

## CRC 3N. Arrangements to exclude Green Recovery Scheme Project Costs from the Totex Incentive Mechanism

### Introduction

- 3N.1 This condition establishes a mechanism for excluding expenditure on Agreed Schemes taken ahead under the Green Recovery Scheme from the Totex Incentive Mechanism by determining and directing the relevant PCFM Variable Values so that the resulting values (“GRS values”) can be used with a Totex Incentive Strength Rate of zero 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).
- 3N.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: Determining Green Recovery Scheme Project Costs that are excluded from the Totex Incentive Mechanism

- 3N.3 Subject to paragraph 3N.4, to 3N.9 below, the Authority will determine GRS values in accordance with the following formula:

$$GRS_{t-2} = \min(GRE_{t-2}, TGRS - \sum_{2020/21}^{t-3} GRS_t)$$

where:

TGRS means the licensee’s total cap for the Price Control Period and the Next Price Control Period specified in Appendix 1 of this condition; and

GRE<sub>t-2</sub> means the amount incurred by the licensee in Regulatory Year t-2 on Green Recovery Scheme Project Costs expressed in 2012/13 prices.

- 3N.4 The first Regulatory Year t-1 in which the Authority will make a determination under paragraph 3N.3 is Regulatory Year 2021/22 for the Annual Iteration Process that will take place by 30 November 2021.
- 3N.5 For the purposes of the first determination made under paragraph 3N.3, the value of GRS<sub>t-2</sub> is equal to the lesser of TGRS and GRE<sub>t-2</sub>.
- 3N.6 In the formula set out in paragraph 3N.5, GRS values for Regulatory Years earlier than Regulatory Year t-2 include any revisions to those values as determined by the

Authority in accordance with paragraph 3N.7 of this condition.

3N.7 If, under any provision of this licence, the licensee is required to restate information reported by it under the RIGs in relation to any Regulatory Year, then the Authority may:

- (a) calculate replacement values for GRS, expressed in 2012/13 prices, for the Regulatory Years concerned in accordance with paragraphs 3N.3 to 3N.6 of this condition; and
- (b) determine the values so calculated to be revised GRS values for the licensee for the Regulatory Years concerned.

3N.8 The licensee must restate information reported by it under the RIGs, if it has previously reported that it expects to meet the Overall Expenditure Condition and subsequently does not meet it or only meets it by virtue of expenditure on Agreed Schemes.

3N.9 Any revisions made or directed by the Authority as a result of an ex-post efficiency assessment will have no effect on the determination of GRS values except to the extent the revision relates to costs which were entirely unrelated to the Agreed Schemes or costs which were so unreasonable no reasonable licensee would have incurred them.

#### **Part B: Procedure for directing revised GRS values by the Authority**

3N.10 Subject to, and in accordance with, the provisions of Part A of this condition, revised GRS values for the licensee, as determined by the Authority, will be directed by the Authority by 30 November in each Regulatory Year  $t-1$ .

3N.11 A direction under paragraph 3N.10 will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to the licensee set out all of the revised GRS 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.

3N.12 Where the Authority directs any revised GRS 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.

3N.13 If, for any reason in any Regulatory Year t-1, the Authority does not make a direction in relation to revised GRS 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: Process for directing revised TGRS values**

3N. 14 The Authority may at any time by Notice to the licensee direct an increase in the values of TGRS set out in Appendix 1 to accommodate additional Agreed Schemes.

3N.15 Where a direction is made under this Part, the references to Appendix 1 in this licence condition, should be read as a reference to the latest direction under this Part.

### **Part D: Interpretation**

3N.16 For the purposes of this condition:

<b>Agreed Schemes</b>	means schemes approved by the Authority for inclusion in the Green Recovery Scheme and for which expenditure in the Price Control Period and the Next Price Control Period is accommodated under the total cap (TGRS) set by the Authority in Appendix 1.
<b>Green Recovery Scheme</b>	means the Authority's coordinated whole systems approach to accelerating low regrets network investment to reduce barriers, support an equitable transition and stimulate economic recovery and low-carbon development announced on 8 February 2021.
<b>Green Recovery Scheme Project Costs</b>	means any costs directly or indirectly incurred by the licensee in respect of Agreed Schemes where: (a) the licensee will or has met the Overall Expenditure Condition,

absent the expenditure on Agreed Schemes; or

- (b) where expenditure on Agreed Schemes will or has been necessary to meet the Overall Expenditure Condition, that part of any costs incurred on Agreed Schemes which is in excess of that condition.

**Overall Expenditure Condition**

means the requirement that Totex expenditure over the Price Control Period exceeds the value specified in Appendix 2.

## APPENDIX 1

Value for the TGRS term (expressed in £m, 2012/13 prices)  
by licensee

(see Parts A and D)

Licensee	TGRS
ENWL	
NPgN	
NPgY	
WMID	
EMID	
SWALES	
SWEST	
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

## APPENDIX 2

### Value to be used in evaluating the Overall Expenditure Condition (expressed in £m, 2012/13 prices) by licensee (see Part D)

[Note: this value would be set at the higher of:

- the Totex forecast contained in the 2019/20 Regulatory Reporting Pack for the licensee; and
- Totex allowances as set in ED1 Price Control Financial Model at the Annual Iteration Process that took place in 2020.

Licensee	Relevant value
ENWL	
NPgN	
NPgY	
WMID	
EMID	
SWALES	
SWEST	
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	