

Electricity distributors,
electricity suppliers and all
other interested parties

Email: RIIO.ED1@ofgem.gov.uk

Date: 2 May 2019

To interested parties,

Decision on modifications to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort

In cases where an existing supplier goes out of business, Ofgem appoints a Supplier of Last Resort (SoLR). Holders of electricity distribution licences face a number of issues with regards to the process governing the recovery of the costs associated with the appointment of a SoLR.

On 20 November 2018 we published an informal consultation on modifications to the Electricity Distribution Licence. This was followed by a statutory consultation¹ on 28 January 2019. The purpose of these consultations was to seek views on a possible approach to address those issues.

This letter explains the relevant background, summarises responses to our statutory consultation and, in light of having considered those responses, sets out our decision on modifications to the Electricity Distribution Licence.

1. Background

Electricity and gas is supplied through markets and on the basis of a competitive process in Great Britain. While competition has the potential to bring many benefits to consumers, a competitive process occasionally leads to companies failing. This applies as much in relation to the gas and electricity supply markets as it does to other markets.

Ofgem can ensure continuity of supply to the failed supplier's customers and prevent wider negative effects by appointing a SoLR to supply the failed supplier's customers at very short notice. This process also ensures that the credit balances of the failed supplier's residential customers are protected. Certain costs are incurred as part of this process, some of which fall on the DNOs.

These costs fall mainly into two categories:

- claims from an Ofgem appointed SoLR for a Last Resort Supply Payment (LRSP); and
- use of system (UoS) bad debts, i.e. the unpaid dues, to the DNOs, of one or more electricity suppliers that have had their electricity supply licence revoked.

¹ <https://www.ofgem.gov.uk/ofgem-publications/146885>

Further details on these categories and the background to this issue can be found in our informal consultation².

2. Summary of proposed changes

We proposed to make the following changes to the Electricity Distribution Licence:

- To amend 'SLC 38. Treatment of payment claims for last-resort supply' such that the condition would only apply to certain Valid Claims received before 1 April 2019.
- To introduce a new condition 'SLC 38A. Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019' to:
 - (1) distinguish between claims and how they are treated based on when they were received and the stage they have reached in the cost recovery process; and
 - (2) set out that any shortfall or excess should be dealt with via the pass-through term (PT_t) in CRC 2B.
- To introduce a new condition 'SLC 38B. Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019' to outline the treatment of such claims. The main component of this condition set out the basis of a materiality threshold which, if breached by the value of a single or aggregate claims, would allow the licensee to seek a derogation from the Authority to increase its UoS charges to recover the value of the claims within the relevant regulatory year.
- To introduce a new condition 'SLC 38C. Treatment of Valid Bad Debt Claims' to set out the basis on which the DNOs, on receipt of a Valid Bad Debt Claim, make payments to the claimant. This condition also outlined that, where there are cumulative claims in one year, these should be treated as a single aggregated figure for the purpose of calculating the total value of bad debt claims.
- To introduce a new condition 'BA5. Valid Bad Debt Claims' to enable IDNOs to make a bad debt claim to each relevant distributor. The purpose of this proposal was to ensure that IDNOs are treated on an equivalent basis to DNOs with respect to Bad Debt.
- To amend 'CRC 2B. Calculation of Allowed Pass-Through Items' to introduce a new 'SLR_t' term which would be included in the calculation of pass-through costs as part of the Allowed Pass-Through Items (PT_t) term and would allow for the pass-through of cost associated with Supplier of Last Resort Costs. In addition, a new 'EBD_t' term, included in the calculation of pass-through costs as part of the PT_t term, would allow for the pass-through of Eligible Bad Debt. We included more than one version of this condition as the existing conditions are different for SSEH and for all WPD licensees.
- To amend 'SLC1: Definitions for the standard condition' to include additional definitions and incorporate some that were moving from other conditions.

3. Respondents' views and Ofgem's responses

² <https://www.ofgem.gov.uk/publications-and-updates/informal-consultation-modification-electricity-distribution-licence-recover-costs-associated-appointing-supplier-last-resort>

We received 9 responses to the statutory consultation. None was marked as confidential. Similar to the informal consultation, not all respondents agreed with the proposals. Overall, five out of the nine respondents supported the proposed licence modifications as a positive step towards introducing a more balanced approach that helps to address an important issue concerning SoLR payments and bad debt recovery. These responses came from network companies.

The four respondents that did not support the proposals were suppliers or related organisations. These respondents expressed concerns that the arrangements did not adequately address the negative impact on suppliers particular given the challenges posed by fixed price tariffs and argued that Ofgem's proposals could actually push other suppliers towards failure.

We set out in more detail below on the key issues that have emerged from the responses to our statutory consultation. For each issue we summarise the respondents' views and then provide our response to each of them.

Concerns with the process followed by Ofgem

Respondents' views

Two respondents argued that the issue should have been taken to formal policy consultation, especially as it could have a significant impact upon suppliers' financeability and market competition. One respondent considered that progressing from an informal consultation letter to a statutory consultation restricts engagement from affected parties. Similarly, the other respondent noted that Ofgem's approach does not meet Ofgem's usual high standards regarding consultation.

Another respondent went further and argued that Ofgem was acting ultra vires in setting up this "financial insurance scheme".

Two respondents supported a robust impact assessment. They noted that such an exercise would represent good practice in line with the Better Regulation Framework: Guidance 2018 and would provide a benchmark for subsequent evaluation of the success of the changes. In particular, one respondent noted that the cost impact on suppliers, beyond the Materiality Threshold, has not been robustly measured. Moreover, the fact that suppliers may only be afforded 40 days' notice of a change to network charges should also be considered. The other respondent highlighted the multiple changes in charges within a charging year.

Our view

With respect to the arguments raised around formal consultation, we do not agree that Ofgem has not fully consulted. In line with Ofgem's procedural guidance, we published not only a full statutory consultation but also an informal consultation. In both, we outlined fully the context behind the issues and the detail underlying the proposed changes. In addition, the issue should not be one which is unfamiliar to interested parties. It came in response to a number of well-publicised supplier failures and discussion of the issue in the Distribution Charging Methodology Development Group which is open to all Distribution Connection and Use of System Agreement (DCUSA)³ signatories. Regardless of preferred approach, almost all respondents recognise that the current situation is neither ideal nor sustainable. It was in this context that we considered this a matter of urgency and therefore that it was important to act quickly.

We also note, as a number of respondents have highlighted, that this is not meant to be an enduring solution. It is intended to be an interim solution to address a number of the issues arising from the increase in supplier failures. We will continue to consider

³ DCUSA [DCP178- Notification period for change to use of system charges](#)

the wider implications, including the additional issues highlighted by respondents with a view to finding a long-term solution.

On the specific issue of smaller suppliers, we do not accept that this group have been overlooked in this process. The consultation was clearly addressed to a wide range of parties, including all suppliers. Trade organisations which represent smaller suppliers engaged in both the informal and statutory consultation process. On that basis, not only have there been two stages at which to engage, but also parties representing a wider group than large suppliers have engaged.

We do not agree that the proposed licence modifications would have a more significant impact upon suppliers' financeability and market competition than the existing arrangements. Under the arrangements currently in place, we continue to consider every SoLR case as and when submitted. This means considering a derogation in each case, as we have done, so far, in the case of two recent claims. Under the proposed changes, any claims, which, in aggregate, are below the materiality threshold will be treated as pass-through. This means that we will not have to consider derogations and the impact on suppliers will actually be delayed and will be in line with the arrangements in gas. It is only when the materiality threshold is crossed that we will consider a derogation to make changes at an earlier stage, and in any event, only for the amount above the threshold. In that case, the approach simply reverts to the current approach. In other words, the proposed changes do not make suppliers any worse off than the status quo and actually reduce the burden up to a certain point of materiality.

We disagree with the respondent who argued Ofgem is operating ultra vires. This is not a "financial insurance scheme". Such a scheme would entail a commercial arrangement that protects a company against risks of loss implicit in its activities. This issue has nothing to do with DNO activities but is rather the result of supplier failure. The changes we are introducing are concerned with ensuring an appropriate balance of risk between DNOs and suppliers, when such failure occurs. Ultimately, the costs are recovered from consumers. Ofgem is amending licence conditions, which it originally had vires to impose and has followed the required process to amend. Finally, it is important to stress that we are not creating a mechanism for increasing DUoS charges to recover SoLR costs. That mechanism, a derogation from the 15-month charging notice period, already exists today. We are seeking to modify it and, in doing so, to reduce the number of short notice claims.

Finally, we note the requests for an impact assessment. We did not consider it necessary to undertake an impact assessment in this case for two main reasons:

- (1) Urgency – given recent supplier failures we were keen to ensure robust arrangements were in place as soon as possible.
- (2) Importance – We do not believe the issue meets the definition of "important" within the meaning of s.5A. Specifically, we do not believe it has a significant impact on any party, including suppliers and network companies, above the status quo. As noted above, under the status quo, we can grant a derogation from the 15-month notice period. We have done so for recent supplier failures. The proposed changes would remove the need for this below a Materiality Threshold, as the costs would be treated as pass-through. This simply aligns the arrangements with gas. Where above the Materiality Threshold, those individual cases which are over the threshold would be treated in the same way as under the existing arrangements i.e. we would consider individual derogations for each case. Ultimately, all costs are passed through to consumers.

Having said this, we do recognise that this issue is complex and that there does appear to be some confusion over the potential impact of the proposals. While the

actual impact is impossible to predict accurately, given it would depend of the volume of future supplier failures, it is possible both to show the impact from this year and give an indication of when the Materiality Threshold may be triggered. We have therefore provided a short annex (Annex 1) to provide this context.

Concerns that proposed changes will undermine the 15-month notice for DUoS changes and are fundamentally at odds with the recent price cap setting methodology

Currently, DNOs are required to provide 15 months' notice to change DUoS. This was established under DCUSA. Some respondents have expressed concerns that our proposed changes would undermine the 15-month notice requirement and increase supplier risk, particularly in light of the introduction of the default tariff cap.

Respondents' views

One respondent noted that they remained opposed to elements of the proposals put forward and that they were particularly concerned that these changes serve to enable faster recovery of mutualised SoLR costs by DNOs from suppliers, where suppliers are not able to recover these sums via existing fixed-price tariffs.

Three respondents noted that suppliers would not be able to adjust fixed price contracts for within period charges and would be presented with a significant financial risk that these charges would not be recoverable. The respondents noted that the consequence of this would be to place wider supplier parties under additional financial and operational stress.

Another respondent argued that the ability to offer fixed term tariffs is highly dependent on the 15-month advance notice of network charges and that that state of affairs, combined with the price cap, undermined Ofgem's view that fixed rate tariff "creates a lower level of risk that suppliers can manage". Similarly, another respondent noted that this level of risk is not quantified and cannot be reliably predicted by suppliers and Ofgem run the risk of contributing to further supplier failures. Further, the same respondent considered that there is an existing bias in favour of suppliers with large numbers of SVT customers, such as the Big 6 and that these proposals would further aggravate this bias at the expense of those with a greater proportion of customers on fixed rate tariffs.

One respondent pointed to the increase in costs to domestic customers as part of the recent derogation granted to all DNOs. They argued it was unfair and perverse to levy the costs associated to all customers regardless of whether they had been supplied by the defaulting supplier or not. Another respondent agreed and noted that any derogation from the 15 months' notice requirement should only be granted if a DNO demonstrates that, without the derogation, it would be unable to maintain an investment grade credit rating.

One respondent quoted Ofgem that "one of the consequences of these proposed changes would be that there could be multiple changes in charges within a charging year" and noted that this posed a real risk to supplier financeability.

Another respondent argued that setting a materiality threshold was "back to front" as smaller changes could be absorbed but larger changes could result in greater losses and cause more supplier failures.

One respondent commented on the concerns summarised above in relation to the price cap. The respondent noted that the combination of the change to the definition of Relevant Regulatory Year (60 day period to three months) and proposed changes to the DCUSA under DCP340, would bring forward the date on which a DNO can publish revised use of system charges to give greater notice ahead of the start of the Relevant

Regulatory Year. As a result, the respondent considered that, should the Materiality Threshold be breached, DNOs should be able to publish revised charges with sufficient notice before the start of the Relevant Regulatory Year to enable those revised charges to be included in the calculation of the price cap.

One respondent supported the need for a wider review of market entry and credit provision to ensure arrangements are robust and appropriately protect customers and industry participants. They welcomed the fact that the DCUSA Standing Issues Group is planning to form a Working Group to look specifically at how credit is made available to suppliers.

Our view

In response to the points on the speed of recovery of costs, we have sought to achieve an appropriate balance. At present, we have been seeking to address SoLR cases on an ad hoc basis through individual derogations. These result in the costs being passed through to suppliers more quickly in all cases. Under the proposed licence changes, any SoLR costs that fall below a pre-defined materiality threshold will be passed through more slowly to suppliers as part of wider pass-through arrangements. It is only where costs are above the threshold that costs may be passed through more quickly and, even then, the timing maybe akin to existing arrangements. In other words, the changes do not pass through changes any more quickly than under derogation provisions that already exist.

We recognise the challenges posed by fixed-price tariffs. While we recognise it does not eradicate the problem, where SoLR cases are below the materiality threshold, the slower process for passing these through to suppliers should allow more time for tariffs to be addressed outside of the fixed period. Even in cases above the materiality threshold, there will be a delay between the appointment of a SoLR and the passing through of the costs. In line with SLC14 of the electricity distribution licences, changes should only take effect from 1 April. This will remove some of the uncertainty and go some way to mitigating the risk posed by fixed-price tariffs.

We note the view that it is unfair in the case of supplier failure to levy the costs associated to all consumers regardless of whether they have been supplied by the defaulting supplier or not. The reality is that the costs of a SoLR will ultimately be borne by all consumers as it would be even less fair or proportionate for the full impact of supplier failure to be felt by consumers of the failed supplier alone. These licence changes are seeking to address the issue in the fairest way, while sharing risk between network companies and other supply companies.

On the issue of multiple changes in charges, we have reviewed this and agree that it is important that changes are limited within year. On that basis, under our proposed changes we still intend (in line with SLC14 of the electricity distribution licences) that any changes should only take affect from 1 April. On that basis, suppliers would still have the ability to recognise the impact of SoLR cases in setting tariffs.

We recognise why some parties could see the materiality threshold as 'back to front'. However, in reality, the materiality threshold aims at achieving an appropriate balance of risk between different parties and, as noted above, when it comes to crossing the materiality threshold, it would simply put suppliers in a similar position to that applying today.

We note the support for a wider review of market entry and agree that the proposed DCUSA Working Group is a welcome step towards addressing some of the underlying issues which have necessitated these changes.

Alternative options to alleviate supplier risk

Respondents' views

A number of respondents suggested alternative approaches to those put forward in the statutory consultation.

One respondent suggested three alternative proposals:

- (1) changes continue to be set 15 months ahead but DNOs should be entitled not just to recover the SoLR and bad debt claims, but any costs they themselves have borne e.g. interest charges
- (2) SoLR waits for their reimbursement but is allowed to claim the cost of funding that waiting period; and
- (3) at a minimum, only allow changes in the window up to a de-minimis time period – circa 9 months before the charging period, so that supplier exposure is limited to 3 months on any annual fixed rate deals.

Another respondent suggested looking at the use of a special administrator.

One respondent noted that, in addition to the associated debts for distribution businesses, additional consideration should be given to supplier industry scheme charges such as Green Deal and ECO costs.

Another respondent noted that, as several SOLR claims from events in 2018 and January 2019 remain outstanding, Ofgem had an opportunity to give these proposals and alternative options more thorough examination prior to implementation.

Our views

We note that a number of alternative approaches have been suggested by respondents. While these are welcomed, we note that each introduces other problems and therefore that none of the approaches suggested is better overall than the approach proposed in the statutory consultation. The key issues with those highlighted in the following table:

Proposal	Disadvantage of proposal
Changes continue to be set 15 months ahead but DNOs can claim interest	This introduces a potentially significant delay to DNOs recovering costs meaning they would bear risk for longer while also, the introduction of an interest payment, would mean consumers ultimately paying more.
SoLR waits for their reimbursement	In order to protect consumers it is crucial that the SoLR arrangements work efficiently, anything that delays reimbursement compromises the SoLR arrangements and increases the risk for affected consumers.
De minimus time period for changing tariffs	We consider that the proposed 3 months (facilitated by the definition of Relevant Regulatory Year) is appropriate recognising that, in the vast majority of cases, it will be longer than this and in the case of pass-through, significantly longer.
Special administration	Such arrangements do exist and would be used for highly material cases, however they would seem disproportionate for less material cases. Ultimately, such arrangements are a matter for BEIS.

We recognise that there are other categories of obligation faced by suppliers under the Green Deal and ECO. However, these are driven by separate supply licence

requirements and those requirements and associated obligations were unaffected by the proposed changes set out in the statutory consultation. On that basis, we do not consider they are relevant to a decision on the treatment of SoLR costs.

