1 Price Control Financial Instruments</b>	<p>means the ED1 Price Control Financial Handbook (which contains the ED1 Price Control Financial Methodologies) and the ED1 Price Control Financial Model.</p>
<b>ED1 Price Control Financial Methodologies</b>	<p>means the methodologies that:</p> <ul style="list-style-type: none"><li>(a) are named as such in the ED1 Price Control Financial Handbook; and</li><li>(b) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,</li></ul> <p>as modified from time to time in accordance with the provisions of CRC 4A (Governance of ED1 Price Control Financial Instruments).</p>

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<b>ED1 Price Control Financial Model</b>	<p>means the model of that name (with a suffix referring to the month of November in Regulatory Year t-1 as that term is defined for the purposes of CRC 4A) that:</p> <p>(a) was first published by the Authority on 21 May 2014 and came into effect on 1 April 2015;</p> <p>(b) is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Regulatory Year suffix) on the Authority's Website; and</p> <p>(c) will be used by the Authority to determine the value of the term <math>MOD_t</math> through the application of the Annual Iteration Process,</p> <p>as modified from time to time in accordance with the provisions of CRC 4A (Governance of ED1 Price Control Financial Instruments).</p>
<b>Gross Load Related Expenditure</b>	<p>means the total amount of expenditure incurred by the licensee, before the deduction of Specific Customer Funded Reinforcement, in respect of cost areas that make up Load Related Expenditure within the Price Control Period.</p>
<b>High Value Project Costs</b>	<p>means costs incurred, or expected to be incurred, by the licensee on any investment project with respect to its Distribution System that is reasonably forecast to cost the licensee £25 million or more (in 2012/13 prices) during the Price Control Period, and for which clear outputs, a needs case and a statement of costs have been provided to the Authority.</p>

## *Chapter 1: Interpretation of Part 4*

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

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

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

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

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

**Act**

**Affiliate**

**Appropriate Auditor**

**Authorised**

**Authority**

**Competition and Markets Authority**

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

**Part D: References to Regulatory Years**

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

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

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

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

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

**Part F: General rules of interpretation**

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

## **CHAPTER 2: ELECTRICITY DISTRIBUTION REVENUE RESTRICTION**



## CRC 2A. Restriction of Allowed Distribution Network Revenue

### Introduction

2A.1 This condition:

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

### Part A: Licensee's obligation

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

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

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

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

2A.4 In the Principal Formula:

- $AR_t$  means the amount of Allowed Distribution Network Revenue in Regulatory Year  $t$ .
- $BR_t$  means the amount of Base Demand Revenue in Regulatory Year  $t$ , as derived in accordance with the formula set out in Part C of this condition.
- $IP_t$  means the incentive revenue adjustment made in Regulatory Year  $t$ , as derived in accordance with the formula set out in Part D of this condition.
- $PT_t$  means the Allowed Pass-Through Items revenue adjustment made in Regulatory Year  $t$ , as derived in accordance with CRC 2B (Calculation of Allowed Pass-Through Items).
- $NIA_t$  means the Network Innovation Allowance revenue adjustment made in Regulatory Year  $t$ , as derived in accordance with CRC 2H (The Network Innovation Allowance).
- $LCN_t$  means the low carbon networks fund revenue adjustment made in Regulatory Year  $t$ , as derived in accordance with CRC 2J (Low Carbon Networks Fund).
- $AUM_t$  means the total amount of any sums remaining unpaid pursuant to the requirements of a Clawback Direction given in accordance with the provisions of Part B of CRC 2K (Margins on licensee's Connection Activities) one year after the licensee has received that direction.
- $CGSRA_t$  means the adjustment for payments made by the licensee in respect of its failure to achieve connections performance standards, as derived in

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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:

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

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

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

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

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where:

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

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

and:

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

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

where:

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

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

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

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

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

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

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

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$$REV_{t-2} = \frac{BR_{t-2} + PT_{t-2} - ESA_{t-2} + IQ_{t-2} + LDR_{t-2}}{RPIF_{t-2}}$$

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

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

$PT_{t-2}$  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.

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

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

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

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

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

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).

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$LDR_t$  means the losses discretionary reward scheme revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2G.

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

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

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

2A.16 In the above formula for  $K_t$ :

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

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

$I_t$  means the Average Specified Rate in Regulatory Year t.

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

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

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

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

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

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

## Chapter 2: Electricity Distribution Revenue Restriction

- (a) exceeded 106 per cent of Allowed Distribution Network Revenue; or
- (b) been less than 94 per cent of Allowed Distribution Network Revenue.

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

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

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

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

- (a) must provide an explanation for that event in writing to the Authority by 31 July in the associated Regulatory Year  $t-1$ ; and
- (b) must not increase its Use of System Charges for the Regulatory Year  $t$  except and to the extent that the Authority has consented to such an increase.

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

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

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

- (a) must provide an explanation for that event in writing to the Authority by 31 July in the associated Regulatory Year  $t-1$ ; and
- (b) must use its best endeavours in setting Use of System Charges to recover the Allowed Distribution Network Revenue in Regulatory Year  $t$ .

### Part I: Interpretation

2A.25 For the purposes of this condition:

<b>Regulated Distribution Network Revenue</b>	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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<b>Retail Prices Index</b>	means: <ul style="list-style-type: none"><li>(a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or</li><li>(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</li><li>(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).</li></ul>
<b>Retail Prices Index Forecast Growth Rate</b>	means: <ul style="list-style-type: none"><li>(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</li><li>(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</li><li>(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).</li></ul>
<b>Vanilla Weighted Average Cost of Capital</b>	has the meaning given to that term in the glossary of the ED1 Price Control Financial Handbook.

**APPENDIX 1**

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

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	385.8	389.6	393.4	397.4	401.4	405.3	409.4	413.4
EMID	386.0	389.8	393.6	397.6	401.5	405.5	409.6	413.7
SWALES	198.7	200.6	202.5	204.6	206.7	208.7	210.8	212.9
SWEST	286.9	289.6	292.4	295.4	298.4	301.3	304.3	307.3
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								



## CRC 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):

$$PT_t = LF_t + RB_t + TB_t + SMC_t + SMIT_t + RF_t + SLR_t + EBD_t$$

- 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.
$SMC_t$	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.
$SLR_t$	means the Supplier of Last Resort Costs adjustment in Regulatory Year t in accordance with Part H of this condition.
$EBD_t$	means the Eligible Bad Debt Costs adjustment in Regulatory Year t in accordance with Part I 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:

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

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.

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- 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)**

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- 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, and 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.

## Chapter 2: Electricity Distribution Revenue Restriction

SMITR<sub>t</sub> 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, ~~and 2016/17, 2023/24 and 2024/25~~, SMIT<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> term.
- 2B.30 In the Regulatory Years before 2021/22, SMITR<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub>:

RFA<sub>t-2</sub> means the amount of Ring Fence Costs incurred by the licensee in Regulatory Year t-2.

RFE<sub>t-2</sub> 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<sub>t-2</sub> has the value given to it by Part C of CRC 2A.

PVF<sub>t</sub> has the value given to it by Part C of CRC 2A.

RPIF<sub>t</sub> has the value given to it by Part C of CRC 2A.

## Chapter 2: Electricity Distribution Revenue Restriction

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

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

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

$$SLR_t = \frac{SLRA_{t-2}}{RPIA_{t-2}} \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t + ESA_t$$

2B.35 In the above formula for  $SLR_t$ :

$SLRA_{t-2}$	Means: <ul style="list-style-type: none"><li>(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).</li><li>(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);</li><li>(c) less any Returned Costs from a Claimant in Regulatory Year t-2; and</li><li>(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).</li></ul>
$RPIA_{t-2}$	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.36 In the Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20,  $SLR_t$  will have the value of zero.

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

2B.37 For 2022/23, subject to paragraph 2B.38,  $EBD_t$  is derived in accordance with the following formula:

## Chapter 2: Electricity Distribution Revenue Restriction

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


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2B.38 EBD<sub>t</sub> is derived in the following ways:

(a) For Regulatory Year 2021/22, EBD<sub>t</sub> is derived in accordance with the following formula:

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


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

2B.39 In the above formulae for EBD<sub>t</sub>:

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 <sub>t-3</sub>	Means the aggregate value directed by the Authority in accordance with paragraph 2B.40 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 <sub>t-3</sub>	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 <sub>t-3</sub>	has the value given to it by Part C of CRC 2A.
PVF <sub>t</sub>	has the value given to it by Part C of CRC 2A.
RPIF <sub>t</sub>	has the value given to it by Part C of CRC 2A.
IBDA <sub>t</sub>	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.40 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

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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.41 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.37 and 2B.38 provided that the amount specified in the statement submitted in 2B.40 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 7 of this condition.
- 2B.42 If, within three months of receiving the statement from the licensee referred to in paragraph 2B.40, 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.43 The licensee may submit a statement under paragraph 2B.40 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.44 will apply with respect to each such statement.
- 2B.44 A direction issued by the Authority under paragraph 2B.41 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 J: Interpretation**

- 2B.45 For the purposes of this condition:



## Chapter 2: Electricity Distribution Revenue Restriction

<b>Business Rates</b>	<p>means:</p> <p>(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</p> <p>(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).</p>
<b>Elective Communication Services</b>	has the meaning given to that term in the Smart Energy Code.
<b>Defaulting Electricity Supplier</b>	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.
<b>Final Reconciliation Settlement Run</b>	has the meaning given to that term in Section U2.3 of the Balancing and Settlement Code (BSC).
<b>Former Electricity Supplier</b>	means an Electricity Supplier whose supply licence has been revoked.
<b>Pass-through Transmission Connection Point Charges</b>	means those elements of Transmission Connection Point Charges that do not qualify as New Transmission Capacity Charges.
<b>Returned Costs</b>	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.

## *Chapter 2: Electricity Distribution Revenue Restriction*

### **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:

(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.

**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
ENWL								
NPgN								
NPgY								
WMID	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
EMID	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
SWALES	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
SWEST	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**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
ENWL								
NPgN								
NPgY								
WMID	25.7	25.7	29.0	34.0	40.4	40.4	40.4	40.4
EMID	34.0	34.0	38.2	44.9	52.9	52.9	52.9	52.9
SWALES	15.1	15.1	19.1	19.1	19.1	19.1	19.1	19.1
SWEST	14.4	14.4	16.2	19.0	20.6	20.6	20.6	20.6
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**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
ENWL								
NPgN								
NPgY								
WMID	12.7	13.0	13.2	13.2	13.5	14.1	14.1	14.1
EMID	10.5	10.5	10.9	10.9	11.6	11.9	12.6	13.8
SWALES	8.5	8.5	8.5	8.6	8.6	8.6	8.6	8.8
SWEST	8.7	8.7	8.7	8.7	9.2	9.2	9.2	9.2
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## APPENDIX 4

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

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.7	0.8	0.9	0.9	1.0	1.0	0.0	0.0
EMID	0.7	0.9	0.9	0.9	1.0	1.0	0.0	0.0
SWALES	0.3	0.4	0.4	0.4	0.5	0.5	0.0	0.0
SWEST	0.5	0.6	0.7	0.7	0.7	0.7	0.0	0.0
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## APPENDIX 5

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

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.6	0.5	0.1	0.3	0.0	0.6	<u>0.0NA</u>	<u>0.0NA</u>
EMID	0.6	0.5	0.1	0.3	0.0	0.6	<u>0.0NA</u>	<u>0.0NA</u>
SWALES	0.3	0.3	0.0	0.2	0.0	0.3	<u>0.0NA</u>	<u>0.0NA</u>
SWEST	0.5	0.5	0.1	0.3	0.0	0.5	<u>0.0NA</u>	<u>0.0NA</u>
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**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
ENWL								
NPgN								
NPgY								
WMID	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EMID	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SWALES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SWEST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								



## APPENDIX 7

### 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

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

### **Introduction**

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

### **Structure of this condition**

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

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

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

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

where, for the purposes of this paragraph only:

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

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

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

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

where:

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

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

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

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

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

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

$$CS_t = CSA_t + CSB_t + CSC_t$$

where:

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

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

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

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

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

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

If  $SIAS_t \geq SIIM_t$ , then:

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

If  $SIAS_t < SIIM_t$ , then:

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

where:

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

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- SIAS<sub>t</sub>**      (*the supply interruptions actual score term*) means the licensee's actual performance for the supply interruptions element of the Customer Satisfaction Survey for Regulatory Year t, as measured in accordance with the RIGs.
- SIIM<sub>t</sub>**      (*the supply interruptions target score term*) means the target score for the supply interruptions element of the Customer Satisfaction Survey for Regulatory Year t, such score being 8.2.
- SIRIR<sub>t</sub>**      (*the supply interruptions reward incentive rate term*) means the licensee's reward incentive rate for the supply interruptions element of the Customer Satisfaction Survey in the Regulatory Year t as specified in Table 2 of Appendix 1.
- CSAD<sub>t</sub>**      (*the maximum downside supply interruptions term*) means the maximum negative adjustment in respect of the supply interruptions element of the Customer Satisfaction Survey for the licensee, as specified in Table 7 of Appendix 1.
- SIPIR<sub>t</sub>**      (*the supply interruptions penalty incentive rate term*) means the licensee's penalty incentive rate for the supply interruptions element of the Customer Satisfaction Survey in the Regulatory Year t as specified in Table 8 of Appendix 1.
- PUC<sub>t</sub>**      (*the supply interruptions Unsuccessful Calls term*) means the proportion of calls to the licensee's Specified Lines that are Unsuccessful Calls, and is calculated in accordance with the following formula:

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

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

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

- 2C.16      In the calculation of the CS<sub>t</sub> term, the CSB<sub>t</sub> term refers to the connections element of the Customer Satisfaction Survey term.
- 2C.17      The value of the connections customer satisfaction term (CSB<sub>t</sub>) is calculated in accordance with either of the following formulae, as appropriate:

If  $CAS_t \geq CIM_t$  then:

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

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If  $CAS_t < CIM_t$  then:

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

where:

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

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

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

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

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

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

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

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

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

If  $GAS_t \geq GIM_t$  then:

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

If  $GAS_t < GIM_t$  then:

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

where:

$CSCU_t$  (*the maximum upside general enquiries term*) means the maximum positive adjustment in respect of the general enquiries element of the

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Customer Satisfaction Survey for the licensee, as specified in Table 5 of Appendix 1.

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

**GIM<sub>t</sub>** (*the general target score term*) means the target score of the general enquiries element of the Customer Satisfaction Survey for Regulatory Year t, such score being 8.2.

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

**CSCD<sub>t</sub>** (*the maximum downside general enquiries term*) means the maximum negative adjustment in respect of the general enquiries element of the Customer Satisfaction Survey for the licensee, as specified in Table 12 of Appendix 1.

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

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

2C.20 In the calculation of the value of BM<sub>t</sub>, the term CM<sub>t</sub> refers to the complaints metric term.

2C.21 The value of the CM<sub>t</sub> term is calculated in accordance with either of the following formulae, as appropriate:

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

and otherwise:

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

where:

**ARCM<sub>t</sub>** (*the complaints metric maximum penalty term*) means the maximum negative adjustment in respect of the complaints metric for the licensee, as specified in Table 14 of Appendix 1.

**CMP<sub>t</sub>** (*the complaints metric performance term*) is calculated in accordance with the following formula:

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

where:

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- $PCUDPO_t$  (*the percentage of Complaints Unresolved after day plus one term*) means the number of Complaints Unresolved by the end of the first Working Day after the day on which the Complaint was first received, expressed as a proportion of total Complaints for Regulatory Year  $t$  as calculated for that year.
- $PCUDPT_t$  (*the percentage of Complaints Unresolved after day plus 31 term*) means the number of Complaints Unresolved after the end of 31 calendar days from the end of the first Working Day after the day on which the Complaint was first received, expressed as a proportion of total Complaints for Regulatory Year  $t$  as calculated for that year.
- $PRC_t$  (*the percentage of Repeat Complaints term*) means the number of Repeat Complaints, expressed as a proportion of total Complaints for Regulatory Year  $t$  as calculated for that year.
- $POF_t$  (*the percentage of Energy Ombudsman findings term*) means the number of Energy Ombudsman Findings Against the Licensee, expressed as a proportion of total Complaints received for Regulatory Year  $t$  as calculated for that year.
- $TCM_t$  (*the industry target term*) means the target value of the complaints metric for Regulatory Year  $t$ , such score being 8.33.
- $IRCM_t$  (*the complaints metric incentive rate term*) means the incentive rate for the complaints metric for Regulatory Year  $t$ , as specified in Table 15 of Appendix 1.

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

- 2C.22 This part sets out the mechanism for calculating the amount of the term  $SE_t$  (the stakeholder engagement term).
- 2C.23 The maximum value of  $SE_t$  for each Regulatory Year that can be determined by the Authority for the licensee is set out in Table 16 of Appendix 1.
- 2C.24 In order to be eligible to be considered for a reward for stakeholder engagement, the licensee must demonstrate how it meets the criteria in respect of the Regulatory Year in question in accordance with such procedures and timescales as are set out in the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance published on the Authority's Website (which may be modified from time to time in accordance with the provisions in Part H of this condition).
- 2C.25 In addition to making provision for the matters to which paragraph 2C.24 refers, the Stakeholder Engagement Incentive and Consumer Vulnerability Guidance may also make provision for:
- (a) the appointment, by the Authority, of persons who will assess the stakeholder submissions and make recommendations based on key assessment criteria;
  - (b) the key assessment criteria; and



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- (c) the manner and process by which the stakeholder engagement submissions will be assessed against the key assessment criteria and by which the Authority will allocate the stakeholder engagement reward.
- 2C.26 The value of the SE term for Regulatory Year t-2 will be determined by the Authority in accordance with the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance, by 30 November in Regulatory Year t-1.
- 2C.27 If, for any reason in any Regulatory Year, the Authority does not determine the value of the SE term for application by 30 November in Regulatory Year t-1, then the value of the SE term for Regulatory Year t-2 will be zero and any reward that the licensee is entitled to receive will be recoverable as soon as reasonably practicable thereafter in accordance with a mechanism notified by the Authority to the licensee for that purpose.

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

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

### Part I: Interpretation

- 2C.30 For the purposes of this condition:

<b>Broad Measure of Customer Service Adjustment</b>	means the composite incentive outlined in this condition, the application of which adjusts the licensee's revenue so as to reflect customer service performance.
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## *Chapter 2: Electricity Distribution Revenue Restriction*

<b>Complaint</b>	means any expression of dissatisfaction made to the licensee that is related to any one or more of its products, its services or the manner in which it has dealt with any such expression of dissatisfaction, and where either a response is provided by or on behalf of the licensee at the point at which contact is made or a response is explicitly or implicitly required or expected to be provided thereafter, as further clarified in the RIGs.
<b>Complaints Unresolved</b>	means any Complaints that are not Resolved Complaints.
<b>Customer Satisfaction Survey</b>	means the survey used to measure the extent to which Customers are satisfied with the service provided by the licensee in respect of the relevant Distribution System for the purposes of the Broad Measure of Customer Service Adjustment.
<b>Energy Ombudsman</b>	means the person appointed to investigate and resolve consumer complaints against (amongst others) the licensee pursuant to a redress scheme approved by the Authority under section 49 of the Consumers, Estate Agents and Redress Act 2007.
<b>Energy Ombudsman Findings Against the Licensee</b>	means any Energy Ombudsman decisions requiring the licensee to make a payment exceeding that previously offered to the complainant, or finding the licensee should change its processes beyond what it had previously indicated to the complainant, or both.
<b>Repeat Complaints</b>	means any Complaint in relation to which the complainant makes contact with the licensee to express dissatisfaction in respect of the same or substantially the same matter that was the subject of a previously Resolved Complaint within the previous 12 month period, as further clarified in the RIGs.
<b>Resolved Complaint</b>	means a Complaint in respect of which there remains no outstanding action to be taken by the licensee, as further clarified in the RIGs.
<b>Specified Lines</b>	means telephone lines having any of the following numbers: (a) the safety and security of supplies enquiry service telephone number operated by the licensee or by its appointed agents (or contractors); (b) the power outage telephone number (and its equivalents) (if different to the above) operated by the licensee or by its appointed agents (or contractors); and (c) telephone numbers operated by contractors or agents of the licensee who provide an overflow or crisis management facility during peak periods.

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<b>Stakeholder Engagement and Consumer Vulnerability Incentive Guidance</b>	means the document of that name published on the Authority's Website for the purpose of this condition, as modified from time to time in accordance with that condition.
<b>Total Number of Calls</b>	the total number of calls to Specified Lines, as further clarified in the RIGs.
<b>Unsuccessful Calls</b>	means calls to a Specified Line that are either freely abandoned by the Customer or fail because the Customer is unable to contact the licensee or its appointed agents (or contractors), as further clarified in the RIGs.

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

## **CRC 2D. Adjustment of licensee's revenues to reflect interruptions-related quality of service performance**

### **Introduction**

- 2D.1 This condition sets out the mechanisms for calculating the amount of the term  $IQ_t$  (the interruptions-related quality of service incentive term).
- 2D.2 The  $IQ_t$  term in Part D of CRC 2A (Restriction of Allowed Distribution Network Revenue) adjusts the amount of the incentive revenue adjustment term ( $IP_t$ ), in order to reflect the performance of the licensee on the interruptions-related quality of service issues.

### **Structure of this condition**

- 2D.3 Part A provides for the calculation of the interruptions-related quality of service incentive amount through the use of two separate mechanisms (the Principal Formulae), each depending on the period of time in respect of which the term will be applied for the purpose of adjusting the incentive revenue adjustment term under CRC 2A.
- 2D.4 Parts B to F provide for the calculation of the particular contributions made to the Part A calculations by the licensee's performance in relation to each of the interruptions-related quality of service issues, as follows:
- (a) Part B provides for the calculation of the particular contribution arising from the licensee's performance in relation to the quality of supply target for the number of Customer interruptions;
  - (b) Part C provides for the calculation of the particular contribution arising from the licensee's performance in relation to the quality of supply target for the duration of Customer interruptions;
  - (c) Part D provides for the calculation of the particular contribution arising from the licensee's performance in relation to supply restoration under severe weather conditions;
  - (d) Part E provides for the calculation of the particular contribution arising from the licensee's performance in relation to supply restoration under normal weather conditions; and
  - (e) Part F provides for the licensee, by reference to specified exceptionality requirements, to request adjustments to its recorded performance in relation to targets for quality of supply.
- 2D.5 Part G deals with procedural requirements and matters of interpretation.

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- 2D.6 Appendices 1 to 4 set out targets, incentive rates and revenue exposures, the exceptionality requirements for severe weather events and other events, and criteria for preventative and mitigating actions.

### Part A: Formulae for deriving the interruptions-related quality of service incentive amount

- 2D.7 The Principal Formulae used for the purpose of deriving the amount of the term  $IQ_t$  (the interruptions-related quality of service incentive term for Regulatory Year  $t$ ) in Part D of CRC 2A apply differently in relation to different periods of time, and are stated below as Principal Formula 1 and Principal Formula 2.
- 2D.8 Principal Formula 1 applies for the purpose of deriving the amount of the term  $IQ_t$  for each of the Regulatory Years beginning on 1 April 2015 and 1 April 2016.

- 2D.9 Principal Formula 1 is this:

$$IQ_t = DR5Q_{t-2} \times \left(1 + \frac{I_{t-2}}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

- 2D.10 For the purposes of Principal Formula 1 only:

$DR5Q_{t-2}$  is the adjustment in respect of the licensee's performance in Regulatory Year  $t-2$ , and is calculated from the application of the appropriate provisions of Parts B and C of CRC 8 (Adjustment of licensee's revenues to reflect quality of supply performance) of this licence in the form in which that condition was in force at 31 March 2015.

$I_t$  means the Average Specified Rate in Regulatory Year  $t$ .

- 2D.11 Principal Formula 2 applies for the purpose of deriving the amount of the term  $IQ_t$  for the Regulatory Year beginning on 1 April 2017 and each Regulatory Year beginning on 1 April thereafter.

- 2D.12 Principal Formula 2 is this:

$$IQ_t = (QZ_{t-2} + QC_{t-2} + QD_{t-2}) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

- 2D.13 For the purposes of Principal Formula 2:

$QZ_t$  means the adjustment in respect of the licensee's performance in Regulatory Year  $t$  in relation to the combined effect of the number of supply interruptions per 100 Customers and the duration of Customer supply interruptions in that year and is derived in accordance with the formula in paragraph 2D.14.

$QC_t$  has the meaning given to that term in Part D (Performance on severe weather supply restoration) of this condition and is derived in accordance with the provisions of that Part.

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$QD_t$  has the meaning given to that term in Part E (Performance on normal weather supply restoration) of this condition and is derived in accordance with the provisions of that Part.

$PVF_t$  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.

2D.14 For the purposes of paragraph 2D.13,  $QZ_t$  is derived in accordance with the following formula:

$$QZ_t = \max[\min(\text{TRIM}_t, QA_t + QB_t), -\text{TRIM}_t]$$

provided that:

$$QZ_t + \text{SWE}_t \geq -\text{TRIIS}_t$$

and where that is not the case,  $QZ_t$  will be derived in accordance with the following formula:

$$QZ_t = -\text{TRIIS}_t - \text{SWE}_t$$

where:

$\text{TRIM}_t$  (*the revenue exposure to interruptions and minutes lost term*) means the maximum amount of revenue that is exposed to rewards or penalties under the relevant elements of  $IQ_t$  for Regulatory Year  $t$  and has the value as specified for Regulatory Year  $t$  for the licensee in Table A3 in Appendix 1.

$QA_t$  has the meaning given to that term in Part B (Performance on the number of Customer interruptions) of this condition and is derived in accordance with the provisions of that Part.

$QB_t$  has the meaning given to that term in Part C (Performance on the duration of Customer interruptions) of this condition and is derived in accordance with the provisions of that Part.

$\text{SWE}_t$  has the meaning given to that term in Part D (Performance on severe weather supply restoration) of this condition and is derived in accordance with the provisions of that Part.

$\text{TRIIS}_t$  (*the revenue exposure to interruptions incentive scheme term*) means the maximum amount of revenue that is exposed to penalties under all elements of  $IQ_t$  for Regulatory Year  $t$  and has the value as specified for Regulatory Year  $t$  for the licensee in Table A6 in Appendix 1.

### Part B: Performance on the number of Customer interruptions

2D.15 This Part B applies for the purposes of the calculations established under:

- (a) Part A of this condition in respect of Principal Formula 2; and
- (b) Part C of this condition in respect of the formula for the term  $QB_t$ .

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2D.16 For the purposes of those formulae:

$QA_t$  means the adjustment in respect of the licensee's performance in Regulatory Year  $t$  in relation to the target for the number of Customers interrupted per 100 Customers in that year and is derived in accordance with the following formula:

$$QA_t = (TA_t - CIIS_t) \times IRA_t \times TRT_t$$

2D.17 In the formula for the  $QA_t$  term above:

$TA_t$  (*the target interruptions term*) means the target for the number of Customers interrupted for Regulatory Year  $t$  and is derived in accordance with the following formula:

$$TA_t = TAP_t + TAU_t$$

where:

$TAP_t$  means the target for the number of pre-arranged Customers interrupted for Regulatory Year  $t$  and is derived in accordance with the following formula:

$$TAP_t = \frac{CIB_{t-4} + CIB_{t-3} + CIB_{t-2}}{3} \times 0.5$$

$TAU_t$  means the target for the number of unplanned Customers interrupted for Regulatory Year  $t$  as specified for the licensee in Table A1 in Appendix 1.

$CIIS_t$  (*the interruptions actual performance term*) means the performance of the licensee in respect of the number of Customers interrupted in Regulatory Year  $t$  and is derived in accordance with the formula in paragraph 2D.18.

$IRA_t$  (*the incentive rate for interruptions term*) means the incentive rate for the number of Customers interrupted as specified for Regulatory Year  $t$  for the licensee in Table A2 in Appendix 1, expressed in £m in 2012/13 prices.

$TRT_t$  (*the tax rate true-up term*) is derived in accordance with the following formula:

$$TRT_t = \frac{IQI}{1 - CT_t}$$

where:

$IQI$  means the Totex Incentive Strength Rate as set out for the licensee in Appendix 1 of CRC 3B (Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments).

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$CT_t$  means the corporation tax rate for Regulatory Year  $t$ .

2D.18 For the purposes of paragraph 2D.17,  $CIIS_t$  is derived in accordance with the following formula:

$$CIIS_t = CIA_t + (A \times CIB_t) + (B \times CIC_t) + CID_t + (C \times CIE_t)$$

where:

A has the value of 0.5.

B has the value of zero.

C has the value of zero.

