

# RIIO-ED1 regulatory instructions and guidance: Annex C – Revenue

## Guidance

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### Overview:

RIIO-ED1 is the price control for electricity distribution network operators (DNOs) from 1 April 2015 to 31 March 2023.

This document is part of the regulatory instructions and guidance (RIGs) for RIIO-ED1.

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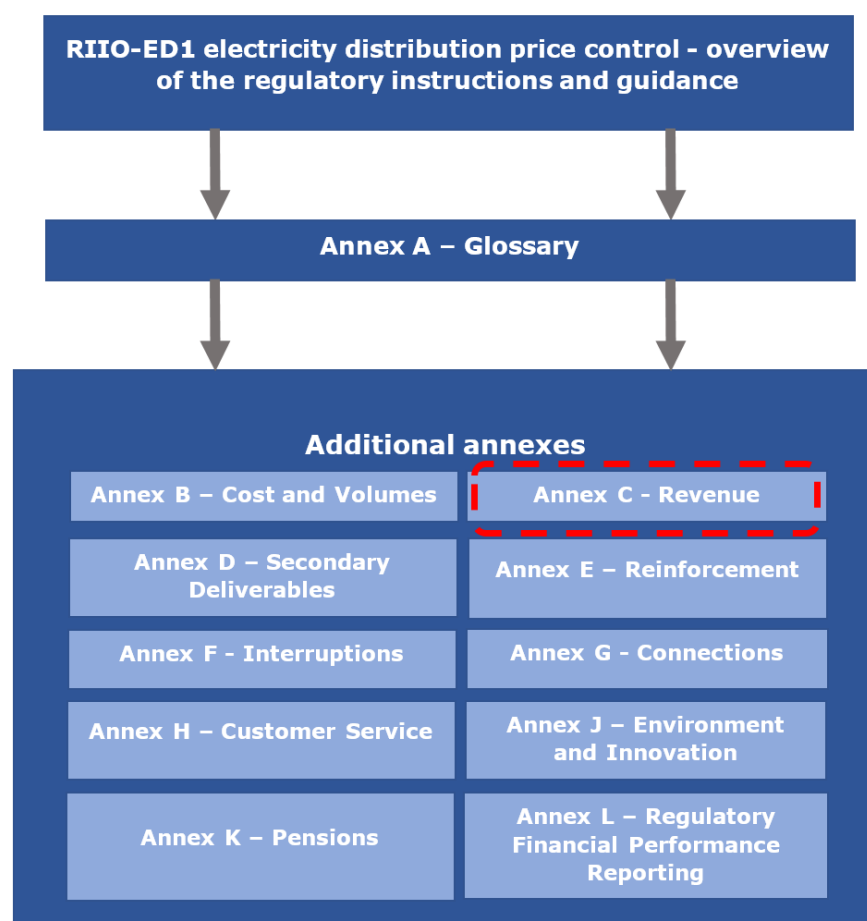
# 1. Introduction

## Scope of this document


1.1. This document is part of the regulatory instructions and guidance (RIGs) for RIIO-ED1. The term RIGs refers to a collection of documents – our instructions and guidance, and the reporting packs and commentaries the electricity distribution network operators (DNOs) have to fill out.

1.2. Figure 1.1 shows all the instructions and guidance documents for the RIIO-ED1 RIGs. This document, circled in Figure 1.1, is one of a series of annexes containing instructions and guidance. It provides DNOs with information on how to fill in the Revenue Reporting Packs and Financial Issues Commentary that they are required to submit to us.

**Figure 1.1: Map of the RIIO-ED1 instructions and guidance**



1.3. This document should be read in conjunction with:



## RIIO-ED1 regulatory instructions and guidance: Annex C – Revenue

- the RIIO-ED1 electricity distribution price control – overview of the regulatory instructions and guidance document
- Annex A – Glossary for the regulatory instructions and guidance
- the associated Microsoft® Excel 2010 reporting packs named “Revenue Reporting Pack”

## 2. Instructions for completing the Revenue Reporting Pack

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### Introduction

2.1. The purpose of this chapter is to provide instructions and guidance for the completion of the Revenue Reporting Pack.

2.2. The reporting pack allows Ofgem to effectively monitor DNOs' compliance with the licence conditions<sup>1</sup> related to the calculation of Allowed Distribution Network Revenue (AR). It also ensures the DNOs submit data in a consistent format.