Finally, we recognise that a number of cases remain outstanding. This is why we consider an urgent solution is required to this issue. We have reviewed outstanding cases and, taken together, these would not be large enough to trigger the materiality threshold. The pass-through arrangements that are being proposed will mean that these can be dealt with without requiring consideration of related derogation requests. This should provide greater certainty to all parties, including suppliers.

Limiting the risk exposure of network companies

The statutory consultation included a number of mechanisms which influence the manner and timescales in which SoLR costs are passed through. A number of network companies continued to express concerns with their individual risk exposure under these proposals.

Respondents' views

Two respondents specifically supported the materiality threshold as a sensible means of protecting DNOs and DUoS customers against covering unlimited SoLR payment claims for the period until funding is recovered through DUoS charges.

Two respondents expressed disappointment that Ofgem had failed to support proposals made in response to the informal consultation to limit the risk exposure of network companies. One of those respondents noted that they continued to have concerns that the proposed changes introduced a cashflow risk for DNOs that is entirely outside their control because they would be required to pay claimants in advance of the recovery of the claim amounts through increased Use of System charges.

One respondent noted that Ofgem had rejected a proposal to allow network operators to reflect a prudent level of potential LRSP amount in their allowed revenue forecast which would result in a reasonable balance of risk. The respondent asked Ofgem to reconsider its position on this proposal.

Our views

We understand the basis of a number of the concerns put forward by the network companies. However, we do not consider it would be appropriate to adopt the additional measures proposed. Overall, we retain the view that it is important to achieve an appropriate balance of risk between network companies and suppliers. We consider that the measures we have proposed best achieve this balance.

Proposed changes introduce distortion between treatment of DNOs and IDNOs

One of objectives, at which the drafting in the informal consultation aimed, was to ensure greater consistency in the treatment of DNOs and IDNOs with respect to SoLR claims and the associated treatment of bad debt. Some stakeholders raised concerns that the currently proposed changes create distortions between the treatment of DNOs and IDNOs.

Respondents' views

While supporting the introduction of arrangements to address bad debt for IDNOs, one respondent argued that the proposed licence drafting did not achieve the objective of

equal treatment because IDNOs have a mechanism to recover bad debt costs more quickly under SLC38C than DNOs. The respondent argued that this could easily be addressed by DNOs paying IDNOs following a receipt of a valid claim from an IDNO in the same timescales that a DNO is able to recover these payments through DUoS charges. The respondent suggested drafting to this effect.

Our view

We welcome the support for the arrangements to address bad debt. However, we do not consider that the current drafting results in unequal treatment of DNOs and IDNOs. Further, looking at the proposed amendment we think it would achieve the same outcome. The reason for this is that the Applicable Regulatory Year should be the year in which the licensee has included the relevant Eligible Bad Debt Costs in its Allowed Distribution Network Revenue. Therefore, we do not consider that this change is necessary.

Drafting issues and other proposed changes

The majority of the other comments received related to drafting errors. These included corrections to erroneous numbering and cross-references, some suggested changes to the text to improve the readability and flow of the drafting or properly to reflect the intent of the drafting. Where these changes are straightforward and do not impact the policy intent, we have incorporated them.

Some of the more material drafting suggestions and our views and proposed approach are as follows:

- *Valid Claim* - One respondent highlighted the need to retain the distinction between a Valid Claim, which breaches the Materiality Threshold, and one which does not, with regards to when payment is made to a SoLR.

We agree with the respondent that there should be a distinction between the treatment of Valid Claims which breach the Materiality Threshold and those that do not. We support the proposed clarifications.

- *Timing of payment where an IDNO makes an adjusted Valid Bad Debt Claim* - One respondent noted that it was important to cater for all scenarios with respect to the timing of payment where an IDNO makes an adjusted Valid Bad Debt Claim and is required to pay a DNO.

We agree that there are a range of potential scenarios and that a broader approach to drafting is appropriate to address this.

- *Inflation* - One respondent highlighted the need to true-up differences between actual and forecast inflation indices.

The differences between inflation indices do need to be trued-up. We therefore support this change and have reflected it in the final drafting.

- *Definition of Relevant Regulatory Year* - Two respondents highlighted the need to remove ambiguities in the definition of the Relevant Regulatory Year as well as to ensure consistent *treatment* of the recovery of use of system bad debt in 2021/22 for all Distribution Services Providers.

We agree that the previous drafting did create potential ambiguities in relation to the Relevant Year in question. We have therefore introduced some minor amendments to address this.

- *Statement of the amount of the bad debt arising* – One respondent sought clarity on when the form of the statement required in 2B.40 (relating to bad debt as result of the Defaulting Electricity Supplier(s)) would be specified.

We consider this should be a fairly straightforward statement to develop and in line with the approach used in DPCR5. However, in the interests of consistency, we would be keen to work with DNOs to develop and agree the form as soon as possible.

- *Methodology for calculating the materiality values* – One respondent requested that Ofgem should include the methodology which underpins the calculation of the materiality values to ensure certainty as to forecast values is maintained.

The materiality threshold equates to £24.4m per year across all DNOs in 2012/13 prices. It is calculated as 0.5 per cent of the annual opening base revenue aggregated across all DNOs, and allocated to each DNO proportionate to its customer numbers, in a similar way to the allocation of total industry SOLR costs. This approach was chosen as it is broadly reflective of the materiality triggers used for a number of reopeners in RIIO-1 i.e. to be triggered a reopener would have to pass a materiality threshold set at 1 per cent of average annual forecast revenue. In the case of SoLR pass-through the DNOs will be exposed for 2 years until they recover these costs – hence the level is set at 0.5 per cent of the annual opening base revenue or 1 per cent over two years.

- *Excess Specified Amount (ESA)* – One respondent sought clarity on the application of the ESA and how this interacts with the Materiality Threshold.

The ESA is defined in accordance with paragraph 38B.7 and equates to the aggregate value of Valid Claims received in a Regulatory Year that “would cause a breach of the Materiality Threshold”. In other words, in line with the view set out by the respondent, it is just the value above the threshold.

By way of example, where, in aggregate, claims are below the threshold, all will be addressed via the pass-through arrangements in CRC 2B. The first claim that causes the aggregate position to be above the threshold will be treated in accordance with SLC 38B and the licensee will be able to give notice to the Authority of its intention to increase its Use of System Charges for the Relevant Regulatory Year for the value of that specific claim i.e. the value of the claim that gave rise to the threshold breach. If any subsequent claims are received their treatment will depend on whether, if added to the claims that were below the threshold, they would result in the aggregate position being above the threshold. If not, those claims would be treated as pass-through. If so, then, again, the value of the individual claim that gave rise to the breach could be reclaimed through an increase in Use of System Charges for the Relevant Regulatory Year.

- *Changes to RIGs* – One respondent noted that consequential changes to the RIGs were required to facilitate the changes.

We agree and will consider these as part of a separate consultation on RIGs changes for 2019/20.

4. Changes to proposed licence drafting since the statutory consultation

Having fully considered respondents’ views we propose to make a number of minor changes to the drafting that was set out in our statutory consultation. The main changes are as follows:

- *SLC 38.12 and SLC 38B.11* – to clarify the definition of Relevant Regulatory Year
- *SLC 38B.3 and SLC 38B.9* – to distinguish between Valid Claims with regards to a breach of the Materiality Threshold
- *SLC 38C.3 and SLC 38C.5* – to correct reference to the title on Condition BA5 to ensure these are accurate
- *Condition BA5.3 and CRC2B.40 (CRC 2B.43 for SSEH)* – to increase the proposed number of days for DNOs and IDNOs to submit bad debt claims from 60 days to three months and to recognise the fact that they will otherwise face a deadline of 30 May 2019 to submit bad debt claims relating to 2018/19
- *Condition BA5.11 and BA5.13* – to cater for a scenario where a payment from a DNO to an IDNO is less than 30 days from the date on which that IDNO provides notice to that DNO
- *CRC 2A.11 and CRC 2A.13* – to distinguish between costs which should be subject to the retail price indices (RPI) true-up and those that shouldn't
- *CRC 2B.35 and CRC 2B.45 (CRC 2B.38 and CRC 2B.48 for SSEH)* – to introduce a new defined term, namely 'Returned Costs', which relate to all retrospective costs received by a DNO from a SoLR; and
- *CRC 2B.37 and CRC 2B.38 (CRC 2B.40 and CRC 2B.41 for SSEH)* – to ensure the appropriate calculation of Eligible Bad Debt (EBD).
- *CRC 2B.41 (CRC 2B.44 for SSEH)* – to ensure a correct paragraph reference.

All changes are highlighted in yellow in Annex 3.

5. Structure of this decision document

There are three annexes to this letter:

- Annex 1A to this letter sets out our Notice of our direction to modify the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort.
- Annex 1B contains a list of all relevant licence holders.
- Annex 2 provides some examples to demonstrate the potential impact of these proposals.
- Annex 3 to this letter sets out the changes to the Electricity Distribution Licence.

Yours sincerely,



Steve McMahon
Deputy Director, Electricity Distribution and Cross Sector Policy, Systems and Networks

Annex 1A – Notice of direction to modify the electricity distribution licences

To: All holders of an electricity distribution licence

Electricity Act 1989 Section 11A(1)(a) and 11A(1)(b)

Modification of Standard Licence Conditions 1 and 38, Special Licence Condition CRC 2B and the introduction of four new standard licence conditions 38A, SLC 38B, SLC 38C and Amended Standard Condition BA5 held by the above licensees

1. Each of the licensees to whom this direction is addressed ('the licensee') is the holder of an electricity distribution licence ('the licence') granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act, the Gas and Electricity Markets Authority ('the Authority') gave notice on 28 January 2019 ('the Notice') that we proposed to modify the following standard conditions:
 - Standard Licence Condition 1: Definitions for the standard conditions (SLC 1); and
 - Standard Licence Condition 38: Treatment of payment claims for last-resort supply (SLC 38)

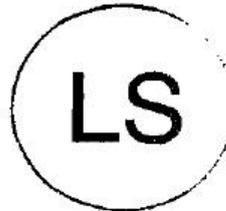
and to add three new licence conditions which will only be applicable to Distribution Services Providers:

- Standard Licence Condition 38A: Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019 (SLC 38A);
 - Standard Licence Condition 38B: Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019 (SLC 38B); and
 - Standard Licence Condition 38C: Treatment of Valid Bad Debt Claims (SLC 38C).
3. Further, the Authority proposes to modify the special conditions of the Electricity Distribution Licence held by the following licensees: Eastern Power Networks Plc; Electricity North West Limited; London Power Networks Plc; Northern Powergrid (Northeast) Limited; Northern Powergrid (Yorkshire) Plc; Scottish Hydro Electric Power Distribution Plc; South Eastern Power Networks Plc; Southern Electric Power Distribution Plc; SP Distribution Plc; SP Manweb Plc; Western Power Distribution (East Midlands) Plc; Western Power Distribution (South Wales) Plc; Western Power Distribution (South West) Plc; and Western Power Distribution (West Midlands) Plc. The conditions being modified are as follows:
 - Special Licence Condition CRC 2A: Restriction of Allowed Distribution Network Revenue (CRC 2A); and
 - Special Licence Condition CRC 2B: Calculation of Allowed Pass-Through Items (CRC 2B).

4. In the case of both of these condition, there are variations for the following licensees: Western Power Distribution (East Midlands) Plc; Western Power Distribution (South Wales) Plc; Western Power Distribution (South West) Plc; and Western Power Distribution (West Midlands) Plc; and Scottish Hydro Electric Power Distribution Plc.
5. Finally, the Authority proposes to add one new Amended Standard Condition to the Electricity Distribution Licences of the following licensees: Eclipse Power Networks Limited; Energetics Electricity Limited; Energy Assets Networks Limited; Energy Assets Fibre Networks Limited; ESP Electricity Limited; Fulcrum Electricity Assets Limited; Harlaxton Energy Networks Limited; Independent Power Networks Limited; Leep Electricity Networks Limited; Murphy Power Distribution Limited; The Electricity Network Company Limited; UK Power Distribution Limited; Utility Assets Limited; and Vattenfall Networks Limited. The new condition being added is as follows:
 - Amended Standard Condition BA5: Valid Bad Debt Claims.
6. A copy of the Notice was published on our website (www.ofgem.gov.uk). We stated that any representations in relation to the modification proposals must be made on or before 25 February 2019.
7. In accordance with section 11A(4)(b) of the Act, we have not received a direction from the Secretary of State that the changes should not be made.
8. We received nine non-confidential responses to the Notice, which we have carefully considered. We have placed these on our website. Our response to these comments is set out in the accompanying letter.
9. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Annex 3. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Annex 3 are to correct typographical errors, address minor issues and some other corrections raised in consultation responses. The details of the changes are explained in the accompanying letter.
10. The Authority considers that it is necessary to modify/ insert these conditions in the manner indicated to resolve the issues faced by DNOs with regards to the process for recovery of the costs associated with the appointment of a Supplier of Last Resort (SoLR) in cases where an existing supplier goes out of business. The proposed modifications also seek to ensure Independent Distribution Network Operators (IDNOs) are treated on an equivalent basis to DNOs.
11. The main effect of these proposed modifications is to:
 - distinguish between claims and how they are treated based on when they were received and the stage DNOs are at in the process of recovering the claims;
 - establish a materiality threshold which, if breached by the aggregate value of claims, will allow the licensee to seek a derogation from the Authority to increase its UoS charges to recover the value of the claims within the relevant regulatory year;
 - ensure IDNOs are treated on an equivalent basis to DNOs with respect to Bad Debt; and
 - allow for the pass-through of cost associated with Supplier of Last Resort Costs and the pass-through of Eligible Bad Debt.

12. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules⁴ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. The attached Annex 1B provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.
13. Under our powers set out in sections 11A(1)(a) and 11A(1)(b) of the Act, we hereby modify the standard conditions, amended standard conditions and special conditions of the electricity distribution licences held by the above specified licensees as set out in Annex 3. This decision will take effect from 28 June 2019.
14. This document is notice of the reasons for the decision to modify the electricity distribution licences and Handbook held by the above specified licensees as required by section 49A(2) of the Act.

The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of



.....
Steve McMahon
Deputy Director, Systems & Networks
Duly Authorised on behalf of the Gas and Electricity Markets Authority
2 May 2019

⁴ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

Annex 1B: List of Relevant Licence Holders

Eclipse Power Networks Limited	Eastern Power Networks Plc
Energetics Electricity Limited	Electricity North West Limited
Energy Assets Networks Limited	London Power Networks Plc
Energy Assets Fibre Networks Limited	Northern Powergrid (Northeast) Limited
ESP Electricity Limited	Northern Powergrid (Yorkshire) Plc
Fulcrum Electricity Assets Limited	Scottish Hydro Electric Power Distribution Plc
Harlaxton Energy Networks Limited	South Eastern Power Networks Plc
Independent Power Networks Limited	Southern Electric Power Distribution Plc
Leep Electricity Networks Limited	SP Distribution Plc
Murphy Power Distribution Limited	SP Manweb Plc
The Electricity Network Company Limited	Western Power Distribution (East Midlands) Plc
UK Power Distribution Limited	Western Power Distribution (South Wales) Plc
Utility Assets Limited	Western Power Distribution (South West) Plc
Vattenfall Networks Limited	Western Power Distribution (West Midlands) Plc

All electricity and gas licence holders are listed on our website. Electricity licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/all-electricity-licensees-registered-addresses>

Annex 2 – Overview of impact of changes

There are two separate impacts to be highlighted:

- Use of System bad debts; and
- Supplier of Last Resort (SoLR) payment claims.

The following sections outline the impacts of the proposed changes.

Bad Debt claims

When a supply licence is revoked, any outstanding invoices and any invoices subsequently issued to that supplier are treated as bad debts incurred in the regulatory year in which the licence revocation occurred. To recover bad debts incurred in a given year, DNOs⁵ must submit a claim to Ofgem within three months of the end of that year. Assuming Ofgem grants permission, bad debts incurred will be added to revenue allowances three years after the year in which they were incurred.

For example, any outstanding invoices a supplier had at the time of failure, and any invoices subsequently issued which relate to a licence which was revoked between 01/04/2019 and 31/03/2020 will be treated as bad debts in 2019/20. A DNO must report all use of system bad debts which it has incurred in 2019/20 to Ofgem before the end of June 2020. Assuming Ofgem grants permission, that DNO's revenue allowances will be increased in 2022/23 such that the DNO could include the additional allowances in its assumptions when setting 2022/23 charges in December 2020. This mechanism will apply to bad debts for supply licences revoked from 01/04/2018 onwards.

All bad debts incurred up to and including 31 March 2019 in RIIO-ED1 will be recoverable in 2021/22. We do not have a definitive figure for distributor bad debts incurred so far in RIIO-ED1 but consider this will be around £15-18m. In terms of the impact, given a three-year delay, we consider the impact on suppliers to be minimal as there will be sufficient time to adjust tariffs.