$CIA_t$  (*the unplanned interruptions term*) is the number of Customers interrupted per year arising from unplanned incidents on the licensee's Distribution System in Regulatory Year  $t$  and is derived from the relevant formula in the RIGs.

$CIB_t$  (*the pre-arranged interruptions term*) is the number of Customers interrupted per year arising from pre-arranged incidents on the licensee's Distribution System in Regulatory Year  $t$  and is derived from the relevant formula in the RIGs.

$CIC_t$  (*the transmission interruptions term*) is the number of Customers interrupted per year arising from incidents on the systems of the Transmission Licensees in Regulatory Year  $t$  and is derived from the relevant formula in the RIGs.

$CID_t$  (*the DG interruptions term*) is the number of Customers interrupted per year arising from incidents on the systems of Distributed Generators connected to the licensee's Distribution System in Regulatory Year  $t$  and is derived from the relevant formula in the RIGs.

$CIE_t$  (*the residual interruptions term*) is the number of Customers interrupted per year arising from incidents on any other connected systems in the Regulatory Year  $t$  and is derived from the relevant formula in the RIGs.

2D.19 Adjustments to Allowed Distribution Network Revenue arising from the application of this Part B are subject to the provisions (where applicable) of Part F of this condition.

### Part C: Performance on the duration of Customer interruptions

2D.20 This Part C applies for the purposes of the calculations established under Part A of this condition in respect of Principal Formula 2.

2D.21 For the purposes of Principal Formula 2:



## Chapter 2: Electricity Distribution Revenue Restriction

$QB_t$  means the adjustment in respect of the licensee's performance in Regulatory Year  $t$  in relation to the target for the duration of Customer interruptions in that year and is derived in accordance with the following formula:

$$QB_t = (TB_t - CMLIS_t) \times IRB_t \times TRT_t$$

2D.22 In the formula for the  $QB_t$  term above:

$TB_t$  (*the target minutes lost term*) means the target for the licensee for the duration of Customer interruptions for Regulatory Year  $t$  and is derived in accordance with the following formula:

$$TB_t = TBP_t + TBU_t$$

where:

$TBP_t$  means the target for the duration of pre-arranged Customers interrupted for Regulatory Year  $t$  and is derived in accordance with the formula:

$$TBP_t = \frac{CMLB_{t-4} + CMLB_{t-3} + CMLB_{t-2}}{3} \times 0.5$$

$TBU_t$  means the target for the duration of unplanned Customers interrupted for Regulatory Year  $t$  as specified in Table A4 in Appendix 1.

$CMLIS_t$  (*the minutes lost actual performance term*) means the performance in respect of the duration of Customer interruptions in Regulatory Year  $t$  and is derived in accordance with the formula in paragraph 2D.23.

$IRB_t$  (*the incentive rate for minutes lost term*) means the incentive rate for the licensee for the duration of Customer interruptions as specified for Regulatory Year  $t$  in Table A5 in Appendix 1, expressed in £m in 2012/13 prices.

$TRT_t$  (*the tax rate true-up term*) is derived in accordance with the formula in paragraph 2D.17.

2D.23 For the purposes of paragraph 2D.22,  $CMLIS_t$  is derived in accordance with the following formula:

$$CMLIS_t = CMLA_t + (D \times CMLB_t) + (E \times CMLC_t) + CMLD_t + (F \times CMLE_t)$$

where:

D has the value of 0.5.

E has the value of 0.10.

F has the value of 0.10.

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- CMLA<sub>t</sub> (*the unplanned minutes lost term*) is the duration of Customer interruptions arising from unplanned incidents on the licensee's Distribution System in Regulatory Year t and is derived from the relevant formula in the RIGs.
- CMLB<sub>t</sub> (*the pre-arranged minutes lost term*) is the duration of Customer interruptions arising from pre-arranged incidents on the licensee's Distribution System in Regulatory Year t and is derived from the relevant formula in the RIGs.
- CMLC<sub>t</sub> (*the transmission minutes lost term*) is the duration of Customer interruptions arising from incidents on the systems of the Transmission Licensees in Regulatory Year t and is derived from the relevant formula in the RIGs.
- CMLD<sub>t</sub> (*the DG minutes lost term*) is the duration of Customer interruptions arising from incidents on the systems of Distributed Generators in Regulatory Year t and is derived from the relevant formula in the RIGs.
- CMLE<sub>t</sub> (*the residual minutes lost term*) is the duration of Customer interruptions arising from incidents on any other connected systems in Regulatory Year t and is derived from the relevant formula in the RIGs.

2D.24 Adjustments to Allowed Distribution Network Revenue arising from the application of this Part C are subject to the provisions (where applicable) of Part F of this condition.

### Part D: Performance on severe weather supply restoration

2D.25 This Part D applies for the purposes of the calculation established under Part A of this condition in respect of Principal Formula 2.

2D.26 For the purposes of Principal Formula 2:

QC<sub>t</sub> means the adjustment in respect of the standard of performance for supply restoration under severe weather conditions imposed on the licensee under Regulation 7 and is the amount derived in accordance with the following formula:

$$QC_t = \min[(SWPM_t - SWPD_t) \times FPPR, 0] + \max[SWPD_t - RLF_t, 0]$$

2D.27 In the formula for the QC<sub>t</sub> term above:

SWPM<sub>t</sub> (*the total severe weather payments made term*) is the total amount of the payments that the licensee:

- (a) has made formally to Customers in respect of Regulatory Year t for failures to meet the standard of performance for restoration

## Chapter 2: Electricity Distribution Revenue Restriction

under severe weather conditions imposed on the licensee under Regulation 7; or

(b) has made to Customers in the form of ex gratia payments for a severe weather event in respect of Regulatory Year t (provided that, in calculating SWPM<sub>t</sub>, no more than a total of ~~£300~~£700 of payments per Customer for any given event in respect of Regulatory Year t may be taken into account).

SWPD<sub>t</sub> (*the total severe weather payments due term*) is the total amount of the payments in respect of Regulatory Year t that either have been paid to Customers or, where not paid, that Customers would have been entitled to claim for the licensee's failure to meet the standard of performance for supply restoration under severe weather conditions imposed on the licensee under Regulation 7.

FPPR (*the failure to pay penalty rate term*) is the additional penalty applied on top of any unpaid payments for the relevant Regulation and has the value of 1.2.

RLF<sub>t</sub> (*the severe weather revenue exposure term*) means the maximum amount of revenue exposed to the severe weather arrangements for Regulatory Year t and has the value as specified for Regulatory Year t for the licensee in Table A7 in Appendix 1, expressed in 2012/13 prices.

note: SWE<sub>t</sub> (*the severe weather total exposure term*), which is required for the calculation of the QZ term under Part A of this condition, means the licensee's total exposure to the severe weather arrangements in Regulatory Year t, and is derived in accordance with the following formula:

$$SWE_t = QC_t - \min[(SWPM_t - SWPD_t) \times (FPPR - 1), 0] - \min[SWPM_t, SWPD_t]$$

### Part E: Performance on normal weather supply restoration

2D.28 This Part E applies for the purposes of the calculation established under Part A of this condition in respect of Principal Formula 2.

2D.29 For the purposes of Principal Formula 2:

QD<sub>t</sub> means the adjustment in respect of the standard of performance for supply restoration imposed on the licensee under Regulations 5, 6 and 8 and is the amount derived in accordance with the following formula:

$$QD_t = \min[(NCPM_t - NCPD_t) \times FPPR, 0] + \max[NCPD_t - RLG_t, 0] + OOE_t$$

2D.30 In the formula for the QD term above:

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- $NCPM_t$  (*the total normal weather payments made term*) is the total amount of payments that the licensee has made formally to Customers in respect of Regulatory Year  $t$  for failures to meet the standards of performance for supply restoration imposed on the licensee under Regulations 5, 6, and 8 or that has been made to Customers in the form of ex gratia payments in respect of such failure.
- $NCPD_t$  (*the total normal weather payments due term*) is the total amount of the payments in respect of Regulatory Year  $t$  that either have been paid to Customers or, where not paid, that Customers would have been entitled to claim for the licensee's failure to meet the standards of performance for supply restoration imposed on the licensee under Regulations 5, 6, and 8.
- FPPR (*the failure to pay penalty rate term*) is the additional penalty applied on top of any unpaid payments for the relevant Regulation and has the value of 1.2.
- $OOEE_t$  (*the one-off exceptional event payments term*) means payments made under Regulations 5, 6 or 8 by the licensee to Customers in respect of one or more exceptional events in respect of Regulatory Year  $t$  that do not meet the relevant exceptionality requirement set out in Appendix 2, but do meet the exceptionality requirements set out in Appendix 3, and in respect of which the requirements set out in paragraph 2D.34 have been met.
- $RLG_t$  (*the normal weather revenue exposure term*) means the maximum amount of revenue exposed to the normal weather arrangements for Regulatory Year  $t$  and has the value as specified for Regulatory Year  $t$  for the licensee in Table A8 in Appendix 1, expressed in £m in 2012/13 prices.

### Part F: Adjustment of performance on quality of supply targets

- 2D.31 **Severe weather events:** This paragraph applies where the licensee considers that its performance in respect of any matter used for calculating  $CIIS_t$  or  $CMLIS_t$  (as provided for respectively under Parts B and C of this condition) has been affected by a severe weather event that meets the relevant exceptionality requirement defined in Appendix 2.
- 2D.32 If paragraph 2D.31 applies, the performance of the licensee used for calculating  $CIIS_t$  or  $CMLIS_t$  will be adjusted so as to exclude the full verified impact of the event in question, provided that:
- (a) the Authority has been notified of the event within 14 days of the date on which the licensee considers that the effect of the event has ceased or within 14 days of the end of the relevant Regulatory Year (whichever is the earlier);

## Chapter 2: Electricity Distribution Revenue Restriction

- (b) except where the Authority otherwise consents, the licensee has submitted to the Authority a statement of facts (in a format specified for the purpose by the Authority) with respect to the event within 56 days of the date of the notification to which paragraph 2D.32(a) refers;
- (c) the Authority, or an Appropriate Auditor nominated by the Authority under standard condition 46 (Regulatory Instructions and Guidance), has verified the impact of the event on the licensee's performance; and
- (d) the Authority:
  - (i) is satisfied that the event meets the relevant exceptionality requirement defined in Appendix 2; and
  - (ii) has by Notice to the licensee directed the adjustment to be made to the licensee's performance.

2D.33 If the Authority has neither directed the licensee under paragraph 2D.32(d)(ii) nor otherwise notified the licensee of its conclusions with respect to the matter within six months of the submission date of the annual interruptions data for the relevant Regulatory Year, the performance adjustment to which paragraph 2D.32 refers will be deemed to have been made.

2D.34 **Other events:** This paragraph applies where the licensee considers that its performance in respect of any matter used for calculating  $CIIS_t$  or  $CMLIS_t$  (as provided for respectively under Parts B and C of this condition) has been affected by an event that does not meet the relevant exceptionality requirement set out in Appendix 2, but does meet the exceptionality requirements set out in Appendix 3.

2D.35 If paragraph 2D.34 applies, the Authority may by Notice to the licensee direct the value of the OOE term to be recovered and also direct that, for the purposes of calculating  $CIIS_t$  or  $CMLIS_t$  (or both), all or part of the impact of the event that is in excess of the relevant threshold in successive three-month periods from the start of the event until its effect has ceased will be excluded from the relevant Regulatory Year's performance of the licensee, provided that:

- (a) the Authority has been notified of the event within 14 days of the date on which the licensee considers that the effect of the event has ceased or within 14 days of the end of the relevant Regulatory Year (whichever is the earlier);
- (b) except where the Authority otherwise consents, the licensee has submitted to the Authority a statement of facts (in a format specified for the purpose by the Authority) with respect to the event within 56 days of the date of the notification to which paragraph 2D.35(a) refers;
- (c) an Appropriate Auditor nominated by the Authority under standard condition 46 (Regulatory Instructions and Guidance) has reported to the Authority in respect of the event and its effect;

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- (d) the licensee has provided such further information, if any, as the Authority may require; and
- (e) the Authority:
  - (i) is satisfied that the event meets the exceptionality requirements defined in Appendix 3;
  - (ii) has had regard to whether the licensee has met the criteria for preventative and mitigating actions set out in Appendix 4; and
  - (iii) is satisfied that any payments under the Regulations by the licensee to Customers in respect of the event should be recovered via this licence condition.

2D.36 If the Authority has neither directed the licensee under paragraph 2D.35 nor otherwise notified the licensee of its conclusions with respect to the matter within six months of the submission date of the Annual Stage and Interruptions Data for the relevant Regulatory Year, the performance adjustment to which paragraph 2D.35 refers will be deemed to have been made.

2D.37 Events spanning more than one Regulatory Year will be dealt with under the relevant paragraphs above. Where an event spans more than one Regulatory Year a direction under either paragraph 2D.32 or 2D.35 will set out the performance adjustments to apply for Regulatory Year  $t$  and Regulatory Year  $t+1$ , with the proviso that the adjustment for Regulatory Year  $t+1$  will be updated to reflect the submitted annual interruptions data for Regulatory Year  $t+1$ .

2D.38 Events spanning more than one Regulatory Year do not require a separate notification to the Authority beyond the notification required to satisfy either paragraph 2D.32(a) or 2D.35(a), and only one materiality threshold will apply in these circumstances.

### **Part G: Procedural requirements and interpretation**

2D.39 A direction issued by the Authority under paragraph 2D.32 or 2D.35 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 modifications;
- (c) specified in the notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
- (d) considered any representations duly received in response to the Notice.

2D.40 In this condition:

- (a) any reference to a numbered Regulation is a reference to the Regulation bearing that number in the Electricity (Standards of Performance) Regulations 2015;

## *Chapter 2: Electricity Distribution Revenue Restriction*

- (b) words and expressions defined for any of the purposes of:
  - (i) CRC 2A (Restriction of Allowed Distribution Network Revenue); and
  - (ii) standard condition 46 (Regulatory Instructions and Guidance),have the same meaning when used in this condition; and
- (c) words and expressions defined in the RIGs that are used in this condition have the same meaning as in those RIGs.

**Part H. Interpretation**

2D.41 For the purposes of this condition:

<b>Annual Stage and Interruptions Data</b>	has the meaning given to that term in the RIGs issued under standard condition 46 (Regulatory Instructions and Guidance).
<b>Customer</b>	means in relation to any energised or de-energised Entry Point or Exit Point on the licensee's Distribution System where Metering Equipment is used for the purpose of calculating charges for electricity consumption, the person who is providing or is taken to be providing a supply of electricity through that Entry Point, or the person who is receiving or is taken to be receiving a supply of electricity through that Exit Point.
<b>Distributed Generator</b>	means an installation comprising any plant or apparatus for the production of electricity that is directly connected to the licensee's Distribution System or is connected to that system through one or more electricity networks (other than an onshore Transmission System) that is or are directly connected to it (or, where the context so requires, means a person that owns or operates such an installation).



## APPENDIX 1

### Targets, incentive rates, and revenue exposure for interruptions, severe weather, and normal weather

**Table A1: TAU<sub>t</sub> – Number of unplanned customer interruptions term targets**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	86.7	85.0	83.3	81.7	80.0	78.3	76.7	75.1
EMID	51.9	51.1	50.4	50.1	49.9	49.6	49.4	49.1
SWALES	50.1	49.9	49.6	49.4	49.1	48.9	48.6	48.4
SWEST	55.7	55.4	55.1	54.8	54.6	54.3	54.0	53.7
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## Chapter 2: Electricity Distribution Revenue Restriction

**Table A2: IRA<sub>t</sub> – Customer interruptions term incentive rate (£m per CI, in 2012/13 prices)**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38
EMID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
SWALES	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
SWEST	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## Chapter 2: Electricity Distribution Revenue Restriction

**Table A3: TRIM<sub>t</sub> – Revenue exposure to customer interruptions and minutes lost term (£m, in 2012/13 prices)**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7
EMID	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
SWALES	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
SWEST	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**Table A4: TBU<sub>t</sub> – Duration of unplanned customer interruptions term targets**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	51.1	50.3	49.5	48.7	47.9	47.1	46.4	45.6
EMID	37.8	37.6	37.3	36.5	35.7	34.9	34.2	33.5
SWALES	27.5	27.5	27.4	27.4	27.3	27.3	27.2	27.1
SWEST	35.8	35.6	35.4	35.2	35.0	34.8	34.6	34.4
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## Chapter 2: Electricity Distribution Revenue Restriction

**Table A5: IRB<sub>t</sub> – Duration of customer interruptions term incentive rate (£m per CML, in 2012/13 prices)**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.93	0.93	0.93	0.93	0.93	0.93	0.93	0.93
EMID	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99
SWALES	0.42	0.42	0.42	0.42	0.42	0.42	0.42	0.42
SWEST	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## Chapter 2: Electricity Distribution Revenue Restriction

**Table A6: TRIIS<sub>t</sub> – Revenue exposure to interruptions incentive scheme term (£m, in 2012/13 prices)**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2
EMID	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3
SWALES	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
SWEST	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## Chapter 2: Electricity Distribution Revenue Restriction

**Table A7: RLF<sub>t</sub> – Severe weather revenue exposure term (£m, in 2012/13 prices)**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6
EMID	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2
SWALES	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
SWEST	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## Chapter 2: Electricity Distribution Revenue Restriction

**Table A8: RLG<sub>t</sub> – Normal weather revenue exposure term (£m in 2012/13 prices)**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
EMID	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6
SWALES	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
SWEST	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								



## APPENDIX 2

### Exceptionality requirement for severe weather events

#### (see paragraph 2D.31)

- A2.1 For the purposes of paragraph 2D.31, an exceptional severe weather event:
- (a) is deemed to begin at the beginning of a 24-hour period when the number of incidents caused by the event at distribution higher voltage in that period is equal to or greater than the commencement threshold number; and
  - (b) is deemed to end at the time determined by the Authority having regard to:
    - (i) such time as the licensee may have declared was the end of the severe weather event in its statement of facts;
    - (ii) the time of restoration of the last Customer off supply due to an LV incident linked to the underlying cause of the severe weather, (provided that all Customers off supply due to high voltage incidents linked to the underlying cause of the severe weather event have been restored); and
    - (iii) the end of a 48-hour period when the number of Customers off supply due to high voltage incidents linked to the underlying cause of the severe weather event has fallen to zero.
- A2.2 For the purposes of paragraph A2.1:
- (a) the commencement threshold number is the number set against the name of the licensee in Threshold Table 1 below;
  - (b) “distribution higher voltage” means any nominal voltage of more than 1,000 volts up to and including 132 kilovolts (except in Scotland, where it means any nominal voltage of more than 1,000 volts but less than 132 kilovolts); and
  - (c) “incidents” are as defined in the RIGs.

**Threshold Table 1**

<b>Licensee</b>	<b>Severe weather exceptionality threshold (number of weather related high voltage faults in a 24 hour period)</b>
ENWL	
NPgN	
NPgY	
WMID	63
EMID	64
SWALES	41
SWEST	60
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

### APPENDIX 3

#### Exceptionality requirements for other events

##### (see paragraph 2D.34)

- A3.1 For the purposes of paragraph 2D.34, the exceptionality requirements for an event not falling within paragraph 2D.31 are both of the following:
- (a) the first requirement is that the occurrence of the event was a consequence of either:
    - (i) an external cause to the licensee (including an event arising from an incident on a Transmission System or other connected network, or from terrorism or vandalism), or
    - (ii) an internal cause to the licensee:
      - (aa) that was not attributable to any culpable error by the licensee in relation to the installation, operation or maintenance of an asset forming part of its Distribution System, or
      - (bb) the consequence of which could not reasonably have been avoided by the licensee;
  - (b) the second requirement is that the event contributes more than the relevant threshold amount to CIIS or CMLIS in a three-month period.
- A3.2 For the purposes of paragraph A3.1(b), the relevant threshold amounts for  $CIIS_t$  and  $CMLIS_t$  respectively are those that are set against the name of the licensee in Threshold Table 2 below.

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**Threshold Table 2**

<b>Licensee</b>	<b>CIIS ** threshold amount</b>	<b>CMLIS ** threshold amount</b>
ENWL		
NPgN		
NPgY		
WMID	1.01	0.81
EMID	0.95	0.76
SWALES	2.26	1.80
SWEST	1.60	1.28
LPN		
SPN		
EPN		
SPD		
SPMW		
SSEH		
SSES		

\*\* CIIS = Customer interruptions, CMLIS = Customer minutes lost

## **APPENDIX 4**

### **Criteria for preventative and mitigating actions (see paragraph 2D.35)**

A4.1 For the purposes of paragraph 2D.35, the criteria for preventative and mitigating actions are that:

- (a) where the occurrence of the event was the consequence of an external cause, the licensee had taken all reasonable steps to ensure that its actions (or lack of actions) were not contributory factors to the occurrence of the event; and
- (b) in any case, the licensee took all appropriate steps within its power:
  - (i) to limit the number of Customers interrupted by the event, and
  - (ii) to restore Customers' supplies quickly and efficiently, having due regard to safety and other legal obligations.

## CRC 2E. Incentive on Connections Engagement

### Introduction

- 2E.1 This condition sets out the mechanism for calculating the amount of the term  $ICE_t$  (the Incentive on Connections Engagement).
- 2E.2 The  $ICE_t$  term in Part D of CRC 2A (Restriction of Allowed Distribution Network Revenue) provides for a penalty to be applied (by means of a negative adjustment to the incentive revenue adjustment term ( $IP_t$ )) to the extent that the licensee fails to meet the assessment criteria set out in the Incentive on Connections Engagement Guidance.
- 2E.3 Part A of this condition specifies how the licensee will be assessed under this incentive. Part B of this condition specifies how to calculate the value of the ICE term and Part C of this condition makes provision for modifying the Incentive on Connections Engagement Guidance.

### Part A: Assessment of connections engagement

- 2E.4 The Incentive on Connections Engagement Guidance will specify:
- (a) the assessment criteria; and
  - (b) the manner and process by which the Incentive on Connections Engagement submissions will be assessed and by which the Authority will determine whether to apply a penalty.
- 2E.5 The licensee must provide a statement explaining how it has met the assessment criteria specified in the Incentive on Connections Engagement Guidance for each Relevant Market Segment of the Local Connections Market. The licensee must provide the statement in accordance with such procedures and timescales as are specified in the Incentive on Connections Engagement Guidance.
- 2E.6 For each Relevant Market Segment of the Local Connections Market where the licensee is unable to earn an Unregulated Margin, if the Authority determines that the licensee has not demonstrated that it has met the assessment criteria then the licensee will be subject to a penalty in accordance with Part B of this condition.

### Part B: Calculation of the ICE term

- 2E.7 For the Regulatory Years beginning on 1 April 2015, 1 April 2016 and 1 April 2017 the value of  $ICE_t$  will be zero.
- 2E.8 For each subsequent Regulatory Year  $t$ , the value of the  $ICE_t$  term is derived in accordance with the following formula:

$$ICE_t = ICEO_{t-3} \times RPIA_{t-3}$$

## Chapter 2: Electricity Distribution Revenue Restriction

where:

ICEO<sub>t-3</sub> means the negative adjustment (if any) in respect of the licensee's performance against the criteria set out in the Incentive on Connections Engagement Guidance, in the Regulatory Year t-3.

RPIA<sub>t-3</sub> has the meaning given in Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue), in the Regulatory Year t-3.

2E.9 The value of the ICEO<sub>t-3</sub> term for Regulatory Year t will be determined in a direction given by the Authority and in accordance with the Incentive on Connections Engagement Guidance by 30 November in Regulatory Year t-1.

2E.10 A direction under paragraph 2E.9 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 determination;
- (c) specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposal; and
- (d) considered any representations duly received in response to the Notice.

2E.11 If the Authority does not determine the value of the ICEO<sub>t-3</sub> term by 30 November in Regulatory Year t-1, then the value of the ICEO<sub>t-3</sub> term for Regulatory Year t will be zero. Any penalty that the licensee should have incurred for performance in Regulatory Year t will be determined and recoverable as soon as reasonably practicable thereafter in accordance with a mechanism notified by the Authority to the licensee for that purpose.

2E.12 The penalty will only be applied for performance in Relevant Market Segments of the Local Connections Market where the licensee is not able to earn an Unregulated Margin. The Authority will assess whether the licensee has demonstrated that it has met the assessment criteria for each individual Relevant Market Segment of the Local Connections Market. The value of ICEO<sub>t-3</sub> for failing to meet the assessment criteria in a specific market segment is calculated using the formula below:

$$\text{ICEO}_{t-3} = \left( \frac{\text{The value for the licensee specified in Table 1 in Appendix 1 in Regulatory Year } t - 3}{\text{Number of Relevant Market Segments of the Local Connections Market for the licensee in Regulatory Year } t-3} \right)$$

2E.13 The penalty will not be applied for performance in Relevant Market Segments of the Local Connections Market where the licensee is able to earn an Unregulated Margin.

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- 2E.14 If a licensee loses the ability to earn an Unregulated Margin in a Relevant Market Segment of the Local Connections Market during Regulatory Year t, then the Authority will consult for a period of at least 28 days with the licensee and stakeholders about whether the licensee should be exposed to a potential penalty under this incentive for Regulatory Year t, and will have regard to any representations received.

### **Part C: The process for issuing or modifying the Incentive on Connections Engagement Guidance**

- 2E.15 The Authority will issue, and may modify, the Incentive on Connections Engagement Guidance by issuing a direction for that purpose to every licensee in whose licence this condition has effect.
- 2E.16 A direction issued by the Authority under paragraph 2E.15 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to all licensees in whose licence this condition has effect, set out the text of the proposed Incentive on Connections Engagement Guidance (or modifications to it) that it proposes to direct;
  - (b) specified in the Notice the reasons for the Authority's proposals;
  - (c) specified in the Notice the date on which it proposes that the provisions of the document (or modifications to it) should take effect;
  - (d) specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
  - (e) considered any representations duly received in response to the Notice.

### **Part D: Interpretation**

- 2E.17 For the purposes of this condition:

<b>Incentive on Connections Engagement Guidance</b>	means the guidance document of that name published on the Authority's Website for the purposes of this condition.
---	---



## Appendix 1

**Table 1 Maximum exposure to the Incentive on Connections  
Engagement (£m, in 2012/13 prices)**

	Regulatory Year (year of performance)							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
EMID	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
SWALES	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
SWEST	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## CRC 2F. Time to Connect Incentive

### Introduction

- 2F.1 This condition sets out the mechanisms for calculating the amount of the term  $TTC_t$  (the Time to Connect Incentive).
- 2F.2 The application of the  $TTC_t$  term in Part D of CRC 2A (Restriction of Allowed Distribution Network Revenue) adjusts the amount of the incentive revenue adjustment term ( $IP_t$ ), in order to reflect the performance of the licensee in its timeliness of providing connection services.
- 2F.3 Where the expressions “LVSSA”, “LVSSB”, “Time to Quote” or “Time to Connect” appear in the name attributed to any algebraic term in this condition, they are to be read in accordance with the meanings given to them, respectively, in Part F of this condition.

### Part A: Calculation of the Time to Connect Incentive ( $TTC_t$ )

- 2F.4 For the purposes of Part D of CRC 2A, the value of the Time to Connect Incentive adjustment in Regulatory Year  $t$  ( $TTC_t$ ) is derived in accordance with the following formula:

$$TTC_t = (TQA_{t-2} + TQB_{t-2} + TCA_{t-2} + TCB_{t-2}) \times RPIA_{t-2}$$

where:

- $TQA_{t-2}$  (the LVSSA Time to Quote term) means the adjustment in Part B below, in respect of the licensee’s performance in Regulatory Year  $t-2$  in relation to the LVSSA Time to Quote target.
- $TQB_{t-2}$  (the LVSSB Time to Quote term) means the adjustment in Part C below, in respect of the licensee’s performance in Regulatory Year  $t-2$  in relation to the LVSSB Time to Quote target.
- $TCA_{t-2}$  (the LVSSA Time to Connect term) means the adjustment in Part D below, in respect of the licensee’s performance in Regulatory Year  $t-2$  in relation to the LVSSA Time to Connect target.
- $TCB_{t-2}$  (the LVSSB Time to Connect term) means the adjustment in Part E below, in respect of the licensee’s performance in Regulatory Year  $t-2$  in relation to the LVSSB Time to Connect target.
- $RPIA_{t-2}$  has the meaning given in Part C of CRC 2A.

- 2F.5 The value of the  $TTC_t$  term is zero for Regulatory Years 2015/16 and 2016/17.

**Part B: Adjustments arising from the TQA term**

2F.6 In the calculation of the  $TTC_t$  term, the term  $TQA_t$  refers to the LVSSA Time to Quote term.