2.3. AR is calculated using the following inputs:

- Base Demand Revenue (BR)
- Incentive revenue (IP)
- Allowed Pass-Through Items (PT)
- Network Innovation Allowance (NIA)
- Low Carbon Networks Fund (LCN)
- Connections activities adjustments (AUM and CGSRA)
- DPCR4 residual distribution losses incentive value (PPL) (WPD and SSE owned DNOs only)
- DPCR4 residual distribution losses incentive value and Growth Term (DLGT) (ENWL, NPg UKPN and SP owned DNOs only)
- Correction factor for over or under recoveries of revenue (K).

2.4. The Revenue Reporting Pack is populated with relevant values from each DNO's licence. DNOs are required to input values in worksheets *R5a – Links* and *R5 – Input Page*. Detailed instructions for these input values are given below.

2.5. DNOs must raise any query or concern regarding revenue reporting requirements, whether specific or general, with Ofgem as early as possible.

### General instructions

2.6. DNOs must ensure that the Revenue Reporting Pack is accompanied by a report addressed to the Authority from an Appropriate Auditor. This report must state that they have, in a manner consistent with the relevant auditing standards, completed the Agreed Upon Procedures issued by the Authority in respect of the regulatory year under report and which sets out their findings. The DNO must at its own expense enter into a contract of appointment with the Appropriate Auditor which includes a requirement for the Agreed Upon Procedures to be conducted in

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<sup>1</sup> These are the Charge Restriction Conditions of the electricity distribution licence.

accordance with any relevant auditing standards in force at the time at which those procedures are carried out. The DNO must co-operate fully (and must ensure, so far as it can, that any Affiliate or Related Undertaking of the DNO co-operates fully) with the Appropriate Auditor so as to enable them to complete the Agreed Upon Procedures and make the report to the Authority.

2.7. All amounts relating to revenue and expenditure must be entered on an accruals (as opposed to cash) basis unless otherwise stated.

## Cover Sheet

2.8. The DNO should select the relevant name from the drop down menu in cell D12 and the relevant reporting year in cell D14.

## R2 – Changes Log

2.9. Any amendments (formulae or presentation) that are made by the DNO or by Ofgem to the reporting pack must be stated here, including the date those changes were made.

## R3 – Data Change Log

2.10. The DNO must record any changes that it has made to data that has previously been submitted and the date this change was made. A reason for the change should be included.

## R4 – Licence Condition Values

2.11. This worksheet contains all values from the licence that are needed to calculate Allowed Distribution Network Revenue. These values are automatically populated from the data in the worksheet named *Licence Values*.

2.12. In order for the information to be populated for the relevant DNO, the DNO must select its name from the dropdown box on the *Cover sheet*.

## R5a – Links

2.13. This worksheet contains values that are needed to calculate Allowed Distribution Network Revenue that are submitted annually in other RIGs reporting packs. These values are reported in the following reporting packs and worksheets:

- Costs and Volumes Reporting Pack – I4 – Revenue Pack Inputs
- QoS Interruptions Stage Data Reporting Pack – Revenue Link Table
- Guaranteed Standards of Performance Reporting Pack – Revenue Link Table
- Customer Service Reporting Pack – Revenue Link Table

- Connections Reporting Pack – CC8 – TTC & TTQ.

2.14. DNOs must enter the relevant values in the cells. DNOs must ensure that the values submitted in this worksheet are equal to corresponding values submitted in the relevant reporting packs listed above. This ensures consistency of information between the Revenue Reporting Pack and other reporting packs.

2.15. DNOs may revise previously submitted values. In this scenario the DNO must also provide the information required in *R3 – Data Change Log*.

2.16. The values in this worksheet automatically link to the *R5 – Input Page*.

## **R5 – Input Page**

2.17. This worksheet consolidates all inputs required in this reporting pack to calculate Allowed Distribution Network Revenue. In summary, it brings together:

- values from the *R5a – Links* worksheet, which is actual data submitted in other RIGs reporting packs
- fixed values defined in the licence
- manual inputs the DNO is required to make (in yellow cells).

2.18. These instructions focus on providing guidance to the DNO on how to complete the manual input cells. For guidance on completing the data in the *R5a – Links* worksheet the guidance for the relevant RIGs reporting pack should be referred to.

2.19. Figures manually entered must be entered correct to 3 decimal places and, unless otherwise stated in the licence, in nominal prices.