SoLR claims

Context

There have been two cases where Ofgem has published decisions to allow a supplier to claim for a Last Resort Supply Payment (LRSP) for additional costs it incurred in acting as a SoLR. These decisions related to Octopus Energy Limited (January 2019) and recovery of a portion of the costs of protecting the credit balances owed by Iresa Limited, and to Co-operative Energy Limited (January 2018,) and recovery of a portion of the costs of protecting the credit balances owed by GB Energy Supply Limited.

For Octopus Energy Limited, the Authority consented to the Licensee claiming up to £7,237,436 from the relevant distributors in 2019/20 and for Co-operative Energy Limited the equivalent figure was up to £7,721,881 in 2018/19. Therefore, for 2018/19 and 2019/20 the total value of LRSP claims under the Electricity Supply Licence is £14.9m.

Impact under the existing arrangements

In both cases, the impact of the claims was an increase across all DNOs of 0.08 pence per day or £0.29 per annum for each residential customer. Therefore, in total, claims of £14.9m equated to an increase in charges of £0.58 for each residential customer.

⁵ IDNOs have also incurred bad debt. This is still subject to the three months period, but when it is recovered is relative to when a DNO receives it. Typically, it will be recovered (and paid to IDNOs) three years later consistent with DNO bad debt.

Under the existing arrangements, the DNOs have requested derogations to recover each of these claims and these have been granted by Ofgem. The claims are being recovered in the Regulatory Year after the claims were made.

Impact under the changes resulting from this decision

Under the proposed Materiality Threshold, the total cap is £24.4m (2012/13 prices) – broken down into individual caps for each of the 14 DNOs. The total value of the claims from both Octopus Energy Limited and Co-operative Energy Limited is below the Materiality Threshold and thus, under the new arrangements, would be subject to the default pass-through treatment. Under these arrangements, the SoLR would be paid over the year starting three months after their claim, with DNO revenue recovered with a two-year lag i.e. costs incurred in Regulatory Year t will be recovered in Regulatory Year t+2.

Therefore, under the proposed changes, the impact would have been a delay of at least one further year in passing through the £14.9m to suppliers and thus consumers. For example, the Octopus Energy Limited claim would have resulted in payments made by DNOs to Octopus Energy Limited from 2019/20⁶ but recovered from 2021/22. Typically, this will be two years e.g. a claim received on 31 December 2019, which does not breach the materiality threshold, will be paid in 2020/21 and recovered in 2022/23. If that claim did breach the threshold it would still be paid in 2020/21 but also recovered in the same year.

SoLR claims - theoretical example for a future year

Assumptions

For the purposes of demonstrating the use of the materiality threshold, we will make a number of assumptions. We consider this combination of factors to be a highly unlikely scenario but are using it for the purposes of illustration. The assumptions are as follows:

- (1) a high volume of material claims – 5 in one year
 - a. 3 of these will have a similar materiality to those received to date - £7m
 - b. 1 will have a higher materiality – £10m
 - c. 1 will have a lower materiality - £3m
 - d. this would give a total materiality of c£34m
- (2) that claims are roughly proportionate across each DNO such that the materiality thresholds will be triggered at the same time (as opposed to only looking at a single DNO threshold); and
- (3) all claims are paid in full in the Regulatory Year t+1

Impact under the existing arrangements

Using the existing arrangements, for each of the claims received, the DNOs would need to seek derogations from the 15-month notice period of a change to use of system charges (as per the Distribution Connection and Use of System Agreement). If all of the derogations were granted then, depending on timing during the year, up to £34m could be recovered in Regulatory Year t+1.

⁶ Under the new arrangements DNOs will commence paying a LRSP claim three months after it has been received and be full paid 12 months later. Therefore in this example, the majority of the Octopus Energy Limited claim would be paid in 2019/20, with the remainder in 2020/21 – therefore costs would be recovered in both 2021/22 and 2022/23.

Impact under the changes resulting from this decision

If the three claims for £7m were received first, then the aggregate value of payments to be made by DNOs would be c£21m in Regulatory Year t+1. This would not breach the materiality threshold. All would therefore be treated as pass-through and recovered two years after costs were incurred. Therefore, £3m headroom would remain before the threshold was breached in Regulatory Year t+1.

If the one-off claim for £10m came in next then the total value of the payments made by DNOs in Regulatory Year t+1 would reach c£31m. This would breach the materiality threshold. There are then three possible scenarios:

- (1) DNOs decide to treat the £10m claim using the default pass-through;
- (2) DNOs seek a derogation for the £10m claim and this is rejected; or
- (3) DNOs seek a derogation for the £10m claim and it is granted.

Scenarios 1 and 2 have the same end-result. DNOs are required to follow the default pass-through process and the costs can be recovered two years after being incurred. Under Scenario 3, DNOs are able to incur and recover the £10m costs entirely in Regulatory Year t+1. Under scenario 3, the £10m is disregarded when determining whether any further claims result in breach of the cap, so that £3m headroom remains.

Finally, if the one-off claim for £3m came in next, then this would be added to the claims which have not breached the Materiality Threshold i.e. the c£21m. This would raise the total value to c£24m. This would still not exceed the Materiality Threshold and, therefore, this claim would be treated as default pass-through and recovered two years after costs were incurred.

Therefore, under this example, only the £10m for the claim that breached the Materiality Threshold would be subject to a derogation request and recovered in Regulatory Year t+1. The remainder – c£34m would be recovered two years after costs were incurred.

Conclusion

Under the changes resulting from this decision, any LRSP claims that are individually or in aggregate below the materiality threshold will be paid in the year starting three months after the claim and passed through in Regulatory Year t+2, relative to when the DNO pays the SoLR. This both speeds up payments to the SoLR and delays the impacts of DNO revenue recovery on suppliers and on consumers for at least one year compared to a scenario where we grant a derogation for a DNO to recover those costs in Regulatory Year t+1.

Any LRSP claims that are individually or in aggregate above the Materiality Threshold will be paid and passed through in Regulatory Year t+1⁷. This is comparable to the scenario under the existing arrangements (which was followed for Octopus Energy Limited and Co-operative Energy Limited) whereby we granted DNOs a derogation to allow them to recover those costs in Regulatory Year t+1. In other words, the impact of a breach of the Materiality Threshold is that suppliers and consumers are at minimum no worse-off than under the status quo.

⁷ Subject to when the claim is received. A claim which breaches the Materiality Threshold and is received less than three months before the beginning of a Regulatory Year will be paid and recovered in Regulatory Year t+2.

Annex 3 – Proposed modifications to the Electricity Distribution Licence relating to recovery of the costs associated with appointing a Supplier of the Last Resort

Table 1: Licence conditions covered by this consultation

STANDARD LICENCE CONDITIONS		Proposed change
SLC 1.	Definitions for the standard conditions	Amendments
SLC 38.	Treatment of payment claims for last-resort supply	Amendments
SLC 38A.	Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019	New
SLC 38B.	Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019	New
SLC 38C.	Treatment of Valid Bad Debt Claims	New
AMENDED STANDARD CONDITIONS		Proposed change
Amended Standard BA5.	Valid Bad Debt Claims	New
SPECIAL CONDITIONS		Proposed change
CRC 2A	Restriction of Allowed Distribution Network Revenue	Amendments
CRC 2A	Restriction of Allowed Distribution Network Revenue (SSEH only)	Amendments
CRC 2A	Restriction of Allowed Distribution Network Revenue (WPD licensees only)	Amendments
CRC 2B.	Calculation of Allowed Pass-Through Items	Amendments
CRC 2B.	Calculation of Allowed Pass-Through Items (SSEH only)	Amendments
CRC 2B.	Calculation of Allowed Pass-Through Items (WPD licensees only)	Amendments

Deletions are shown in strike through and new text is double underlined.

Condition 1. Definitions for the standard conditions

1. Introduction

- 1.1 This condition sets out most of the defined words and expressions (all of which begin with capital letters) that are used in the standard conditions of both Section A and Section B of this licence, and gives their definitions next to them.
- 1.2 But where defined words and expressions are used only in a particular standard condition, their definitions are included in that condition.

Definitions in alphabetical order

- 1.3 In the standard conditions of this licence, unless the context otherwise requires:

Act	means the Electricity Act 1989.
Affiliate	in relation to the licensee, means any Holding Company of the licensee, any Subsidiary of the licensee, or any Subsidiary of a Holding Company of the licensee.
Agency for the Cooperation of Energy Regulators	means the agency of that name established under Regulation 2009/713/EC of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators.
Agreed Upon Procedures	means procedures from time to time agreed between the Authority, the Appropriate Auditor, and the licensee for the purpose of enabling the Appropriate Auditor to review and report to the Authority on matters relating to: (a) in the case of standard condition 44 (Regulatory Accounts), the licensee's compliance with the obligation to which Part E of that condition refers; and (b) in the case of standard condition 46 (Regulatory Instructions and Guidance), the licensee's provision of Specified Information (as defined in Part H of that condition).
Application Regulations	means regulations made under section 6A of the Act that set out the form and manner in which applications for an Electricity Licence or any extension or restriction of such a licence are to be made.

Appropriate Auditor	<p>means:</p> <p>(a) in the case of a licensee that is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;</p> <p>(b) in the case of any other licensee that is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to those of Chapter 2 of Part 16 of that Act, a person so appointed; and</p> <p>(c) in any other case, a person who is eligible for appointment as a company auditor under Part 42 of that Act.</p>
Authorised	<p>in relation to any business or activity, means authorised by licence granted or treated as granted under section 6 of the Act or, in any appropriate cases, by exemption granted under section 5 of the Act.</p>
Authorised Electricity Operator	<p>means any person (other than the licensee) who is Authorised to generate, participate in the transmission of, distribute, or supply electricity, participate in the operation of an Interconnector or provide a smart meter communication service, and includes any person who has made an application to be so Authorised which has not been refused and any person who transfers electricity to or from or across an Interconnector or has made an application for use of an Interconnector that has not been refused.</p>
Authority	<p>means the Gas and Electricity Markets Authority that is established under section 1 of the Utilities Act 2000.</p>
Balancing and Settlement Code	<p>means the Balancing and Settlement Code that is provided for in standard condition C3 (Balancing and Settlement Code) of the Transmission Licence.</p>
Central Charge Database	<p>means the database required to be established under the Master Registration Agreement to facilitate the validation of Green Deal Plans and the collection and remittance of Green Deal Charges as referred to and providing for such other matters as are set out in standard condition 35 (Central Charge Database) of a Supply Licence.</p>

Charge Restriction Condition	means any condition of this licence the purpose of which (whether on its own or in combination with any other Charge Restriction Condition) is to provide for the determination of a maximum price that may be charged by the licensee or a maximum revenue that may be recovered by it.
Charging Methodology	means a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that apply: (a) in relation to Use of System, for determining the licensee’s Use of System Charges; and (b) in relation to connections, for determining the licensee’s Connection Charges, as approved by the Authority by virtue of the provisions of standard conditions 13, 13A, 13B and 22A (as the case may be).
Citizens Advice	means the National Association of Citizens Advice Bureaux;
Citizens Advice Scotland	means the Scottish Association of the Citizens Advice Bureaux;
<u>Claimant</u>	<u>means an Electricity Supplier entitled to receive the benefit of a Last Resort Supply Payment.</u>
Competition and Markets Authority	means the Competition and Markets Authority established under the Enterprise and Regulatory Reform Act 2013.
Conditions	means all the conditions of the licence in question (which, for the purposes of this particular licence, means each standard condition, each Charge Restriction Condition that is not a standard condition, and any other condition however described that has effect in this licence).
Connection Charges	means charges made or levied, or to be made or levied, by the licensee for the provision, modification, or retention of connections to the licensee’s Distribution System, whether or not such charges or any part of them are annualised, and may include, as appropriate, costs relating to any of the matters mentioned under paragraph A2 of Appendix 1 to standard condition 14 (Charges for Use of System and connection).
Connection Charging Statement	has the meaning given to that term in paragraph 14.1 of standard condition 14 (Charges for Use of System and connection)
Connection RIGs	means Regulatory Instructions and Guidance issued by the Authority under standard condition 15A (Connection Policy and Connection Performance) about Connection Policy and Connection Performance.

Connection Regulations	means regulations made in relation to connection standards of performance under section 39A of the Act.
Connection and Use of System Code	means the Connection and Use of System Code that is provided for in standard condition C10 (Connection and Use of System Code) of the Transmission Licence.
Customer	means any person who is supplied or requires to be supplied with electricity at any premises in Great Britain, but does not include any Authorised Electricity Operator in its capacity as such.
Data Aggregation	means services comprising any or all of the following: the collation and summation of Electricity Meter reading data (whether actual or estimated) and of data for the consumption of electricity at premises that receive an Unmetered Supply, and the delivery of such data to any person for Settlement Purposes.
Data Processing	means services comprising any or all of the following: the processing, validation, and estimation of Electricity Meter reading data, and the creation, processing, and validation of data for the consumption of electricity at premises that receive an Unmetered Supply, and the delivery of such data to any person for the purpose of Data Aggregation.
Data Retrieval	means services comprising any or all of the following: the retrieval and verification of Electricity Meter reading data from Electricity Meters and the delivery of such data to any person for the purpose of Data Processing.
Data Services	means and is to be understood as the totality of: <ul style="list-style-type: none"> (a) Metering Point Administration Services provided under and in accordance with the provisions of the Master Registration Agreement; and (b) Data Transfer Services provided by the Data Transfer Service.

Distribution Business	<p>means a business of the licensee (or, in relation to either of sub-paragraphs (a) and (c), a business of any Affiliate or Related Undertaking of the licensee) which, except to the extent otherwise specified by the Authority in a direction to the licensee, comprises any of the following activities:</p> <p>(a) the distribution of electricity through the licensee's Distribution System (including any business in providing connections to that system);</p> <p>(b) the provision of Metering Services and Metering Equipment (including the service of providing Legacy Metering Equipment within the meaning of standard condition 34); and</p> <p>(c) the provision of Data Services,</p> <p>and in each case includes any business that is ancillary to the business in question.</p>
Distribution Code	<p>means the Distribution Code approved by the Authority that the licensee is required to maintain in force under standard condition 21 (The Distribution Code) for the purposes set out in that condition.</p>
Distribution Connection and Use of System Agreement	<p>means the agreement of that name that the licensee is required to maintain in force in a form approved by the Authority under standard condition 22 (Distribution Connection and Use of System Agreement) for the purposes set out in that condition.</p>
Distribution Losses	<p>means Units lost while being transported through the licensee's Distribution System, including:</p> <p>(a) Units lost in the course of that process as a result of electrical impedance or the operation of that Distribution System; and</p> <p>(b) Units unaccounted for that can be attributed to Relevant Theft of Electricity, or to inaccuracies or errors in inventories of unmetered supplies.</p>

Distribution Services Area	<p>in relation to the licensee if it is a Distribution Services Provider, means the area specified as such by the Authority under:</p> <p>(a) standard condition 2 (Application of Section C) of the licensee’s Electricity Distribution Licence in the form in which that licence was in force on 31 May 2008; or</p> <p>(b) standard condition 3 (Application of the Section B standard conditions) of the licensee’s Electricity Distribution Licence in the form in which that licence was in force on 31 March 2015; or</p> <p>(c) standard condition 3 (Application of the Section B standard conditions) of this licence on or after 1 April 2015.</p>
Distribution Services Direction	<p>in relation to the licensee if it is a Distribution Services Provider, means a direction given to the licensee by the Authority under, as may be appropriate:</p> <p>(a) standard condition 2 (Application of Section C) of the licensee’s Electricity Distribution Licence in the form in which that licence was in force at 31 May 2008; or</p> <p>(b) standard condition 3 (Application of the Section B standard conditions) of this licence on or after 1 June 2008,</p> <p>that specifies or describes the area within which, and the extent to which, the licensee will be obliged to comply with the requirements of the standard conditions of Section B of this licence.</p>
Distribution Services Provider	<p>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).</p>

Distribution System	means the system consisting (wholly or mainly) of electric lines owned or operated by an Authorised distributor that is used for the distribution of electricity from grid supply points or generation sets or other Entry Points to the points of delivery to Customers or Authorised Electricity Operators or any Transmission Licensee in its capacity as operator of that licensee’s Transmission System or the GB Transmission System, and includes any Remote Transmission Assets (owned by a Transmission Licensee within England and Wales) that are operated by that Authorised distributor and any electrical plant, Electricity Meters, and Metering Equipment owned or operated by it in connection with the distribution of electricity, but does not include any part of the GB Transmission System.
Domestic Customer	means a Customer who is supplied or requires to be supplied with electricity at Domestic Premises (but excludes such Customer insofar as he is supplied or requires to be supplied at premises other than Domestic Premises).
Domestic Premises	means premises at which a supply of electricity is taken wholly or mainly for domestic purposes.
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.
Electricity Distribution Licence	means an electricity distribution licence granted or treated as granted under section 6(1)(c) of the Act that authorises an Electricity Distributor to distribute electricity.
Electricity Distributor	means any person who is Authorised by an Electricity Distribution Licence to distribute electricity.