If  $TQAP_t > TQAT_t$ , then  $TQA_t = 0$

otherwise:

$$TQA_t = \min(TQARE_t, (TQAT_t - TQAP_t) \times TQAI_t)$$

where:

$TQARE_t$  (*LVSSA Time to Quote revenue exposure term*) means the maximum positive adjustment to allowed revenue as specified for Regulatory Year  $t$  for the licensee in Table 1 in Appendix 1, expressed in £m in 2012/13 prices.

$TQAT_t$  (*LVSSA Time to Quote target term*) means the target time taken to produce a LVSSA quotation for Regulatory Year  $t$ . The value of this term for Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19 is 8.21 working days.

The Authority will notify the licensee of the value of this term for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23 in a direction given for the purposes of this condition.

Before issuing a direction, the Authority will consult for a period of at least 28 days with the licensee and all other Distribution Services Providers and will consider all representations duly received within that period, along with such existing industry performance data as may be relevant.

$TQAP_t$  (*LVSSA Time to Quote performance term*) means the licensee's average time taken to produce a LVSSA quotation in respect of the relevant Distribution System for Regulatory Year  $t$ .

$TQAI_t$  (*LVSSA Time to Quote incentive rate term*) means the incentive rate for the LVSSA Time to Quote term for Regulatory Year  $t$ , as specified for Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19 in Table 2 of Appendix 1. The Authority will notify the licensee of the value of this term for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23 in a direction given for the purposes of this condition.

Before issuing a direction, the Authority will consult for a period of at least 28 days with the licensee and all other Distribution Services Providers and will consider all representations duly received within that period, along with such existing industry performance data as may be relevant.

**Part C: Adjustments arising from the TQB term**

2F.7 In the calculation of the  $TTC_t$  term, the term  $TQB_t$  refers to the LVSSB Time to Quote term.

2F.8 The value of the  $TQB_t$  term is derived in accordance with the following formulae:

If  $TQBP_t > TQBT_t$ , then  $TQB_t = 0$

otherwise:

$TQB_t = \min(TQBRE_t, (TQBT_t - TQBP_t) \times TQBI_t)$

where:

$TQBRE_t$  (*LVSSB Time to Quote revenue exposure term*) means the maximum positive adjustment to allowed revenue as specified for Regulatory Year t for the licensee in Table 3 in Appendix 1, expressed in £m in 2012/13 prices.

$TQBT_t$  (*LVSSB Time to Quote target term*) means the target time taken to produce a LVSSB quotation for Regulatory Year t, and for Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19 is 11.73 working days. The Authority will notify the licensee of the value of this term for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23 in a direction given for the purposes of this condition.

Before issuing a direction, the Authority will consult for a period of at least 28 days with the licensee and all other Distribution Services Providers and will consider all representations duly received within that period, along with such existing industry performance data as may be relevant.

$TQBP_t$  (*LVSSB Time to Quote performance term*) means the licensee's average time taken to produce a LVSSB quotation in respect of the relevant Distribution System for Regulatory Year t.

$TQBI_t$  (*LVSSB Time to Quote incentive rate term*) means the incentive rate for the LVSSB Time to Quote term for Regulatory Year t as specified for Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19 in Table 4 of Appendix 1. The Authority will notify the licensee of the value of this term for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23 in a direction given for the purposes of this condition.

Before issuing a direction, the Authority will consult for a period of at least 28 days, with the licensee and all other Distribution Services Providers and will consider all representations duly received within that period, along with such existing industry performance data as may be relevant.

**Part D: Adjustments arising from the TCA term**

2F.9 In the calculation of the  $TTC_t$  term, the term  $TCA_t$  refers to the LVSSA Time to Connect term.

2F.10 The value of the  $TCA_t$  term is derived in accordance with the following formulae:

If  $TCAP_t > TCAT_t$ , then  $TCA_t = 0$

otherwise:

$$TCA_t = \min(TCARE_t, (TCAT_t - TCAP_t) \times TCAI_t)$$

where:

$TCARE_t$  (*LVSSA Time to Connect revenue exposure term*) means the maximum positive adjustment to allowed revenue as specified for Regulatory Year t for the licensee in Table 5 in Appendix 1, expressed in £m in 2012/13 prices.

$TCAT_t$  (*LVSSA Time to Connect target term*) means the target time taken from LVSSA connection offer acceptance to completion for Regulatory Year t and for Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19 is 42.08 working days. The Authority will notify the licensee of the value of this term for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23 in a direction given for the purposes of this condition.

Before issuing a direction, the Authority will consult for a period of at least 28 days with the licensee and all other Distribution Services Providers and will consider all representations duly received within that period, along with such existing industry performance data as may be relevant.

$TCAP_t$  (*LVSSA Time to Connect performance term*) means the licensee's average time taken from LVSSA connection offer acceptance to completion, in respect of the relevant Distribution System for Regulatory Year t.

$TCAI_t$  (*LVSSA Time to Connect incentive rate term*) means the incentive rate for the LVSSA Time to Connect term for Regulatory Year t and for Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19 is specified in Table 6 in Appendix 1. The Authority will notify the licensee of the value of this term for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23 in a direction given for the purposes of this condition.

Before issuing a direction, the Authority will consult for a period of at least 28 days with the licensee and all other Distribution Services Providers and will consider all representations duly received within

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that period, along with such existing industry performance data as may be relevant.

### Part E: Adjustments arising from the TCB term

2F.11 In the calculation of  $TTC_t$ , the term  $TCB_t$  refers to the LVSSB Time to Connect term.

2F.12 The value of the  $TCB_t$  term is derived in accordance with the following formulae:

If  $TCBP_t > TCBT_t$ , then  $TCB_t = 0$

otherwise:

$$TCB_t = \min(TCBRE_t, (TCBT_t - TCBP_t) \times TCBI_t)$$

where:

$TCBRE_t$  (*LVSSB Time to Connect revenue exposure term*) means the maximum positive adjustment to allowed revenue as specified for Regulatory Year  $t$  for the licensee in Table 7 in Appendix 1, expressed in £m in 2012/13 prices.

$TCBT_t$  (*LVSSB Time to Connect target term*) means the target time from LVSSB connection offer acceptance to completion for Regulatory Year  $t$  and for Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19 is 52.70 working days. The Authority will notify the licensee of the value of this term for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23 in a direction given for the purposes of this condition.

Before issuing a direction, the Authority will consult for a period of at least 28 days with the licensee and all other Distribution Services Providers and will consider all representations duly received within that period, along with such existing industry performance data as may be relevant.

$TCBP_t$  (*LVSSB Time to Connect performance term*) means the licensee's average time taken from LVSSB connection offer acceptance to completion, in respect of the relevant Distribution System for Regulatory Year  $t$ .

$TCBI_t$  (*LVSSB Time to Connect incentive rate term*) means the incentive rate for the LVSSB Time to Connect term for Regulatory Year  $t$  and for Regulatory Years 2015/16, 2016/17, 2017/18 and 2018/19 is specified in Table 8 of Appendix 1. The Authority will notify the licensee of the value of this term for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23 in a direction given for the purposes of this condition.

Before issuing a direction, the Authority will consult for a period of at least 28 days with the licensee and all other Distribution Services Providers and will consider all representations duly received within

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that period, along with such existing industry performance data as may be relevant.

### Part F: Interpretation

2F.13 For the purposes of this condition:

<b>LVSSA</b>	means an LV demand connection (other than of a load that could reasonably be expected to cause disruption to other Customers) to single premises, involving a single-phase connection and no significant work other than the provision of a service line and the Electricity Distributor's fuses, as further clarified in the RIGs.
<b>LVSSB</b>	<p>means a connection (other than of a load that could reasonably be expected to cause disruption to other Customers) via low-voltage circuits fused at 100 amperes or less per phase with whole-current metering, and where the highest voltage of the assets involved in providing such connection, and any associated works, is low voltage, to:</p> <p>(a) a development scheme requiring more than one but fewer than five single-phase connections at Domestic Premises and involving only the provision of a service line and the Electricity Distributor's fuses; or</p> <p>(b) a development scheme requiring fewer than five single-phase connections at Domestic Premises and involving an extension of the existing low-voltage network; or</p> <p>(c) single premises requiring a two-phase or three-phase connection and involving only the provision of a service line and the Electricity Distributor's fuses,</p> <p>all as further clarified in the RIGs.</p>
<b>Time to Connect</b>	means the time taken (in working days) to complete a connection, once the licensee has received acceptance of a connection quotation, as further clarified in the RIGs.
<b>Time to Connect Incentive</b>	means the incentive used to measure and reward Time to Connect and Time to Quote performance, in accordance with this condition.

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### Time to Quote

means the time taken (in working days) to issue a connection quotation, from the receipt of an initial application, as further clarified in the RIGs.

### APPENDIX 1- Maximum revenue exposure and incentive rate, by licensee, for each element of the Time to Connect (£m, in 2012/13 prices)

**Table 1: TQARE<sub>t</sub> – Maximum revenue exposure for the LVSSA Time to Quote term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWALES	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SWEST	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								



**Table 2: TQA<sub>t</sub> – Incentive rate for the LVSSA Time to Quote term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.22	0.22	0.22	0.22	-	-	-	-
EMID	0.22	0.22	0.22	0.22	-	-	-	-
SWALES	0.10	0.10	0.10	0.10	-	-	-	-
SWEST	0.15	0.15	0.15	0.15	-	-	-	-
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**Table 3: TQBRE<sub>t</sub> – Maximum revenue exposure for the LVSSB Time to Quote term (£m, in 2012/13 prices) in relation to performance in the Regulatory years 2015/16 to 2022/23**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWALES	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SWEST	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**Table 4: TQBl<sub>t</sub> – Incentive rate for the LVSSB Time to Quote term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.25	0.25	0.25	0.25	-	-	-	-
EMID	0.24	0.24	0.24	0.24	-	-	-	-
SWALES	0.12	0.12	0.12	0.12	-	-	-	-
SWEST	0.17	0.17	0.17	0.17	-	-	-	-
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**Table 5: TCARE<sub>t</sub> – Maximum revenue exposure for the LVSSA Time to Connect term (£m, in 2012/13 prices) in relation to performance in the Regulatory years 2015/16 to 2022/23**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWALES	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SWEST	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**Table 6: TCA<sub>t</sub> – Incentive rate for the LVSSA Time to Connect term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.04	0.04	0.04	0.04	-	-	-	-
EMID	0.04	0.04	0.04	0.04	-	-	-	-
SWALES	0.02	0.02	0.02	0.02	-	-	-	-
SWEST	0.03	0.03	0.03	0.03	-	-	-	-
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**Table 7: TCBRE<sub>t</sub> – Maximum revenue exposure for the LVSSB Time to Connect term (£m, in 2012/13 prices) in relation to performance in the Regulatory years 2015/16 to 2022/23**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWALES	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SWEST	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**Table 8: TCBI<sub>t</sub> – Incentive rate for the LVSSB Time to Connect term (£m, in 2012/13 prices) in relation to performance in the Regulatory Years 2015/16 to 2022/23**

	Regulatory Year							
Licensee	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.03	0.03	0.03	0.03	-	-	-	-
EMID	0.03	0.03	0.03	0.03	-	-	-	-
SWALES	0.01	0.01	0.01	0.01	-	-	-	-
SWEST	0.02	0.02	0.02	0.02				
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

## **CRC 2G. The Losses Discretionary Reward**

### **Introduction**

- 2G.1 This condition sets out the mechanism for calculating the amount of the  $LDR_t$  (the Losses Discretionary Reward) term.
- 2G.2 The  $LDR_t$  term in Part D of CRC 2A (Restriction of Allowed Distribution Network Revenue) provides for a reward to be applied (by means of a positive adjustment to the incentive revenue adjustment term ( $IP_t$ )) to the extent that the licensee meets the criteria in relation to its activities associated with managing electricity Distribution Losses set out in the Losses Discretionary Reward Guidance Document (“LDRGD”).
- 2G.3 Table 1 to Appendix 1 sets out the maximum amount of the Losses Discretionary Reward available to Distribution Services Providers in aggregate in each Regulatory Year.
- 2G.4 Part C of this condition makes provision for the modification of the LDRGD.

### **Part A: Assessment of the Losses Discretionary Reward**

- 2G.5 In order to be considered for the Losses Discretionary Reward, the licensee must demonstrate that it has met the criteria in respect of the relevant Regulatory Year provided for in the LDRGD, in accordance with such procedures and timescales as are set out in that document.
- 2G.6 If the Authority considers that the licensee has demonstrated that it has met the criteria referred to in paragraph 2G.5, it may determine a positive adjustment to the  $IP_t$  in accordance with Part B of this condition.
- 2G.7 In addition to making provision for the matters mentioned in paragraph 2G.5, the LDRGD may also make provision for:
- (a) the appointment by the Authority, where it considers it to be appropriate, of persons to assist it in the assessment of the licensee’s submissions and to make recommendations based on specified areas of assessment;
  - (b) the specified areas of assessment to be considered; and
  - (c) the manner and process by which the licensee's submissions will be assessed against those specified areas and by which the Authority will determine any reward.

### **Part B: Calculation of the LDR term**

- 2G.8 For the Regulatory Years beginning on 1 April 2015, 1 April 2016, 1 April 2018, 1 April 2020 and 1 April 2022, the value of  $LDR_t$  will be zero.



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- 2G.9 For all other Regulatory Years  $t$ , the value of the  $LDR_t$  term is derived in accordance with the following formula:

$$LDR_t = LDRO_{t-1} \times RPIF_t$$

where:

- $LDRO_{t-1}$  means the positive adjustment (if any) determined by the Authority in respect of the licensee's award against the criteria set out in the Losses Discretionary Reward Guidance Document, in Regulatory Year  $t-1$ .
- $RPIF_t$  has the meaning given in Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue).

- 2G.10 The value of the LDRO term will be determined by the Authority:
- (a) by 30 November 2016 (for Regulatory Year 2017/18) for any award in respect of the first tranche of the Losses Discretionary Reward;
  - (b) by 30 November 2018 (for Regulatory Year 2019/20) for any award in respect of the second tranche of the Losses Discretionary Reward; and
  - (c) by 30 November 2020 (for Regulatory Year 2021/22) for any award in respect of the third tranche of the Losses Discretionary Reward.

### **Part C: The process to issue or modify the Losses Discretionary Reward Guidance Document**

- 2G.11 The Authority will issue, and may modify, the LDRGD by issuing a direction for that purpose to every licensee in whose licence this condition has effect.
- 2G.12 A direction issued by the Authority under paragraph 2G.11 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to all licensees in whose licence this condition has effect, set out the text of the LDRGD (or the modifications to it) that it proposes to direct;
  - (b) specified in the Notice the reasons for the Authority's proposals;
  - (c) specified in the Notice the date on which it proposes that the provisions of the document (or the modifications to it) should take effect;
  - (d) specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
  - (e) considered any representations duly received in response to the Notice.

**Part D: Interpretation**

2G.13 For the purposes of this condition:

<b>Losses Discretionary Reward Guidance Document</b>	means the document of that name published on the Authority's Website for the purposes of this condition, as modified from time to time in accordance with this condition, and that sets out guidance on the objectives, criteria and processes of the Losses Discretionary Reward.
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## APPENDIX 1

**Table 1: Maximum value of the Losses Discretionary Reward across all Distribution Services Providers (£m, in 2012/13 prices)**

	To be determined in Regulatory Year (ie t-1)							
Tranche	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
First		8.0						
Second				10.0				
Third						14.0		

## 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 <sub>t</sub>	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 <sub>t</sub>	<p>means the Eligible NIC Bid Preparation Costs for the Regulatory Year t 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). 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 exceed the amount calculated in accordance with this condition.</p> <p>The value of BPC<sub>t</sub> for Regulatory Years t = 2013/14 to 2017/18 is the lower of:</p> <ul style="list-style-type: none"><li>(a) £175,000 in total; or</li><li>(b) 5 per cent of the amount applied for by the Licensee or the group where relevant under the Network Innovation Competition, as defined in CRC 5A (the Network Innovation Competition).</li></ul> <p>For Regulatory Year 2018/19 and in subsequent Regulatory Years BPC<sub>t</sub> will have the value zero.</p>
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 <sub>t</sub>	means the Base Demand Revenue in Regulatory Year t, and is derived in accordance with Part C of CRC 2A.

- 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<sub>t</sub> (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.



**Part D: The NIA Governance Document**

- 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:

<b>Allowable NIA Expenditure</b>	means the amount calculated in accordance with Part B of this condition.
<b>Electricity Distribution Group</b>	means any group of Distribution Services Providers in which the licensee and every other Distribution Services Provider within the group are Affiliates.
<b>Eligible NIA Expenditure</b>	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.
<b>Eligible NIA Project</b>	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.
<b>Eligible NIC Bid Preparation Costs</b>	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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<b>NIA Governance Document</b>	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.
<b>NIA Percentage</b>	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.
<b>Unrecoverable Expenditure</b>	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.

**APPENDIX 1: NIA Percentage**  
**(see the NIAV term under Part B of this condition)**

Licensee	NIA Percentage (%)
ENWL	
NPgN	
NPgY	
WMID	0.50
EMID	0.50
SWALES	0.50
SWEST	0.50
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

**CRC 2I. Not used**

## CRC 2J. Low Carbon Networks Fund

### Introduction

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

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

- 2J.3 The following functions are to be discharged by the Low Carbon Networks Fund:
- (a) the recovery of funding for Eligible LCN Fund Projects raised through revenues contributed through the licensee's Use of System Charges between 1 April 2010 and 31 March 2015 ("the First Tier Funding Mechanism") that the Authority determines to be unrecoverable; and
  - (b) the funding of Eligible LCN Fund Projects and awards through revenues contributed through the Use of System Charges of all Distribution Services Providers ("the Second Tier and Discretionary Funding Mechanism") in accordance with Part B below and the LCN Fund Governance Document.
- 2J.4 The amount of the LCN term that is to be incorporated into the Allowed Distribution Network Revenue in accordance with the provisions of CRC 2A and this condition in respect of any Regulatory Year comprises the total of the allowed revenues of the licensee recovered from Use of System Charges under each particular funding mechanism set out in this licence condition in that year.
- 2J.5 Accordingly, for the purposes of Part B of CRC 2A, which provides for the calculation of the licensee's Allowed Distribution Network Revenue, the amount of the LCN adjustment in Regulatory Year  $t$  is derived from the following formula (in this condition, the "LCN <sub>$t$</sub>  Formula"):

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

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where:

- (a) LCN2<sub>t</sub> is an amount determined under the Second Tier and Discretionary Funding Mechanism in accordance with Part C of this condition and the LCN Fund Governance Document; and
- (b) LCN1<sub>t</sub> is an amount recovered by the licensee in relation to a previous Regulatory Year under the First Tier Funding Mechanism that the Authority has determined, in accordance with the provisions set out in the LCN Fund Governance Document, to be unrecoverable.

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

- 2J.6 The Second Tier and Discretionary Funding Mechanism relates to the recovery by, and apportionment among, the licensee and other Distribution Services Providers of:
- (a) Second Tier Funding;
  - (b) Discretionary Funding;
  - (c) Halted Project Revenues;
  - (d) Disallowed Expenditure;
  - (e) Returned LCN Fund Royalties; and
  - (f) LCN Fund Returned Project Revenues.
- 2J.7 Second Tier Funding is the aggregate (for the licensee and all other Distribution Services Providers) of all the Approved Amounts in the 2015/16 Regulatory Year.
- 2J.8 Discretionary Funding is the aggregate (for the licensee and all other Distribution Services Providers) of the additional funding awarded by the Authority, on a discretionary basis in accordance with the LCN Fund Governance Document, in respect of Eligible LCN Fund Projects.
- 2J.9 Halted Project Revenues are revenues received (whether by the licensee or another Distribution Services Provider) under the Second Tier and Discretionary Funding Mechanism in respect of an Eligible LCN Fund Project that have not yet been spent, or otherwise committed, at the time that the Authority requires that Eligible LCN Fund Project to be halted in accordance with the provisions of the LCN Fund Governance Document or those of the relevant Project Direction.
- 2J.10 Disallowed Expenditure is revenue received (whether by the licensee or another Distribution Services Provider) under the Second Tier and Discretionary Funding Mechanism that the Authority determines not to have been spent in accordance with the provisions of the LCN Fund Governance Document or those of the relevant Project Direction.
- 2J.11 Returned LCN Fund Royalties are the revenues earned from intellectual property generated through Second Tier LCN Fund projects (whether by the licensee or another Distribution Services Provider), less Directly Attributable Costs, and that are

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payable to ~~customers~~ Customers under the Second Tier and Discretionary Funding Mechanism, and ~~is~~ are calculated in accordance with the provisions of the LCN Fund Governance Document.

- 2J.12 For the purpose of paragraph 2J.11, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Second Tier LCN Fund projects (whether by the licensee or another Distribution Services Provider) that must not have been remunerated by Use of System Charges, charges for Metering Point Administration Service, Legacy Metering Equipment Charges or revenue from Data Services or Directly Remunerated Services or by the Second Tier and Discretionary Funding Mechanism.
- 2J.13 LCN Fund Returned Project Revenues are:
- (a) revenues received (whether by the licensee or another Distribution Services Provider) under the Second Tier and Discretionary Funding Mechanism in respect of an Eligible LCN Fund Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the LCN Fund Governance Document and/or the terms of the relevant Project Direction; or
  - (b) revenues earned from Eligible LCN Fund Project (whether by the licensee or another Distribution Services Provider) other than Returned Royalty Income, that the Authority determines are payable to customers.
- 2J.14 The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Second Tier and Discretionary Funding Mechanism, or where the Authority considers it to be appropriate, whether they should be retained by the licensee.
- 2J.15 For the purposes of the  $LCN_t$  Formula,  $LCN2_t$  is to be the amount specified for Regulatory Year  $t$  that is to be recovered by each Distribution Services Provider as directed by the Authority under paragraph 2J.16 in relation to:
- (a) the Second Tier Funding specified for Regulatory Year  $t$ ;
  - (b) any Discretionary Funding specified for Regulatory Year  $t$ ;
  - (c) any Halted Project Revenues specified for Regulatory Year  $t$ ;
  - (d) any Disallowed Expenditure specified for Regulatory Year  $t$ ;
  - (e) any Returned LCN Fund Royalties specified for Regulatory Year  $t$ ; and
  - (f) any LCN Fund Returned Project Revenues specified for Regulatory Year  $t$ .
- 2J.16 In each Regulatory Year  $t$ , as provided for by the LCN Fund Governance Document, the Authority will calculate and, by direction given to all of the Distribution Services Providers, specify in accordance with the appropriate provisions set out in the LCN Fund Governance Document:

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- (a) the value for  $LCN2_t$  for each Distribution Services Provider (being the amount to be recovered by each Distribution Services Provider through Use of System Charges in order to contribute to its own or another Distribution Services Provider's Second Tier Funding and Discretionary Funding for that Regulatory Year);
- (b) the net amounts to be transferred between Distribution Services Providers in order to ensure that each Distribution Services Provider receives an amount (if any) equal to the proportion of the Second Tier Funding and Discretionary Funding for that Regulatory Year that is attributable to the licensee's Eligible LCN Fund Projects (adjusted to take into account any Halted Project Revenue, Returned LCN Fund Royalties, Disallowed Expenditure and LCN Fund Returned Project Revenues); and
- (c) the manner in which and the timescale over which the net amounts referred to in 2J.16(b) are to be transferred.

2J.17 The licensee must comply with any direction issued by the Authority under paragraph 2J.16.

2J.18 Eligibility, assessment, implementation, and other relevant matters relating to Eligible LCN Fund Projects under the Second Tier and Discretionary Funding Mechanism are provided for in or pursuant to the LCN Fund Governance Document issued by the Authority under Parts D and E of this condition.

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

2J.19 For the purposes of the  $LCN_t$  Formula, the amount of  $LCN1_t$  is an amount recovered by the licensee in relation to Regulatory Year  $t$  or a previous Regulatory Year under the First Tier Funding Mechanism that the Authority has determined, in accordance with the provisions set out in the LCN Fund Governance Document, to be unrecoverable.

2J.20 In any Regulatory Year  $t$ , the Authority may set, by direction given to the licensee, an amount for  $LCN1_t$  that will reduce the licensee's Allowed Distribution Network Revenue by the amount that the Authority has determined to be unrecoverable.

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

2J.21 The Authority will issue, and may from time to time revise, a document, to be known as the LCN Fund Governance Document, for purposes connected with the regulation, governance, and administration of the Low Carbon Networks Fund.

2J.22 The LCN Fund Governance Document may, amongst other things, make provision about or impose requirements in respect of:

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- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of Eligible LCN Fund Projects;
- (b) the criteria against which the funding of such projects will be assessed and approved (where necessary);
- (c) the process and procedures that will be in place for the assessment, approval and financing of such projects' funding (where necessary);
- (d) the arrangements for ensuring that relevant matters learnt from the implementation of Eligible LCN Fund Projects can be captured and disseminated;
- (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the LCN Fund Governance Document);
- (f) arrangements relating to intellectual property rights, including Returned LCN Fund Royalties, in respect of Eligible LCN Fund Projects; and
- (g) any other matters related to the regulation, governance, or administration of the Low Carbon Networks Fund.

2J.23 Where any provisions of the LCN Fund Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the document were part of this condition.

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

2J.24 The Authority will issue, and may modify, the LCN Fund Governance Document by issuing a direction for that purpose to every licensee in whose licence this condition has effect.

2J.25 A direction issued by the Authority under paragraph 2J.24 will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to all licensees in whose licence this condition has effect, set out the text of the proposed LCN Fund Governance Document (or modifications to it) that it proposes to direct;
- (b) specified in the Notice the reasons for the Authority's proposals;
- (c) specified in the Notice the date on which it proposes that the provisions of the document (or modifications to it) should take effect;



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- (d) specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
  - (e) considered any representations duly received in response to the Notice.
- 2J.26 The requirements of paragraphs 2J.24 and 2J.25 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
- 2J.27 For the purposes of paragraph 2J.24 the reference to issuing the LCN Fund Governance Document includes issuing any revision of it and the procedure provided for in paragraph 2J.25 will apply to any such revision.

### Part F: Interpretation

- 2J.28 For the purposes of this condition:

<b>Approved Amount</b>	means an amount approved by the Authority in relation to a claim submitted by a Distribution Services Provider to receive funding for an Eligible LCN Fund Project under the Second Tier and Discretionary Funding Mechanism, where such claim complies in all respects with such requirements as are imposed by the LCN Fund Governance Document.
<b>Data Services</b>	means the totality of: <ul style="list-style-type: none"><li>(a) Metering Point Administration Services provided under and in accordance with the provisions of the Master Registration Agreement; and</li><li>(b) Data Transfer Services provided by the Data Transfer Service.</li></ul>
<b>Directly Attributable Costs</b>	has the meaning given to that term in paragraph 2J.12.
<b>Disallowed Expenditure</b>	has the meaning given to that term in paragraph 2J.10.
<b>Discretionary Funding</b>	has the meaning given in paragraph 2J.8.

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<b>Eligible LCN Fund Project</b>	means a project undertaken by a Distribution Services Provider that in the Authority's view satisfies such requirements of the LCN Fund Governance Document as are necessary to enable the project to be funded under the First Tier Funding Mechanism or the Second Tier and Discretionary Funding Mechanism (as the case may be).
<b>First Tier Funding Mechanism</b>	has the meaning given to that term in paragraph 2J.3(a).
<b>Halted Project Revenues</b>	has the meaning given to that term in paragraph 2J.9.
<b>LCN Fund Governance Document</b>	means the document issued by the Authority under Part D of this condition including matters relating to the First Tier Funding Mechanism, the Second Tier and Discretionary Funding Mechanism and related matters, subject to the requirements of Part E.
<b>LCN<sub>t</sub> Formula</b>	has the meaning given to that term in paragraph 2J.5.
<b>LCN Fund Returned Project Revenues</b>	has the meaning given to that term in Part C of this condition.
<b>Legacy Metering Equipment Charges</b>	means the charges levied by the licensee for the provision of Legacy Metering Equipment in accordance with the relevant Charging Statement prepared by the licensee under standard condition 36 (Charges for the provision of Legacy Metering Equipment and Data Services).
<b>Project Direction</b>	means a direction issued by the Authority pursuant to the LCN Fund Governance Document setting out the terms to be followed in relation to the Eligible LCN Fund Project as a condition of its being funded pursuant to the Second Tier and Discretionary Funding Mechanism.
<b>Second Tier and Discretionary Funding Mechanism</b>	has the meaning given to that term in paragraph 2J.6.
<b>Second Tier Funding</b>	has the meaning given to that term in paragraph 2J.7.