### **General information needed for calculations**

2.20. The information in this section of the worksheet is used in calculations from a number of licence conditions.

#### *Retail Prices Index*

2.21. DNOs must enter the Retail Prices Index (RPI) for the regulatory year under report. Ofgem will inform DNOs by the end of May each year what the RPI was for the year under report. The basis of the calculation will also be provided. The value will be calculated based on the arithmetic average of the general index of retail prices for all items published by the Office for National Statistics (ONS) each month (ONS code name is CHAW). The values must be entered to 3 decimal places.

2.22. RPIA is calculated with reference to the base year as the ratio of RPI for the regulatory year under report over RPI for 2012-13.

*Retail Prices Index Forecast Growth Rate, by calendar year*

2.23. DNOs must enter values for the Retail Prices Index Forecast Growth Rate by calendar year (GRPIFc) which is the forecast for RPI used in calculations. Ofgem will inform DNOs by the end of May each year what the Retail Prices Index Forecast Growth Rate for the relevant calendar years are. They will be equal to the values included in the last November's edition of the HM Treasury's publication "Forecasts for the UK Economy".<sup>2</sup> For example, for the Revenue Reporting Pack which is submitted in July 2016 the DNO must record GRPIFc in the row named 'from November 2015'.

*Price index adjustment factor*

2.24. No input is required from the DNO. The price index adjustment factor (RPIF) is calculated based on the information inputted for GRPIFc and RPIA.

*Tax rate true-up*

2.25. DNOs must enter the Corporation Tax rate (CT) set by HMRC that is applicable to the regulatory year under report. Ofgem will inform DNOs by the end of May each year what the Corporation Tax rate was for the regulatory year under report.

*Present value factor*

2.26. DNOs must enter the Vanilla Weighted Average Cost of Capital (WACC) applicable to the regulatory year under report. Ofgem will inform the DNOs by the end of May each year what the WACC was for the regulatory year under report. The value of WACC will have been calculated through the Annual Iteration Process of the Price Control Financial Model (PCFM).

2.27. The present value adjustment is equal to one plus WACC.

**Specific inputs by licence condition**

2.28. The information in this section of the worksheet is used in the worksheets R6 to R13.

*CRC 2A. Calculation of Allowed Distribution Network Revenue*

2.29. The modification to revenue from the Annual Iteration Process (MOD) is the adjustment to the Opening Base Revenue Allowance from the Annual Iteration

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<sup>2</sup> See: [Forecasts for the UK Economy](#). Where there is a delay in the publication of the forecasts, Ofgem will determine whether the next available version should be used and will communicate this to licensees, as appropriate.



Process. It is an output of the PCFM. Ofgem will direct the value of MOD applicable to the regulatory year under report in the preceding regulatory year. DNOs must input the value of MOD directed. MOD is zero for 2015-16.

2.30. Regulated Distribution Network Revenue (RD) is the actual revenue recovered by the DNO from use of system charges in the regulatory year.<sup>3</sup>

2.31. Combined Allowed Distribution Network Revenue for 2014-15 is the allowed revenue set for the final regulatory year of the DPCR5 price control period (2014-15).

2.32. The value of the interest rate adjustment (PR) must be entered where Ofgem has determined the interest rate adjustment which will be applied in the calculation of the correction factor (K) for over and under recovery of revenue. Ofgem may determine the value of PR through the provisions of Part F of CRC 2A (Restriction of Allowed Distribution Network Revenue). Under normal circumstances the correction factor will be automatically calculated in the *R13 Correction Factor* worksheet.

2.33. DNOs must enter the Average Specified Rate for the regulatory year under report. Ofgem will inform DNOs by the end of May each year what the Average Specified Rate was for the regulatory year under report.

#### *CRC 2B. Calculation of Allowed Pass-Through Items*

2.34. Specified costs that are predominantly outside of a DNOs' control may be passed through to consumers. These costs are defined in CRC 2B. The majority of inputs needed for the calculation of the output of CRC 2B are reported in the Costs and Volumes Reporting Pack. These are:

- Licence fee payments (LFA)
- Business Rates payments (RBA)
- Pass-through Transmission Connection Point Charges incurred (PTPA)
- Smart Meter Communication Licensee Costs incurred (SMCA)
- Smart Meter Information Technology Costs incurred (SMIA)
- Ring Fence Costs incurred (RFA)
- Shetland Variable Energy Costs incurred (SECA) (for SSEH only)
- Supplier of Last Resort Net Costs (SLRA)
- Eligible Use of System Bad Debt Costs Incurred (EBDA).
- Shetland Extension Variable Energy Costs incurred (SEVECA) (for SSEH only)
- Shetland New Energy Solution Residual Costs incurred (SNESRCA) (for SSEH only).