Electricity Meter	means any meter which conforms to the requirements of paragraph 2 of Schedule 7 to the Act and is used for the purpose of measuring the quantity of electricity supplied to premises or, in any case other than that, any meter used for measurement purposes in connection with any of the activities of generating, transmitting, or distributing electricity.
Electricity Supplier	means any person who is Authorised to supply electricity.
Electronic Communication	means a message comprising text or an image of text that: <ul style="list-style-type: none"> (a) is sent over a Public Electronic Communications Network; (b) can be stored in that network or in the recipient's terminal equipment until it is collected by the recipient; and (c) is in a particular form and is used for a particular purpose and the recipient of it has expressed a willingness, to the sender, to receive it in that form and for that purpose.
Entry Point	means a point on the licensee's Distribution System at which units of electricity, whether metered or unmetered, enter that system.
Excluded Services	means those services which in accordance with the special conditions of this licence are treated as excluded services.
Exit Point	means a point on the licensee's Distribution System at which units of electricity, whether metered or unmetered, leave that system.
Export Charges	means Use of System Charges in relation to electricity generated and placed on a Distribution System via a direct connection to the source of generation
GB System Operator	means National Grid Electricity Transmission plc (which is the company incorporated in England and Wales under registered number 02366977) in its capacity as operator of the GB Transmission System.

GB Transmission System	means the system consisting (wholly or mainly) of high voltage electric lines owned or operated by Transmission Licensees within Great Britain that is used for the transmission of electricity from one generating station to a substation or to another generating station or between substations or to or from any Interconnector, and includes any electrical plant or Electricity Meters owned or operated by any Transmission Licensee within Great Britain in connection with the transmission of electricity, but does not include any Remote Transmission Assets.
Generation Licence	means an electricity generation licence granted or treated as granted under section 6(1)(a) of the Act that authorises a person to generate electricity.
Green Deal Arrangements Agreement	means the agreement providing for the entry of data relating to Green Deal Plans onto the Central Charge Database and the collection and remittance of Green Deal Charges, as referred to and providing for such other matters as are set out in standard condition 38 (Green Deal Arrangements Agreement) of a Supply Licence, in the form approved by the Secretary of State from time to time.
Green Deal Arrangements Data	has the meaning given to it in the Master Registration Agreement.
Green Deal Bill Payer	means a “bill payer” within the meaning of the Green Deal Regulations.
Green Deal Charges	means a payment required to be made under a Green Deal Plan by a Green Deal Bill Payer, as referred to in section 1(6) of the Energy Act 2011.
Green Deal Participant	means a party to the Green Deal Arrangements Agreement or a person identified by or pursuant to the Master Registration Agreement or the Green Deal Arrangements Agreement as an appropriate person to receive or send Green Deal Arrangements Data.
Green Deal Plan	has the meaning given to “green deal plan” in section 1(3) of the Energy Act 2011
Green Deal Premises	means a person who is authorised to act as a green deal provider under the Green Deal Regulations.

Green Deal Provider	has the meaning given to “green deal provider” in section 2(2) of the Energy Act 2011.
Grid Code	means the Grid Code that is required to be drawn up by the GB System Operator and approved by the Authority under standard condition 14 (Grid Code) of the Transmission Licence.
Holding Company	in relation to the licensee, means a holding company within the meaning of section 1159 of the Companies Act 2006.
Import Charges	means Use of System Charges in relation to electricity conveyed to any premises or to any other Distribution System
Indebtedness	means all liabilities that are now or hereafter due, owing, or incurred, whether actual or contingent, whether solely or jointly with any other person, and whether as principal or surety, together with any interest accruing on them and all costs, charges, penalties, and expenses incurred in connection with them.
Information	means information (other than information subject to legal privilege) in any form or medium and of any description specified by the Authority and includes any documents, accounts, estimates, returns, records, or reports and data of any kind, whether or not prepared specifically at the request of the Authority.
Interconnector	has the meaning given to “electricity interconnector” in section 4(3E) of the Act.
Interconnector Licence	means an electricity interconnector licence granted or treated as granted under section 6(1)(e) of the Act that authorises a person to participate in the operation of an Interconnector.
<u>Last Resort Supply Payment</u>	<u>means a sum of money payable to the Claimant to compensate for any additional costs that it has incurred as a result of complying with a direction from the Authority to supply electricity to premises in accordance with standard condition 8 (Obligations under Last Resort Supply Direction) of the Electricity Supply Licence.</u>
Legacy Metering Equipment	means Metering Equipment (whether owned by the licensee or not) provided by the licensee in respect of premises at which such equipment had been installed on or before 31 March 2007 and is of the same functionality as was being provided by the licensee at 1 June 2003.

Margin	means a monetary sum, forming part of a Connection Charge, that is in addition to the cost estimated to be incurred by the licensee in providing the Connection Activity that is the subject of that charge.
Master Registration Agreement	means the agreement of that name that the licensee is required to maintain in force in a form approved by the Authority under standard condition 23 (Master Registration Agreement) for the purpose of providing for the matters set out in that condition.
Metering Equipment	means an Electricity Meter and any associated equipment that materially affects its operation, and includes (if applicable) Legacy Metering Equipment within the meaning of standard condition 34 (Requirement to offer terms for the provision of Legacy Metering Equipment).
Metering Point	means the point, determined according to the principles and guidance given at Schedule 8 of the Master Registration Agreement, at which a supply of electricity taken into or conveyed from the licensee's Distribution System: <ul style="list-style-type: none"> (a) is or is intended to be measured; or (b) where Metering Equipment has been removed, was or was intended to be measured; or (c) in the case of an Unmetered Supply, is treated as measured.
Metering Point Administration Service	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.
Metering Point Administration Services	means the services to be provided by the Metering Point Administration Service as specified at Appendix 1 to standard condition 18 (Provision of and charges for Metering Point Administration Services).
Metering Services	means any of the services of installing, commissioning, testing, repairing, maintaining, removing, and replacing Metering Equipment.

National Consumer Council	means the body of that name established by section 1 of the Consumers, Estate Agents and Redress Act 2007 in the version before it was substituted by paragraph 12 of Part 1 (Amendments to Acts) of Schedule 1 of the Public Bodies (Abolition of the National Consumer Council and Transfer of the Office of Fair Trading's Functions in relation to Estate Agents etc.) Order 2014.
Non-Contestable Connection Services	means those services which, in accordance with the Connection Charging Statement prepared by the licensee under standard condition 14 (Charges for Use of System and connection), cannot be provided by a person other than the licensee.
Notice	means notice given directly to a person in Writing (and includes a notification).
Permitted Purpose	means the purpose of any or all of the following: <ul style="list-style-type: none"> (a) the licensee's Distribution Business; (b) any De Minimis Business of the licensee within the limits imposed by paragraphs 8 to 10 of standard condition 29 (Restriction of activity and financial ring-fencing of the Distribution Business); (c) any business or activity of the licensee to which the Authority has given its consent under paragraph 4 of standard condition 29; and (d) where appropriate, without prejudice to the generality of sub-paragraphs (a) to (c), any payment or transaction lawfully made or undertaken by the licensee in accordance with paragraph 3 of standard condition 41 (Restriction of Indebtedness and transfers of funds) or paragraph 1(b) of amended standard condition BA 4 (Indebtedness) of Section BA.
Priority Services Register	means the register containing details of certain Domestic Customers, known as Priority Services Register Customers, that must be established and maintained by the licensee in accordance with standard condition 10 (Special services and complaints procedure).

Priority Services Register Customers	means Domestic Customers at premises connected to the licensee's Distribution System who fall within the description set out at paragraph 3 of standard condition 10 (Special services and complaints procedure).
Public Electronic Communications Network	has the meaning given to that term in section 151 of the Communications Act 2003.
Regulation	means Regulation 2009/714/EC of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchange in electricity and repealing Regulation 2003/1228/EC
Regulatory Accounts	means the accounts of the licensee produced in accordance with standard condition 44 (Regulatory Accounts).
Regulatory Instructions and Guidance (RIGs)	means Regulatory Instructions and Guidance as provided for in standard condition 46 (Regulatory Instructions and Guidance).
Regulatory Year	means a period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the next following calendar year.
Related Undertaking	in relation to the licensee, means any undertaking in which the licensee has a participating interest within the meaning of section 421A of the Financial Services and Markets Act 2000.
Relevant Asset	means any asset that for the time being forms part of the licensee's Distribution System, any control centre for use in conjunction with that asset, and any legal or beneficial interest in land (whether under the law of England and Wales or under the law of Scotland) upon, under, or over which any such asset or control centre is situated.
Relevant Connection	means any connection to the licensee's Distribution System other than an LVSSA connection or an LVSSB connection within the meaning given to those terms respectively in Part F of Charge Restriction Condition 2F (Time to Connect Incentive).

Relevant Theft of Electricity	<p>means the abstraction of electricity in circumstances where:</p> <p>(a) any person takes a supply of electricity that is in the course of being conveyed by the licensee; or</p> <p>(b) any person at premises at which a connection has been restored in contravention of paragraph 5(1) of Schedule 6 to the Act takes a supply of electricity that has been conveyed to those premises by the licensee, and the supply is taken otherwise than in pursuance of:</p> <p>(i) a contract made with an Electricity Supplier, or</p> <p>(ii) a contract deemed to have been made with an Electricity Supplier by virtue of paragraph 3 of Schedule 6 to the Act or paragraph 23 of Schedule 7 to the Utilities Act 2000; or</p> <p>(c) any person takes a supply of electricity at premises which have never been registered with an Electricity Supplier.</p>
Remote Transmission Assets	<p>means any electric lines, electrical plant, or Electricity Meters in England and Wales owned by a Transmission Licensee (“the owner transmission licensee”) which:</p> <p>(a) are embedded in the licensee’s Distribution System or the Distribution System of any Authorised distributor and are not directly connected by lines or plant owned by the owner transmission licensee to a substation owned by that licensee; and</p> <p>(b) are by agreement between the owner transmission licensee and the licensee or such Authorised distributor operated under the direction and control of the licensee or that distributor.</p>
Representative	<p>means any person who is directly or indirectly authorised to represent the licensee in its dealings with Customers.</p>
Settlement Purposes	<p>means for the purposes of settlement as provided for in the Balancing and Settlement Code.</p>
Smart Metering System	<p>has the meaning given to it in standard condition 1 of the Standard Conditions of Electricity Supply Licences.</p>
<u>Specified Amount</u>	<p><u>means the amount specified in a Valid Claim.</u></p>

Subsidiary	means a subsidiary within the meaning of section 1159 of the Companies Act 2006.
Supply Licence	means an electricity supply licence granted or treated as granted under section 6(1)(d) of the Act that authorises a person to supply electricity.
Transmission Licence	means an electricity transmission licence granted or treated as granted under section 6(1)(b) of the Act that authorises a person to participate in the transmission of electricity.
Transmission Licensee	means any person who is Authorised by a Transmission Licence to participate in the transmission of electricity.
Transmission System	means those parts of the GB Transmission System that are owned or operated by a Transmission Licensee within the transmission area specified in its Transmission Licence.
Ultimate Controller	<p>means any of the following:</p> <p>(a) a Holding Company of the licensee that is not itself a Subsidiary of another company; and</p> <p>(b) subject to notes 1 and 2 below, any person who (whether alone or with a person or persons connected with him) is in a position to control, or exercise significant influence over, the policy of the licensee or the policy of any Holding Company of the licensee by virtue of:</p> <p>(i) rights under contractual arrangements to which he is a party or of which he is a beneficiary, or</p> <p>(ii) rights of ownership (including rights attached to or deriving from securities or rights under a trust) which are held by him or of which he is a beneficiary.</p> <p>note 1: for the purposes of sub-paragraph (b), a person is connected with another person if he is a party to any arrangement regarding the exercise of any such rights as are described or referred to in that sub-paragraph.</p> <p>note 2: sub-paragraph (b) does not include any director or employee of a corporate body in his capacity as such.</p>
Unit	means a kilowatt hour of electricity.
Unmetered Supply	means a supply of electricity to premises that is not being measured by Metering Equipment for the purpose of calculating the charges for that supply.
Unregulated Margin	<p>means a Margin that:</p> <p>(a) becomes chargeable in relation to Connection Activities by the licensee in the circumstances set out in paragraph 14.16 of standard condition 14 (Charges for</p>

Use of System and connection) and Part A of Charge Restriction Condition 2K (Margins on licensee's Connection Activities); and

(b) is not limited in its amount by any provision of this licence.

Use of System	means use of the licensee's Distribution System for the distribution of electricity by the licensee on behalf of any person (and agreements for Use of System include all those provisions of the Distribution Connection and Use of System Agreement that relate to such use).
Use of System Charges	means charges made or levied, or to be made or levied, by the licensee for the provision of Use of System and certain other services as part of its Distribution Business to any person, but does not include Connection Charges.
Use of System Charging Statement	has the meaning given to that term in paragraph 14.1 of standard condition 14 (Charges for Use of System and connection).
<u>Valid Claim</u>	<u>means a claim for which the Claimant has received the Authority's consent under standard condition 9 (Claims for Last Resort Supply Payment) of the Electricity Supply Licence.</u>
Website	means a website controlled and used by the licensee to communicate with a Customer or any member of the public for reasons relating to the distribution of electricity.
Working Day	means any day other than a Saturday, a Sunday, Christmas Day, Good Friday, or a day that is a bank holiday within the meaning of the Banking and Financial Dealings Act 1971.
WPD Licensee	means each of the following: <ul style="list-style-type: none">- Western Power Distribution (West Midlands) plc (registered number 3600574);- Western Power Distribution (East Midlands) plc (registered number 2366923);- Western Power Distribution (South Wales) plc (registered number 2366985); and- Western Power Distribution (South West) plc (registered number 2366894).
Writing	includes writing that is sent or received by Electronic Communication.

Some legislative definitions

- 1.4 The following words or expressions used in the standard conditions of this licence are defined in the sections indicated in the legislation specified below, and have in this licence the respective meanings given to them by those sections.

Electricity Act 1989	Section
distribute	s.4(4)
electric line	s.64(1)
electrical plant	s.64(1)
functions	s.3A(7)
licence	s.3A(8)
licence holder	s.3A(8)
making a connection	s.16(4)
modification [of a legal instrument]	s.111(1)
premises [except in standard condition 15]	s.64(1)
requiring a connection	s.16(4)
supply	s.4(4)
transmission	s.4(4)
working day	s.64(1)
Utilities Act 2000	Section
electricity licence	s.106(1)
Gas Act 1986	Section
gas shipper	s.7A(11)
gas shipper licence	s.7A(2)
gas supplier	s.7A(11)
gas supply licence	s.7A(1)

Condition 38. Treatment of payment claims for last-resort supply where Valid Claim is received before 1 April 2019

Application of this condition

38.1 This condition applies if the licensee receives from any Claimant a Valid Claim for a Last Resort Supply Payment before 1 April 2019 and:

- (a) the licensee has commenced the process of recovering the Valid Claim through Use of System Charges in accordance with paragraph 38.2 of this condition, but the licensee has not yet increased or decreased its Use of System charges in accordance with paragraphs 38.4 or 38.5 of this condition to correct any shortfall or excess, in which case the licensee must:
 - (i) follow the process set out in paragraphs 38.2, 38.3, 38.7 and 38.9 of this condition in respect of the initial recovery of the Valid Claim;
and
 - (ii) follow the process set out in paragraphs 38A.1(b)(ii) and 38A.1(b)(iii) of standard condition 38A in respect of the treatment of any shortfall or excess.

or

- (b) the licensee has commenced the process of recovering the Valid Claim through Use of System Charges in accordance with paragraph 38.2 of this condition and has increased or decreased its Use of System charges in accordance with paragraphs 38.4 or 38.5 of this condition to correct any shortfall or excess, in which case the licensee must:
 - (i) follow the process set out in paragraphs 38.4 or 38.5 of this condition in respect of the treatment of any shortfall or excess; and
 - (ii) follow the process set out in paragraph 3 of standard condition 38A in respect of the treatment of any residual shortfall or excess which remains following the consequential increase or decrease in Use of

System charges once the process set out in paragraph 38.4 or 38.5 of this condition has been followed.

Obligation to increase Use of System Charges

- 38.2 Where the licensee receives a Valid Claim, it must, during the Relevant Regulatory Year, make an increase to its Use of System Charges relating to the distribution of electricity to premises in respect of that year to such an extent as it reasonably estimates is appropriate to ensure that the consequential increase in its Use of System revenue will equal the Specified Amount.
- 38.3 During, or as soon as practicable after the end of, the Relevant Regulatory Year, the licensee must pay to the Claimant by quarterly or monthly instalments (as specified in the Valid Claim) the amount of the consequential increase in its Use of System revenue mentioned in paragraph 38.2 of this condition, to the extent that it does not exceed the Specified Amount.

Treatment of any shortfall

- 38.4 If the amount paid to the Claimant under paragraph 38.3 of this condition is less than the Specified Amount, the licensee must in the next Regulatory Year:
- (a) pay to the Claimant (in accordance with any direction given to the licensee by the Authority) the amount of the shortfall plus 12 months' interest on that amount; and
 - (b) increase its Use of System Charges relating to the distribution of electricity to premises during the Regulatory Year that follows the Relevant Regulatory Year to such extent as it reasonably estimates is appropriate to ensure that the consequential increase in its Use of System revenue will equal the amount of the shortfall plus 12 months' interest on that amount.