## **CRC 2K. Margins on licensee's Connection Activities**

### **Introduction**

2K.1 This condition:

- (a) prohibits the licensee from charging a Margin in a Connection Charge that relates to any of its Connection Activities in an Excluded Market Segment of the Local Connections Market;
- (b) except where the Authority directs otherwise, allows the licensee to charge an Unregulated Margin in a Connection Charge that relates to any of its Connection Activities in Relevant Market Segments of the Local Connections Market where the Authority has determined that effective competition has been established;
- (c) provides a mechanism for the Authority to direct the level of Margin that a licensee may charge in a Connection Charge that relates to any of its Connection Activities in Relevant Market Segments of the Local Connections Market where the Authority has not determined that effective competition has been established; and
- (d) provides a mechanism for the Authority to direct the licensee to repay such part of the Margin charged in a Connection Charge that relates to any of its Connection Activities as the Authority considers appropriate, where the Legal Requirements Test has ceased to be satisfied.

### **Part A: The principal restrictions**

- 2K.2 The licensee must not charge a Margin in a Connection Charge that relates to any of its Connection Activities in an Excluded Market Segment of the Local Connections Market.
- 2K.3 Unless directed to do otherwise by the Authority under paragraph 2K.4, the licensee must charge a Margin of four per cent in a Connection Charge that relates to any of its Connection Activities in a Relevant Market Segment of the Local Connections Market where the Authority has not determined that effective competition has been established.
- 2K.4 The Authority may, having first consulted with the licensee, issue a direction amending the level of Margin that the licensee must charge under paragraph 2K.3
- 2K.5 The licensee may charge an Unregulated Margin in Relevant Market Segments of the Local Connections Market where the Authority has determined, in respect of any Relevant Market Segment, that the licensee is entitled (but not obliged) to charge an Unregulated Margin in Connection Charges in relation to its Connection Activities in the Relevant Market Segment.

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- 2K.6 The licensee may also charge an Unregulated Margin in a Connection Charge that relates to any of its Connection Activities in a Relevant Market Segment of the Local Connection Market where the Authority did not, within four months of receiving a Competition Notice from the licensee, make a determination in respect of a Relevant Market Segment to which that Competition Notice relates.
- 2K.7 The provisions of paragraph 2K.5 and 2K.6 are to be treated as placing no limit on the amount of the Unregulated Margin that the licensee may charge in a Connection Charge that relates to any of its Connection Activities in the Relevant Market Segment of the Local Connections Market.

### **Part B: Provisions where the Legal Requirements Test has ceased to be satisfied**

- 2K.8 Where the Authority at any time determines that the Legal Requirements Test has ceased to be satisfied, it may:
- (a) having first consulted with the licensee, issue a direction specifying the level of Margin that the licensee must charge in a Connection Charge that relates to any of its Connection Activities in Relevant Market Segments of the Local Connections Market in such cases and until such time as are specified in or determined under the direction; and
  - (b) issue to the licensee a Clawback Direction in accordance with the provisions of this licence condition.
- 2K.9 A Clawback Direction is a direction requiring the licensee to make repayment of some or all of the monetary value of the Margin that it had charged in its Connection Charges in relation to its Connection Activities in a Relevant Market Segment of the Local Connections Market during a specified period of time, being, the difference (which may not be less than zero) between the Unregulated Margin and the level of Margin specified by the Authority in the Clawback Direction.
- 2K.10 Any Clawback Direction issued by the Authority must specify both the period of time to which it relates and the proportion of the Margin that the Authority requires the licensee to repay.
- 2K.11 Where a Clawback Direction is issued by the Authority, the specified period of time to which paragraph 2K.10 refers may not commence earlier than the date that the Authority determines to be the earliest date on which the Legal Requirements Test ceased to be satisfied.
- 2K.12 For the purposes of the Clawback Direction, a Margin is treated as having been charged during a period of time if it:
- (a) became due to the licensee under a connection agreement entered into during that period; and

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- (b) was paid to and received by the licensee under that agreement.
- 2K.13 Where a Clawback Direction is issued the licensee must take all reasonable steps to:
  - (a) identify all those persons who were charged the Margin to which the Clawback Direction relates; and
  - (b) repay to each such person, as soon as is practicable, a sum equivalent to the proportion of the Margin that that person paid to the licensee.
- 2K.14 Where, within one year of the date of the Clawback Direction and despite having taken all reasonable steps to do so, the licensee has been unable to repay any sums representing Margins to which a Clawback Direction applies, it must notify the Authority of the aggregate amount of the sums remaining unpaid.
- 2K.15 The aggregate amount notified to the Authority will constitute the value of the  $AUM_t$  term for the purposes of CRC 2A (Restriction of Allowed Distribution Network Revenue).
- 2K.16 Where a Margin became due to the licensee under a connection agreement entered into during a period of time specified in a Clawback Direction, but has not been paid to and received by the licensee at the date of the direction, the licensee must waive its right to recover such proportion of that Margin as is specified in the Clawback Direction.

### **Part C: Reporting requirements**

- 2K.17 For each market segment where the licensee is able to earn an Unregulated Margin in accordance with the provisions of paragraphs 2K.5 and 2K.6, the licensee must submit to the Authority by no later than 30 June in each relevant Regulatory Year a report that explains:
  - (a) the extent to which the evidence relied on by the licensee in its Competition Notice and any associated evidence to establish that the Legal Requirements Test and Competition Test were satisfied is still accurate; and
  - (b) where appropriate, how change has occurred in the Relevant Market Segment that is the subject of such evidence.
- 2K.18 The report must be accompanied by such evidence as the licensee considers necessary to establish that the evidence provided by the licensee in its Competition Notice and any associated evidence is still accurate or has changed.

**Part D: Interpretation**

2K.19 For the purposes of this condition:

<b>Clawback Direction</b>	means a direction given by the Authority in accordance with Part B of this condition.
<b>Competition Notice</b>	means a Notice given by the licensee in accordance with Part D of CRC 12 (Licensee's Connection Activities: Margins and the development of competition) of this licence in the form in which that condition was in force at 31 March 2015.
<b>Competition Test</b>	means an assessment of whether there is effective competition in a Relevant Market Segment as prescribed in Chapters 10 and 12 of the Authority's decision document published on 7 December 2009 under reference 145/09.
<b>Demand Customer</b>	means, in relation to any energised or de-energised Exit Point on the licensee's Distribution System, the person who is taking, or is deemed to be taking, a supply of electricity through that Exit Point.
<b>Excluded Market Segment</b>	comprises the two Excluded Market Segments that are described in Appendix 1.
<b>Legal Requirements Test</b>	means an assessment of the licensee's compliance, in respect of the making of connections to its Distribution System, with: <ul style="list-style-type: none"><li>(a) paragraph 12.6 (c) of standard condition 12 (Requirement to offer terms for Use of System and connection);</li><li>(b) standard condition 15 (Standards for the provision of Non-Contestable Connection Services);</li><li>(c) standard condition 15A (Connections policy and connection performance);</li><li>(d) standard condition 19 (Prohibition of discrimination under Chapters 4 and 5); and</li><li>(e) the Competition Act 1998.</li></ul>
<b>Metered</b>	means, in relation to any quantity of electricity distributed, measured by an Electricity Meter installed for such purpose.

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### **Unmetered**

means, in relation to any quantity of electricity distributed, the estimated quantity of electricity entering or leaving the licensee's Distribution System in any case where that quantity is not measured by Metering Equipment.



## **Appendix 1**

### **Local Connections Market Segments**

#### **Part 1: Relevant Market Segments**

- A1.1 For the purposes of this condition, the Relevant Market Segments of the Local Connections Market are:
- (a) each of the nine segments listed in paragraphs A1.2 to A1.4, defined by reference to the nature and volume of the Connection Activities and the work associated with them; or
  - (b) any alternative segments that are specified in accordance with paragraphs A1.5 to A1.8.

#### **Demand Connections**

- A1.2 In respect of Metered premises owned or occupied by Demand Customers:
- (a) LV work: low voltage Connection Activities involving only low voltage work, other than in respect of Excluded Market Segments;
  - (b) HV work: low voltage or high voltage Connection Activities involving high voltage work (including where that work is required in respect of Connection Activities within an Excluded Market Segment);
  - (c) HV and EHV work: low voltage or high voltage Connection Activities involving extra high voltage work; and
  - (d) EHV work and above: extra high voltage and 132kV Connection Activities.

#### **Distributed Generation**

- A1.3 In respect of Metered premises in which the connection involves the connection of Relevant DG:
- (a) LV work: low voltage Connection Activities involving only low voltage work; and
  - (b) HV and EHV work: any Connection Activities involving work at high voltage or above.

#### **Unmetered Connections**

- A1.4 In respect of unmetered premises:
- (c) LA work: new Connection Activities in respect of local authority premises;
  - (d) PFI work: new Connection Activities under private finance initiatives; and
  - (e) Other work: all other non-local authority and non-PFI unmetered connections work.

### **Alternative Relevant Market Segments**

- A1.5 The licensee could give to the Authority a Competition Notice that, instead of relating to one or more of the segments listed in paragraphs A1.2 to A1.4, related (in whole or in part) to one or more alternative segments.
- A1.6 For the purposes of paragraph A1.5, an alternative segment is one that consists of one or more subsets, or combinations of subsets, of any of the segments listed in paragraphs A1.2 to A1.4.
- A1.7 If the Authority accepted the alternative segments:
- (a) those segments will become, for the purposes of Parts A to D of this condition, Relevant Market Segments; and
  - (b) the Authority may determine consequential amendments required to the other segments listed in paragraphs A1.2 to A1.4, and any so amended segments will become, for the purposes of Parts A to D of this condition, Relevant Market Segments.
- A1.8 If the Authority rejects the alternative segments, it may not proceed to make a determination in relation to the Competition Notice except in respect of any segments listed in paragraphs A1.2 to A1.4 to which the Notice also relates.

### **Part 2: Excluded Market Segment**

- A1.9 For the purposes of this condition, and subject to paragraph A1.2 (b), the Excluded Market Segment of the Local Connections Market comprises the following two Excluded Market Segments relating to Metered premises that are owned or occupied by Demand Customers and defined by reference to the nature and volume of the Connection Activities:
- (a) Excluded Market Segment 1 means LVSSA connections (as defined in Part F of CRC 2F (Time to Connect Incentive)); and
  - (b) Excluded Market Segment 2 means LVSSB connections (as defined in Part F of CRC 2F (Time to Connect Incentive)).

## CRC 2L. Revenue adjustments in respect of performance failures

### Introduction

- 2L.1 This condition applies for the purpose of adjusting Allowed Distribution Network Revenue, where the sum of payments made by the licensee with reference to the Connection Regulations and any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A (Connection Policy and Connection Performance) exceeds the revenue exposure cap specified for the licensee in Appendix 1 of this condition.

### Part A: Calculation of the CGSRA term

- 2L.2 For the purposes of Part B of CRC 2A (Restriction of Allowed Distribution Network Revenue):

$CGSRA_t$  means the adjustment to Allowed Distribution Network Revenue for payments made by the licensee in respect of failures to achieve performance standards pursuant to the requirements of the Connection Regulations and of any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A (Connection Policy and Connection Performance), where the sum of those payments exceeds the revenue exposure cap specified for the licensee in Appendix 1. For Regulatory Years 2015/16 and 2016/17 the value of the  $CGSRA_t$  is zero. The value of this term is calculated in accordance with the following formula:

$$\text{If } \sum_{2015/16}^{t-2} CGSPM_t > TCGSR \text{ then:}$$
$$CGSRA_t = \sum_{2015/16}^{t-2} CGSPM_t - TCGSR - \sum_{2015/16}^{t-1} CGSRA_t$$

and if not, then the value of  $CGSRA_t$  is zero.

where:

$CGSPM_t$  (*the connection guaranteed standards payments made term*) means the total amount of the payments in Regulatory Year  $t$  that have been made by the licensee to Customers in respect of failures to meet the requirements of the Connection Regulations and of any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A.

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**TCGSR** (*the total connection guaranteed standards revenue exposure term*) means the maximum amount of Allowed Distribution Network Revenue that is exposed for the duration of eight successive Regulatory Years beginning on 1 April 2015 to the requirements of the Connection Regulations and of any Distributed Generation Connection Standards prescribed by the Authority in a DG Standards Direction issued under standard condition 15A, and has the value specified for the licensee in Appendix 1 of this condition.

### Part B: Interpretation

2L.3 For the purposes of this condition:

- Connection Regulations** means regulations made in relation to connection standards of performance under section 39A of the Act.
- Distributed Generation Connection Standards** means any standards specified by the Authority in a DG Standards Direction issued under Standard Condition 15A (Connection Policy and Connection Performance).
- DG Standards Direction** has the meaning given in Part F of standard condition 15A.

## APPENDIX 1

### Total RIIO-ED1 revenue exposure to payments under the Connection Regulations and any Distributed Generation Connection Standards (TCGSR) (£m, in 2012/13 prices)

Licensee	TCGSR (£m)
ENWL	
NPgN	
NPgY	
WMID	56.6
EMID	54.8
SWALES	26.2
SWEST	39.0
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

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

### **Introduction**

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

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

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

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

## **CRC 3A. Legacy price control adjustments**

### **Introduction**

- 3A.1 This condition establishes a framework for determining any revisions to the PCFM Variable Values for the licensee in respect of the legacy price control adjustments that are specified in Parts A, B, C and D of this condition for use in the Annual Iteration Process for the ED1 Price Control Financial Model as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- 3A.2 The application of the mechanisms that are detailed in this condition means that, as a consequence of the Annual Iteration Process, the value of the term MOD for the licensee as calculated for Regulatory Year t for the purposes of CRC 2A (Restriction of Allowed Distribution Network Revenue) will result in an adjustment of the licensee's Base Demand Revenue in respect of, as applicable, the opening tax pool balances, Regulatory Asset Value (RAV) balance, and revenue allowance adjustments attributable to the licensee in respect of:
- (a) activities carried out by the licensee;
  - (b) incentivised performance by the licensee; and
  - (c) costs or expenditure incurred by the licensee,
- in Regulatory Years prior to Regulatory Year 2015/16 (the "legacy period"), in relation to one or more of the schemes and mechanisms referred to in this condition.
- 3A.3 This condition should be read and construed in conjunction with:
- (a) CRC 4A (Governance of ED1 Price Control Financial Instruments) and CRC 4B; and
  - (b) Chapters 13 to 16 of the ED1 Price Control Financial Handbook, which provide further explanation of the provisions set out in this condition.

### **Part A: Determination of revised PCFM Variable Values for opening tax pool balance adjustments**

- 3A.4 This Part A provides for the determination and direction of revised PCFM Variable Values for the licensee for legacy price control adjustments to opening balances for:
- (a) the general tax pool for the licensee (LTPG values);
  - (b) the special tax pool for the licensee (LTPS values); and
  - (c) the deferred revenue expenditure tax pool for the licensee (LTPD and LTPC values),
- where each of those terms has the meaning given in chapter 14 of the ED1 Price Control Financial Handbook.



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- 3A.5 LTPG, LTPS, LTPD and LTPC values are contained only in the columns for Regulatory Years 2013/14 and 2014/15 in the PCFM Variable Values Table for the licensee.
- 3A.6 Subject to paragraphs 3A.29 and 3A.30 of this condition, the Authority will, by 30 November in each Regulatory Year t-1 determine whether any LTPG, LTPS, LTPD or LTPC values for the licensee should be revised in accordance with the methodology contained in chapter 14 of the ED1 Price Control Financial Handbook.
- 3A.7 If any of the values are to be revised, the Authority will direct the revision in accordance with Part F of this condition.

#### **Part B: Determination of revisions to the PCFM Variable Value for legacy adjustments to revenue allowances other than those associated with the DPCR5 RAV Rolling Incentive mechanism (the OLREV values)**

- 3A.8 This Part B provides for the determination and direction of revisions to the PCFM Variable Value for legacy price control adjustments to the licensee's revenue allowances (the OLREV value).
- 3A.9 The OLREV value is contained only in the column for Regulatory Year 2015/16 in the PCFM Variable Values Table for the licensee.
- 3A.10 The OLREV value for the licensee for Regulatory Year 2015/16 is set at zero as at 1 April 2015 because it represents an incremental change to revenue allowance adjustments that were taken into account in the calculation of the licensee's Opening Base Revenue Allowances, being the values for the PU term set out for the licensee in Appendix 1 of CRC 2A.

#### **Determination of revised values for OLREV**

- 3A.11 Subject to paragraphs 3A.29 and 3A.30, the Authority will, by 30 November in each Regulatory Year t-1, determine whether the OLREV value for the licensee for Regulatory ~~year~~ Year 2015/16 should be revised in accordance with paragraphs 3A.12 to 3A.15.
- 3A.12 Subject to paragraphs 3A.29 and 3A.30, the Authority will, by 30 November in each Regulatory Year t-1, determine the OLREV value for the licensee for Regulatory Year 2015/16 to be the sum of the amounts of the adjustments set out in column 1 of Table 1, where each such adjustment amount:
- (a) has been determined in accordance with the methodology set out in the section of chapter 15 of the ED1 Price Control Financial Handbook specified in column 2 of Table 1; and
  - (b) is stated in 2012/13 prices.

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

<b>Adjustment</b>	<b>Section of chapter 15 of the ED1 Price Control Financial Handbook containing methodology</b>
DPCR5 Pension adjustment	Section 2 (i)
DPCR5 Tax adjustment	Section 2 (ii)
DPCR5 Distributed Generation adjustment	Section 2 (iii)
DPCR5 DUoS Bad Debts adjustment	Section 2 (iv)
DPCR5 Traffic Management Act Permit Costs adjustment	Section 2 (v)
DPCR5 Undergrounding and Worst Served Customer Improvements adjustment	Section 2 (vi)
DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels	Section 2 (vii)
DPCR5 High Volume Connections Volume Driver - adjustment resulting from revised allowance levels	Section 2 (viii)
DPCR5 High Value Projects Re-opener - adjustment resulting from revised allowance levels	Section 2 (ix)
DPCR5 Enhanced Physical Site Security and Black Start - adjustment resulting from revised allowance levels	Section 2 (x)
DPCR5 Shetland adjustment (see paragraph 3A.14)	Section 2 (xi)
DPCR5 Flood Prevention adjustment (see paragraph 3A.14)	Section 2 (xii)

3A.13 Each of the adjustment terms listed in Table 1 has the meaning given for it in the specified section of chapter 15 of the ED1 Price Control Financial Handbook.

3A.14 The DPCR5 Shetland adjustment and the DPCR5 Flood Prevention adjustment are only relevant to SSEH and for all other licensees the value of this adjustment is zero.

3A.15 Subject to paragraphs 3A.29 and 3A.30, having determined the OLREV value for the licensee for Regulatory Year 2015/16 by 30 November in any Regulatory Year t-1, the Authority will check whether it is different from the OLREV value contained in

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the PCFM Variable Values Table for the licensee that was used in the immediately preceding Annual Iteration Process. If the value is different, the Authority will direct that the value is to be revised to that determined under paragraph 3A.12.

3A.16 Any direction of a revision to the OLREV value for the licensee for Regulatory Year 2015/16 will be given in accordance with Part F of this condition.

#### **Part C: Determination of revisions to the PCFM Variable Values for legacy adjustments to RAV additions (OLRAV values)**

3A.17 Subject to paragraphs 3A.29 and 3A.30, the Authority will, by 30 November in each Regulatory Year t-1, determine whether the OLRAV value for the licensee for either or both of Regulatory Years 2013/14 or 2014/15 should be revised in accordance with paragraphs 3A.18 to 3A.20.

3A.18 Subject to paragraphs 3A.29 and 3A.30, the Authority will, by 30 November in each Regulatory Year t-1, determine the OLRAV values for the licensee for Regulatory Years 2013/14 and 2014/15 to be, respectively:

- (a) the finalised DPCR5 RAV Additions value for the licensee; minus
- (b) the DPCR5 RAV Additions value used in the determination of the licensee's Opening Base Revenue Allowances,

stated in 2012/13 prices, determined in accordance with the methodology set out in section 3 of chapter 15 of the ED1 Price Control Financial Handbook

3A.19 Subject to paragraphs 3A.29 and 3A.30, having determined the OLRAV values for the licensee for Regulatory Years 2013/14 and 2014/15 by 30 November in any Regulatory Year t-1, the Authority will check whether either is different from the OLRAV value for the equivalent Regulatory Year contained in the PCFM Variable Values Table for the licensee that was used in the immediately preceding Annual Iteration Process. If either value is different, the Authority will direct that the value concerned is to be revised to that determined under paragraph 3A.18.

3A.20 Any direction of a revision to the OLRAV values for the licensee will be given in accordance with Part F of this condition.

#### **Part D: Determination of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value)**

3A.21 This Part D provides for the determination and direction of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value).

3A.22 The RIREV value is contained only in the column for Regulatory Year 2015/16 in the PCFM Variable Values Table for the licensee.

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3A.23 The RIREV value for the licensee for Regulatory ~~year~~ Year 2015/16 is set at zero as at 1 April 2015 because it represents an incremental change to revenue allowance adjustments that were taken into account in the calculation of the licensee's Opening Base Revenue Allowances, being the values for the PU term set out for the licensee in Appendix 1 of CRC 2A.

#### **Determination of revised values for RIREV**

3A.24 Subject to paragraphs 3A.29 and 3A.30, the Authority will, by 30 November in each Regulatory Year t-1, determine whether the RIREV value for the licensee for Regulatory Year 2015/16 should be revised in accordance with paragraphs 3A.25 to 3A.28.

3A.25 Subject to paragraphs 3A.29 and 3A.30, the Authority will, by 30 November in each Regulatory Year t-1, determine the RIREV value for the licensee for Regulatory Year 2015/16 to be the sum of the amounts of the adjustments set out in column 1 of Table 2, where each such adjustment amount:

- (a) has been determined in accordance with the methodology set out in the section of chapter 16 of the ED1 Price Control Financial Handbook specified in column 2 of Table 2; and
- (b) is stated in 2012/13 prices.

**Table 2: Adjustments comprising the RIREV value**

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

3A.26 Each of the adjustment terms listed in Table 2 has the meaning given for it in the specified section of chapter 16 of the ED1 Price Control Financial Handbook.

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- 3A.27 Subject to paragraphs 3A.29 and 3A.30, having determined the RIREV value for the licensee for Regulatory Year 2015/16 by 30 November in any Regulatory Year  $t-1$ , the Authority will check whether it is different from the RIREV value contained in the PCFM Variable Values Table for the licensee that was used in the immediately preceding Annual Iteration Process. If the value is different, the Authority will direct that the value is to be revised to that determined under paragraph 3A.24.
- 3A.28 Any direction of a revision to the RIREV value for the licensee for Regulatory Year 2015/16 will be given in accordance with Part F of this condition.

#### **Part E: Provisions relevant to all legacy price control adjustments**

- 3A.29 The first Regulatory Year in which the Authority will make the determinations referred to in paragraphs 3A.6, 3A.11, 3A.17 and 3A.24 is Regulatory Year 2015/16.
- 3A.30 The last Regulatory Year in which the Authority will make the determinations referred to in paragraphs 3A.6, 3A.11, 3A.17 and 3A.24 is Regulatory Year 2021/22.
- 3A.31 The effects of using revised PCFM Variable Values determined under this condition in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year  $t$  and, for the avoidance of doubt, will not, in respect of any particular Annual Iteration Process, have any retroactive effect on a previously directed value of the term MOD.

#### **Part F: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority**

- 3A.32 Subject to, and in accordance with, the provisions of Parts A, B, C and D of this condition, revised LTPG, LTPS, LTPD, LTPC, OLREV, OLRAV and RIREV values for the licensee, determined by the Authority, will be directed by the Authority by 30 November in each Regulatory Year  $t-1$ .
- 3A.33 Any direction issued under paragraph 3A.32 will include a statement of the adjustment values set out in Tables 1 and 2 that were used in the determination of any revised OLREV and RIREV values.
- 3A.34 A direction under paragraph 3A.32 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee set out the revised values of LTPG, LTPS, LTPD, LTPC, OLREV, OLRAV and RIREV that it proposes to direct;
  - (b) stated in that Notice that these values have, as applicable, been determined in accordance with Parts A, B, C and D of this condition;

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- (c) specified in the Notice the period (which will not be less than 14 days from the date of the Notice) within which the licensee may make any representations to the Authority about its proposals; and
- (d) considered any representations duly received in response to the Notice.

3A.35 If, for any reason in any Regulatory Year  $t-1$ , the Authority does not make a required direction in relation to revised LTPG, LTPS, LTPD, LTPC, OLREV, OLRAV or RIREV values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B and, in any event, before directing a value for  $MOD_t$  for the licensee under that paragraph.

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

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

3A.37 For the purposes of this condition:

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

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DPCR5 Pension	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 RAV Additions	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 RAV Rolling Incentive	has the meaning given in chapter 16 of the ED1 Price Control Financial Handbook.
DPCR5 Rising and Lateral Mains	has the meaning given in chapter 16 of the ED1 Price Control Financial Handbook.
DPCR5 Tax	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 Traffic Management Act Permit Costs	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 Undergrounding and Worst Served Customer Improvements	has the meaning given in chapter 15 of the ED1 Price Control Financial Handbook.
DPCR5 Workforce Renewal	has the meaning given in chapter 16 of the ED1 Price Control Financial Handbook.

### **CRC 3B. Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments**

#### **Introduction**

- 3B.1 The Totex Incentive Mechanism provides for the licensee to bear a specified share of any overspend, or retain a specified share of any underspend, represented in either case by a difference, in respect of a given Regulatory Year, between:
- (a) the licensee's allowed Totex expenditure; and
  - (b) the licensee's actual Totex expenditure.
- 3B.2 The "specified share" referred to in paragraph 3B.1 is represented by the Totex Incentive Strength Rate, as specified for the licensee in Appendix 1 of this condition.
- 3B.3 This condition establishes the basis for determining PCFM Variable Values for the licensee's actual Totex expenditure, in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the ED1 Price Control Financial Model in accordance with CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- 3B.4 The application of the mechanisms referred to in this condition ensures that, as a consequence of the Annual Iteration Process:
- (a) the value of the term MOD for the licensee as calculated for Regulatory Year *t* for the purposes of CRC 2A (Restriction of Allowed Distribution Network Revenue) will result in an adjustment of the licensee's Base Demand Revenue; and
  - (b) relevant adjustments will be made to the licensee's Regulatory Asset Value ("RAV") balance,
- to reflect the licensee's performance under the Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the ED1 Price Control Financial Handbook.
- 3B.5 Totex Incentive Mechanism Adjustments are applied under the Annual Iteration Process for the ED1 Price Control Financial Model and calculation of these adjustments uses the Totex Capitalisation Rate specified for the licensee in Appendix 1 of this condition, which is a fixed value contained in the ED1 Price Control Financial Model.
- 3B.6 This condition provides for the determination and direction of revisions to the PCFM Variable Values that relate to the licensee's actual Totex expenditure.



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- 3B.7 The PCFM Variable Values that relate to the licensee's allowed Totex expenditure are specified in other CRCs of this licence, and are further explained in the methodology set out in chapter 6 of the ED1 Price Control Financial Handbook.
- 3B.8 This condition must be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments) and CRC 4B.

#### **Part A: Process for determining PCFM Variable Values relating to actual Totex for the Totex Incentive Mechanism**

- 3B.9 This Part A provides for the determination and direction of revised PCFM Variable Values for:
- (a) actual load-related capex expenditure (ALC values);
  - (b) actual non-load related capex expenditure - asset replacement (ANLR values);
  - (c) actual non-load related capex - other (ANLO values);
  - (d) actual faults expenditure (AFE values);
  - (e) actual 100 per cent "revenue pool" expenditure (ARP values);
  - (f) actual controllable opex expenditure (ACO values); and
  - (g) actual tree cutting expenditure (TRE values),
- collectively "actual Totex values" and each having the meaning given to it in chapter 6 of the ED1 Price Control Financial Handbook.
- 3B.10 Subject to paragraph 3B.11, the Authority will, by 30 November in each Regulatory Year t-1:
- (a) determine revised actual Totex values for the licensee for Regulatory Year t-2; and
  - (b) issue a direction in accordance with the provisions of Part B of this condition specifying the revised values that have been determined and the Regulatory Years to which they relate,
- in each case in accordance with the methodology contained in chapter 6 of the ED1 Price Control Financial Handbook.
- 3B.11 The first Regulatory Year in which the Authority will make a determination pursuant to paragraph 3B.10 is Regulatory Year 2016/17.
- 3B.12 The Authority may also direct revisions to actual Totex values for the licensee for Regulatory Years earlier than Regulatory Year t-2, where this is necessary to take into account any restatement of, or correction to, Specified Information submitted in accordance with the RIGs issued under standard condition 46 (Regulatory Instructions and Guidance). Any directions under this paragraph will be made in accordance with the provisions of Part B of this condition.