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<sup>3</sup> This is excluding any Use of System charges recovered as a result of an increase in tariffs relating to Supplier of Last Resort obligations.

2.35. The value of the Smart Meter Information Technology Costs adjustment following the SMIT review (SMITR) must be entered for 2021-22 and 2022-23. The value will be determined by Ofgem following a review.

2.36. SSEH must also enter the value of Shetland integrated plan costs (UNC) and the value of the assistance for high-cost distributors adjustment. Shetland integrated plan costs are recoverable through the mechanism outlined in CRC 2Q (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland). Ofgem will determine the value of UNC for each regulatory year. The value of the assistance for high-cost distributors adjustment will be directed by the Secretary of State in accordance with section 184 of the Energy Act 2004.

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

2.37. The Broad Measure of Customer Service Adjustment adjusts DNOs' revenue to reflect performance against its customer service obligations. Some of the inputs needed for the calculation of the output of CRC 2C are reported in the Customer Service Reporting Pack. These are:

- Supply interruptions actual score (SIAS)
- Proportion of Unsuccessful Calls (PUC)
- Connections actual score (CAS)
- General enquiries actual score (GAS)
- Percentage of Complaints Unresolved after day plus one (PCUDPO)
- Percentage of Complaints Unresolved after day plus 31 (PCUDPT)
- Percentage of Energy Ombudsman findings (POF)
- Percentage of Repeat Complaints (PRC).

2.38. The target values recorded here are set out in the licence. These are:

- Supply interruptions target score (SIIM)
- Connections target score (CIM)
- General enquiries target score (GIM)
- Industry target term (TCM).

2.39. DNOs are required to enter values for:

- *Broad measure of customer service revenue from DPCR5 (BMT-2)* – the revenue adjustment that reflects the DNO's performance in regulatory years 2013-14 and 2014-15, as calculated under CRC 8 of the licence which was in force at 31 March 2015.
- *Stakeholder Engagement reward (SE)* – the positive revenue adjustment that may be determined by Ofgem in accordance with the Stakeholder Engagement Incentive Guidance. The value of the adjustment should be entered in the regulatory year in which the performance being assessed took place. For example, if Ofgem determines by 30 November 2016 that there should be a positive adjustment, this adjustment should be recorded for the regulatory year 2015-16.

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

2.40. DNOs are incentivised on the number and length of their network supply interruptions. CRC 2D outlines the calculation of the value of the incentive. Some of the inputs needed for the calculation of the output of CRC 2D are reported in the QoS Interruptions Stage Data Reporting Pack and the Guaranteed Standards of Performance Reporting Pack. These are:

- The Unplanned (CIA), pre-arranged (CIB), transmission (CIC), DG (CID) and residual (CIE) interruptions terms
- The Unplanned (CMLA), pre-arranged (CMLB), transmission (CMLC), DG (CMLD) and residual (CMLE) minutes lost terms
- The severe weather payments made (SWPM)
- The severe weather payments due (SWPD)
- The normal weather payments made (NCPM)
- The normal weather payments due (NCPD).

2.41. The Failure to Pay Penalty Rate recorded here is set out in the licence.

2.42. DNOs are required to enter values for:

- *Quality of service performance revenue adjustment in DPCR5* – the revenue adjustment that reflects the DNO's performance in regulatory years 2013-14 and 2014-15, as calculated under CRC 8 of the licence which was in force at 31 March 2015.
- *Pre-arranged interruptions in DPCR5 (regulatory years 2011-12 to 2014-15)* – the number of customers interrupted per year arising from pre-arranged incidents derived in accordance with CRC 8 of the licence which was in force at 31 March 2015. Input values are required for  $CIB_{t-2}$  to  $CIB_{t-4}$ . This is needed to calculate the target for pre-arranged customers interrupted (TAP).
- *Pre-arranged minutes lost in DPCR5 (regulatory years 2011-12 to 2014-15)* – the duration of interruptions from pre-arranged incidents derived in accordance with CRC 8 of the licence which was in force at 31 March 2015. Input values are required for  $CMLB_{t-2}$  to  $CMLB_{t-4}$ . This is needed to calculate the target for the duration of pre-arranged customers interrupted (TBP).
- *One-off exceptional event payments (OOEE)* – payments made under Regulations 5, 6 or 8 by the DNO to customers in respect of one or more exceptional events that meet the exceptionality requirements set out in Appendix 3 of CRC 2D.