Treatment of any excess

- 38.5 If the amount of the consequential increase in Use of System revenue mentioned in paragraph 38.3 of this condition exceeds the Specified Amount, the licensee must, during the year following the Relevant Regulatory Year, reduce its Use of System Charges relating to the distribution of electricity to premises to the extent that it reasonably estimates is necessary in order to reduce its Use of System revenue for that year by an amount equal to the excess plus 12 months' interest on that amount.

Questions for the Authority

- 38.6 Any question about the reasonableness of any estimate made for the purposes of paragraphs 38.2, 38.4, or 38.5 of this condition is to be resolved by the Authority.

Disregard of certain matters

- 38.7 In calculating the licensee's Use of System revenue during any period for the purposes of any Charge Restriction Condition that may be applicable to the licensee under this licence, any increase or decrease in Use of System revenue attributable to the licensee's compliance with this ~~standard~~ condition must be treated as if it had not occurred.

- 38.8 The provisions of this condition have effect even if the licensee has not provided the Notice required under paragraph ~~17~~ 11 of standard condition 14 (Charges for Use of System and connection).

Obligation to prepare and publish statement

- 38.9 The licensee must, in respect of each Regulatory Year in which it increases or reduces its Use of System Charges under paragraph 38.2, 38.4, or 38.5 of this condition:
- (a) prepare a statement that shows the matters detailed at paragraph 38.10 of this condition;

- (b) give any such statement to the Authority within the first four months of the Regulatory Year following that to which it relates; and
- (c) publish that statement in such manner as the licensee believes will ensure adequate publicity for it (including on the licensee's Website, if it has one).

38.10 The matters referred to in paragraph 38.9(a) of this condition are these:

- (a) in the case of an increase in the licensee's Use of System Charges under paragraph 38.2 of this condition, the total amount of its Use of System revenue derived from that increase;
- (b) in the case of an increase in the licensee's Use of System Charges under paragraph 38.4 of this condition, the total amount of its Use of System revenue derived from that increase;
- (c) in the case of a reduction in the licensee's Use of System Charges under paragraph 38.5 of this condition, the total amount of the decrease in its Use of System revenue resulting from that reduction; and
- (d) in the case of each Last Resort Supply Payment made in response to a Valid Claim, the total payments made to the relevant Claimant in respect of the Regulatory Year in question (whenever those payments were made).

Cumulative effect of separate claims

38.11 Where the licensee receives more than one Valid Claim for a Last Resort Supply Payment, such changes in its Use of System Charges as would result from the separate fulfilment of its obligations under this condition in relation to each such claim are to be given effect within the Relevant Regulatory Year as a single aggregated change in Use of System Charges.

Interpretation

38.12 For the purposes of this condition:

~~**Claimant** means an Electricity Supplier entitled to receive the benefit of a Last Resort Supply Payment.~~

~~**Last Resort Supply Payment** means a sum of money payable to the Claimant to compensate for any additional costs that it has incurred as a result of complying with a direction from the Authority to supply electricity to premises in accordance with standard condition 8 (Obligations under Last Resort Supply Direction) of the Electricity Supply Licence.~~

Relevant Regulatory Year means, in relation to any Valid Claim:

- (a) where the claim was received by the licensee at least 60 days before the beginning of **a the next** Regulatory Year, that Regulatory Year; or
- (b) where the claim was received by the licensee less than 60 days before the beginning of **a the next** Regulatory Year, the **year after the** next Regulatory Year.

Specified Amount means the amount specified in a Valid Claim plus interest calculated as simple interest on that amount for the period beginning with the date on which the Valid Claim was received by the licensee and ending with the date that is 61 days before the start of the Relevant Regulatory Year (unless that period is of 30 days or less, in which case no interest will be payable).

~~**Valid Claim** means a claim for which the Claimant has received the Authority's consent under standard condition 9 (Claims for Last Resort Supply Payment) of the Electricity Supply Licence.~~

Condition 38A. Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019

Application of this condition

38A.1 This condition applies if the licensee receives from any Claimant a Valid Claim for a Last Resort Supply Payment before 1 April 2019 and:

- (a) the licensee has not yet commenced the process of recovering the Valid Claim through Use of System Charges in accordance with paragraph 2 of standard condition 38, in which case the licensee must follow the process set out in standard condition 38B; or
- (b) the licensee has commenced the process of recovering the Valid Claim through Use of System Charges in accordance with paragraph 2 of standard condition 38, but the licensee has not yet increased or decreased its Use of System charges in accordance with paragraphs 4 or 5 of that condition to correct any shortfall or excess, in which case it must:
 - (i) follow the process set out in paragraphs 2, 3, 7 and 9 of standard condition 38 in respect of the initial recovery of the Valid Claim;
 - (ii) in the event of a shortfall in recovery of the Valid Claim, pay to the Claimant the amount of the shortfall plus any interest on that amount; and
 - (iii) follow the process set out in paragraph 38A.3 of this condition in respect of the treatment of any shortfall or excess.

38A.2 Where the licensee received a Valid Claim before 1 April 2019 and the licensee has commenced the process of recovering the Valid Claim through Use of System Charges in accordance with paragraph 2 of standard condition 38 and has increased or decreased its Use of System charges in accordance with paragraphs 4 or 5 of that condition to correct any shortfall or excess it must:

- (a) follow the process set out in paragraphs 4 or 5 of standard condition 38 in respect of the treatment of any shortfall or excess; and
- (b) follow the process set out in paragraph 38A.3 of this condition in respect of the treatment of any residual shortfall or excess which remains following the consequential increase or decrease in Use of System charges once the process set out in paragraphs 4 or 5 of standard condition 38 has been followed.

Treatment of any shortfall or excess

38A.3 If the amount recovered through Use of System Charges on completion of the processes outlined in paragraphs 38A.1(b) or 38A.2 of this condition does not equal the Specified Amount, the licensee must include the shortfall or excess in SLRA_t, as defined in Licence Condition CRC 2B, Calculation of Allowed Pass-Through Items.

Interpretation

38A.4 For the purposes of this condition:

Specified Amount means the amount specified in a Valid Claim plus interest calculated as simple interest on that amount for the period beginning with the date on which the Valid Claim was received by the licensee and ending with the date that is 61 days before the start of the Relevant Regulatory Year (unless that period is of 30 days or less, in which case no interest will be payable).

Condition 38B. Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019

Application of this condition

- 38B.1 Subject to paragraph 38B.2, this condition applies if the licensee:
- (a) receives from any Claimant a Valid Claim for a Last Resort Supply Payment on or after 1 April 2019; or
 - (b) receives from any Claimant a Valid Claim for a Last Resort Supply Payment before 1 April 2019 and has not yet commenced the process of recovering the Valid Claim through Use of System Charges in accordance with standard condition 38A.1(a).
- 38B.2 This condition does not apply following a successful application for an Energy Supply Company Administration Order in accordance with section 96 Energy Act 2011.

Obligation to pay the Claimant

- 38B.3 Subject to paragraph 9 of this condition, ~~W~~ where the licensee receives a Valid Claim, the licensee must make payments to the Claimant, by monthly or quarterly instalments commencing three months after the date on which the Valid Claim was received, such three month period to include the date of receipt of the Valid Claim, so that the total Specified Amount has been paid in full in accordance with a schedule defined by the Authority, and in any event by no later than 15 months from the date on which the Valid Claim was received.

Cumulative effect of separate claims

- 38B.4 Where the licensee makes payments in respect of more than one Valid Claim within the Regulatory Year t, SLRA_t (as defined in CRC 2B, Calculation of Allowed Pass-

Through Items) shall be treated as a single aggregated figure representing the total value of payments made to all Claimants in the Regulatory Year t, excluding Valid Claims subject to paragraph 38B.9 of this condition.

Application of Materiality Threshold

- 38B.5 If the value of aggregated payments to be made by a licensee in respect of Valid Claims, less the aggregated payments to be made by a licensee in respect of Valid Claims subject to paragraph 38B.9 of this condition, in any Regulatory Year would exceed the Materiality Threshold amount applicable to the licensee, as shown in Appendix 1 (the "Materiality Threshold"), the licensee may within 28 days of receipt of the Valid Claim that results in breach of the Materiality Threshold give notice to the Authority of its intention to increase its Use of System Charges for the Relevant Regulatory Year to the extent that the licensee reasonably estimates is necessary in order to recover the Excess Specified Amount as defined in 38B.7.
- 38B.6 Subject to paragraph 38B.5 of this condition, where the licensee requires a derogation in order to increase its Use of System Charges for the Relevant Regulatory Year, the Authority may, after consulting with the licensee, give a direction ("a derogation") to the licensee relieving it of its obligations under the relevant conditions to such extent, for such period of time, and subject to such conditions as may be specified in the derogation.
- 38B.7 Subject to paragraphs 38B.5 and 38B.6 of this condition, the Excess Specified Amount will equate to the aggregate value of Valid Claims received in a Regulatory Year that would cause the Materiality Threshold in any single Regulatory Year to be breached.
- 38B.8 Any Valid Claim received after paragraph 38B.7 of this condition has effect, in any Regulatory Year: (a) which does not result in the aggregate value of payments made in respect of Valid Claims exceeding the Materiality Threshold; or (b) in respect of which the licensee has not provided notice under paragraph 38B.5 of this

condition; or (c) in relation to which a derogation required by the licensee is not given by the Authority under paragraph 38B.6 of this condition, may not be included in the Excess Specified Amount. The aggregate value of payments made in respect of such Valid Claims shall be recovered in SLRA_t (as defined in CRC 2B, Calculation of Allowed Pass-Through Items) in accordance with paragraph 38B.4 of this condition.

38B.9 Where the licensee has given notice under 38B.5 of this condition and, if applicable, the Authority has given a derogation under paragraph 38B.6 of this condition, it must unless the Authority directs otherwise:

- (a) in the Relevant Regulatory Year, increase ESA_t in accordance with paragraph 2B.35 of Licence Condition CRC 2B (or paragraph 2B.38 for SSEH),(Calculation of Allowed Pass-Through Items by the Excess Specified Amount);
- (b) in the Relevant Regulatory Year, increase its Use of System Charges in accordance with the approved Use of System Charging Methodology in force under standard condition 13 (Charging Methodologies for Use of System and connection); and
- (c) during the Relevant Regulatory Year, make payments to the Claimant by monthly or quarterly instalments that equate to the total Specified Amount.

38B.10 The provisions of this condition have effect even if the licensee has not provided the Notice required under paragraph 11 of standard condition 14 (Charges for Use of System and connection).

Interpretation

38B.11 For the purposes of this condition:

Excess Specified Amount means the aggregate value of Valid Claims which, in any Regulatory Year, would cause a breach of the Materiality Threshold recovered in accordance with paragraph 38B.9 of this condition.

Materiality Threshold means the amount determined for each licensee in Appendix 1 of this condition.

Relevant Regulatory Year ~~for this condition only~~ means, in relation to any Valid Claim(s) resulting in breach of the Materiality Threshold:

- (a) where the claim was received by the licensee at least three months before the beginning of a the next Regulatory Year, that Regulatory Year; or
- (b) where the claim was received by the licensee less than three months before the beginning of a the next Regulatory Year, the year after the next Regulatory Year.

APPENDIX 1:

Materiality threshold amount (£m, 2012/13 prices)

<u>Licensee</u>	<u>£m (12/13 prices)</u>
<u>ENWL</u>	<u>2.0</u>
<u>NPgN</u>	<u>1.3</u>
<u>NPgY</u>	<u>1.9</u>
<u>WMID</u>	<u>2.0</u>
<u>EMID</u>	<u>2.2</u>
<u>SWALES</u>	<u>0.9</u>
<u>SWEST</u>	<u>1.3</u>
<u>LPN</u>	<u>1.9</u>
<u>SPN</u>	<u>1.9</u>
<u>EPN</u>	<u>3.0</u>
<u>SPD</u>	<u>1.7</u>
<u>SPMW</u>	<u>1.2</u>
<u>SSEH</u>	<u>0.6</u>
<u>SSES</u>	<u>2.5</u>

Condition 38C. Treatment of Valid Bad Debt Claims

Application of this condition

38C.1 This condition applies if the licensee receives a Valid Bad Debt Claim from a Bad Debt Claimant.

Obligation to pay the Bad Debt Claimant

38C.2 Where the licensee receives a Valid Bad Debt Claim, it must, during or as soon as practicable after the end of the Applicable Regulatory Year, make payments to the Bad Debt Claimant, in instalments (12 monthly instalments unless otherwise agreed with the Bad Debt Claimant), until such a time as the total Specified Bad Debt Amount has been paid in full.

38C.3 Where the licensee receives an adjustment to a previous Valid Bad Debt Claim under paragraph 11 of standard condition BA5, Valid Bad Debt Claims, and where the licensee is required to make an amended payment to the Bad Debt Claimant, the licensee shall pay the Bad Debt Claimant the amount of that adjustment plus any interest:

- (a) on the date of the first instalment following receipt of the adjusted claim, where that claim is received 30 days or more prior to the date on which that first instalment is due (including the date of receipt of that claim);
- (b) on the date of the second instalment or subsequent following receipt of the adjusted claim, where that claim is received less than 30 days prior to the date on which that first instalment is due (including the date of receipt of that claim) or after the first instalment has been made; or
- (c) within 30 days of receipt of the adjusted claim (including the date of receipt), where no further instalments are due.

Cumulative effect of separate claims

38C.4 Where the licensee receives more than one Valid Bad Debt Claim requiring payment in the Applicable Regulatory Year t, IBDAt (in CRC 2B, Calculation of Allowed Pass-Through Items) shall be treated as a single aggregated figure representing the total Specified Bad Debt Amount of all Valid Bad Debt Claims requiring payment in the Applicable Regulatory Year t, plus any adjustments to previous Valid Bad Debt Claims received in the Regulatory Year t.

Interpretation

38C.5 For the purposes of this condition:

Applicable Regulatory Year means, in relation to any Valid Bad Debt Claim, the next Regulatory Year in respect of which the licensee has not been required to publish its final Use of System Charges, (the “Next Regulatory Year”) unless the licensee is required to publish its final Use of System Charges within 40 days of the date on which the licensee received the Valid Bad Debt Claim in which case it shall be the Regulatory Year after the Next Regulatory Year.

Bad Debt Claimant means a Non-Distribution Services Provider entitled to receive payment for a Valid Bad Debt Claim.

Non-Distribution Services Provider means any Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence do not have effect (whether in whole or in part).

Specified Bad Debt Amount means the amount specified in a Valid Bad Debt Claim.

Valid Bad Debt Claim means a claim for bad debt incurred by a Non-Distribution Services Provider with respect to Use of System Charges as a result of the insolvency of one or more Electricity Suppliers whose Electricity Supply Licences have been revoked and in respect of which the Bad Debt Claimant has received the Authority's consent under standard condition BA5. **Valid Bad Debt Claims.**

Condition BA5. Valid Bad Debt Claims

Ability to make claim

- 1 If the licensee has received the Authority's consent under paragraph 5 of this condition, it may make a Valid Bad Debt Claim under standard condition 38C, Treatment of Valid Bad Debt Claims.
- 2 The licensee may make a Valid Bad Debt Claim to each Relevant Distributor in accordance with paragraphs 9, 11 and 13 of this condition.

Process for making claim

- 3 If the licensee intends to make a Bad Debt Claim in respect of bad debts incurred in a regulatory year not before 2018/19, no later than **three months** after the end of a Regulatory Year in respect of that Regulatory Year, it must:
- (a) give Notice to the Authority of its claim; and
 - (b) in a statement in a form prescribed by the Authority, provide to the Authority the amount of the bad debt plus any interest.
- 4 If the licensee intends to make a Bad Debt Claim in respect of bad debts incurred in 2015/16, 2016/17 or 2017/18, it must no later than 30 June 2019:
- (a) give Notice to the Authority of its claim; and
 - (b) in a statement in a form prescribed by the Authority, provide to the Authority the amount of the bad debt plus any interest.
- 5 If the Authority considers it appropriate in all the circumstances of the case for the licensee to make the Bad Debt Claim notified to it in accordance with paragraph 3 or paragraph 4 of this condition, the Authority shall, by Notice within three months of having received the claim, give its consent to the licensee for the licensee to make a Valid Bad Debt Claim and direct the amount to be included in the Valid Bad Debt Claim (the "Relevant Amount").
- 6 The Authority may only adjust the amount specified in the statement submitted by the licensee in accordance with paragraph 3 or paragraph 4 of this condition for: (a) any

amount of the bad debt that has arisen because of the licensee's failure to follow Schedule 1 ('Cover') of the Distribution Connection and Use of System Agreement ("the DCUSA"); and (b) the 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 1 of this condition.

7 A direction issued by the Authority under paragraph 5 of this condition will be of no effect unless, before issuing it, the Authority has:

- (a) by Notice to each Relevant Distributor, 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) Given due consideration to any representations received in response to the Notice.