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- 3B.13 Where the Authority directs any revised actual Totex values for the licensee for Regulatory Years earlier than Regulatory Year t-2, the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year t, and will not have any retroactive effect on a previously directed value of the term MOD.

#### **Part B: Procedure to be followed for direction by the Authority of revised PCFM Variable Values relating to the licensee's actual Totex**

- 3B.14 Subject to and in accordance with the provisions of Part A of this condition, revised actual Totex values for the licensee, determined by the Authority, will be directed by the Authority by 30 November in each Regulatory Year t-1.
- 3B.15 A direction under paragraph 3B.14 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee set out all of the revised actual Totex values that it proposes to direct;
  - (b) stated in that Notice that those values have been determined in accordance with the provisions of Part A of this condition;
  - (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
  - (d) considered any representations duly received in response to the Notice.
- 3B.16 Where the Authority directs any revised actual Totex values for Regulatory Years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment be reflected in the calculation of the term MOD for the licensee for Regulatory Year t and will not have any retroactive effect on a previously directed value of the term MOD.
- 3B.17 If, for any reason in any Regulatory Year t-1, the Authority does not make a direction in relation to revised actual Totex values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B, and in any event before directing a value for MOD<sub>t</sub> for the licensee under that paragraph.

#### **Part C: Interpretation**

- 3B.18 Expressions used in this condition are to be read and given effect subject to any further explanation or elaboration within the ED1 Price Control Financial Methodologies that may be applicable to them.
- 3B.19 For the purposes of this condition:

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**Totex Capitalisation Rate** means the percentage set down against the licensee's name under that heading in Appendix 1 of this condition for the relevant Regulatory Year.

## APPENDIX 1: Totex Incentive Strength Rate and Totex Capitalisation Rate

(see the introduction to this condition)

Licensee	Totex Incentive Strength Rate (%)	Totex Capitalisation Rate (%)
ENWL		
NPgN		
NPgY		
WMID	70.00	80.00
EMID	70.00	80.00
SWALES	70.00	80.00
SWEST	70.00	80.00
LPN		
SPN		
EPN		
SPD		
SPMW		
SSEH		
SSSES		

## **CRC 3C. Specified financial adjustments**

### **Introduction**

3C.1 This condition provides for the determination of:

(a) revisions to the PCFM Variable Values for the licensee relating to the items specified in Parts A to C of this condition; and

(b) the Regulatory Years to which those revised values relate,

for use in the Annual Iteration Process for the ED1 Price Control Financial Model as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).

3C.2 The application of the mechanisms set out in this condition means that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Regulatory Year t for the purpose of CRC 2A (Restriction of Allowed Distribution Network Revenue) will result in an adjustment to the licensee's Base Demand Revenue in a manner that reflects the licensee's:

(a) revenue allowances for its Pension Scheme Established Deficit repair payments;

(b) revenue allowances for its tax liabilities; and

(c) allowed percentage cost of corporate debt,

as determined under the methodologies set out in chapters 3, 4 and 5, respectively, of the ED1 Price Control Financial Handbook.

3C.3 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments) and CRC 4B.

### **Part A: Revenue allowances for Pension Scheme Established Deficits**

3C.4 This Part A provides for the determination and direction of revised PCFM Variable Values for Pension Scheme Established Deficit revenue allowances ("EDE values").

3C.5 Subject to paragraph 3C.6, the Authority will, by 30 November in each Regulatory Year t-1, determine whether any EDE values for the licensee should be revised as a result of:

(a) an actuarial valuation of any defined-benefit pension scheme in respect of which the licensee is either the principal employer or a participating employer ("a relevant pension scheme");

(b) a review of any valuations referred to in 3C.5(a) and of the reasonableness of the licensee's Pension Scheme Established Deficit funding levels; and

(c) a review of the level of payments actually made by the licensee to a relevant pension scheme,

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in each case in accordance with the methodology contained in chapter 3 of the ED1 Price Control Financial Handbook.

- 3C.6 The first Regulatory Year in which the Authority will make a determination pursuant to paragraph 3C.5 is Regulatory Year 2015/16.
- 3C.7 If the Authority determines under paragraph 3C.5 that, in accordance with the methodologies contained in chapter 3 of the ED1 Price Control Financial Handbook, any EDE values for the licensee are to be revised, it will, by 30 November in the same Regulatory Year t-1, issue a direction in accordance with the provisions of Part D of this condition specifying the revised EDE values that have been determined and the Regulatory Years to which they relate.
- 3C.8 Where the Authority directs any revised EDE values for Regulatory Years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year t and will not have any retroactive effect on a previously directed value of the term MOD.

#### **Part B: Tax liability allowances**

- 3C.9 This Part B provides for the determination and direction of revised PCFM Variable Values for the licensee for:
- (a) tax liability revenue allowance adjustments in respect of tax trigger events (TTE values); and
  - (b) tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (TGIE values).
- 3C.10 The TTE values and TGIE values for the licensee for each Regulatory Year are zero as at 1 April 2015.
- 3C.11 Subject to paragraph 3C.12, the Authority will, by 30 November in each Regulatory Year t-1, determine whether any TTE values for the licensee should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the ED1 Price Control Financial Handbook.
- 3C.12 The first Regulatory Year in which the Authority will make a determination pursuant to paragraph 3C.11 is Regulatory Year 2015/16.
- 3C.13 Subject to paragraph 3C.14, the Authority will, by 30 November in each Regulatory Year t-1, determine whether any TGIE values for the licensee should be revised as a result of a review of:
- (a) the licensee's actual level of gearing; and
  - (b) the level of debt interest charges actually incurred by the licensee,

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in each case in accordance with the methodology contained in chapter 4 of the ED1 Price Control Financial Handbook.

- 3C.14 The first Regulatory Year in which the Authority will make a determination pursuant to paragraph 3C.13 is Regulatory Year 2016/17.
- 3C.15 If the Authority determines under paragraph 3C.11 or 3C.13 that, in accordance with the methodologies contained in chapter 4 of the ED1 Price Control Financial Handbook, any TTE values or TGIE values are to be revised, it will by 30 November in the same Regulatory Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TTE values and TGIE values that have been determined and the Regulatory Years to which they relate.
- 3C.16 Where the Authority directs any revised TTE values or TGIE values for Regulatory Years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year t and will not have any retroactive effect on a previously directed value of the term MOD.

#### **Part C: Allowed percentage cost of corporate debt**

- 3C.17 This Part C provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed percentage cost of corporate debt ("CDE values").
- 3C.18 Subject to paragraph 3C.20, the Authority will by 30 November in each Regulatory Year t-1:
- (a) determine a revised CDE value for the licensee for Regulatory Year t and each subsequent Regulatory Year in accordance with the methodology contained in chapter 5 of the ED1 Price Control Financial Handbook; and
  - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised CDE values that have been determined and the Regulatory Years to which they relate.
- 3C.19 The Authority may also revise the CDE value for a Regulatory Year earlier than Regulatory Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the ED1 Price Control Financial Handbook.
- 3C.20 The first Regulatory Year in which the Authority will make a determination pursuant to paragraph 3C.18 is Regulatory Year 2015/16.
- 3C.21 Where the Authority directs any revised CDE values for Regulatory Years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee

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for Regulatory Year  $t$  and will not have any retroactive effect on a previously directed value of the term MOD.

#### **Part D: Procedure to be followed for direction of revised PCFM Variable Values relating to specified financial adjustments by the Authority**

- 3C.22 Subject to, and in accordance with, the provisions of Parts A, B and C of this condition, revised EDE, TTE, TGIE and CDE values for the licensee, determined by the Authority, will be directed by the Authority by 30 November in each Regulatory Year  $t-1$ .
- 3C.23 A direction under paragraph 3C.22 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee set out all of the revised values that it proposes to direct;
  - (b) stated in that Notice that any revised EDE values have been determined in accordance with the provisions of Part A of this condition;
  - (c) stated in that Notice that any revised TTE and TGIE values have been determined in accordance with the provisions of Part B of this condition;
  - (d) stated in that Notice that any revised CDE values have been determined in accordance with the provisions of Part C of this condition;
  - (e) 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
  - (f) considered any representations duly received in response to the Notice.
- 3C.24 Where the Authority directs any revised EDE, TTE, TGIE and CDE values for Regulatory Years earlier than Regulatory Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year  $t$ , and, will not have any retroactive effect on a previously directed value of the term MOD.
- 3C.25 If, for any reason in any Regulatory Year  $t-1$ , the Authority does not make a direction in relation to revised EDE, TTE, TGIE and CDE values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B, and in any event before directing a value for  $MOD_t$  for the licensee under that paragraph.



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#### **Part E: Interpretation**

3C.26 For the purposes of this condition:

<b>Pension Scheme</b>	has the meaning given to that term in chapter 3 of the ED1 Price
<b>Established Deficit</b>	Control Financial Handbook.

## **CRC 3D. The Innovation Roll-out mechanism**

### **Introduction**

- 3D.1 This condition establishes a mechanism for determining any appropriate revisions to PCFM Variable Values relating to Innovation Roll-out allowed expenditure (IRM values) and the Regulatory Years to which those revisions relate, for use in the Annual Iteration Process for the ED1 Price Control Financial Model, as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- 3D.2 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments) and CRC 4B.

### **Part A: General considerations applying to this condition**

- 3D.3 All IRM values for the licensee are set at zero at 1 April 2015.
- 3D.4 The IRM value relating to a particular Regulatory Year represents the total amount of the licensee's Innovation Roll-out allowed expenditure (in 2012/13 prices) for that Regulatory Year.
- 3D.5 The application of the mechanism set out in this condition provides for:
- (a) the licensee to propose a Relevant Adjustment during either or both of the two application windows specified in Part D of this condition;
  - (b) determinations by the Authority in relation to proposals by the licensee under paragraph 3D.5(a); and
  - (c) the direction, where applicable, of revised IRM values.
- 3D.6 The determination and direction of revised IRM values will result in adjustments under the Totex Incentive Mechanism, described in chapter 6 of the ED1 Price Control Financial Handbook, to the licensee's Base Demand Revenue that take account of approved changes in its allowed expenditure on Innovation Roll-out.
- 3D.7 The adjustments referred to in paragraph 3D.6 will be applied as a consequence of the Annual Iteration Process for the ED1 Price Control Financial Model, and will be reflected in the value of the term MOD as derived for Regulatory Year  $t$  for the purposes of Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue).

### **Part B: Features that qualify an Innovation Roll-out for additional funding**

- 3D.8 The Roll-out by the licensee of a Proven Innovation will be eligible for additional funding within the Price Control Period (and constitute a "Relevant Adjustment") only if the Authority is satisfied that the activity funded through the Relevant Adjustment:

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- (a) will deliver Carbon Benefits or any wider environmental benefits;
- (b) will provide long-term value for money for electricity ~~consumers~~Customers;
- (c) will not enable the licensee to receive commercial benefits from the Roll-out within the remainder of the Price Control Period (for instance, where the Roll-out of a Proven Innovation will lead to cost savings (including benefits from other incentive mechanisms) equal to or greater than its implementation costs within the Price Control Period); and
- (d) will only be used to fund the Roll-out of a Proven Innovation.

#### **Part C: Requirements for the proposal of Relevant Adjustments**

3D.9 The licensee may by Notice to the Authority, in accordance with Parts C, D and E of this condition, propose a Relevant Adjustment within the meaning of Part B of this condition to recover Innovation Roll-out Costs where these costs would constitute a material amount as specified for the licensee in Appendix 1 of this condition.

3D.10 A Relevant Adjustment is an adjustment:

- (a) that the licensee believes will enable it to recover Innovation Roll-out Costs associated with a single Proven Innovation that would not otherwise be recoverable under the Charge Restriction Conditions; and
- (b) that applies only in respect of Innovation Roll-out Costs that have not yet been incurred.

#### **Part D: Application windows for Relevant Adjustment proposals**

3D.11 There are two application windows during which a Relevant Adjustment may be proposed by Notice served under Part C of this condition:

- (a) the first application window, which opens on 1 May 2017 and closes on 31 May 2017; and
- (b) the second application window, which opens on 1 May 2019 and closes on 31 May 2019.

3D.12 A Relevant Adjustment may be proposed during either of the application windows, provided that in each case the proposal complies with the provisions of paragraphs 3D.9 and 3D.10.

#### **Part E: Other requirements relating to the licensee's proposal**

3D.13 A Notice served by the licensee under Part C of this condition must in all cases:

- (a) state any statutory obligations or any requirements of this licence to which the Notice relates;
- (b) describe the Proven Innovation that the licensee proposes to Roll-out;

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- (c) propose the amount of the Relevant Adjustment and set out, by reference to the Innovation Roll-out Costs, the basis on which the licensee has calculated it;
- (d) demonstrate that the costs to be recovered through the Relevant Adjustment will be a material amount for the purposes of paragraph 3D.9 of this condition;
- (e) demonstrate how each of the criteria set out in Part B of this condition will be fulfilled by the Roll-out using the additional funding sought;
- (f) propose relevant outputs or other end products against which the Roll-out will be assessed;
- (g) set out the revisions to IRM values that the licensee considers should be made to implement the Relevant Adjustment; and
- (h) state the date from which it is proposed that the Relevant Adjustment would have effect (“the adjustment date”) and the Regulatory Years to which the Relevant Adjustment would apply.

3D.14 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2018 in the case of a Relevant Adjustment proposed during the first application window; and
- (b) 1 April 2020 in the case of a Relevant Adjustment proposed during the second and final application window.

#### **Part F: Authority’s determination of a Relevant Adjustment**

3D.15 Where the licensee serves a Notice under Part C of this condition, the Authority may, within four months of the close of the application window during which the Notice was submitted to the Authority, determine whether the proposed Relevant Adjustment should be made.

3D.16 In determining any Relevant Adjustment under this Part F, the Authority will:

- (a) consult the licensee;
- (b) have particular regard to the purposes of this condition and the contents of the licensee's proposal under Part B of this condition; and
- (c) take no account of the financial performance of the licensee relative to any of the assumptions, whether expressed or implied, by reference to which the Charge Restriction Conditions were framed.

#### **Part G: Determination by the Authority of revisions to IRM values**

3D.17 This Part G sets out the basis for determining revisions to IRM values for use in the Annual Iteration Process for the ED1 Price Control Financial Model.

3D.18 Subject to paragraph 3D.19, the Authority will, by 30 November in each Regulatory Year t-1:

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- (a) determine whether any of the IRM values in the ED1 Price Control Financial Model should be revised to reflect any determinations made by the Authority under Part F of this condition; and
- (b) issue a direction, in accordance with the provisions of Part H of this condition, specifying any revised IRM values determined under paragraph 3D.18(a) and the Regulatory Years to which they relate.

3D.19 The first Regulatory Year in which the Authority will make a determination under paragraph 3D.18(a) is Regulatory Year 2017/18 and the last Regulatory Year in which the Authority will make such a determination is Regulatory Year 2021/22.

#### **Part H: Procedure for direction of revised IRM values by the Authority**

3D.20 Subject to, and in accordance with, the provisions of Part G of this condition, revised IRM values for the licensee, determined by the Authority, will be directed by the Authority by 30 November in each of the Regulatory Years t-1 specified in paragraph 3D.19.

3D.21 A direction under paragraph 3D.20 will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to the licensee set out all of the revised IRM values that it proposes to direct;
- (b) stated in that Notice that those values have been determined in accordance with Part G of this condition;
- (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
- (d) considered any representations duly received in response to the Notice.

3D.22 Where the Authority directs any revised IRM values relating to Regulatory Years earlier than Regulatory Year t, the effect of using those revised IRM values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year t, and will not have any retroactive effect on a previously directed value of the term MOD.

3D.23 If, for any reason in any Regulatory Year t-1, the Authority does not make a direction in relation to revised IRM values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B, and in any event before directing a value for MOD<sub>t</sub> for the licensee under that paragraph.

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### **Part I: Interpretation**

3D.24 For the purposes of this condition:

<b>Carbon Benefits</b>	means a contribution to the UK Government’s strategy for reducing greenhouse gas emissions, as set out in the document entitled the “Carbon Plan” published by the Department of Energy and Climate Change in December 2011.
<b>Innovation</b>	<p>means any or all of the following:</p> <ul style="list-style-type: none"><li>(a) a specific piece of New Network Equipment;</li><li>(b) a novel arrangement or application of existing Network Equipment or New Network Equipment;</li><li>(c) a novel operational practice; or</li><li>(d) a novel commercial arrangement,</li></ul> <p>that is not, or is not within the scope of, an Ordinary Business Arrangement at the time when a Notice is served by the licensee in accordance with part C of this condition.</p>
<b>Innovation Roll-out Costs</b>	means the proposed cost of rolling out a Proven Innovation.
<b>Network Equipment</b>	means any asset that for the time being forms part of the licensee’s Distribution System, and includes any control centre for use in conjunction with it.
<b>New Network Equipment</b>	means any new asset that does not yet form part of the licensee’s Distribution System, or control centre for use in conjunction with it.
<b>Ordinary Business Arrangement</b>	<p>means one or more of the following:</p> <ul style="list-style-type: none"><li>(a) a specific piece of existing Network Equipment;</li><li>(b) an arrangement or application of existing Network Equipment;</li><li>(c) an operational practice; or</li><li>(d) a commercial arrangement,</li></ul> <p>that, whether singly or in any combination at the time of a Notice given by the licensee under Part C of this condition:</p> <ul style="list-style-type: none"><li>(i) is not (except in the context of a trial) being used by a licensee in an adapted form or in a novel way; or</li><li>(ii) is not, in all material respects, something in respect of which another licensee is receiving, or has received, additional funding by virtue of the equivalent condition to this condition in that licensee’s licence.</li></ul>

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<b>Proven Innovation</b>	means an Innovation that the licensee can demonstrate has been successfully trialled or demonstrated either as part of its Distribution System or elsewhere.
<b>Relevant Adjustment</b>	has the meaning given in Parts B and C of this condition.
<b>Roll-out</b>	means the incorporation of a Proven Innovation into an Ordinary Business Arrangement.

**APPENDIX 1: Materiality threshold amount (£m, 2012/13 prices)  
(see Part C of this condition)**

Licensee	
ENWL	
NPgN	
NPgY	
WMID	5.7
EMID	5.7
SWALES	2.9
SWEST	4.2
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	



## **CRC 3E. Smart Meter Roll-out Costs**

### **Introduction**

3E.1 This condition establishes mechanisms to:

- (a) specify the opening values of the licensee's allowed expenditure for Smart Meter Roll-out Costs ("SMAE values");
- (b) specify the basis on which the licensee's opening SMAE values can be revised; and
- (c) determine any appropriate revisions to the PCFM Variable Values (relating to SMAE values) and the Regulatory Years to which revised SMAE values relate for use in the Annual Iteration Process for the ED1 PCFM as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).

3E.2 The SMAE values as at 1 April 2015 are equal to the amounts of allowed expenditure that were included in the calculation of Opening Base Revenue Allowances for the licensee at the beginning of the Price Control Period.

3E.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of the opening SMAE values at 1 April 2015;
- (b) the direction of revised SMAE values so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Regulatory Year t for the purposes of Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue) will result in an adjustment of the licensee's Allowed Distribution Network Revenue in a manner that:
  - (i) reflects allowed expenditure amounts determined under Parts B and C of this condition; and
  - (ii) takes account of revised SMAE values for the purposes of the Totex Incentive Mechanism Adjustment.

3E.4 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments), CRC 4B and chapter 8 of the ED1 Price Control Financial Handbook.

### **Part A: Opening SMAE values at 1 April 2015**

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

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

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	0.78	1.29	1.92	2.25	2.27	1.61	-	-
EMID	0.91	1.64	2.14	2.38	2.22	1.56	-	-
SWALES	0.35	0.62	0.91	1.12	1.09	0.72	-	-
SWEST	0.55	0.96	1.29	1.43	1.37	0.98	-	-
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

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

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

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

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#### Part B: Determination of SMAE<sub>t</sub> values for the Regulatory Years 2015/16 to 2021/22 (annual value)

3E.8 For each of the Regulatory Years from 2015/16 to ~~2020/21~~2022/23 the annual value of SMAE will be derived in accordance with the following formula:

$$\text{SMAE}_{t-2} = (\text{SMV}_{t-2} \times \text{SMUC}) \div 1,000,000$$

where:

SMAE<sub>t-2</sub> means the Smart Meter allowed expenditure value for Regulatory Year t-2.

SMV<sub>t-2</sub> means the total number of Smart Meter Interventions in the licensee's Distribution Services Area for Regulatory Year t-2.

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

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

#### Part C: Determination of SMAE<sub>t</sub> for Regulatory Year 2022/23 (true up value)

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

$$\text{SMAE}_{2022/23} = (\text{TTFA} / 1,000,000) \times \sum_{t=2015/16}^{2021/22} \text{SMAE}_t$$

where:

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

$$\text{TTFA} = (\text{SMV}_1 \times \text{SMUC} \times \text{TF}_1) + (\text{SMV}_2 \times \text{SMUC} \times \text{TF}_2) + (\text{SMV}_3 \times \text{SMUC} \times \text{TF}_3) + (\text{SMV}_4 \times \text{SMUC} \times \text{TF}_4)$$

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

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

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

**Table 2: Calculation of the licensee's tapering factor**

Volume Band i	SMV <sub>i</sub>	TF <sub>i</sub>
1	$\min(\text{SMV}, 0.1 \times \text{TSMV})$	1
2	$\min(\max(\text{SMV} - (0.1 \times \text{TSMV}), 0), 0.05 \times \text{TSMV})$	0.75
3	$\min(\max(\text{SMV} - (0.15 \times \text{TSMV}), 0), 0.05 \times \text{TSMV})$	0.5
4	$\max(\text{SMV} - (0.2 \times \text{TSMV}), 0)$	0.25

#### **Part ~~D~~C: Direction of revisions to SMAE values by the Authority**

3E.9 Subject to paragraphs 3E.~~42~~10 and 3E.~~43~~11, the Authority will by 30 November in each Regulatory Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part ~~E~~ D of this condition, specifying a revised SMAE value for Regulatory Year t-2.

3E.10 The first Regulatory Year t-1 for which the Authority will issue a direction under paragraph 3E.~~44~~ 9 is Regulatory Year 2015/16, for the purposes of the Annual Iteration Process that will take place by 30 November 2016.

3E.11 The Authority may also include in a direction given under paragraph 3E.~~44~~ 9 revisions to SMAE values for Regulatory Years earlier than Regulatory Year t-2 provided that:

- (a) the revisions are necessary because one or more of the values used in the previous determination of the SMAE values concerned has been restated by the licensee under a requirement of this licence;
- (b) the revised SMAE values have been determined in accordance with the formula set out in paragraph 3E.8 of this condition; and
- (c) Regulatory Years earlier than Regulatory Year t-2 can be no earlier than Regulatory Year 2015/16.

3E.12 The Authority may also by direction revise the SMAE value for a Regulatory Year (a "further revision"), even though that SMAE value concerned may have been previously revised, provided that:

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- (a) the further revision is necessary to reflect a review by the Authority of the SMAE value that is applicable for the values of the terms in respect of the earlier Regulatory Years or to correct errors in relation to those values;
- (b) the further revised SMAE value for the earlier Regulatory Years is calculated in accordance with the formula set out in Parts B ~~and C~~ of this condition;
- (c) the further revised SMAE value for the earlier Regulatory Years is specified in a direction issued in accordance with the provisions of Part ~~ED~~ of this condition; and
- (d) a Regulatory Year earlier than Regulatory Year t-2 can be no earlier than Regulatory Year 2015/16.

#### **Part ~~ED~~: Procedure to be followed for the determination and direction of revised SMAE values**

- 3E.13 Subject to, and in accordance with the provisions of Part ~~DC~~ of this condition, revised SMAE values for the licensee will be directed by the Authority by 30 November in each Regulatory Year t-1.
- 3E.14 A direction under paragraph 3E.13 ~~4513~~ will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee set out all of the revised SMAE values that it proposes to direct;
  - (b) stated in that Notice that those values have been determined in accordance with the provisions of Parts B, and C ~~and D~~ (as applicable) of this condition;
  - (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
  - (d) considered any representations duly received in response to the Notice.
- 3E.15 Where the Authority directs any revised SMAE values for Regulatory Years earlier than Regulatory Year t the effect of using those revised SMAE values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year t and will not have any retroactive effect on a previously directed value of the term MOD.
- 3E.16 If, for any reason in any Regulatory Year t-1, the Authority does not make a direction in relation to revised SMAE values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B, and in any event before directing a value for MOD<sub>t</sub> for the licensee under that paragraph.

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### Part ~~FE~~EE: Interpretation

3E.17 For the purposes of this condition:

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

**APPENDIX 1**

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

<b>Licensee</b>	<b>SMUC (£ per site)</b>
ENWL	
NPgN	
NPgY	
WMID	225
EMID	225
SWALES	233
SWEST	228
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

## **APPENDIX 2**

### **On-site/physical activities**

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



### **CRC 3F. Arrangements for the recovery of uncertain costs**

#### **Introduction**

3F.1 This condition establishes a mechanism:

- (a) to specify the basis on which the licensee's opening levels of allowed expenditure on uncertain cost activities, as specified in Table 1, can be revised; and
- (b) to determine any appropriate revisions to PCFM Variable Values for the licensee relating to uncertain cost activities and the Regulatory Years to which they relate, for the purposes of the Annual Iteration Process for the ED1 Price Control Financial Model as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).

3F.2 The categories of cost related to uncertain cost activities referred to in this condition and the associated PCFM Variable Values are set out in Table 1 below:

**Table 1: Categories of cost related to uncertain cost activities and associated PCFM Variable Values**

<b>Category of cost</b>	<b>PCFM Variable Value name</b>
High Value Project Costs	UCHVP values
Enhanced Physical Site Security Costs	UCEPS values
Specified Street Works Costs	UCSSW values
Rail Electrification Costs	UCRE values

3F.3 The PCFM Variable Value for the licensee, for each uncertain cost activity, for a particular Regulatory Year, revised in accordance with this condition as applicable, represents the total amount of allowed Totex expenditure (in 2012/13 prices) for that uncertain cost activity for that Regulatory Year.

3F.4 The opening levels of allowed expenditure for the licensee, for High Value Project Costs and Enhanced Physical Site Security for each Regulatory Year, as at 1 April 2015 (that is, before any relevant adjustments have been made under the provisions of this condition), are set out in Appendix 1 and 2 to this condition and were used in the calculation of the Opening Base Revenue Allowance for the licensee.

3F.5 The opening PCFM Variable Value for the licensee for Specified Street Works Costs (being the opening value for UCSSW) for each Regulatory Year, as at 1 April 2015 (that is, before any relevant adjustments have been made under the provisions of this condition) is zero. The opening PCFM Variable Value for the licensee for Rail Electrification Costs (being the opening value for UCRE) for each Regulatory Year,

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as at 1 April 2019, is zero<sup>1</sup>, although the licensee's Opening Base Revenue Allowance does include expenditure for Rail Electrification Costs.

3F.6 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments) and CRC 4B.

#### **Part A: Proposal and determination of relevant adjustments to allowed levels of expenditure on uncertain cost activities**

3F.7 This Part provides for:

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

#### **(a) Proposal of relevant adjustments**

3F.8 The licensee (subject to paragraphs 3F.9 and 3F.10) may, by Notice to the Authority, and the Authority (subject to paragraphs 3F.9 and 3F.11) may, by Notice to the licensee, propose a relevant adjustment to the allowed level of expenditure on any uncertain cost activity listed in Table 1 for any Regulatory Year during the Price Control Period, provided that the proposed change to the level of allowed expenditure:

- (a) is based on information about the actual or forecast level of efficient expenditure on the uncertain cost activity that was either unavailable or did not qualify for inclusion when the licensee's Opening Base Revenue Allowance was derived;
- (b) takes account of any relevant adjustments previously determined under this condition;
- (c) constitutes a material amount as specified for the licensee in Appendix 1, 2 or 3 (as the case may be) to this condition;
- (d) relates to costs incurred or expected to be incurred after 1 April 2015 for High Value Project Costs, Enhanced Physical Site Security Costs and Specified Street Works Costs, and after 1 April 2018 for Rail Electrification Costs; and
- (e) constitutes an adjustment to allowed expenditure that (excluding any Time Value of Money Adjustment) cannot be made under the provisions of any other condition of this licence.

3F.9 A proposal made under paragraph 3F.8 must include statements setting out:

- (a) the uncertain cost activities to which the proposal relates;

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<sup>1</sup> Any Rail Electrification Costs incurred in the Regulatory Year 2018/19 will be recorded in the PCFM under the Regulatory Year of 2019/20.