8 If the Authority makes a direction under paragraph 5 of this condition, the amount specified by it must be treated as the Relevant Amount for the purpose of paragraph 9 of this condition.

Submissions to Distribution Services Providers

9 A Valid Bad Debt Claim by the licensee to each Relevant Distributor must specify:

- (a) the respective proportion of the Relevant Amount to be paid by the Relevant Distributor (being the bad debt incurred by the licensee relating to premises in the Relevant Distributor's Distribution Services Area supplied by the Electricity Supplier which has had its Electricity Supply Licence revoked);
- (b) any interest on the Relevant Amount calculated as simple interest

for the period beginning on the date of the Valid Bad Debt Claim and ending on the date that is 31 March of the Regulatory Year before the Valid Bad Debt Claim will be paid in accordance with paragraph 2 of standard condition 38C, Treatment of Valid Bad Debt Claims; and

- (c) the payment instalments that have been agreed with the Relevant Distributor. In the absence of such agreement, payments will be made in 12 monthly instalments.

10 Where the licensee intends to make a Valid Bad Debt Claim to a Relevant Distributor, it shall submit such claim within six months beginning with the date that the Authority gives its consent to the licensee pursuant to paragraph 5 of this condition.

Adjustment to previous claim

11 Within 60 days of receipt of the Final Reconciliation Settlement Run for the final day of supply by the Electricity Supplier which has had its Electricity Supply Licence revoked, the licensee must revise the Relevant Amount (the "Revised Relevant Amount") and, if the Revised Relevant Amount differs by more than or equal to 10% of the Relevant Amount, the licensee must:

- (a) give Notice to the Authority of the difference between the Revised Relevant Amount and the Relevant Amount;
- (b) give Notice to each Relevant Distributor of the respective proportion of the Revised Relevant Amount and the Relevant Amount;
- (c) where the Revised Relevant Amount is lower than the Relevant Amount, submit a further Valid Bad Debt Claim for the difference between the Revised Relevant Amount and the Relevant Amount (the "Lower Difference") plus any interest on the Lower Difference in accordance with paragraph 9 of this condition and pay the Lower Difference to the Relevant Distributor on the date of the next

payment instalment from the Relevant Distributor (the "Lower Difference Payment Date"), providing that the Lower Difference Payment Date date is not less than 30 days from the date the licensee provided Notice to the Relevant Distributor. If the Lower Difference Payment Date is less than 30 days from the date on which the licensee provided Notice to the Relevant Distributor, the Lower Difference Payment Date shall be the date on which the Relevant Distributor is due to make the second payment instalment to the licensee. ~~and where no further payment instalments~~ If the Relevant Distributor is not required to make any further payment instalments, ~~are required~~ the Lower Difference Payment Date shall be within 30 days from the date on which the licensee provided Notice to the Relevant Distributor; and

- (d) where the Revised Relevant Amount is higher than the Relevant Amount (the "Higher Difference"), submit a further Valid Bad Debt Claim for the Higher Difference plus any interest on the Higher Difference in accordance with paragraph 9 of this condition.

12 Any revision to a Valid Bad Debt Claim made in accordance with paragraph 11 of this condition must be made within 60 days of receipt of the Final Reconciliation Settlement Run for the final day of supply by the Electricity Supplier which has had its Electricity Supply Licence revoked.

13 If the licensee makes a successful claim to recover bad debts from the administrator of a Defaulting Electricity Supplier, within 60 days of recovering any bad debt ("the Recovered Amount"), the licensee must:

- (a) give Notice to the Authority of the value of the Recovered Amount;
(b) give Notice to each Relevant Distributor of the amount to be returned, being the proportion of the Recovered Amount relative to the Relevant Amount paid by the Relevant Distributor to which the Recovered Amount relates; and

- (c) submit a further Valid Bad Debt Claim for the Recovered Amount plus any interest on this amount in accordance with paragraph 9 of this condition and pay the Recovered Amount to the Relevant Distributor on the date of the next payment instalment from the Relevant Distributor (the "Recovered Amount Payment Date"), providing that Recovered Amount Payment Date is not less than 30 days from the date the licensee provided Notice to the Relevant Distributor. If the Recovered Amount Payment Date is less than 30 days from the date on which the licensee provided Notice to the Relevant Distributor, the Recovered Amount Payment Date shall be the date on which the Relevant Distributor is due to make the second payment instalment to the licensee. ~~and where no further payment instalments~~ If the Relevant Distributor is not required to make any further payment instalments, are required the Recovered Amount Payment Date shall be within 30 days from the date on which the licensee provided Notice to the Relevant Distributor.

Interpretation

- 14 For the purposes of this condition:

Bad Debt Claim means a claim for bad debt incurred after 1 April 2015 by a Non-Distribution Services Provider with respect to Use of System Charges as a result of the insolvency of one or more Electricity Suppliers whose Electricity Supply Licences have been revoked.

Defaulting Electricity Supplier means an Electricity Supplier whose insolvency has resulted in the licensee incurring bad debt. For the purposes of this condition the timing and definition of insolvency is as per the Insolvency Act 1986.

Final Reconciliation Settlement Run has the meaning given to that term in Section U2.3 of the Balancing and Settlement Code (BSC).

Non-Distribution Services Provider means any Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence do not have effect (whether in whole or in part).

Relevant Distributor means each Distribution Services Provider in whose Distribution Services Area the relevant Electricity Supplier, which has had its Electricity Supply Licence revoked, supplied electricity to premises connected to a Distribution System not owned by such Distribution Services Provider.

Valid Bad Debt Claim means a claim for bad debt incurred by a Non-Distribution Services Provider with respect to Use of System Charges as a result of the insolvency of one or more Electricity Suppliers whose Electricity Supply Licences have been revoked and in respect of which the Bad Debt Claimant has received the Authority's consent under paragraph 5 of this condition.

APPENDIX 1

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

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

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):

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

2A.4 In the Principal Formula:

AR_t	means the amount of Allowed Distribution Network Revenue in Regulatory Year t .
BR_t	means the amount of Base Demand Revenue in Regulatory Year t , as derived in accordance with the formula set out in Part C of this condition.
IP_t	means the incentive revenue adjustment made in Regulatory Year t , as derived in accordance with the formula set out in Part D of this condition.
PT_t	means the Allowed Pass-Through Items revenue adjustment made in Regulatory Year t , as derived in accordance with CRC 2B (Calculation of Allowed Pass-Through Items).
NIA_t	means the Network Innovation Allowance revenue adjustment made in Regulatory Year t , as derived in accordance with CRC 2H (The Network Innovation Allowance).
LCN_t	means the low carbon networks fund revenue adjustment made in Regulatory Year t , as derived in accordance with CRC 2J (Low Carbon Networks Fund).
AUM_t	means the total amount of any sums remaining unpaid pursuant to the requirements of a Clawback Direction given in accordance with the provisions of Part B of CRC 2K (Margins on licensee's Connection Activities) one year after the licensee has received that direction.
$CGSRA_t$	means the adjustment for payments made by the licensee in respect of its failure to achieve connections performance standards, as derived in accordance with CRC 2L (Revenue adjustments in respect of performance failures).
$DLGT_t$	means the DPCR4 residual distribution losses incentive value and Growth Term 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:

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

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:

$$\begin{aligned} \text{GRPIF}_t &= (0.75 \times \text{GRPIF}_c) + (0.25 \times \text{GRPIF}_{c+1}) \\ \text{GRPIF}_{t-1} &= (0.75 \times \text{GRPIF}_{c-1}) + (0.25 \times \text{GRPIF}_c) \end{aligned}$$

where:

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

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

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

2A.10 In the above formula for TRU_t:

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:

$$\text{REV}_{t-2} = \frac{\text{BR}_{t-2} + \text{LF}_{t-2} + \text{RB}_{t-2} + \text{TB}_{t-2} + \text{SMC}_{t-2} + \text{SMIT}_{t-2} + \text{RF}_{t-2} \text{PT}_{t-2} - \text{ESA}_{t-2} + \text{GTA}_{t-2} + \text{IQ}_{t-2} + \text{L}}{\text{RPIF}_{t-2}}$$

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

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

~~**LF_{t-2}** means the amount of the licence fee adjustment in Regulatory Year t-2 as derived in accordance with Part B of CRC 2B.~~

~~**RB_{t-2}** means the amount of the Business Rates adjustment in Regulatory Year t-2 as derived in accordance with Part C of CRC 2B.~~

~~**TB_{t-2}** means the amount of the Transmission Connection Point Charges adjustment in Regulatory Year t-2 as derived in accordance with Part D of CRC 2B.~~

SMC_{t-2}	means the amount of the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t-2 as derived in accordance with Part E of CRC 2B.
SMIT_{t-2}	means the amount of the Smart Meter Information Technology Costs adjustment in Regulatory Year t-2 as derived in accordance with Part F of CRC 2B.
RF_{t-2}	means the amount of the Ring Fence Costs adjustment in Regulatory Year t-2 as derived in accordance with Part G of CRC 2B.
<u>PT_{t-2}</u>	<u>means the Pass Through Costs in Regulatory Year t-2, as derived in accordance with Part A of CRC 2B.</u>
<u>ESA_{t-2}</u>	<u>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.</u>
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).
GTA _{t-2}	means the amount of the Growth Term adjustment in Regulatory Year t-2, as derived in accordance with CRC 2M.

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

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

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

2A.14 In the above formula for IP_t:

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

Part E: Calculation of the correction factor (K_t)

2A.15 For the purposes of the Principal Formula for the licensee, subject to paragraph 2A.16, 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 For Regulatory Years 2015/16 and 2016/17 K_t is derived, respectively, in the following ways:

(a) For Regulatory Year 2015/16, K_t is derived in accordance with the following formula:

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

(b) For Regulatory Year 2016/17, K_t is derived in accordance with the following formula:

$$K_t = \left(RD_{t-2} - AR_{t-2} + \left(ESTR \times \left(1 + \frac{0.5}{100} \right) \right) \right) \times \left(1 + \left(\frac{I_{t-2} + PR_{t-2}}{100} \right) \right) \\ \times \left(1 + \left(\frac{I_{t-1} + 1.5}{100} \right) \right)$$

2A.17 In the above formulae for K_t:

- RD_{t-2} means the Regulated Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where RD_{t-2} is the Regulated Combined Distribution Network Revenue, as defined in CRC 2 (Definitions for the Charge Restriction Conditions) of this licence in the form in which it was in force at 31 March 2015.
- AR_{t-2} means the amount of the Allowed Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where AR_{t-2} is the Combined Allowed Distribution Network Revenue, as derived in accordance with Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges) of this licence in the form in which it was in force at 31 March 2015.
- ESTR means the total value of the energy supplier temporary rebate undertaken in 2013/14, and takes the value £15.49m for NPgN and £13.06m for NPgY.
- 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.

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

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

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

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

- (a) exceeded 106 per cent of AR_{t-2} ; or
- (b) been less than 94 per cent of AR_{t-2} .

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

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

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

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

- (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 reasonable endeavours in setting Use of System Charges to recover the Allowed Distribution Network Revenue in Regulatory Year t.

Part I: Interpretation

2A.25 For the purposes of this condition:

**Regulated
Distribution
Network Revenue
Retail Prices Index**

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.

means:

(a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or

(b) if that index in respect of any month relevant for the purposes of the Charge Restriction Conditions has not been published, such price index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or

(c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances (provided that any index so determined may not have a retroactive effect on any formula or other provision of the Charge Restriction Conditions).

**Retail Prices Index
Forecast Growth
Rate**

means:

(a) the growth rate (which is presented as a percentage) as defined as the "New forecasts (marked *)" in the HM Treasury document, "Forecasts for the UK Economy", published in November each year; or

(b) if that growth rate in respect of any year has not been published, such growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or

(c) if there is a material change in the basis of that growth rate, such other growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances (provided that any index so determined may not have a retroactive effect on any formula or other provision of the Charge Restriction Conditions).

**Vanilla Weighted
Average Cost of
Capital**

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

APPENDIX 1**Values for the PU term (£m, 2012/13 prices) by licensee****(see paragraph 2A.6)**

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

CRC 2A. Restriction of Allowed Distribution Network Revenue (SSEH only)

Introduction

2A.1 This condition:

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

Part A: Licensee's obligation

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

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

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

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

2A.4 In the Principal Formula:

AR_t	means the amount of Allowed Distribution Network Revenue in Regulatory Year t .
BR_t	means the amount of Base Demand Revenue in Regulatory Year t , as derived in accordance with the formula set out in Part C of this condition.
IP_t	means the incentive revenue adjustment made in Regulatory Year t , as derived in accordance with the formula set out in Part D of this condition.
PT_t	means the Allowed Pass-Through Items revenue adjustment made in Regulatory Year t , as derived in accordance with CRC 2B (Calculation of Allowed Pass-Through Items).
NIA_t	means the Network Innovation Allowance revenue adjustment made in Regulatory Year t , as derived in accordance with CRC 2H (The Network Innovation Allowance).
LCN_t	means the low carbon networks fund revenue adjustment made in Regulatory Year t , as derived in accordance with CRC 2J (Low Carbon Networks Fund).
AUM_t	means the total amount of any sums remaining unpaid pursuant to the requirements of a Clawback Direction given in accordance with the provisions of Part B of CRC 2K (Margins on licensee's Connection Activities) one year after the licensee has received that direction.
$CGSRA_t$	means the adjustment for payments made by the licensee in respect of its failure to achieve connections performance standards, as derived in accordance with CRC 2L (Revenue adjustments in respect of performance failures).
PPL_t	means the DPCR4 residual distribution losses incentive value revenue adjustment made in Regulatory Year t , as derived in accordance with

CRC 2M (Adjustment of licensee’s revenues for the residual distribution losses incentive).

K_t means the correction factor revenue adjustment made in Regulatory Year t , as derived in accordance with the formula set out in Part E of this condition.

Part C: Calculation of Base Demand Revenue (BR_t)

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

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

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

PU_t means the amount set against the licensee’s name in Appendix 1 of this condition and represents the Opening Base Revenue Allowance for Regulatory Year t , as determined by the Authority in relation to the distribution of electricity to and from premises.

MOD_t is zero in Regulatory Year 2015/16 and in each subsequent Regulatory Year is the value of the incremental change for Regulatory Year t to the licensee’s Opening Base Revenue Allowance, as derived in accordance with the Annual Iteration Process set out in Parts A and B of CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).

TRU_t is zero in Regulatory Years 2015/16 and 2016/17 and in each subsequent Regulatory Year is the revenue adjustment made in Regulatory Year t in respect of the actual value of the Retail Prices Index in Regulatory Year $t-2$ minus the assumed value of the Retail Prices Index in Regulatory Year $t-2$, as derived in accordance with paragraph 2A.9.

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

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

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

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:

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

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.

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

$$REV_{t-2} = \frac{BR_{t-2} + LF_{t-2} + RB_{t-2} + TB_{t-2} + SMC_{t-2} + SMIT_{t-2} + RF_{t-2} + SEC_{t-2} + PT_{t-2} - ESA_{t-2} + HB_{t-2}}{RPIF_{t-2}}$$

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.

~~LF_{t-2} means the amount of the licence fee adjustment in Regulatory Year t-2 as derived in accordance with Part B of CRC 2B.~~

~~RB_{t-2} means the amount of the Business Rates adjustment in Regulatory Year t-2 as derived in accordance with Part C of CRC 2B.~~

~~TB_{t-2} means the amount of the Transmission Connection Point Charges adjustment in Regulatory Year t-2 as derived in accordance with Part D of CRC 2B.~~

SMC_{t-2}	means the amount of the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t-2 as derived in accordance with Part E of CRC 2B.
SMIT_{t-2}	means the amount of the Smart Meter Information Technology Costs adjustment in Regulatory Year t-2 as derived in accordance with Part F of CRC 2B.
RF_{t-2}	means the amount of the Ring Fence Costs adjustment in Regulatory Year t-2 as derived in accordance with Part G of CRC 2B.
SEC_{t-2}	means the Shetland Variable Energy Costs, in Regulatory Year t-2, as derived in accordance with Part H of CRC 2B.

<u>PT_{t-2}</u>	<u>means the amount of the Pass Through Costs in Regulatory Year t-2 as derived in accordance with Part A of CRC 2B.</u>
<u>ESA_{t-2}</u>	<u>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.</u>
<u>HB_{t-2}</u>	<u>means the amount received by the licensee in Regulatory Year t-2 as the result of any direction given by the Secretary of State in accordance with section 184 of the Energy Act 2004 in relation to assistance for high-cost distributors (see also CRC 2N in connection with this).</u>
<u>UNC_{t-2}</u>	<u>means an amount in Regulatory Year t-2 representing a relevant adjustment to the calculation of Allowed Demand Revenue arising from the application of CRC 2Q (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland). Uncertain costs may also be recovered under CRC 3F (Arrangements for the recovery of uncertain costs).</u>
<u>IQ_{t-2}</u>	<u>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.</u>
<u>LDR_{t-2}</u>	<u>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).</u>

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

2A.15 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.16 In the above formula for IP_t:

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

Part E: Calculation of the correction factor (K_t)

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

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

2A.18 In the above formula for K_t:

- RD_{t-2} means the Regulated Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where RD_{t-2} is the Regulated Combined Distribution Network Revenue, as defined in CRC 2 (Definitions for the Charge Restriction Conditions) of this licence in the form in which it was in force at 31 March 2015.
- AR_{t-2} means the amount of the Allowed Distribution Network Revenue in Regulatory Year t-2, except in the Regulatory Year beginning 1 April 2016 where AR_{t-2} is the Combined Allowed Distribution Network Revenue, as derived in accordance with Part B of CRC 3 (Restriction of Distribution Charges: Use of System Charges) of this licence in the form in which it was in force at 31 March 2015.
- I_t means the Average Specified Rate in Regulatory Year t.
- PR_{t-2} means the interest rate adjustment as derived in accordance with Part F of this condition.