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- (b) the changes to the licensee's allowed level of expenditure that is proposed and the Regulatory Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's allowed level of expenditure.

#### **(b) Application windows for relevant adjustment proposals**

3F.10 ~~Subject to 3F.10(a),~~ The licensee may only give Notice of a proposed relevant adjustment during the following application windows ~~that opens on 1 May 2019 and closes on 31 May 2019:~~

- (a) In respect of Rail Electrification Costs, the licensee may only give Notice of a proposed relevant adjustment during the application window that opens on 1 May 2022 and closes on 31 May 2022; and

- (b) for Specified Street Works Costs, the licensee may only give Notice of a proposed relevant adjustment during the application window that opens on 1 September 2023 and closes on 30 September 2023.

3F.11 The Authority may only give Notice of its intention to make a relevant adjustment in respect of High Value Project Costs at the end of the Price Control Period during the Notice window that opens on 1 December 2023 and closes on 31 December 2023.

#### **(c) Authority's power to determine relevant adjustments**

3F.12 Where a proposal has been duly made by the licensee under paragraph 3F.8, the Authority will, subject to 3F.13, determine within four months of the close of the application window, ~~determine~~ any revisions that are to be made to the licensee's allowed level of expenditure for the uncertain cost activities concerned and the Regulatory Years to which those revisions relate, in accordance with the methodologies set out in the following parts of chapter 7 of the ED1 Price Control Financial Handbook:

- (a) Part 2 – in respect of High Value Project Costs;
- (b) Part 3 – in respect of Enhanced Physical Site Security Costs;
- (c) Part 4 – in respect of Specified Street Works Costs; and
- (d) Part 4A – in respect of Rail Electrification Costs.

3F.13 If, within 10 working days of receipt of a proposal under paragraph 3F.8, the Authority gives Notice to the licensee:

- (a) specifying any further information or analysis, or reformatting of the information or analysis already provided, that it reasonably considers is required in order to assess the proposal; and
- (b) requesting the licensee to provide that further or reformatted information or analysis,

the Authority will have a period of four months from the date specified in the Notice for receipt of that further information or analysis to determine any revisions that are to

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be made to the licensee's allowed level of expenditure for the uncertain cost activities concerned and the Regulatory Years to which those revisions relate in accordance with the methodologies set out in the sections of chapter 7 of the ED1 Price Control Financial Handbook set out above at paragraph 3F.12~~the application window will be treated as remaining open for the purposes of this Part A until the later of the closing date referred to in paragraph 3F.10 and the date on which such further or reformatted information or analysis is provided.~~

- 3F.14 The giving of Notice under paragraph 3F.13 shall not preclude the Authority from making such further requests for information or analysis, or for the reformatting of information or analysis already provided, as it may consider it requires to assess the proposal.
- 3F.15 In determining any revision under paragraph 3F.12, the Authority will:
- (a) consult with the licensee and other interested parties;
  - (b) have regard to the basis on which the opening level of allowed expenditure for the relevant uncertain cost activities were set for the licensee;
  - (c) have regard to comments duly received in response to the consultation conducted under paragraph 3F.15(a); and
  - (d) take no account of the general financial performance of the licensee under the price control arrangements set out in the Charge Restriction Conditions of this licence.
- 3F.16 A determination under paragraph 3F.12 may confirm, reject, or amend the proposed relevant adjustment.
- 3F.17 Without limiting the general effect of paragraph 3F.16, a determination by the Authority of a relevant adjustment may specify revisions to the allowed level of expenditure for the relevant uncertain cost activities for the licensee for any Regulatory Year within the period 2015/16 to 2022/23.
- 3F.18 A determination under paragraph 3F.12 will specify:
- (a) the uncertain cost activities that are the subject of the determination;
  - (b) the Regulatory Years to which the determination applies; and
  - (c) the revised total level of allowed expenditure (in 2012/13 prices) for the relevant uncertain cost activities specified under 3F.18(a) for each of the Regulatory Years specified under 3F.18(b). In the case of Rail Electrification Costs, a determination under paragraph 3F.12 will specify the revised UCRE adjustment (in 2012/13 prices) for each of the Regulatory Years specified under 3F.18(b).
- 3F.19 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 3F.8 within four months of the close of the application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to a revision to the allowed level of expenditure on the

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relevant uncertain cost activities for the licensee for the Regulatory Years specified in the proposal, will be deemed to have been made.

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

- 3F.20 This Part provides for the determination and direction of revisions to the following PCFM Variable Values for the licensee:
- (a) High Value Project Costs (UCHVP values)
  - (b) Enhanced Physical Site Security Costs (UCEPS values);
  - (c) Specified Street Works Costs (UCSSW values); and
  - (d) Rail Electrification Costs (UCRE values).
- 3F.21 Determinations under paragraph 3F.20 are to be made in accordance with the provisions of chapter 7 of the ED1 Price Control Financial Handbook.
- 3F.22 ~~Subject to 3F.22(a), r~~Revised PCFM Variable Values for the licensee, as determined under paragraph 3F.20 will be directed by the Authority by ~~30 November in~~ Regulatory Year 2019/20;
- (a) In respect of Rail Electrification Costs, revised PCFM Variable Values for the licensee, as determined under paragraph 3F.20 will be directed by the Authority by 30 November in Regulatory Year 2022/2023; and
  - (b) In respect of Specified Street Works Costs, revised PCFM Variable Values for the licensee will be directed by the Authority by 30 November in Regulatory Year 2023/24.
- 3F.23 A direction under paragraph 3F.22 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee set out all of the revised PCFM Variable Values that it proposes to direct;
  - (b) stated in that Notice that those values have been determined in accordance with Part B of this condition;
  - (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority; and
  - (d) considered any representations duly received in response to the Notice.
- 3F.24 Where the Authority directs any revised PCFM Variable Values for Regulatory Years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year t, and will not have any retroactive effect on a previously directed value of the term MOD.

#### **Part C: Interpretation**

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

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<b>Enhanced Physical Site Security Costs</b>	means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee's Distribution System as may be further clarified in the RIGs.
<b>Specified Street Works Costs</b>	<p>means the costs incurred, or expected to be incurred, by the licensee in complying with obligations or requirements arising under any order or regulations made under Part 3 of the Traffic Management Act 2004 (or, in Scotland, the Transport (Scotland) Act 2005) that impose a permit scheme and comprise:</p> <ul style="list-style-type: none"><li>(a) permit fee costs;</li><li>(b) one-off set up costs;</li><li>(c) additional administrative costs arising from the introduction of permit schemes; and</li><li>(d) additional costs arising from the introduction of permit conditions,</li></ul> <p>all as further clarified in the RIGs.</p>
<b>Rail Electrification Costs</b>	means costs incurred, or expected to be incurred, other than those recoverable from a third party, associated with the diversion of electric lines or electrical plant to facilitate rail electrification projects approved for funding by the Secretary of State for Transport, as may be further clarified in the RIGs.

**APPENDIX 1:**

**Opening level of allowed expenditure for High Value Project Costs and the material amount for each licensee**

**(£m, in 2012/13 prices)**

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

	Opening level of allowed expenditure								Material amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
ENWL									
NPgN									
NPgY									
WMID	-	-	-	-	-	-	-	-	5.7
EMID	-	-	-	-	-	-	-	-	5.7
SWALES	-	-	-	-	-	-	-	-	2.9
SWEST	-	-	-	-	-	-	-	-	4.2
LPN									
SPN									
EPN									
SPD									
SPMW									
SSEH									
SSES									

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**Named High Value Projects and the opening levels of allowed expenditure for each project (£m, in 2012/13 prices)**

		Opening level of allowed expenditure							
	<b>Named projects</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
ENWL									
NPgN									
NPgY									
WMID	-	-	-	-	-	-	-	-	-
EMID	-	-	-	-	-	-	-	-	-
SWALES	-	-	-	-	-	-	-	-	-
SWEST	-	-	-	-	-	-	-	-	-
LPN									
SPN									
EPN									
SPD									
SPMW									
SSEH									
SSES									



**APPENDIX 2:**

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

**(£m, in 2012/13 prices)**

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

	Opening level of allowed expenditure								Material amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
ENWL									
NPgN									
NPgY									
WMID	-	-	-	-	-	-	-	-	5.7
EMID	-	-	-	-	-	-	-	-	5.7
SWALES	-	-	-	-	-	-	-	-	2.9
SWEST	-	-	-	-	-	-	-	-	4.2
LPN									
SPN									
EPN									
SPD									
SPMW									
SSEH									
SSES									

**APPENDIX 3:**

**The material amount for Specified Street Works Costs for each licensee**

**(£m, in 2012/13 prices)**

**(see paragraphs 3F.8)**

	<b>Material amount</b>
ENWL	
NPgN	
NPgY	
WMID	5.7
EMID	5.7
SWALES	2.9
SWEST	4.2
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

## **CRC 3G. Revising the allowed level of Load Related Expenditure**

### **Introduction**

- 3G.1 This condition establishes mechanisms to:
- (a) specify the basis on which the licensee's opening level of allowed Load Related Expenditure can be revised;
  - (b) determine revisions to PCFM Variable Values for the licensee relating to Load Related Expenditure (LRRC values) and the Regulatory Years to which they relate for the purposes of the Annual Iteration Process for the ED1 Price Control Financial Model as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model); and
  - (c) determine any appropriate revisions to the Specific Customer Funded Reinforcement Percentage Bands for the purposes of CRC 5G (Net to gross adjustment for Load Related Expenditure), consistent with any revisions made to LRRC values under Part A of this condition.
- 3G.2 The LRRC values for the licensee for a particular Regulatory Year, revised in accordance with this condition as applicable, represent the total amount of allowed Totex expenditure (in 2012/13 prices) for Load Related Expenditure for that Regulatory Year, and are set out as at 1 April 2015 in Appendix 1.
- 3G.3 The LRRC values for the Price Control Period for the licensee as at 1 April 2015 (that is before any revisions have been made under the provisions of Part A of this condition) (TLRRC<sub>OV</sub>) are the opening level of allowed expenditure, for each Regulatory Year, for the licensee as set out in Appendix 1 of this condition and as used in the determination of the Opening Base Revenue Allowance for the licensee.
- 3G.4 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments) and CRC 4B.

### **Part A: Proposal and determination of revisions to LRRC values**

- 3G.5 This Part provides for:
- (a) the proposal of revisions to LRRC values (relevant adjustments) by the licensee and by the Authority;
  - (b) the determination of relevant adjustments to LRRC values by the Authority; and
  - (c) the deeming of relevant adjustments to LRRC values in certain circumstances.

#### **(a) Proposal of relevant adjustments**

- 3G.6 Subject to paragraph 3G.7, the licensee may, by Notice to the Authority, and the Authority (subject to paragraph 3G.16) may, by Notice to the licensee, propose a

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relevant adjustment to the LRRC value for any Regulatory Year during the Price Control Period, provided that the proposed change:

- (a) is based on information about the level of efficient Load Related Expenditure over the Price Control Period (LRRCF) that was not available when the licensee's Opening Base Revenue Allowance was determined;
- (b) constitutes a material amount, being an amount that satisfies the test in paragraph 3G.7; and
- (c) constitutes an adjustment to allowed expenditure that cannot be made under the provisions of any other Charge Restriction Condition of this licence.

3G.7 The test referred to in paragraph 3G.6 is that the following condition is met:

$$(\max (\text{TLRRCF} - \text{TLRRC}_{\text{OV}}, \text{TLRRC}_{\text{OV}} - \text{TLRRCF})) > \text{MA} + (20\% \times \text{TLRRC}_{\text{OV}})$$

where:

TLRRC <sub>OV</sub>	means the total opening level of allowed expenditure that is defined as Load Related Expenditure.
TLRRCF	means the proposed revised level of allowed expenditure that is defined as Load Related Expenditure.
MA	is the material amount set out for the licensee at Appendix 2 of this condition.

3G.8 The relevant adjustment will be a material amount for the purposes of paragraph 3G.9 only if the test set out in paragraph 3G.7 is passed.

3G.9 A relevant adjustment may not be proposed or made under this condition unless it is a material amount.

3G.10 Without prejudice to paragraph 3G.11, a relevant adjustment proposed or made under this condition must not exceed:

$$(a) \quad \text{TLRRCF} - \text{TLRRC}_{\text{OV}} - (20\% \times \text{TLRRC}_{\text{OV}})$$

where  $\text{TLRRCF} > \text{TLRRC}_{\text{OV}}$ ; or

$$(b) \quad \text{TLRRCF} - \text{TLRRC}_{\text{OV}} + (20\% \times \text{TLRRC}_{\text{OV}})$$

where  $\text{TLRRCF} < \text{TLRRC}_{\text{OV}}$

3G.11 In carrying out any calculations pursuant to this condition, allowed and actual Load-Related Expenditure will be considered:

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- (a) on an aggregated basis for all activities that comprise Load Related Expenditure;
- (b) on a total expenditure basis taking account of expenditures incurred, or expected to be incurred, over the entire Price Control Period;
- (c) ~~on a net basis, which offsets customer contributions against gross expenditure~~ net of any customer contributions against gross expenditure which changes the Specific Customer Funded Reinforcement Percentage Band specified in Table 2 at paragraph 5G.3;
- (d) net of an adjustment above the level specified in the Final Determination for the licensee for any expenditures avoided, or that may reasonably be expected to be or to have been avoided, as a result of demand-side response or the use of other non-traditional solutions to load related issues; and
- (e) in 2012/13 prices,

3G.12 For the purposes of 3G.11, only costs incurred and income received within the Price Control Period may be taken into consideration.

3G.13 A Notice given by the licensee under paragraph 3G.6 must set out:

- (a) the changes to the licensee's LRRC values for each Regulatory Year in the Price Control Period;
- (b) any consequential change to the licensee's Specific Customer Funded Reinforcement Percentage Band specified in Table 2 of CRC 5G that is proposed by the licensee;
- (c) the basis of calculation for the proposed changes to the licensee's LRRC values; and
- (d) appropriate supporting evidence, including actual and forecast changes in network loading.

#### **(b) Application windows for relevant adjustment proposals**

3G.14 The licensee may give Notice of proposed relevant adjustments only during the following application windows:

- (a) the first application window, which opens on 1 May 2017 and closes on 31 May 2017; and
- (b) the second application window, which opens on 1 May 2020 and closes on 31 May 2020.

3G.15 Relevant adjustments may be proposed by the licensee during both the first and second application windows provided that each such relevant adjustment proposal complies with the provisions of paragraphs 3G.6 to 3G.13 of this condition.

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- 3G.16 The Authority may give Notice of its intention to make a relevant adjustment at the end of the Price Control Period during the window which opens on 1 September 2023 and closes on 30 September 2023.

#### **(c) Authority's power to determine relevant adjustments**

- 3G.17 Where a Notice has been given by a licensee under paragraph 3G.6, the Authority will, within four months of the close of the relevant application window, determine any revisions that are to be made to the licensee's LRRC values and the Regulatory Years to which those revisions relate, in accordance with the provisions of this condition and the methodologies set out in chapter 9 of the ED1 Price Control Financial Handbook.
- 3G.18 If, within 10 working days of its receipt of a proposal under paragraph 3G.6, the Authority gives Notice to the licensee:
- (a) specifying any further information or analysis, or reformatting of the information or analysis already provided, that it reasonably considers is required in order to assess the proposal; and
  - (b) requesting the licensee to provide that further or reformatted information or analysis,
- the application window will be treated as remaining open for the purposes of this Part A until the later of the relevant application window date referred to in paragraph 3G.14 and the date on which such further or reformatted information or analysis is provided.
- 3G.19 The giving of Notice under paragraph 3G.18 shall not preclude the Authority from making such further requests for information or analysis, or for the reformatting of information or analysis already provided, as it may consider it requires to assess the proposal.
- 3G.20 Where the Authority gives Notice of proposed relevant adjustments under paragraph 3G.16, the Authority will, by 30 November 2024, determine any revisions that are to be made to the licensee's Base Demand Revenue and Regulatory Asset Value for the Next Price Control Period
- 3G.21 In determining any relevant adjustment under paragraph 3G.17 or 3G.20, the Authority will:
- (a) consult with the licensee and other interested parties;
  - (b) have regard to the basis on which the opening LRRC values were determined;
  - (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Charge Restriction Conditions of this licence;
  - (d) consider the value of any off-setting demand-side response or use of other non-traditional reinforcement solutions, above the level incorporated in the licensee's business plan, that have avoided, or may be reasonably expected to avoid, Load Related Expenditure; and

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- (e) consider whether the licensee's Load Related Expenditure has fallen outside any Specific Customer Funded Reinforcement Percentage Band under CRC 5G.
- 3G.22 Subject to paragraph 3G.10, a Notice given by the Authority under paragraph 3G.6 may propose relevant adjustments to the value of LRRC for any Regulatory Year that:
  - (a) has not been adjusted as a result of a Notice given by the licensee during the first application window; or
  - (b) has been adjusted as a result of a Notice given by the licensee as a result of the first application window.
- 3G.23 A determination under paragraph 3G.17 may confirm, reject, or amend the relevant adjustment proposed by the licensee in accordance with the provisions of this condition.
- 3G.24 A determination under paragraph 3G.17 or 3G.20 will specify:
  - (a) the Regulatory Years to which the determination applies; and
  - (b) the revised LRRC values (in 2012/13 prices) for each of those Regulatory Years specified under 3G.17.
- 3G.25 If the Authority has not determined a relevant adjustment in relation to a Notice duly given by the licensee under paragraph 3G.6 within four months of the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to a revision to the LRRC value for the licensee for the Regulatory Years specified in the proposal, will be deemed to have been made.

#### **Part B: Procedure to be followed for the determination and direction of revised LRRC values**

- 3G.26 This Part sets out the procedure to be followed by the Authority for the determination and direction of revised LRRC values for the licensee.
- 3G.27 Determinations under paragraphs 3G.17 and 3G.20 are to be made in accordance with the provisions of this condition and chapter 9 of the ED1 Price Control Financial Handbook.
- 3G.28 Revised LRRC values for the licensee, as determined by the Authority, will be directed by the Authority by 30 November in the Regulatory Year in which the relevant adjustment has been proposed.
- 3G.29 A direction under this Part B will be of no effect unless, before issuing it, the Authority has:
  - (a) by Notice to the licensee set out all of the revised LRRC values that it proposes to direct;
  - (b) stated in that Notice that those values have been determined in accordance with the provisions of this condition;

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- (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority; and
- (d) considered any representations duly received in response to the Notice.

3G.30 Where the Authority directs any revised LRRC values for Regulatory Years earlier than Regulatory Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term  $MOD_t$  for the licensee for Regulatory Year  $t$  and will not have any retroactive effect on a previously directed value of the term  $MOD$ .

3G.31 If, for any reason in any Regulatory Year  $t-1$ , the Authority does not make a direction in relation to revised LRRC values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B, and in any event before directing a value for  $MOD_t$  for the licensee under that paragraph.



**APPENDIX 1: Opening level of allowed expenditure for Load Related Expenditure for each licensee**

**(£m, in 2012/13 prices)**

**(see paragraph 3G.4)**

	Opening level of allowed expenditure							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL								
NPgN								
NPgY								
WMID	23.7	24.6	23.4	27.8	30.1	27.2	31.1	35.3
EMID	52.7	46.3	21.0	27.6	25.7	34.1	47.8	41.9
SWALES	4.0	4.0	4.9	10.3	9.6	9.4	6.3	6.5
SWEST	5.8	6.5	8.1	13.7	14.6	14.6	15.4	17.1
LPN								
SPN								
EPN								
SPD								
SPMW								
SSEH								
SSES								

**APPENDIX 2: Total Opening level of allowed expenditure and the material amount for application and notification windows for each licensee**

**(£m, in 2012/13 prices)**

**(see paragraphs 3G.7 and 3G.15)**

	<b>Total Opening level of allowed expenditure( TLRRCov)</b>	<b>Material amount</b>
ENWL		
NPgN		
NPgY		
WMID	223.2	5.7
EMID	297.2	5.7
SWALES	54.9	2.9
SWEST	95.9	4.2
LPN		
SPN		
EPN		
SPD		
SPMW		
SSEH		
SSES		

## CRC 3H. Allowed expenditure on improving services to Worst Served Customers

### Introduction

- 3H.1 This condition establishes a mechanism for determining and directing any appropriate revisions to the PCFM Variable Values relating to the licensee's allowed expenditure on Worst Served Customer Projects (and the Regulatory Years to which those revisions relate) so that the resulting values ("WSCC values") can be used in the Annual Iteration Process for the ED1 Price Control Financial Model, as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- 3H.2 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments), CRC 4B and chapter 11 of the ED1 Price Control Financial Handbook.

### Part A: Determination of the licensee's allowed expenditure on Worst Served Customer Projects (WSCC)

- 3H.3 The WSCC value for the licensee for a particular Regulatory Year represents the total amount of the licensee's allowed expenditure (expressed in 2012/13 prices) on Worst Served Customer Projects for that Regulatory Year.
- 3H.4 The sum of all WSCC values for the Price Control Period with respect to the licensee cannot exceed the total amount of allowed expenditure on Worst Served Customer Projects (TWSCC) as specified for the licensee in Appendix 1 of this condition.
- 3H.5 Subject to paragraphs 3H.6 to 3H.10 the licensee's allowed expenditure on Worst Served Customer Projects for each Regulatory Year  $t-2$  of the Price Control Period is derived in accordance with the following formula:

$$WSCC_{t-2} = \min \left( WSE_{t-2}, TWSCC - \sum_{2015/16}^{t-3} WSCC_t \right)$$

where:

**TWSCC** means the licensee's total amount of allowed expenditure on Worst Served Customer Projects for the Price Control Period, as specified for the licensee in Appendix 1 of this condition, expressed in 2012/13 prices.

**WSE<sub>t-2</sub>** means, subject to paragraph 3H.9, the amount spent by the licensee in Regulatory Year  $t-2$  on Worst Served Customer Projects, expressed in 2012/13 prices.

- 3H.6 The first Regulatory Year  $t-1$  in which the Authority will make a determination under Parts A and B of this condition is Regulatory Year 2016/17 for the Annual Iteration Process that will take place by 30 November 2016.

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

3H.7 For the purposes of the first determination made under paragraph 3H.6, the value of  $WSCC_{t-2}$  is equal to the lesser of  $TWSCC$  and  $WSE_{t-2}$ .

3H.8 The licensee must ensure that the amount of expenditure on improving services to Worst Served Customers that is included in values for the term  $WSE$  for the Price Control Period does not in total exceed an amount calculated as:

$$WSCCPC \times TWSC$$

where:

$WSCCPC$  means the Value for the Worst Served Customer Cap Per Customer for the licensee set out in Appendix 2 of this condition.

$TWSC$  means the total number of Worst Served Customers included in Worst Served Customer Projects during the Price Control Period.

3H.9 The licensee must seek to ensure that the expenditure on Worst Served Customer Projects delivers the Worst Served Customer Required Performance Improvement set out in Appendix 3 of this condition.

3H.10 In the formula set out in paragraph 3H.5,  $WSCC$  values for Regulatory Years earlier than Regulatory Year  $t-2$  include any revisions to those values as determined by the Authority in accordance with Part B of this condition.

#### **Part B: Revisions to $WSCC$ values**

3H.11 Subject to paragraph 3H.6, the Authority will, by 30 November in each Regulatory Year  $t-1$ :

- (a) derive the licensee's level of allowed expenditure, expressed in 2012/13 prices, for Worst Served Customer Projects for Regulatory Year  $t-2$  in accordance with Part A of this condition using information reported by the licensee under the RIGs; and
- (b) determine the value so calculated to be the revised  $WSCC$  value for the licensee for Regulatory Year  $t-2$ .

3H.12 If, under any provision of this licence, the licensee is required to restate information previously reported by it under the RIGs in relation to any Regulatory Year or Years, then the Authority may:

- (a) derive replacement levels of allowed expenditure, expressed in 2012/13 prices for Worst Served Customer Projects for the Regulatory Years concerned in accordance with Part A of this condition; and
- (b) determine the values so calculated to be revised  $WSCC$  values for the licensee for the Regulatory Years concerned.

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### **Part C: Procedure for directing revised WSCC values by the Authority**

- 3H.13 Subject to, and in accordance with, the provisions of Parts A and B of this condition, revised WSCC values for the licensee, as determined by the Authority, will be directed by the Authority by 30 November in each Regulatory Year  $t-1$ .
- 3H.14 A direction under paragraph 3H.13 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee set out all of the revised WSCC values that it proposes to direct;
  - (b) stated in that Notice that those values have been determined in accordance with the provisions of Parts A and B of this condition;
  - (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
  - (d) considered any representations duly received in response to the Notice.
- 3H.15 Where the Authority directs any revised WSCC values for Regulatory Years earlier than Regulatory Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year  $t$ , and will not have any retroactive effect on a previously directed value of the term MOD.
- 3H.16 If for any reason in any Regulatory Year  $t-1$ , the Authority does not make a direction in relation to revised WSCC values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B and in any event before directing a value for  $MOD_t$  for the licensee under that paragraph.

### **Part D: Use of revised WSCC values in the Annual Iteration Process**

- 3H.17 The effect of using revised WSCC values in the Annual Iteration Process for the ED1 Price Control Financial Model will be reflected in the calculation of the value of the term  $MOD_t$  for the licensee.
- 3H.18 The determination of revised WSCC values for Regulatory Years earlier than Regulatory Year  $t-2$  under paragraph 3H.10, and the direction of those values under paragraph 3H.13, will not have any effect on a previously directed value of the term MOD.

### **Part E: Interpretation**

- 3H.19 For the purposes of this condition:

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<b>Higher Voltage</b>	means any nominal voltage of more than 1,000 volts up to and including 132 kilovolts (except in Scotland, where it means any nominal voltage of more than 1,000 volts but less than 132 kilovolts).
<b>Worst Served Customer</b>	<p>means a Customer of the licensee who has, <u>at the same premises, experienced at least 12 Higher Voltage interruptions over the three-year period immediately preceeding the Regulatory Year</u> <del>the following level of Higher Voltage unplanned interruptions during the three-year period at the same premises immediately preceding the Regulatory Year in which the relevant expenditure is made:</del></p> <p><del>(a) on average, four or more such interruptions per Regulatory Year over that three-year period, and</del></p> <p><del>(b) in which the relevant expenditure is made, no fewer than at least three such interruptions of which must have occurred during within each complete Regulatory Year falling within the three year period.</del></p>
<b>Worst Served Customer Projects</b>	means any improvement project undertaken by the licensee, following stakeholder engagement, with a view to reducing the number of Higher Voltage unplanned interruptions experienced by Worst-Served Customers where, except where the Authority otherwise consents, the improvement has been demonstrated in accordance with the RIGs.
<b>Worst Served Customer Required Performance Improvement</b>	means the percentage reduction in the average number of Higher Voltage unplanned interruptions for Worst Served Customers set out in Appendix 3 , measured over three full years after commissioning.

**APPENDIX 1**

**Value for the TWSCC term (£m, in 2012/13 prices) by licensee  
(see Part A)**

<b>Licensee</b>	<b>TWSCC</b>
ENWL	
NPgN	
NPgY	
WMID	14.7
EMID	6.9
SWALES	2.6
SWEST	3.1
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

**APPENDIX 2**

**Values for the Worst Served Customer Cap Per Customer (WSCCPC) by licensee (£, in 2012/13 prices)**

<b>Licensee</b>	<b>WSCCPC</b>
ENWL	
NPgN	
NPgY	
WMID	800.0
EMID	800.0
SWALES	800.0
SWEST	800.0
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	



### **APPENDIX 3**

#### **Worst Served Customer Required Performance Improvement (per cent)**

<b>Licensee</b>	<b>Value</b>
ENWL	
NPgN	
NPgY	
WMID	20.00
EMID	20.00
SWALES	20.00
SWEST	20.00
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

**CRC 3l. Not used**

## **CRC 3J. Allowed expenditure on Visual Amenity Projects**

### **Introduction**

- 3J.1 This condition establishes a mechanism for determining and directing any appropriate revisions to the PCFM Variable Values relating to the licensee's allowed expenditure on Visual Amenity Projects (and the Regulatory Years to which those revisions relate) so that the resulting values ("VAA values") can be used in the Annual Iteration Process for the ED1 Price Control Financial Model, as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- 3J.2 This condition should be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments), CRC 4B and chapter 10 of the ED1 Price Control Financial Handbook.

### **Part A: Determination of the licensee's allowed expenditure on Visual Amenity Projects (VAA)**

- 3J.3 The VAA value for the licensee for a particular Regulatory Year represents the total amount of the licensee's allowed expenditure (expressed in 2012/13 prices) for Visual Amenity Projects for that Regulatory Year.
- 3J.4 The sum of all VAA values for the Price Control Period with respect to the licensee may not exceed the total visual amenity allowed expenditure (TVAA) as specified for the licensee in Appendix 1 of this condition.
- 3J.5 Subject to paragraphs 3J.6 to 3J.8, the licensee's allowed expenditure on Visual Amenity Projects for each Regulatory Year  $t-2$  of the Price Control Period is derived in accordance with the following formula:

$$VAA_{t-2} = \min \left( VAE_{t-2}, TVAA - \sum_{2015/16}^{t-3} VAA_t \right)$$

where:

TVAA means the licensee's total visual amenity allowed expenditure for the Price Control Period, as specified for the licensee in Appendix 1 of this condition, expressed in 2012/13 prices.

$VAE_{t-2}$  means the amount spent by the licensee in Regulatory Year  $t-2$  on Visual Amenity Projects expressed in 2012/13 prices.

- 3J.6 The first Regulatory Year  $t-1$  in which the Authority will make a determination under this Part A is Regulatory Year 2016/17 for the Annual Iteration Process that will take place by 30 November 2016.

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- 3J.7 For the purposes of the first determination made under paragraph 3J.6, the value of  $VAA_{t-2}$  is equal to the lesser of TVAA and  $VAE_{t-2}$ .
- 3J.8 In the formula set out in paragraph 3J.5, VAA values, for Regulatory Years earlier than Regulatory Year t-2, include any revisions to those values as determined by the Authority in accordance with Part B of this condition.

#### **Part B: Revisions to VAA values**

- 3J.9 Subject to paragraph 3J.6, the Authority will, by 30 November in each Regulatory Year t-1:
- (a) calculate the licensee's level of allowed expenditure, expressed in 2012/13 prices, for Visual Amenity Projects for Regulatory Year t-2 in accordance with Part A of this condition using information reported by the licensee under the RIGs; and
  - (b) determine the value so calculated to be the revised VAA value for the licensee for Regulatory Year t-2.
- 3J.10 If, under any provision of this licence, the licensee is required to restate information previously reported by it under the RIGs in relation to any Regulatory Year or Years, then the Authority may:
- (a) calculate replacement levels of allowed expenditure, expressed in 2012/13 prices, for Visual Amenity Projects for the Regulatory Years concerned in accordance with Part A of this condition; and
  - (b) determine the values so calculated to be revised VAA values for the licensee for the Regulatory Years concerned.
- 3J.11 The first Regulatory Year t-1 in which the Authority will make a determination under this Part B is Regulatory Year 2016/17 for the Annual Iteration Process that will take place by 30 November 2016.

#### **Part C: Procedure for directing revised VAA values by the Authority**

- 3J.12 Subject to, and in accordance with, the provisions of Parts A and B of this condition, revised VAA values for the licensee, as determined by the Authority, will be directed by the Authority by 30 November in each Regulatory Year t-1.
- 3J.13 A direction under paragraph 3J.12 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to the licensee set out all of the revised VAA values that it proposes to direct;
  - (b) stated in that Notice that those values have been determined in accordance with the provisions of Parts A and B of this condition;

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- (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
- (d) considered any representations duly received in response to the Notice.

- 3J.14 Where the Authority directs any revised VAA values for Regulatory Years earlier than Regulatory Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year  $t$ , and will not have any retroactive effect on a previously directed value of the term MOD.
- 3J.15 If, for any reason in any Regulatory Year  $t-1$ , the Authority does not make a direction in relation to revised VAA values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B, and in any event before directing a value for MOD <sub>$t$</sub>  for the licensee under that paragraph.

#### **Part D: Use of revised VAA values in the Annual Iteration Process**

- 3J.16 The effect of using revised VAA values in the Annual Iteration Process for the ED1 Price Control Financial Model will be reflected in the calculation of the value of the term MOD <sub>$t$</sub>  for the licensee.
- 3J.17 The determination of revised VAA values for Regulatory Years earlier than Regulatory Year  $t-2$  under paragraph 3J.8, and the direction of those values under paragraph 3J.12, will not have any retroactive effect on a previously directed value of the term MOD.

#### **Part E: Interpretation**

- 3J.18 For the purposes of this condition:

<b>Areas of Outstanding Natural Beauty</b>	means protected landscapes in England, Wales and Northern Ireland as defined in the National Parks and Access to the Countryside Act 1949 (and includes National Scenic Areas in Scotland, as comparable to AONBs).
<b>National Parks</b>	means the areas that are designated as protected areas as defined in the National Parks and Access to the Countryside Act 1949.
<b>National Scenic Areas</b>	means the areas that are defined in the Town and Country Planning (Scotland) Act 1997 as being of outstanding scenic value in a national context.

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

#### **Visual Amenity Projects**

means any scheme for placing overhead distribution assets underground that is undertaken by the licensee, and that has been informed by stakeholder engagement, with a view to mitigating the impact of assets forming part of the licensee's Distribution System on 1 April 2015 on the visual amenity of designated Areas of Outstanding Natural Beauty, National Parks, and National Scenic Areas.

**APPENDIX 1**

**Value for the TVAA term (expressed in £m, 2012/13 prices) by licensee**

**(see Part A )**

<b>Licensee</b>	<b>TVAA</b>
ENWL	
NPgN	
NPgY	
WMID	10.2
EMID	6.3
SWALES	5.3
SWEST	11.4
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

### **CRC 3K. Rail electrification adjustments**

#### **Introduction**

- 3K.1 This condition establishes a mechanism for determining and directing any appropriate revisions to the PCFM Variable Values for the licensee relating to Recoverable Diversion Costs (RE values), and the Regulatory Years to which those revisions relate, so that appropriate RE values can be used in the Annual Iteration Process for the ED1 Price Control Financial Model, as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- 3K.2 This condition must be read and construed in conjunction with CRC 4A (Governance of ED1 Price Control Financial Instruments), CRC 4B and chapter 12A of the ED1 Price Control Financial Handbook.

#### **Part A: Determination of the adjustment for rail electrification**

- 3K.3 The RE value for the licensee for a particular Regulatory Year represents the total reduction for that Regulatory Year in the licensee's allowed Totex expenditure (expressed in 2012/13 prices) with respect to Recoverable Diversion Costs.
- 3K.4 All RE values for the licensee are set at zero at 1 April 2015.
- 3K.5 Subject to paragraph 3K.6, if, at any time during the Price Control Period, the Authority determines, in accordance with the methodologies contained in chapter 12A of the ED1 Price Control Financial Handbook, that any RE values for the licensee are to be revised, it will issue a direction in accordance with the provisions of Part B of this condition specifying the revised RE values that have been determined and the Regulatory Years to which they relate.
- 3K.6 The last date by which the Authority can direct that RE values for the licensee should be revised is 30 November 2021 for the purpose of the Annual Iteration Process that will take place by that date.
- 3K.7 Where the Authority directs any revised RE values for Regulatory Years earlier than Regulatory Year *t*, the effect of using those revised values in the Annual Iteration Process for the ED1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for the licensee for Regulatory Year *t* and will not have any retroactive effect on a previously directed value of the term MOD.

#### **Part B: Procedure to be followed for direction of revised RE values by the Authority**

- 3K.8 Subject to, and in accordance with, the provisions of Part A of this condition:



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(a) any revised RE values for the licensee determined by the Authority by 31 October in any Regulatory Year t-1 will be directed by the Authority by 30 November in that same Regulatory Year t-1; and

(b) any revised RE values for the licensee determined by the Authority after 31 October in any Regulatory Year t-1 will be directed by the Authority by 30 November in the next Regulatory Year.

3K.9 A direction under paragraph 3K.8 will be of no effect unless, before issuing it, the Authority has:

(a) by Notice to the licensee set out all of the revised values that it proposes to direct;

(b) stated in that Notice that any revised RE values have been determined in accordance with Part A of this condition;

(c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and

(d) considered any representations duly received in response to the Notice.

3K.10 If, for any reason in any Regulatory Year t-1, the Authority does not make a direction required under paragraphs 3K.5 and 3K.8 in relation to revised RE values by 30 November, the Authority will direct the value or values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 4B.12 of CRC 4B, and, in any event before directing a value for MODt for the licensee under that paragraph.

#### **Interpretation**

3K.11 For the purposes of this condition:

##### **Recoverable Diversion Costs**

means costs associated with the diversion of electric lines or electrical plant to facilitate rail electrification projects that were included in the calculation of the licensee's Opening Base Revenue Allowances, but which have since become recoverable from a third party or adjustments which have been agreed with the licensee.

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

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

### **Introduction**

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

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

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

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

- 4A.7 The presumption established by paragraph 4A.6 is without prejudice to the licensee's right under paragraph 4A.11 to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 4A.4 or 4A.5(a).

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

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

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

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

**Part D: Interpretation**

- 4A.17 This condition must be read and construed in conjunction with CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- 4A.18 For the purposes of this condition:

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### **ED1 Price Control Financial Model Working Group**

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

## CRC 4B. Annual Iteration Process for the ED1 Price Control Financial Model

### Introduction

- 4B.1 This condition sets out the steps of the Annual Iteration Process that the Authority will, subject to paragraph 4B.2, carry out in each Regulatory Year  $t-1$  in relation to the ED1 Price Control Financial Model, in order to determine the value of the term MOD for the licensee for Regulatory Year  $t$  for the purposes of the formula specified in Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue).
- 4B.2 The first Regulatory Year in which there will be an Annual Iteration Process for the ED1 Price Control Financial Model is Regulatory Year 2015/16 for the purpose of determining the value of the term MOD for the licensee for Regulatory Year 2016/17.
- 4B.3 The last Regulatory Year in which there will be an Annual Iteration Process for the ED1 Price Control Financial Model is Regulatory Year 2021/22 for the purpose of determining the value of the term MOD for the licensee for Regulatory Year 2022/23.
- 4B.4 The Annual Iteration Process will consist of the steps set out in Part A of this condition and will be carried out by the Authority in accordance with the procedures set out in chapter 1 of the ED1 Price Control Financial Handbook.
- 4B.5 The outcome of the Annual Iteration Process with respect to the value of the term  $MOD_t$  for the licensee will be notified to the licensee in accordance with Part B of this condition.

### Part A: Steps comprising the Annual Iteration Process

- 4B.6 The Authority will save a record copy of the ED1 Price Control Financial Model in the form it is in, and with the content it has, before any of the steps of the Annual Iteration Process set out below are commenced.
- 4B.7 Step 1: The Authority will make revisions to PCFM Variable Values for the licensee where and to the extent required in relation to adjustments arising for the licensee under:
- (a) CRC 3A (Legacy price control adjustments);
  - (b) CRC 3B (Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments);
  - (c) CRC 3C (Specified financial adjustments);
  - (d) CRC 3D (The Innovation Roll-out Mechanism);
  - (e) CRC 3E (Smart Meter Roll-out Costs);
  - (f) CRC 3F (Arrangements for the recovery of uncertain costs);
  - (g) CRC 3G (Revising the allowed level of Load Related Expenditure);

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- (h) CRC 3H (Allowed expenditure on improving services to Worst Served Customers);
- (i) CRC 3J (Allowed expenditure on Visual Amenity Projects); and
- (j) CRC 3K (Rail electrification adjustments).

4B.8 Step 2: The Authority will cause the ED1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the PCFM Variable Values Table for the licensee, where and to the extent required.

4B.9 Step 3: The Authority will identify and record the value of the term  $MOD_t$  for the licensee, calculated as a result of Step 2 and shown as an output of the ED1 Price Control Financial Model, including the effects of any revised PCFM Variable Values, which will not have any retroactive effect on a previously directed value of the term MOD.

4B.10 Step 4: The Authority will give a direction to the licensee, in accordance with Part B of this condition, setting out the value for the term  $MOD_t$  for the licensee that is to be used in the formula set out in Part C of CRC 2A for the purpose of ascertaining the value of the term  $BR_t$ .

### **Part B: Direction by the Authority of the value of the $MOD_t$ term**

4B.11 Subject to paragraph 4B.3, the value of the term MOD for the licensee for Regulatory Year  $t$  will be directed by the Authority no later than 30 November in each Regulatory Year  $t-1$ .

4B.12 If, subject to paragraph 4B.3, the Authority does not, for any reason, direct a value for  $MOD_t$  by 30 November in any Regulatory Year  $t-1$ , then the Annual Iteration Process set out in Part A of this condition will not have been completed and the provisions set out in paragraphs 4B.13 and 4B.14 will apply.

4B.13 The Authority will complete the Annual Iteration Process that is set out in Part A of this condition as soon as is practicable after 30 November in the relevant Regulatory Year  $t-1$  by directing a value for  $MOD_t$  for the licensee.

4B.14 In the intervening period (between 30 November in the relevant Regulatory Year  $t-1$  and the making of a direction under paragraph 4B.13), the value of  $MOD_t$  for the licensee will be held to be equal to a value ascertained by:

- (a) taking a copy of the ED1 Price Control Financial Model in its state following the last completed Annual Iteration Process (that is excluding the effect of any functional modifications under CRC 4A (Governance of ED1 Price Control Financial Instruments) made after the completion of that Annual Iteration Process);



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- (b) using the selection facilities on the user interface sheet contained in that copy to select:
  - (i) the name of the licensee; and
  - (ii) the Regulatory Year equating to Regulatory Year t;
- (c) causing the ED1 Price Control Financial Model to perform its calculation functions where and to the extent required with respect to the licensee; and
- (d) recording the value of the term  $MOD_t$  for the licensee that is shown as an output value.

4B.15 Neither:

- (a) an Annual Iteration Process for the ED1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor
- (b) a change to the Regulatory Year included in the name of and text within the ED1 Price Control Financial Model (as referred to at paragraphs 15(b) and (c) of CRC 4A),

will constitute a modification of the ED1 Price Control Financial Model within the meaning of Part B of CRC4A.

## **CRC 4C. Price control update provisions for WPD**

### **Introduction**

- 4C.1 This condition comes into effect on 17 July 2014 and has effect until 1 April 2015 only.
- 4C.2 It enables the Authority, by way of direction, to:
- (a) bring Stipulated Values, as set out in the ED1 Final Determination, up to date;
  - (b) make such adjustments, if any, to the licensee's ED1 Final Determination as the Authority considers appropriate so as to ensure that, in its reasonable opinion and taken in the round, the licensee does not suffer material financial detriment from having that determination set at Fast-Track rather than Slow-Track;
  - (c) Reprofile, where appropriate the Opening Base Revenue Allowances for the licensee in the light of any updates and adjustments as are referred to in paragraphs 4C.2(a) and 4C.2(b);
  - (d) make such modifications to the Charge Restriction Conditions and the ED1 Price Control Financial Instruments as are necessary to implement such updates and adjustments; and
  - (e) make the detail of the Common Content of the ED1 Price Control Financial Instruments exactly similar to that for every other Distribution Services Provider.
- 4C.3 The provisions in this condition that refer to items contained in other conditions of this licence have effect even though those other conditions may not be in effect at the time in question.

### **Part A: Updating of Stipulated Values at Slow-Track**

- 4C.4 This Part A allows the Authority to determine updates to Stipulated Values.
- 4C.5 The Stipulated Values, which may be updated by direction of the Authority under this Part A, are:
- (a) the allowed percentage cost of corporate debt for the licensee;
  - (b) RAV additions for the licensee for Regulatory Year 2013/14;
  - (c) Pension Scheme Established Deficit true-up value forecasts for the licensee that take account of pension payments by the licensee in Regulatory Year 2013/14; and
  - (d) tax pool balances for the licensee as at 31 March 2014, that take account of Totex expenditure by the licensee in Regulatory Year 2013/14.

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- 4C.6 The Stipulated Values must be updated under this condition in a manner that is fully consistent with the basis on which they were determined under the ED1 Final Determination.
- 4C.7 A direction under this Part A to update the Stipulated Values is of no effect unless, before issuing it, the Authority has first:
- (a) by Notice to the licensee, and such other persons as the Authority considers appropriate, set out all of the updated Stipulated Values that it proposes to determine;
  - (b) stated in that Notice how it considers those updated values comply with paragraph 4C.6;
  - (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which representations may be made to the Authority concerning the determination of any update to a Stipulated Value;
  - (d) stated in that Notice whether or not it will also be giving a Notice to the licensee under paragraph 4C.10;
  - (e) published that Notice in the manner it considers appropriate; and
  - (f) considered any representations duly received in response to the Notice.
- 4C.8 Any updates to Stipulated Values determined under this Part A will be reflected in the direction made under Part D of this condition.

### **Part B: Financial adjustments**

- 4C.9 This Part B allows the Authority to direct such financial adjustments, if any, to the licensee's ED1 Final Determination as it considers appropriate so as to ensure that, in its reasonable opinion and taken in the round, the licensee does not suffer material financial detriment from having that determination set at Fast-Track rather than Slow-Track.
- 4C.10 A direction under this Part B is of no effect unless, before issuing it, the Authority has first:
- (a) by Notice to the licensee, and such other persons as the Authority considers appropriate, set out the financial adjustment or adjustments that it proposes to determine;
  - (b) stated in that Notice how it considers that those adjustments comply with paragraph 4C.9;
  - (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which representations may be made to the Authority concerning the proposed financial adjustment or adjustments; and
  - (d) considered any representations duly received in response to the Notice.

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- 4C.11 No adjustment will be determined under this Part B if, before the end of the period referred to in paragraph 4C.10, the licensee gives a Notice to the Authority to decline all of the proposed adjustments.
- 4C.12 Any determination under this Part B will be reflected in the direction made under Part D of this condition.

### **Part C: Reprofilng of Opening Base Revenue Allowances**

- 4C.13 The licensee may include with any representation made under paragraphs 4C.7 or 4C.10 of this condition a proposal that its Opening Base Revenue Allowances should be Reprofiled in the light of any proposed updates or adjustments set out in Notices given by the Authority under those paragraphs.
- 4C.14 Any Reprofilng proposed by the licensee under paragraph 4C.13 will be incorporated by the Authority in modifications to Part 4 of this licence under Part D of this condition to the extent that it results in the licensee's Opening Base Revenue Allowance for each Regulatory Year of the Price Control Period having materially the same proportionate relationship to the Opening Base Revenue Allowance for each other Regulatory Year of the Price Control Period as it had in the ED1 Final Determination.

### **Part D: Updating Part 4 and the ED1 Price Control Financial Instruments**

- 4C.15 This Part provides for the Authority to determine and direct such modifications to the Charge Restriction Conditions of this licence including the ED1 Price Control Financial Instruments, as may be necessary:
- (a) to incorporate updates to Stipulated Values determined under Part A of this condition;
  - (b) to incorporate any financial adjustments to the licensee's ED1 Final Determination under Part B of this condition;
  - (c) to Reprofile, as appropriate, the Opening Base Revenue Allowances for the licensee; and
  - (d) to make the detail of the Common Content of the ED1 Price Control Financial Instruments exactly similar as that for every other Distribution Services Provider.
- 4C.16 A determination by the Authority under this Part may, subject to paragraph 4C.15:
- (a) update any of the Charge Restriction Conditions in Part 4 of this licence;
  - (b) update any of the content of the ED1 Price Control Financial Handbook including any of the ED1 Price Control Financial Methodologies; and
  - (c) update any value, functionality or formatting contained in the PCFM.
- 4C.17 A direction under this Part C is of no effect unless, before issuing it, the Authority has first:

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- (a) by Notice to the licensee, and such other persons as the Authority considers appropriate, set out the modifications that it proposes to direct;
- (b) stated in that Notice how it considers that those modifications comply with paragraph 4C.15;
- (c) specified in the Notice the period (which may not be less than 14 days from the date of the Notice) within which representations may be made to the Authority concerning the proposed modifications; and
- (d) considered any representations duly received in response to the Notice.

### Interpretation

4C.18 For the purposes of this condition:

- (a) references in this condition to Charge Restriction Conditions are to the licence conditions which will become effective from 1 April 2015 in accordance with the modifications made by the Authority on 21 May 2014; and
- (b) the following terms have the following meanings:

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

**Common Content** means the whole of the ED1 Price Control Financial Handbook and every worksheet contained in the ED1 Price Control Financial Model except for the following worksheets:

- the input values worksheet containing the PCFM Variable Values Table for the licensee;
- the “Live Results” worksheet;
- the “Saved Results” worksheet; and
- any worksheets labelled as “Unused”.

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### **ED1 Final Determination**

means:

(a) in respect of the WPD Licensees, the document entitled “Decision to fast-track Western Power Distribution”, together with all of the supporting, associated and other relevant documents referred to in that document, which was published by the Authority on 28 February 2014; and

(b) in respect of all other Distribution Services Providers the documents comprising the Authority’s determination of the restrictions to apply to that licensee’s revenue for the period 1 April 2015 until 31 March 2023, as so designated by the Authority for the purpose of this definition.

### **ED1 Price Control Financial Handbook**

means the document of that name that was published by the Authority on 21 May 2014 and came into effect on 1 April 2015, and that:

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

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

### **ED1 Price Control Financial Instruments**

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

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<b>ED1 Price Control Financial Methodologies</b>	<p>means the methodologies that:</p> <ul style="list-style-type: none"><li>(a) are named as such in the ED1 Price Control Financial Handbook; and</li><li>(b) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,</li></ul> <p>as modified from time to time in accordance with the provisions of CRC 4A (Governance of ED1 Price Control Financial Instruments).</p>
<b>ED1 Price Control Financial Model</b>	<p>means the model of that name (with a suffix referring to the month of November in Regulatory Year t-1 as that term is defined for the purposes of CRC 4A) that:</p> <ul style="list-style-type: none"><li>(a) was first published by the Authority on 21 May 2014 and came into effect on 1 April 2015;</li><li>(b) is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Regulatory Year suffix) on the Authority's Website; and</li><li>(c) will be used by the Authority to determine the value of the term MOD<sub>t</sub> through the application of the Annual Iteration Process,</li></ul> <p>as modified from time to time in accordance with the provisions of CRC 4A (Governance of ED1 Price Control Financial Instruments).</p>
<b>Fast-Track</b>	<p>means 28 February 2014.</p>
<b>Opening Base Revenue Allowances</b>	<p>means the value of base revenue determined by the Authority as set out for the licensee in Appendix 1 of CRC 2A (Restriction of Allowed Distribution Network Revenue).</p>

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<b>PCFM Variable Value</b>	means a value held in the PCFM Variable Values Table for the licensee contained in the ED1 Price Control Financial Model:  (a) that may be revised by a direction of the Authority following a determination under the relevant CRC; but  (b) the revision of which does not constitute a modification of the ED1 Price Control Financial Model for the purposes of CRC 4A.
<b>Pension Scheme Established Deficit</b>	has the meaning given to that term in chapter 3 of the ED1 Price Control Financial Handbook.
<b>Reprofile</b>	means the process of adjusting amounts included in Opening Base Revenue Allowances for the licensee so that those allowances have a desired proportionate relationship with each other, and may include the making of changes to other values contained in the ED1 Price Control Financial Model that are necessary to give effect to that process (and “Reprofiled” and “Reprofiling” are to be read accordingly).
<b>Slow-Track</b>	means the date of the Authority’s determination of the restrictions to apply to the Slow-Track Licensees’ revenues for the period 1 April 2015 to 31 March 2023.
<b>Slow-Track Licensees</b>	means the licensees listed in Table 1 at Appendix 1 to this condition.
<b>Stipulated Values</b>	means the items set out in paragraph 4C.5 of this condition, which may be updated by direction.
<b>Totex</b>	has the meaning given to that term in chapter 6 of the ED1 Price Control Financial Handbook.
<b>WPD</b>	means each of WMID, EMID, SWALES and SWEST.



## Appendix 1

**Table 1: Slow-Track Licensees for the ED1 Price Control**

Licensee
ENWL
NPgN
NPgY
LPN
SPN
EPN
SPD
SPMW
SSEH
SSES

## **CHAPTER 5: OTHER REVENUE RESTRICTION RELATED CONDITIONS**

## **CRC 5A. The Network Innovation Competition**

### **Introduction**

- 5A.1 This condition establishes the arrangements known as the Network Innovation Competition (NIC) with respect to the funding of innovative low carbon or environmental projects carried out by the licensee.
- 5A.2 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

### **Part A: Function of the Network Innovation Competition (NIC)**

- 5A.3 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of payments received from the System Operator in accordance with the determination process described in Part B and Part D of this condition below as varied, where appropriate, by the Funding Return Mechanism described in Part C of this condition.

### **Part B: The NIC Funding Mechanism**

- 5A.4 The NIC Funding Mechanism is the mechanism by which the licensee receives the amount of authorised NIC Funding in any Regulatory Year from the System Operator, less any Funding Return as described in Part C of this condition and in accordance with the provisions of the NIC Governance Document.

### **Part C: The Funding Return Mechanism**

- 5A.5 The Funding Return Mechanism relates to payments to be made by the licensee to the System Operator, to such extent as may be relevant, in each of the following cases (if any):
- (a) Halted Project Revenues;
  - (b) Disallowed Expenditure;
  - (c) Returned Royalty Income; and
  - (d) Returned Project Revenues.
- 5A.6 The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 5A.5.
- 5A.7 Halted Project Revenues are any revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

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- 5A.8 Disallowed Expenditure is any revenue received by the licensee from the System Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 5A.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to Customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 5A.10 For the purposes of paragraph 5A.9, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated by Base Demand Revenue, revenue from Directly Remunerated Services, or the NIC Funding Mechanism.
- 5A.11 Returned Project Revenues are:
- (a) revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction; or
  - (b) revenues earned from Eligible NIC Projects by the licensee other than Returned Royalty Income, that the Authority determines are payable to customers.
- 5A.12 The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, whether they should be retained by the licensee
- 5A.13 In each Regulatory Year *t*, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:
- (a) the amount of any Funding Return that the licensee must pay to the System Operator; and
  - (b) the manner in which and the timescale over which that amount is to be so paid.
- 5A.14 The licensee must comply with any direction that is issued by the Authority under paragraph 5A.13.

### **Part D: Determination of the NIC term**

- 5A.15 The NIC term is the net amount of NIC Funding less any Funding Return for the Regulatory Year *t* that is to be paid to the licensee by the System Operator, or vice versa, in compliance with the determination made for that purpose in a direction

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issued by the Authority pursuant to the provisions of Part D of Special Condition 3I (The Network Innovation Competition) in the Transmission Licence held by the System Operator.

- 5A.16 The NIC Funding to which paragraph 5A.4 refers is the proportion (if any) of total NIC Funding raised by the System Operator from its Transmission Network Charges in accordance with the NIC Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible NIC Projects, as adjusted by the amount of any Funding Return (as to which, see Part C of this condition).
- 5A.17 In each Regulatory Year *t*, as provided for by the NIC Governance Document and in accordance with such provisions of the System Operator's Transmission Licence as apply for the purposes of raising and transferring funds under the NIC, the Authority will calculate and then, by direction given to the licensee, other Electricity Distributors and Transmission Licensees, will specify, in accordance with the appropriate provisions set out in the NIC Governance Document:
- (a) the net amount of the NIC term (whether negative or positive);
  - (b) how the amount of that term has been calculated, taking account of any Funding Return; and
  - (c) the manner in which and the timescale over which the System Operator is required to transfer that amount to the licensee or vice versa.

### **Part E: The NIC Governance Document**

- 5A.18 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.
- 5A.19 The NIC Governance Document may, amongst other things, make provision about or impose requirements in respect of:
- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
  - (b) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);
  - (c) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
  - (d) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured by the licensee and disseminated to other Electricity Distributors and Transmission Licensees;
  - (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);

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- (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
- (g) any other matters relating to the regulation, governance, or administration of the NIC.

5A.20 Where any provisions of the NIC 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 F: Procedure for issuing and revising the NIC Governance Document**

5A.21 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee, other Electricity Distributors and Transmission Licensees with a condition of similar effect to this condition in their licence, will:

- (a) state that it proposes to issue the NIC Governance Document, and specify the date on which it proposes that the document should take effect;
- (b) set out the text of the NIC Governance Document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) by which representations with respect to the proposed NIC Governance Document may be made.

5A.22 The Authority will consider any representations that are duly made and not withdrawn.

5A.23 The requirements of paragraphs 5A.21 and 5A.22 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

5A.24 In paragraph 5A.21, "issuing the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

### **Part G: Interpretation**

5A.25 Defined terms are to be read and given effect subject to any further clarification that may be set out in the NIC Governance Document in relation to such terms.

5A.26 For the purposes of this condition:

<b>Directly Attributable Costs</b>	has the meaning given to that term in Part C of this condition.
<b>Disallowed Expenditure</b>	has the meaning given to that term in Part C of this condition.