2A.19 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.20 For the purposes of Part E of this condition, the value of the interest rate adjustment PR_{t-2} is derived as follows:
- (a) if, in respect of Regulatory Year $t-2$, RD_{t-2} exceeds 106 per cent of AR_{t-2} , PR_{t-2} will have the value of 3;
 - (b) if, in respect of Regulatory Year $t-2$, RD_{t-2} is less than 94 per cent of AR_{t-2} , PR_{t-2} will have the value of zero; and
 - (c) in all other cases PR_{t-2} will have the value of 1.5.
- 2A.21 This paragraph applies where the Authority, having due regard to the purpose of this condition and after consulting with the licensee, is satisfied that RD_{t-2} in respect of Regulatory Year $t-2$ has, for reasons outside the reasonable control of the licensee, either:
- (a) exceeded 106 per cent of AR_{t-2} ; or
 - (b) been less than 94 per cent of AR_{t-2} .
- 2A.22 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.23 Paragraph 2A.22 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 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.25 Paragraph 2A.24 applies from 1 April 2018.
- 2A.26 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 reasonable endeavours in setting Use of System Charges to recover the Allowed Distribution Network Revenue in Regulatory Year t .

Part I: Interpretation

2A.27 For the purposes of this condition:

Regulated Distribution Network Revenue	means the revenue derived by the licensee from Use of System Charges made for the provision of Distribution Services to Customers in respect of a Regulatory Year.
Retail Prices Index	means: (a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or (b) if that index in respect of any month relevant for the purposes of the Charge Restriction Conditions has not been published, such price index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or (c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances (provided that any index so determined may not have a retroactive effect on any formula or other provision of the Charge Restriction Conditions).
Retail Prices Index Forecast Growth Rate	means: (a) the growth rate (which is presented as a percentage) as defined as the "New forecasts (marked *)" in the HM Treasury document, "Forecasts for the UK Economy", published in November each year; or (b) if that growth rate in respect of any year has not been published, such growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or (c) if there is a material change in the basis of that growth rate, such other growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances (provided that any index so determined may not have a retroactive effect on any formula or other provision of the Charge Restriction Conditions).
Vanilla Weighted Average Cost of Capital	has the meaning given to that term in the glossary of the ED1 Price Control Financial Handbook.

APPENDIX 1**Values for the PU term (£m, 2012/13 prices) by licensee****(see paragraph 2A.6)**

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

CRC 2A. Restriction of Allowed Distribution Network Revenue (WPD licensees only)

Introduction

2A.1 This condition:

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

Part A: Licensee's obligation

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

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

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

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

2A.4 In the Principal Formula:

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

- PPL_t means the DPCR4 residual distribution losses incentive value revenue adjustment made in Regulatory Year t, as derived in accordance with CRC 2M (Adjustment of licensee’s revenues for the residual distribution losses incentive).
- K_t means the correction factor revenue adjustment made in Regulatory Year t, as derived in accordance with the formula set out in Part E of this condition.

Part C: Calculation of Base Demand Revenue (BR_t)

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

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

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

- PU_t means the amount set against the licensee’s name in Appendix 1 of this condition and represents the Opening Base Revenue Allowance for Regulatory Year t, as determined by the Authority in relation to the distribution of electricity to and from premises.
- MOD_t is zero in Regulatory Year 2015/16 and in each subsequent Regulatory Year is the value of the incremental change for Regulatory Year t to the licensee’s Opening Base Revenue Allowance, as derived in accordance with the Annual Iteration Process set out in Parts A and B of CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- TRU_t is zero in Regulatory Years 2015/16 and 2016/17 and in each subsequent Regulatory Year is the revenue adjustment made in Regulatory Year t in respect of the actual value of the Retail Prices Index in Regulatory Year t-2 minus the assumed value of the Retail Prices Index in Regulatory Year t-2, as derived in accordance with paragraph 2A.9.
- RPIF_t means the price index adjustment factor in Regulatory Year t, as derived in accordance with paragraph 2A.7.

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

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

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:

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

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:

$$\begin{aligned} \text{GRPIF}_t &= (0.75 \times \text{GRPIF}_c) + (0.25 \times \text{GRPIF}_{c+1}) \\ \text{GRPIF}_{t-1} &= (0.75 \times \text{GRPIF}_{c-1}) + (0.25 \times \text{GRPIF}_c) \end{aligned}$$

where:

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

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

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

2A.10 In the above formula for TRU_t:

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:

$$\text{REV}_{t-2} = \frac{\text{BR}_{t-2} + \text{LF}_{t-2} + \text{RB}_{t-2} + \text{TB}_{t-2} + \text{SMC}_{t-2} + \text{SMIT}_{t-2} + \text{RF}_{t-2} \text{PT}_{t-2} - \text{ESA}_{t-2} + \text{IQ}_{t-2} + \text{LDR}_{t-2}}{\text{RPIF}_{t-2}}$$

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

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

~~LF_{t-2} means the amount of the licence fee adjustment in Regulatory Year t-2 as derived in accordance with Part B of CRC 2B.~~

RB_{t-2}	means the amount of the Business Rates adjustment in Regulatory Year t-2 as derived in accordance with Part C of CRC 2B.
TB_{t-2}	means the amount of the Transmission Connection Point Charges adjustment in Regulatory Year t-2 as derived in accordance with Part D of CRC 2B.
SMC_{t-2}	means the amount of the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t-2 as derived in accordance with Part E of CRC 2B.
SMIT_{t-2}	means the amount of the Smart Meter Information Technology Costs adjustment in Regulatory Year t-2 as derived in accordance with Part F of CRC 2B.
RF_{t-2}	means the amount of the Ring Fence Costs adjustment in Regulatory Year t-2 as derived in accordance with Part G of CRC 2B.
<u>PT_{t-2}</u>	<u>means the amount of the Pass Through Costs in Regulatory Year t-2 as derived in accordance with Part A of CRC 2B.</u>
<u>ESA_{t-2}</u>	<u>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.</u>
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).
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:

- (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:

Regulated Distribution Network Revenue	means the revenue derived by the licensee from Use of System Charges made for the provision of Distribution Services to Customers in respect of a Regulatory Year.
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Retail Prices Index means:
(a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or
(b) if that index in respect of any month relevant for the purposes of the Charge Restriction Conditions has not been published, such price index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or
(c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances (provided that any index so determined may not have a retroactive effect on any formula or other provision of the Charge Restriction Conditions).

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

**Vanilla Weighted
Average Cost of
Capital** has the meaning given to that term in the glossary of the ED1 Price Control Financial Handbook.

APPENDIX 1

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

(see paragraph 2A.6)

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

$$PT_t = LF_t + RB_t + TB_t + SMC_t + SMIT_t + RF_t + \underline{SLR_t + EBD_t}$$

- 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.
<u>SLR_t</u>	<u>means the Supplier of Last Resort Costs adjustment in Regulatory Year t in accordance with Part H of this condition.</u>
<u>EBD_t</u>	<u>means the Eligible Bad Debt Costs adjustment in Regulatory Year t in accordance with Part I of this condition.</u>

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

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

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

2B.6 In the above formula for LF_t:

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

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

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

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

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

2B.9 In the above formula for RB_t :

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2B.18 In the above formula for TB_t :

- $PTPA_{t-2}$ means the amount of Pass-through Transmission Connection Point Charges incurred by the licensee in Regulatory Year t-2.
- $PTPE_{t-2}$ means the amount of the Pass-through Transmission Connection Point Charges allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 3 of this condition that applies to the licensee.
- $RPIA_{t-2}$ has the value given to it by Part C of CRC 2A.
- PVF_t has the value given to it by Part C of CRC 2A.
- $RPIF_t$ has the value given to it by Part C of CRC 2A.

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

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

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

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

2B.21 In the above formula for SMC_t :

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

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

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

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

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

2B.24 In the above formula for $SMIT_t$:

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

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

2B.26 In 2020/21, the Authority will commence a review (the “SMIT review”) of the information technology costs that the licensee has incurred or plans to incur, during the Price Control Period, to enable it to use smart metering data for the operation and maintenance of its Distribution System.

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

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

2B.29 A determination under this Part may:

- (a) set the value of $SMITR_t$ for any Regulatory Year, subject to paragraph 2B.30; and

- (b) impose conditions with respect to the amounts and circumstances in which future costs may be passed through under the SMIT_t term.

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

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

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

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

2B.32 In the above formula for RF_t:

- RFA_{t-2} means the amount of Ring Fence Costs incurred by the licensee in Regulatory Year t-2.
- RFE_{t-2} means the amount of the Ring Fence Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 6 of this condition that applies to the licensee.
- RPIA_{t-2} has the value given to it by Part C of CRC 2A.
- PVF_t has the value given to it by Part C of CRC 2A.
- RPIF_t has the value given to it by Part C of CRC 2A.

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

Part H: Calculation of the 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:

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

2B.35 In the above formula for SLR_t:

SLRA_{t-2}

Means:

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

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

(b) plus the correction of any shortfall or excess revenue recovery plus 12 months' interest relating to a Valid Claim recovered by the licensee under paragraph 3 of standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019);

(c) less any Returned eCosts received from a Claimant in Regulatory Year t-2, credited by the administrator of a Former Electricity Supplier whose customers the Claimant has been appointed as Supplier of Last Resort for, and where the Claimant subsequently made 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); and

(d) plus any other reasonably incurred costs by the licensee as a result of conducting the processes set out in standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019) and standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019).

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

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

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

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

2B.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 Regulatory Years 2021/22 and 2022/23, subject to paragraph 2B.38, EBD_t is derived in accordance with the following formula:

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

2B.38 For Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21 EBD_t is derived, respectively, in the following ways:

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

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

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

2B.39 In the above formulae for EBD_t:

HBD Means the aggregate value directed by the Authority which the licensee has been directed to recover in respect of historic bad debts incurred between 1 April 2015 and 31 March 2018, which will be in 2012/13 prices and will include any interest.

EBDA_{t-3} Means the aggregate value directed by the Authority in accordance with paragraph 2B.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_{t-3} Means the aggregate amount of debt recovered by the licensee, in Regulatory Year t-3, where the licensee has been credited by the administrator of a Defaulting Electricity Supplier, and where the licensee subsequently recovered the costs via the EBDA term.

RPIA_{t-3} has the value given to it by Part C of CRC 2A.

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

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

IBDA_t Means the aggregate amount of Valid Bad Debt Claims requiring payment in the Regulatory Year t, in accordance the licensee's obligations under paragraph 4 of standard condition 38C. (Treatment of Valid Bad Debt Claims).

2B.40 Where the licensee has incurred bad debts with respect to Use of System Charges owed to the licensee by one or more Defaulting Electricity Suppliers within a given Regulatory Year, within **three months 60 days** of the end of that Regulatory Year the licensee shall submit to the Authority a statement in a form that has been prescribed by the Authority setting out the amount of the bad debt arising as a result of the Defaulting Electricity Supplier(s)' insolvency during that Regulatory Year, together with any prior year adjustments following receipt of the Final Reconciliation Settlement Run for the final day of supply by the Former Electricity Supplier.

2B.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 shall where relevant 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:

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

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.
Smart Energy Code	means the document of that name referred to in standard condition 21A (The Smart Energy Code), that is maintained for the purposes of that condition and is subject to modification pursuant to Condition 23 (Change control for Smart Energy Code), of the Smart Meter Communication Licence.
Smart Meter Communication Licence	means the licences granted under section 6(1A) of the Act and section 7AB(2) of the Gas Act 1986.
Smart Meter Communication Licensee Costs	means charges payable by the licensee (by virtue of the requirement for it to be a party to the Smart Energy Code) to the holder of the Smart Meter Communication Licence in accordance with section J of the Smart Energy Code, excluding any charges in respect of Elective Communication Services.
Smart Meter Information Technology Costs	means any information technology costs that the licensee reasonably incurs that are necessary to enable the licensee to use data from Smart Meters (within the meaning given to that term in Condition 1 of the Smart Meter Communication Licence) effectively for the efficient and economic operation, maintenance and development of its Distribution System, as further clarified in the RIGs.

APPENDIX 1

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

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
NPgN	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
NPgY	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
LPN	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
SPN	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
EPN	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
SPD	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
SPMW	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
SSES	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5

APPENDIX 2

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

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL	24.5	24.8	25.1	25.4	25.8	26.1	26.4	26.7
NPgN	11.3	11.3	13.3	13.3	13.3	13.3	13.3	13.3
NPgY	23.8	23.8	28.7	30.0	29.3	29.3	29.3	29.3
LPN	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2
SPN	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9
EPN	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
SPD	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3
SPMW	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5
SSES	39.3	39.3	40.5	40.5	40.5	40.5	40.5	40.5

APPENDIX 3

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

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL	15.5	16.8	16.5	16.3	17.0	16.7	19.5	22.9
NPgN	8.7	8.7	8.8	8.8	8.9	8.9	8.9	9.0
NPgY	11.8	11.9	11.9	12.0	12.0	12.1	12.2	12.2
LPN	28.2	32.6	35.5	40.9	47.7	49.8	52.8	53.3
SPN	14.8	16.1	17.5	17.4	17.9	18.2	18.4	18.6
EPN	32.5	35.6	36.8	39.2	42.3	48.1	46.4	47.9
SPD	21.6	22.1	22.4	22.1	21.8	22.1	21.8	21.5
SPMW	17.3	17.5	17.3	16.9	16.5	17.0	16.8	16.6
SSES	13.2	13.3	13.4	13.4	13.4	13.4	13.4	13.7

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	0.8	0.9	0.9	0.9	0.9	0.9	0.0	0.0
NPgN	0.4	0.4	0.4	0.4	0.4	0.4	0.0	0.0
NPgY	0.5	0.5	0.5	0.5	0.5	0.5	0.0	0.0
LPN	0.4	0.4	0.4	0.4	0.4	0.4	0.0	0.0
SPN	0.4	0.4	0.4	0.4	0.4	0.4	0.0	0.0
EPN	0.7	0.7	0.7	0.7	0.7	0.7	0.0	0.0
SPD	0.4	0.4	0.4	0.4	0.4	0.4	0.0	0.0
SPMW	0.3	0.3	0.3	0.3	0.3	0.3	0.0	0.0
SSES	0.6	0.6	0.6	0.6	0.7	0.7	0.0	0.0

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	1.6	1.6	1.5	1.1	0.6	0.5	0.0	0.0
NPgN	0.5	0.5	0.5	0.5	0.5	0.6	0.0	0.0
NPgY	0.7	0.7	0.7	0.7	0.8	0.8	0.0	0.0
LPN	0.5	0.2	0.3	0.5	0.2	0.5	0.0	0.0
SPN	0.5	0.2	0.3	0.5	0.2	0.5	0.0	0.0
EPN	0.5	0.2	0.3	0.5	0.2	0.5	0.0	0.0
SPD	1.5	1.0	0.8	0.5	0.3	0.0	0.0	0.0
SPMW	1.1	0.7	0.6	0.3	0.2	0.0	0.0	0.0
SSES	4.5	0.0	0.0	0.0	1.0	0.0	0.0	0.0

APPENDIX 6

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

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ENWL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPgN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPgY	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LPN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SPN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SPD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SPMW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SSES	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

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

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

CRC 2B. Calculation of Allowed Pass-Through Items

[SSEH only]

Introduction

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

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

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

$$PT_t = LF_t + RB_t + TB_t - HB_t + SMC_t + SMIT_t + RF_t + SEC_t + UNC_t + \underline{SLR_t} + \underline{EBD_t}$$

- 2B.4 In the Principal Formula:

LF_t means the licence fee adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part B of this condition.

RB_t means the Business Rates adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part C of this condition.

TB_t means the Transmission Connection Point Charges adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part D of this condition.