## *Conditions being removed from the existing licence*

<b>Eligible NIC Project</b>	means a project undertaken by the licensee or any other Electricity Distributor or Transmission Licensee that in the Authority's view satisfies such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
<b>Funding Return</b>	has the meaning given to that term in Part C of this condition and comprises the sum of Halted Project Revenues, Disallowed Expenditure and Returned Royalty Income.
<b>Funding Return Mechanism</b>	has the meaning given to that term in Part C of this condition.
<b>Halted Project Revenues</b>	has the meaning given to that term in paragraph Part C of this condition.
<b>Network Innovation Competition (NIC)</b>	has the meaning given to that term in paragraph 5A.1 of this condition.
<b>NIC Funding</b>	means the amount transferred to the licensee to fund the implementation of a NIC project.
<b>NIC Funding Mechanism</b>	refers to the arrangements, pursuant to this condition, for the recovery by the System Operator through its Transmission Network Charges of the amount of total authorised NIC Funding in any Regulatory Year and the apportionment of that amount amongst the System Operator, the licensee, and other Electricity Distributors and Electricity Transmission Licensees.
<b>NIC Governance Document</b>	means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F, relating generally to the NIC and including matters relating to the operation of the NIC Funding Mechanism.
<b>NIC Projects</b>	means a project undertaken by a licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary for the project to be funded under the NIC Funding Mechanism.
<b>Project Direction</b>	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.
<b>Returned Project Revenues</b>	has the meaning given to that term in Part C of this condition.

## *Conditions being removed from the existing licence*

<b>System Operator</b>	means the holder for the time being of a transmission licence in relation to which licence the Authority or the Secretary of State, where appropriate, has issued a Section C (system operator standard conditions) Direction and where Section C remains in effect (whether or not subject to any terms included in such a direction or to any subsequent variation of its terms).
<b>Transmission Network Charges</b>	means charges levied by a Transmission Licensee in respect of the provision of Transmission Network Services.



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

### **Introduction**

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

### **Part A: Licensee's obligation**

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

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

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

$$SCRM_t = £1.12 \times PIT_t + AF_t$$

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

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

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

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

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

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

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

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

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

## *Conditions being removed from the existing licence*

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

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

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

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

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

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

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

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

## *Conditions being removed from the existing licence*

$$SPPM_t = \left( \left[ \left( \frac{SPPMAV}{LS_t} \right) \times \left[ 1 + \left[ (1 + LSW_t) \times \left( \frac{6.9}{100} - \frac{6.9}{200} \times \frac{LSW_t}{LS_t} \right) \right] \right] + £0.242 \right) \times \right. \\ \left. PIT_t + AF_t \right)$$

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

- SPPM<sub>t</sub>** is the maximum amount that the licensee may charge for the provision of a Single-Rate Smartcard Prepayment Electricity Meter in the Regulatory Year t.
- SPPMAV** means the modern equivalent asset value of a Single-Rate Smartcard Prepayment Electricity Meter, and has the value of £62.77.
- LS<sub>t</sub>** is the current expected life (in years) of a Single-Rate Smartcard Prepayment Electricity Meter, and has the value of 7.
- LSW<sub>t</sub>** is the value of LS<sub>t</sub> rounded down to the nearest integer, and hence has the value of 7.
- PIT<sub>t</sub>** is the price index adjustment, and has the value determined in accordance with Part G of this condition.
- AF<sub>t</sub>** is the adjustment factor (if any), and has the value determined in accordance with Part H of this condition.

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

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

$$MAPPC_t = \left[ \frac{MEAP_i}{ELA_i} + MEAP_i \times \frac{6.9}{200} + 0.242 \right] \times PIT_t + AF_t$$

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

- MAPPC<sub>t</sub>** is the maximum amount that the licensee may charge for the provision of a type of Electricity Meter in the Regulatory Year t that is not within the types of Electricity Meter covered by Parts B to E of this condition.
- MEAP<sub>i</sub>** is the Modern Equivalent Asset Purchase Price of the Electricity Meter type i as at 1 June 2003 or the nearest determinable date after 1 June 2003.
- ELA<sub>i</sub>** is the current expected economic life (in years) of the Electricity Meter type i.

## *Conditions being removed from the existing licence*

- $PIT_t$  is the price index adjustment, and has the value determined in accordance with Part G of this condition.
- $AF_t$  is the adjustment factor (if any), and has the value determined in accordance with Part H of this condition.
- $i$  is an Electricity Meter type covered under paragraph 5B.13 and not covered by Parts B to E of this condition.

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

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

### **Part G: Calculation of the price index adjustment (~~PIT~~)**

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

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

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

- $PIT_t$  has the value of 1 in the Regulatory Year beginning on 1 April 2002, and then in each subsequent Regulatory Year has the value derived from the formula itself.
- $RPI_t$  means the percentage change (whether positive or negative) between the arithmetic average of the Retail Prices Index numbers published or determined with respect to each of the six months from July to December (inclusive) in Regulatory Year  $t-2$  and the arithmetic average of the Retail Prices Index numbers published or determined with respect to the same months in regulatory Year  $t-1$ .

### **Part H: Determination and application of the adjustment factor (~~AF~~)**

5B.16 This paragraph applies where the licensee considers that the expected asset life of a type of Electricity Meter specified in paragraph 5B.17 has fallen below the level assumed for the purposes of establishing the relevant charge restriction under this condition because of a decision by an Electricity Supplier to replace the technology associated with that type of Electricity Meter with technology associated with another type of Electricity Meter specified in paragraph 5B.17.

### *Conditions being removed from the existing licence*

- 5B.17 The types of Electricity Meter to which paragraph 5B.16 refers are these:
- (a) a Token Prepayment Electricity Meter (whether single-rate or multi-rate);
  - (b) a Key Prepayment Electricity Meter (whether single-rate or multi-rate);
  - (c) a Smartcard Prepayment Electricity Meter (whether single-rate or multi-rate) and;
  - (d) a Single-Phase Single-Rate Credit Electricity Meter.
- 5B.18 If paragraph 5B.16 applies, the licensee may, by Notice to the Authority, propose a relevant adjustment factor (AF<sub>i</sub>) to be applied uniformly to each of the formulas set out in Parts B to F of this condition in respect of the charging restrictions established by this condition.
- 5B.19 A relevant adjustment factor is one which, in the licensee's opinion, would have the effect of enabling the licensee to recover 30 per cent of the efficient costs incurred or likely to be incurred as a consequence of the Electricity Supplier's decision to which paragraph 5B.16 refers.
- 5B.20 The Notice served by the licensee under paragraph 5B.18 must:
- (a) set out the basis (including by reference to the effects of the Electricity Supplier's decision) on which the licensee has calculated the relevant adjustment factor; and
  - (b) state both the start date and the end date of the period in respect of which the licensee seeks the Authority's consent for the relevant adjustment to have effect (the "Adjustment Period").
- 5B.21 In giving that Notice, the licensee must have regard to any relevant guidelines published by the Authority for the purposes of this condition.
- 5B.22 The Authority may, within 28 days of receiving the Notice from the licensee in accordance with this Part H, determine both the relevant adjustment factor and the Aadjustment pPeriod in such manner as it considers appropriate, subject to paragraph 5B.23.
- 5B.23 In making its determination, the Authority must:
- (a) consult with the licensee; and
  - (b) have particular regard both to the purposes of this condition and to any relevant guidelines published by the Authority under it.
- 5B.24 If the Authority has not determined the relevant adjustment factor within 28 days of receiving the licensee's Notice, and that Notice has not been withdrawn, the licensee may apply the relevant adjustment factor in the manner specified in paragraph 5B.18 for the duration of the Adjustment Period.

**Part I: Interpretation**

5B.25 For the purposes of this condition:

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

## **CRC 5C. Directly Remunerated Services**

### **Introduction**

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

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

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

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

### *Conditions being removed from the existing licence*

- 5C.6 Appendix 1, while not limiting the scope of the General Principle, sets out certain categories of service provided by the licensee that are to be treated as Directly Remunerated Services to the extent that they comply with the General Principle.
- 5C.7 Charges levied in respect of Directly Remunerated Services provided within categories DRS1, DRS2, DRS3, DRS4 and DRS 7 of Appendix 1 must be set at a level that will allow the licensee to recover:
- (a) its reasonable costs;
  - (b) a reasonable rate of return on the capital outlay represented by any expenditure incurred by the licensee during the period before payment is received of any amounts due by the person requiring the service in question; and
  - (c) in respect of DRS1, a Margin, where that is consistent with the provisions of CRC 2K.
- 5C.8 Charges levied in respect of Directly Remunerated Services provided within categories DRS5 and DRS9 of Appendix 1 are to be set at a level that will allow the licensee to recover its reasonable costs and a reasonable margin in providing the service in question.
- 5C.9 The total Net Revenue from charges levied in respect of Directly Remunerated Services provided within category DRS8 of Appendix 1 (Value Added Services) during any Regulatory Year is to be included as a component of the ACO value for the licensee (as that term is defined in CRC 3B (Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments)) for the same Regulatory Year.

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

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



**Part D: Interpretation**

5C.12 The descriptions of categories of Directly Remunerated Service set out in Appendix 1 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that may be set out in the RIGs issued by the Authority under standard condition 46 (Regulatory Instructions and Guidance) of this licence.

5C.13 For the purposes of this condition:

**Net Revenue** means the difference between the revenue received from charges for Value Added Services (as defined in Appendix 1) in a particular Regulatory Year and the marginal costs directly associated with the provision of those services in the same Regulatory Year, being in each case:

(a) ascertained on a normal accruals basis and in accordance with any RIGs that apply for the purposes of this condition; and

(b) for the purposes of paragraph 5C.9, expressed as a negative figure when the revenue received exceeds the associated marginal costs.

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

## **APPENDIX 1**

### **Specific categories of Directly Remunerated Service**

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

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

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

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

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

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

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

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

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

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

### *Conditions being removed from the existing licence*

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

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

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

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

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

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

## **CRC 5D. Assessment of Network Asset Secondary Deliverables**

### **Introduction**

5D.1 This condition:

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

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

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

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

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

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

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

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

### *Conditions being removed from the existing licence*

- 5D.6 In making its assessment under paragraph 5D.5, the Authority will consider the licensee's performance in delivering the Network Asset Secondary Deliverables by assessing the change delivered by the licensee as measured in terms of monetised risk in accordance with the Risk Index, forming part of the Network Asset Indices, at the end of the Price Control Period against the Network Asset Secondary Deliverables set out for the licensee in its Network Assets Workbook for the end of the Price Control Period.
- 5D.7 The assessment referred to in paragraphs 5D.5 and 5D.6 will be based:
- (a) only on the change in the Network Asset Indices associated with asset replacement (NAW3), refurbishment (NAW4) and high value projects where the primary driver is either asset replacement or refurbishment activity (NAW7); and
  - (b) only on the assets that are included in the licensee's Network Assets Workbook.
- 5D.8 In making its assessment under paragraph 5D.5, the Authority will, among other things, take account of:
- (a) any trade-offs between asset replacement and asset refurbishment; and
  - (b) any trade-offs between other asset categories,
- that the licensee is able to demonstrate have delivered either Network Asset Secondary Deliverables equivalent to, or delivered to a higher specification than the Network Asset Secondary Deliverables set out in the Network Assets Workbook.
- 5D.9 Where, having first taken account of the matters set out in paragraph 5D.8, the Authority determines that some or all of the Network Asset Secondary Deliverables have been the subject of an under-delivery that is not Justified Under-Delivery :
- (a) the incremental cost of delivering to the Network Asset Secondary Deliverables will not be provided for in the licensee's revenue allowance for the Next Price Control Period; and
  - (b) a negative adjustment of 2.5 per cent (post tax) of the avoided costs associated with the under-delivery will be made to the licensee's revenue allowance for the Next Price Control Period.
- 5D.10 In making any adjustments under 5D.9(a) the Authority will make an adjustment to revenues in the Next Price Control Period to reverse any proportion of revenues included in  $MOD_t$  associated with outperformance of allowances included in Opening Base Revenues for the Network Asset Secondary Deliverables to which that paragraph refers.

### *Conditions being removed from the existing licence*

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

### **Part C: Rebasing and Modification of the Network Assets Workbook**

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

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

### *Conditions being removed from the existing licence*

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

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

- 5D.19 The Authority may by Notice require the licensee to provide it with a proposal for revised values for Average Probability of Asset Failure and Average Consequence of Asset Failure for specified asset categories together with evidence demonstrating the accuracy of such proposals, as both in accordance with the Common Network Asset Indices Methodology.
- 5D.20 A Notice under paragraph 5D.19 must allow the licensee at least 28 days from the date of the Notice to make the relevant proposal.
- 5D.21 On receipt of a proposal and evidence which duly complies with paragraph 5D.19 the Authority will then direct the licensee to revise its values for Average Probability of Asset Failure and Average Consequence of Asset Failure in the Network Assets Workbook in accordance with that proposal so that the Network Asset Secondary Deliverables remain as equally challenging as those set out in the Network Assets Workbook that was applicable at 1 April 2015.
- 5D.22 A direction issued by the Authority under paragraph 5D.21 will be of no effect unless before issuing it, the Authority has:
- (a) by Notice to the licensee and any other interested parties, stated that it proposes to make the determination;
  - (b) set out in that Notice the substance of the proposed determination;

### *Conditions being removed from the existing licence*

- (c) explained in the Notice the reasons for and the effects of the proposed determination;
- (d) specified in the Notice, the date (which may not be less than 28 days from the date of the Notice) by which the licensee may make representations to the Authority about the proposed determination; and
- (e) considered any representations duly received in response to the Notice.

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

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

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

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

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

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

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

- (a) is not satisfied that the Rebased Network Asset Secondary Deliverables comply with paragraph 5D.18; or



### *Conditions being removed from the existing licence*

- (b) has decided to direct an amendment to the licensee's allowed expenditure under the Specified Uncertainty Mechanism but is not satisfied that the Modified Network Asset Secondary Deliverables comply with paragraph 5D.24, it may direct the licensee to modify the Network Asset Secondary Deliverables and Network Assets Workbook in accordance with such Rebased Network Asset Secondary Deliverables as, in the Authority's opinion, comply with the provisions of paragraph 5D.18, or 5D.24 as appropriate.

#### *Procedure for directions*

- 5D.27 A direction issued by the Authority under paragraph 5D.25 or 5D.26 will be of no effect unless the requirements of paragraphs 5D.28 and 5D.29 are fulfilled.
- 5D.28 The first requirement is that, before issuing the direction, the Authority has:
- (a) by Notice to the licensee and any other interested parties, stated that it proposes to make the determination;
  - (b) set out in that Notice the substance of the proposed determination;
  - (c) explained in the Notice the reasons for and the effects of the proposed determination;
  - (d) specified in the Notice, the date (which may not be less than 56 days from the date of the Notice) by which the licensee may make representations to the Authority about the proposed determination; and
  - (e) considered any representations duly received in response to the Notice.
- 5D.29 The second requirement is that the licensee has not demonstrated in representations referred to under paragraph 5D.28(d) that it reasonably considers that the proposed direction would be likely to have a significant detrimental impact on its ability to carry out its obligations under this licence.

#### **Part D: Guidance for the purposes of this condition**

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

#### **Part F: Interpretation**

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

## *Conditions being removed from the existing licence*

<b>Average Consequence of Asset Failure</b>	means the value used to represent the consequence of failure for each asset category in the Network Assets Workbook for the purposes of the calculation of monetised risk.
<b>Average Probability of Asset Failure</b>	means the value used to represent the probability of failure for each Health Index rating 1 to 5 in the Network Assets Workbook for the purposes of the calculation of monetised risk.
<b>Common Network Asset Indices Methodology</b>	has the meaning given to that term in standard condition 51 (Network Asset Indices Methodology).
<b>Justified Over-Delivery</b>	means a delivery against Network Asset Secondary Deliverables that is above the level set out and approved in the Network Asset Workbook and that in the Authority's opinion was justified based on analysis that indicates that: (a) the actual level of risk was higher than that set out in the Network Asset Workbook and delivery of Network Asset Secondary Deliverables above the level set out was required by the licensee to mitigate that risk; or (b) the level of expenditure otherwise represented an efficient use of the licensee's resources, even if the actual level of risk remained unchanged.
<b>Justified Under-Delivery</b>	means a delivery against the Network Asset Secondary Deliverables that is below the level set out and approved in the Network Asset Workbook and that in the Authority's opinion was justified based on analysis that indicates that (a) the actual level of risk was lower than that set out in the Network Asset Workbook and delivery of the level of Network Asset Secondary Deliverables set out was not required; or (b) the level of expenditure otherwise represented an efficient use of the licensee's resources, even if the actual level of risk remained unchanged.
<b>Modified Network Asset Secondary Deliverables</b>	has the meaning given to that term in paragraph 5D.23.
<b>Network Asset Indices</b>	has the meaning given to that term in standard condition 51.
<b>Network Asset Secondary Deliverables</b>	means the asset health, criticality and risk secondary deliverables set out for the licensee in the Network Assets Workbook.
<b>Network Assets Workbook</b>	means the file of that name in Microsoft Excel ® format containing worksheets setting out the Network Asset Secondary Deliverables <u>and the associated file named SD</u>

*Conditions being removed from the existing licence*

	<u>Monetised Risk that calculates the monetised risk deliverable from this, first published by the Authority in February 2015 and as updated by the Authority from time to time and published on its website</u> <del>first published by the Authority on 21 May 2014.</del>
<b>Rebased Network Asset Secondary Deliverables</b>	has the meaning given to that term in paragraph 5D.17.
<b>Risk Index</b>	has the meaning given to that term in standard condition 51.
<b>Specified Uncertainty Mechanism</b>	means any of the conditions in Chapter 3 of this Part 4.

## **CRC 5E. Charging outside the Distribution Services Area**

### **Introduction**

- 5E.1 The requirements imposed by this condition apply only in relation to the Use of System Charges levied by the licensee in respect of its Distribution Business activities outside its Distribution Services Area (“Out of Area Charges”).
- 5E.2 The licensee must make, and continue to make, Out of Area Charges available, in accordance with the requirements of this condition, for the provision of Use of System to any ~~Authorised supplier~~ Electricity Supplier of electricity that uses or wishes to use the licensee’s Distribution System to supply electricity to Domestic Customers at Domestic Premises outside the licensee’s Distribution Services Area.

### **Part A: Setting and restriction of Out of Area Charges**

- 5E.3 The licensee’s Out of Area Charges in relation to Domestic Customers may vary according to the Distribution Services Area of the Electricity Distributor within which Domestic Premises are connected to the licensee’s Distribution System.
- 5E.4 The licensee must set those Out of Area Charges so that, except with the Authority’s consent, the standing charge, unit rate, and any other component of the charges (taken together) do not exceed the corresponding Use of System Charges (taken together) to equivalent Domestic Customers (“the equivalent charges”).
- 5E.5 For the purposes of paragraph 5E.4, equivalent charges are the Use of System Charges made by the Electricity Distributor that has a Distribution Services Direction that specifies the Distribution Services Area in which the Domestic Premises connected to the licensee’s Distribution System are located.
- 5E.6 The Authority may give the licensee a direction that specifies which of the Use of System Charges made by the Distribution Services Provider for the Distribution Services Area mentioned in paragraph 5E.5 are relevant for the purposes of determining the equivalent charges.

## **CRC 5F. Treatment of income from recovery in respect of Relevant Theft of Electricity**

### **Introduction**

- 5F.1 This condition sets out the basis on which income arising from actions taken by the licensee to recover monies in respect of Relevant Theft of Electricity (“Income from Theft Recovery”) is to be treated for the purposes of the Charge Restriction Conditions.
- 5F.2 This condition specifically excludes income from services provided under DRS5 (Revenue protection services) of CRC 5C (Directly Remunerated Services) as set out in Appendix 1 of that condition.

### **Part A: Treatment of Income from Theft Recovery**

- 5F.3 Income from Theft Recovery is to be included by the licensee as a negative component of its ACO value (having the meaning given to that term in chapter 6 of the ED1 Price Control Financial Handbook) for the Regulatory Year in which the income is received.

### **Part B: Interpretation**

- 5F.4 The description of Income from Theft Recovery in paragraph 5F.1 is to be read and given effect subject to any further explanation or elaboration that might be set out in the RIGs issued by the Authority under standard condition 46 (Regulatory Instructions and Guidance).
- 5F.5 For the purposes of this condition:

**Income from  
Theft Recovery**

means the total of:

- (a) any monies received in respect of the value of electricity as referred to in paragraph 49.7 of standard condition 49; and
- (b) any additional monies recovered in respect of other costs as detailed in paragraph 49.8 of that condition.

**Relevant Theft of  
Electricity**

has the meaning given in standard condition 49 (Electricity Distribution Losses Management Obligation and Distribution Losses Strategy).

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

### **Introduction**

5G.1 This condition:

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

### **Part A: Load Related Expenditure Parameters**

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

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

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

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

**Table 2: The Specific Customer Funded Reinforcement Percentage Band**

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

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



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

Licensee	LV	HV	EHV	132kV
ENWL				
NPgN				
NPgY				
WMID	409	831	13	0
EMID	460	785	15	0
SWALES	120	958	15	1
SWEST	233	1050	19	1
LPN				
SPN				
EPN				
SPD				
SPMW				
SSEH				
SSES				

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

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

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

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

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

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

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

### *Conditions being removed from the existing licence*

- 5G.9 Where the licensee's Relevant Expenditure has fallen outside its Specific Customer Funded Reinforcement Percentage Band, the licensee must include a detailed explanation of the following in the report required under paragraph 5G.8:
- (a) reasons for any changes in the Number of Connection Projects in the Price Control Period relative to the Baseline Number of Connection Projects;
  - (b) reasons why reinforcement that was forecast to be funded through Load Related Expenditure at the outset of the Price Control Period has in fact been delivered through Specific Customer Funded Reinforcement;
  - (c) any changes in the licensee's use of contractors to deliver activities defined as Gross Load Related Expenditure during the Price Control Period;
  - (d) any changes in network loading that may be relevant to the Relevant Expenditure falling outside the Specific Customer Funded Reinforcement Percentage Band;
  - (e) whether any of the changes outlined above are due to the use of demand-side response or use of other non-traditional reinforcement solutions; and
  - (f) any other factor relevant to the Relevant Expenditure falling outside the Specific Customer Funded Reinforcement Percentage Band.
- 5G.10 The licensee must provide such further analysis or information, in such manner and in accordance with such timescales, as the Authority considers is reasonably necessary to enable it to undertake its assessment for the purposes of making its determination under Part C.
- 5G.11 If the Authority considers that the licensee has not presented adequate justification for why the Relevant Expenditure has fallen outside a Specific Customer Funded Reinforcement Percentage Band, it will, subject to Part C, determine the value of relevant adjustments.
- 5G.12 The relevant adjustments will be made in the Next Price Control Period.

### **Part C: Procedure for a determination given by the Authority**

- 5G.13 The Authority will assess whether relevant adjustments are required under this licence condition alongside and at the same time as carrying out any end of period review under licence condition CRC 3G.
- 5G.14 Where the Authority gives Notice of a proposed relevant adjustment under paragraph 5G.11, it will, by 30 November 2024, determine any revisions that are to be made to the licensee's Base Demand Revenue for the Next Price Control Period.
- 5G.15 A determination by the Authority under Part B of this condition will be of no effect unless, before issuing it, the Authority has:

## *Conditions being removed from the existing licence*

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

### **Part D: Interpretation**

5G.16 For the purposes of this condition:

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

**CRC 5H. Not used**

**CRC 5l. Not used**

**CRC 5J. Not used**



## **CRC 5K. Disapplication**

### **Introduction**

- 5K.1 This condition enables the licensee to make a formal request for the disapplication (in whole or in part) of the provisions of Part 4 of this licence and for those provisions consequently to be disapplied:
- (a) with the consent of the Authority;
  - (b) after the expiration of a specified period of time; or
  - (c) on the direction of the Competition and Markets Authority
- in the circumstances specified in this condition.
- 5K.2 The earliest date from which a provision may be disapplied under this condition depends on whether it is part of CRC 5B (Restriction of charges for the provision of Legacy Metering Equipment), CRC 5E (Charging outside the Distribution Services Area) or another provision of Part 4 of this licence, as specified in paragraph 5K.4.

### **Part A: Continuation of Part 4 subject to disapplication**

- 5K.3 Part 4 of this licence applies for as long as this licence continues in force but will cease to have effect (in whole or in part, as the case may be) if the licensee gives a Disapplication Request to the Authority in accordance with Parts B and C of this condition and:
- (a) the Authority agrees in Writing to the Disapplication Request; or
  - (b) the provisions that are the subject of the Disapplication Request are disapplied by Notice given by the licensee in accordance with Part D of this condition.

### **Part B: Date from which a disapplication may take effect**

- 5K.4 Except where the Authority otherwise consents, the following are the earliest dates from which disapplication of a provision under this condition may take effect and the earliest dates that the licensee may propose as Disapplication Dates:
- (a) in respect of any of the provisions of CRC 5B a date no earlier than three months after the delivery of the Disapplication Request;
  - (b) in respect of any of the provisions of CRC 5E, a date no earlier than 18 months after the delivery of the Disapplication Request; and
  - (c) in respect of any other provision of Part 4 of this licence, a date no earlier than the later of 1 April 2023 and six months after the delivery of the Disapplication Request.

### **Part C: Procedure for making a Disapplication Request**

- 5K.5 The licensee may ask the Authority to consent to the disapplication of all or part of Part 4 of this licence by making a Disapplication Request to the Authority.
- 5K.6 A Disapplication Request must:

### *Conditions being removed from the existing licence*

- (a) be in Writing and addressed to the Authority;
- (b) specify the provisions to which it relates;
- (c) provide a full statement of the licensee's reasons for making the request;
- (d) contain such other information or analysis as the licensee considers sufficient to enable the Authority fully to assess the Disapplication Request; and
- (e) state the Disapplication Date that is proposed by the licensee.

5K.7 A Disapplication Request may apply to a specified geographic area.

5K.8 If, within 10 working days of receipt of a Disapplication Request, the Authority gives Notice to the licensee:

- (f) specifying any further information or analysis that it reasonably considers is required in order to assess the Disapplication Request; and
  - (g) requesting the licensee to provide that information or analysis,
- the Disapplication Request will be treated for the purposes of this condition as not delivered to the Authority until that further information or analysis is provided.

5K.9 The giving of Notice under paragraph 5K.8 shall not preclude the Authority from making such further requests for information or analysis, or for the reformatting of information or analysis already provided, as it may consider it requires to assess the proposal.

5K.10 The licensee may withdraw a Disapplication Request at any time.

#### **Part D: Licensee's right to disapply under a Disapplication Request**

5K.11 If the licensee has made a Disapplication Request that complies with the requirements of Parts B and C of this condition, and the circumstances described in either Part E or Part F of this condition apply, it may subsequently serve a Disapplication Notice on the Authority disapplying some or all of the provisions that are the subject of the Disapplication Request.

#### **Part E: Disapplication without involvement of the Competition and Markets Authority**

5K.12 The licensee may serve a Disapplication Notice on the Authority if, by the Disapplication Date specified in the relevant Disapplication Request, the Authority has not responded to the request by publishing a decision under section 11A(7) of the Act to modify Part 4 in either of the ways described in paragraph 5K.13.

5K.13 The ways referred to in paragraph 5K.12 would:

- (h) modify any of the provisions referred to in the Disapplication Request; or

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- (i) modify this condition so as to remove the licensee's right to serve a Disapplication Notice on the Authority in respect of the relevant Disapplication Request.

### **Part F: Disapplication after involvement of the Competition and Markets Authority**

- 5K.14 The licensee may also serve a Disapplication Notice on the Authority if the Authority has published a decision described in Part E of this Condition but:
- (a) the licensee has exercised its right to appeal to the Competition and Markets Authority against that decision of the Authority as provided for by section 11C of the Act;
  - (b) the Competition and Markets Authority has quashed the Authority's decision and directed the licensee to serve such a Disapplication Notice on the Authority; and
  - (c) no more than 20 working days have elapsed since the date from which the licensee may serve a Disapplication Notice on the Authority under the Competition and Markets Authority's direction.
- 5K.15 A Disapplication Notice under this Part F must also comply with any terms or conditions specified in the Competition and Markets Authority's direction.

### **Part G: Interpretation**

- 5K.16 For the purposes of this condition:

<b>Disapplication Notice</b>	means a Notice served on the Authority in accordance with Part D of this condition disapplying some or all of the provisions <u>that are</u> the subject of a Disapplication Request.
<b>Disapplication Request</b>	means a request made to the Authority in accordance with Part C of this condition to disapply some or all of the provisions of Part 4 of this licence.
<b>Writing</b>	includes writing that is sent or received by Electronic Communication.