HB _t	means the amount received by the licensee in Regulatory Year t as the result of any direction given by the Secretary of State in accordance with section 184 of the Energy Act 2004 in relation to assistance for high-cost distributors (see also CRC 2N in connection with this).
SMC _t	means the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part E of this condition.
SMIT _t	means the Smart Meter Information Technology Costs adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part F of this condition.
RF _t	means the Ring Fence Costs adjustment in Regulatory Year t, as derived in accordance with Part G of this condition.
SEC _t	means the Shetland Variable Energy Costs, in Regulatory Year t, as derived in accordance with Part H of this condition.
UNC _t	means an amount in Regulatory Year t representing a relevant adjustment to the calculation of Allowed Demand Revenue arising from the application of CRC 2Q (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland). Uncertain costs may also be recovered under CRC 3F (Arrangements for the recovery of uncertain costs).
<u>SLR_t</u>	<u>means the Supplier of Last Resort Costs adjustment in Regulatory Year t in accordance with Part H of this condition.</u>
<u>EBD_t</u>	<u>means the Eligible Bad Debt Costs adjustment in Regulatory Year t in accordance with Part I of this condition.</u>

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

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

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

2B.6 In the above formula for LF_t :

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

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

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

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

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

2B.9 In the above formula for RB_t :

RBA_{t-2}	means the amount, in Regulatory Year t-2, paid by the licensee in respect of Business Rates.
RBE_{t-2}	means the amount of the allowance in respect of Business Rates, in Regulatory Year t-2, and is represented by the amount set out in Appendix 2 of this condition that applies to the licensee.
$RPIA_{t-2}$	has the value given to it by Part C of CRC 2A.
PVF_t	has the value given to it by Part C of CRC 2A.
$RPIF_t$	has the value given to it by Part C of CRC 2A.

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

- 2B.11 In paragraphs 2B.12 and 2B.13, the relevant valuation agency in England and Wales is the Valuation Office Agency and in Scotland is the Scottish Assessors Association.
- 2B.12 Paragraphs 2B.13 to 2B.16 apply if the relevant valuation agency revalues any of the licensee’s assets for the purposes of setting Business Rates.
- 2B.13 If, after reviewing the licensee’s engagement with the relevant valuation agency with respect to a particular revaluation, the Authority considers that the licensee has not used its reasonable endeavours to minimise the amount of the Business Rates to which it is liable, the Authority may, subject to paragraphs 2B.14 and 2B.15, by Notice to the licensee specify that any positive value for RB_t for one or more Regulatory Years derived under the formula set out in paragraph 2B.8 is to be changed to a different value.
- 2B.14 A Notice under paragraph 2B.13 is of no effect unless the Authority has first consulted with the licensee.
- 2B.15 A Notice under paragraph 2B.13:
- (a) may not specify a different value for RB_t for the Regulatory Year following the Regulatory Year in which the revaluation took place or for any earlier Regulatory Year; and
 - (b) may not specify a different value for RB_t that is less than zero.
- 2B.16 At any time after giving a Notice under paragraph 2B.13, the Authority may by a further Notice to the licensee nullify the original Notice and its effects.

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

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

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

- 2B.18 In the above formula for TB_t :

- $PTPA_{t-2}$ means the amount of Pass-through Transmission Connection Point Charges incurred by the licensee in Regulatory Year t-2.
- $PTPE_{t-2}$ means the amount of the Pass-through Transmission Connection Point Charges allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 3 of this condition that applies to the licensee.
- $RPIA_{t-2}$ has the value given to it by Part C of CRC 2A.

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

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

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

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

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

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

2B.21 In the above formula for SMC_t:

SMCA_{t-2} means the amount of Smart Meter Communication Licensee Costs incurred by the licensee in Regulatory Year t-2.

SMCE_{t-2} means the amount of the Smart Meter Communication Licensee Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 4 of this condition that applies to the licensee.

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

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

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

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

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

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

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

2B.24 In the above formula for SMIT_t:

SMIA_{t-2} means the amount of Smart Meter Information Technology Costs incurred by the licensee in Regulatory Year t-2.

SMIE_{t-2} means the amount of the Smart Meter Information Technology Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 5 of this condition that applies to the licensee.

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

- PVF_t has the value given to it by Part C of CRC 2A.
- RPIF_t has the value given to it by Part C of CRC 2A.
- SMITR_t means the adjustment to Smart Meter Information Technology Costs for the licensee in Regulatory Year t as a result of the SMIT review.

- 2B.25 In the Regulatory Years 2015/16, 2016/17, 2023/24 and 2024/25, SMIT_t will have the value of zero.
- 2B.26 In 2020/21, the Authority will commence a review (the “SMIT review”) of the information technology costs that the licensee has incurred or plans to incur, during the Price Control Period, to enable it to use smart metering data for the operation and maintenance of its Distribution System.
- 2B.27 The SMIT review will determine whether the costs incurred or planned are falling or capable of falling within the definition of Smart Meter Information Technology Costs.
- 2B.28 Before making the determination referred to in paragraph 2B.27, the Authority will consult with the licensee and any other party that the Authority considers appropriate.
- 2B.29 A determination under this Part may:
- (a) set the value of SMITR_t for any Regulatory Year, subject to paragraph 2B.30; and
 - (b) impose conditions with respect to the amounts and circumstances in which future costs may be passed through under the SMIT_t term.
- 2B.30 In the Regulatory Years before 2021/22, SMITR_t will have the value of zero.

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

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

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

- 2B.32 In the above formula for RF_t:

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

RFE _{t-2}	means the amount of the Ring Fence Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 6 of this condition that applies to the licensee.
RPIA _{t-2}	has the value given to it by Part C of CRC 2A.
PVF _t	has the value given to it by Part C of CRC 2A.
RPIF _t	has the value given to it by Part C of CRC 2A.

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

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

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

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

2B.35 In the above formula for SEC_t:

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

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

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

2B.37 For the purposes of the Principal Formula, and subject to paragraph 2B.39, 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.38 In the above formula for SLR_t:

Means:

- (a) the amount of payments, in Regulatory Year t-2, made by the licensee to a Claimant in response to a Valid Claim, in accordance with its obligations under paragraph 4 of standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019).
- (b) plus the correction of any shortfall or excess revenue recovery plus 12 months' interest relating to a Valid Claim recovered by the licensee under paragraph 3 of standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019);
- (c) less any Returned eCosts received from a Claimant, in Regulatory Year t-2, credited by the administrator of a Former Electricity Supplier whose customers the Claimant has been appointed as Supplier of Last Resort for, and where the Claimant subsequently made 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), and standard condition 38 (Treatment of payment claims for last resort supply); and
- (d) plus any other reasonably incurred costs by the licensee as a result of conducting the processes set out in standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019) and standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019).

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

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

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

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

2B.39 In the Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20, SLR_t will have the value of zero.

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

2B.40 For 2022/23 the purposes of the Principal Formula, subject to paragraph 2B.41, EBD_t is derived in accordance with the following formula:

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

2B.41 For Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22, EBD_t is derived respectively in the following ways:

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

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

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

2B.42 In the above formulae for EBD_t:

HBD Means the aggregate value directed by the Authority which the licensee has been directed to recover in respect of historic bad debts incurred between 1

<u>EBDA_{t-3}</u>	<u>April 2015 and 31 March 2018, which will be in 2012/13 prices and will include any interest.</u> <u>Means the aggregate value directed by the Authority in accordance with paragraph 2B.43 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.</u>
<u>RBD_{t-3}</u>	<u>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.</u>
<u>RPIA_{t-3}</u>	<u>has the value given to it by Part C of CRC 2A.</u>
<u>PVF_t</u>	<u>has the value given to it by Part C of CRC 2A.</u>
<u>RPIF_t</u>	<u>has the value given to it by Part C of CRC 2A.</u>
<u>IBDA_t</u>	<u>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).</u>

2B.43 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 60 days of the end of that Regulatory Year the licensee shall submit to the Authority a statement in a form that has been prescribed by the Authority setting out the amount of the bad debt arising as a result of the Defaulting Electricity Supplier(s)' insolvency during that Regulatory Year, together with any prior year adjustments following receipt of the Final Reconciliation Settlement Run for the final day of supply by the Former Electricity Supplier.

- 2B.44 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.40 and 2B.41 provided that the amount specified in the statement submitted in 2B.43 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 8 of this condition.
- 2B.45 If, within three months of receiving the statement from the licensee referred to in paragraph 2B.43, 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.46 The licensee may submit a statement under paragraph 2B.43 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.47 will apply with respect to each such statement.
- 2B.47 A direction issued by the Authority under paragraph 2B.44 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 K: Interpretation

2B.48 For the purposes of this condition:

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

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.
Smart Energy Code	means the document of that name referred to in standard condition 21A (The Smart Energy Code), that is maintained for the purposes of that condition and is subject to modification pursuant to Condition 23 (Change control for Smart Energy Code), of the Smart Meter Communication Licence.
Smart Meter Communication Licence	means the licences granted under section 6(1A) of the Act and section 7AB(2) of the Gas Act 1986.
Smart Meter Communication Licensee Costs	means charges payable by the licensee (by virtue of the requirement for it to be a party to the Smart Energy Code) to the holder of the Smart Meter Communication Licence in accordance with section J of the Smart Energy Code, excluding any charges in respect of Elective Communication Services.
Smart Meter Information Technology Costs	means any information technology costs that the licensee reasonably incurs that are necessary to enable the licensee to use data from Smart Meters (within the meaning given to that term in Condition 1 of the Smart Meter Communication Licence) effectively for the efficient and economic operation, maintenance and development of its Distribution System, as further clarified in the RIGs.
Shetland Variable Energy Costs	means the pass through items applicable to SSEH as defined in CRC2P (Shetland Variable Energy Costs Pass-Through Items).

APPENDIX 1

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

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

APPENDIX 2

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

(see Part C of this condition)

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

APPENDIX 3

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

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

APPENDIX 4

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

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

APPENDIX 5

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

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

APPENDIX 6

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

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

APPENDIX 7

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

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

APPENDIX 8

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

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

CRC 2B. Calculation of Allowed Pass-Through Items

[WPD licensees only]

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):

$$PT_t = LF_t + RB_t + TB_t + SMC_t + SMIT_t + RF_t + \underline{SLR_t + EBD_t}$$

- 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.
<u>SLR_t</u>	<u>means the Supplier of Last Resort Costs adjustment in Regulatory Year t in accordance with Part H of this condition.</u>
<u>EBD_t</u>	<u>means the Eligible Bad Debt Costs adjustment in Regulatory Year t in accordance with Part I of this condition.</u>

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

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

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

2B.6 In the above formula for LF_t:

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

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

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

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

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

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

2B.9 In the above formula for RB_t:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2B.18 In the above formula for TB_t :

- $PTPA_{t-2}$ means the amount of Pass-through Transmission Connection Point Charges incurred by the licensee in Regulatory Year t-2.
- $PTPE_{t-2}$ means the amount of the Pass-through Transmission Connection Point Charges allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 3 of this condition that applies to the licensee.
- $RPIA_{t-2}$ has the value given to it by Part C of CRC 2A.
- PVF_t has the value given to it by Part C of CRC 2A.
- $RPIF_t$ has the value given to it by Part C of CRC 2A.

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

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

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

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

2B.21 In the above formula for SMC_t :

- $SMCA_{t-2}$ means the amount of Smart Meter Communication Licensee Costs incurred by the licensee in Regulatory Year t-2.
- $SMCE_{t-2}$ means the amount of the Smart Meter Communication Licensee Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 4 of this condition that applies to the licensee.

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

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

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

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

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

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

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

2B.24 In the above formula for SMIT_t:

SMIA_{t-2} means the amount of Smart Meter Information Technology Costs incurred by the licensee in Regulatory Year t-2.

SMIE_{t-2} means the amount of the Smart Meter Information Technology Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 5 of this condition that applies to the licensee.

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

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

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

SMITR_t means the adjustment to Smart Meter Information Technology Costs for the licensee in Regulatory Year t as a result of the SMIT review.

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

2B.26 In 2020/21, the Authority will commence a review (the “SMIT review”) of the information technology costs that the licensee has incurred or plans to incur, during the Price Control Period, to enable it to use smart metering data for the operation and maintenance of its Distribution System.

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

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

2B.29 A determination under this Part may:

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

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

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

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

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

2B.32 In the above formula for RF_t :

- RFA_{t-2} means the amount of Ring Fence Costs incurred by the licensee in Regulatory Year t-2.
- RFE_{t-2} means the amount of the Ring Fence Costs allowance in Regulatory Year t-2, and is represented by the amount set out in Appendix 6 of this condition that applies to the licensee.
- $RPIA_{t-2}$ has the value given to it by Part C of CRC 2A.
- PVF_t has the value given to it by Part C of CRC 2A.
- $RPIF_t$ has the value given to it by Part C of CRC 2A.

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

Part H: Calculation of the 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 :

Means:

- (a) the amount of payments, in Regulatory Year t-2, made by the licensee to a Claimant in response to a Valid Claim, in accordance with its obligations under paragraph 4 of standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019).
- (b) plus the correction of any shortfall or excess revenue recovery plus 12 months' interest relating to a Valid Claim recovered by the licensee under paragraph 3 of standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019);
- (c) less any Returned eCosts received from a Claimant, in Regulatory Year t-2, credited by the administrator of a Former Electricity Supplier whose customers the Claimant has been appointed as Supplier of Last Resort for, and where the Claimant subsequently made 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), and standard condition 38 (Treatment of payment claims for last resort supply); and
- (d) plus any other reasonably incurred costs by the licensee as a result of conducting the processes set out in standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019) and standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019).

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

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

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

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

2B.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 the purposes of the Principal Formula 2022/23, subject to paragraph 2B.38, EBD_t is derived in accordance with the following formula:

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

2B.38 For Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22, EBD_t is derived, respectively, in the following ways:

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

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

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

2B.39 In the above formulae for EBD_t:

HBD Means the aggregate value directed by the Authority which the licensee has been directed to recover in respect of historic bad debts incurred between 1

April 2015 and 31 March 2018, which will be in 2012/13 prices and will include any interest.

- EBDA_{t-3} Means the aggregate value directed by the Authority in accordance with paragraph 2B.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_{t-3} Means the aggregate amount of debt recovered by the licensee, in Regulatory Year t-3, where the licensee has been credited by the administrator of a Defaulting Electricity Supplier, and where the licensee subsequently recovered the costs via the EBDA term.
- RPIA_{t-3} has the value given to it by Part C of CRC 2A.
- PVF_t has the value given to it by Part C of CRC 2A.
- RPIF_t has the value given to it by Part C of CRC 2A.
- IBDA_t Means the aggregate amount of Valid Bad Debt Claims requiring payment in the Regulatory Year t, in accordance the licensee's obligations under paragraph 4 of standard condition 38C. (Treatment of Valid Bad Debt Claims).

2B.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 60 days** of the end of that Regulatory Year the licensee shall submit to the Authority a statement in a form that has been prescribed by the Authority setting out the amount of the bad debt arising as a result of the Defaulting Electricity Supplier(s)' insolvency during that Regulatory Year, together with any prior year adjustments following receipt of the Final Reconciliation Settlement Run for the final day of supply by the Former Electricity Supplier.

- 2B.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:

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

<u>Returned Costs</u>	means costs received by the licensee from a Claimant relating to the restatement of a Valid Claim under standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019), standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019), or standard condition 38 (Treatment of payment claims for last-resort supply) including, but not limited to, the difference between actual and estimated costs, where the Claimant was credited by the administrator of a Former Electricity Supplier in relation to whose customers the Claimant has been appointed as Supplier of Last Resort , and where the Claimant subsequently made a Valid Claim to recover a proportion of those recovered costs.
Ring Fence Costs	means the amount of the incremental costs necessarily incurred by the licensee in Regulatory Year t-2 as a direct result of complying with the additional regulatory requirements referred to in the Authority's letter dated 1 February 2013 entitled "Modifications to the ring fence conditions in network operator licences" and published on the Authority's Website, provided that those costs: (a) have been ascertained in accordance with the RIGs referred to in standard condition 46 (Regulatory Instructions and Guidance); and (b) have not been otherwise remunerated under any other provision of this licence.
Smart Energy Code	means the document of that name referred to in standard condition 21A (The Smart Energy Code), that is maintained for the purposes of that condition and is subject to modification pursuant to Condition 23 (Change control for Smart Energy Code), of the Smart Meter Communication Licence.
Smart Meter Communication Licence	means the licences granted under section 6(1A) of the Act and section 7AB(2) of the Gas Act 1986.
Smart Meter Communication Licensee Costs	means charges payable by the licensee (by virtue of the requirement for it to be a party to the Smart Energy Code) to the holder of the Smart Meter Communication Licence in accordance with section J of the Smart Energy Code, excluding any charges in respect of Elective Communication Services.
Smart Meter Information Technology Costs	means any information technology costs that the licensee reasonably incurs that are necessary to enable the licensee to use data from Smart Meters (within the meaning given to that term in Condition 1 of the Smart Meter Communication Licence) effectively for the efficient and economic operation, maintenance and development of its Distribution System, as further clarified in the RIGs.

APPENDIX 1

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

Licensee	Regulatory Year							
	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)

Licensee	Regulatory Year							
	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	NA	NA
EMID	0.6	0.5	0.1	0.3	0.0	0.6	NA	NA
SWALES	0.3	0.3	0.0	0.2	0.0	0.3	NA	NA
SWEST	0.5	0.5	0.1	0.3	0.0	0.5	NA	NA
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)

Licensee	Regulatory Year							
	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

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