*CRC 2E. Incentive on Connections Engagement*

2.43. DNOs are incentivised to engage and meet the needs of major connections customers. A DNO will be penalised if it fails to meet minimum requirements outlined in the Incentive on Connections Engagement Guidance.

2.44. DNOs are required to enter the value of the incentive on connection engagement (ICEO) directed by Ofgem for each regulatory year. The value will be

zero or negative each year. The value of the adjustment should be entered in the regulatory year in which the performance being assessed took place.

#### *CRC 2F. Time to Connect Incentive*

2.45. The Time to Connect Incentive incentivises DNOs to reduce connection times for minor connections. Some of the inputs needed for the calculation of the output of CRC 2F are reported in the Connections Reporting Pack. These are:

- Time to Quote performance (TQAP and TQBP)
- Time to Connect performance (TCAP and TCBP).

2.46. The target values recorded here are set out in the licence. These are:

- *Time to Connect target terms (TCAT and TCBT)* – for each regulatory year, the target time taken in working days from LVSSA and LVSSB connection offer acceptance to completion.
- *Time to Quote target (TQAT and TQBT)* – for each regulatory year, the target time taken in working days to produce a LVSSA and LVSSB quotation.

2.47. The targets were originally set for the first four years of the RIIO-ED1 price control period, only. As of 31 July 2019, the targets have been set by Ofgem for the final four years of the RIIO-ED1 price control period.

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

2.48. This represents DNOs' awards against the criteria set out in the Losses Discretionary Reward Guidance Document (LDRGD). Ofgem will determine the value of the losses discretionary reward (LDRO):

- by 30 November 2016 in respect of the first tranche
- by 30 November 2018 in respect of the second tranche
- by 30 November 2020 in respect of the third tranche.

2.49. DNOs must enter the value of the reward for the regulatory years in which Ofgem makes its determination.

#### *CRC 2H. The Network Innovation Allowance*

2.50. The Network Innovation Allowance (NIA) provides DNOs with funding for small-scale innovation projects. Some of the inputs needed for the calculation of the output of CRC 2H are reported in the Costs and Volumes Reporting Pack. These are:

- Eligible NIA Expenditure (ENIA)
- NIC Eligible Bid Preparation Costs (BPC).

2.51. The pass-through factor (PTRA) is set at 0.9 in the licence.

2.52. DNOs must enter the value of Unrecoverable Expenditure (NIAR). This is the amount of expenditure determined by Ofgem to be unrecoverable by a DNO in accordance with provisions set out in CRC 2H and the NIA Governance Document.

*CRC 2J. Low Carbon Networks Fund*

2.53. The Low Carbon Networks Fund was an annual competition for funding for larger-scale innovation projects in DPCR5. Although the competition has now ended some funding is still recoverable through the mechanism outlined in CRC 2J.

2.54. DNOs must enter the value of the:

- Second Tier and Discretionary Funding Mechanism amount (LCN2)
- First Tier Funding Mechanism amount (LCN1).

2.55. These are determined by Ofgem in accordance with CRC 2J Part B and the LCN Fund Governance Document.

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

2.56. AUM is the total amount of any sums remaining unpaid pursuant to the requirements of a Clawback Direction issued by Ofgem, one year after a DNO has received that direction. A Clawback Direction requires a DNO to make repayment, for some or all, of the difference between the unregulated margin and the level of margin specified for the relevant market segment of the local connections market where the Legal Requirements Test has ceased to be satisfied in accordance with the definition given in Part D of CRC 2K.

2.57. Where a Clawback Direction has been issued DNOs must enter the value of AUM, which is either zero or positive.

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

2.58. There is a cap on DNOs' exposure to payments specified in Standard Condition 15A (Connection Policy and Connection Performance). These are payments that have been made by DNOs to customers in respect of failures to meet the requirements of the Connection Regulations and Distributed Generation Connection Standards.

2.59. Connections guaranteed standards payments made (CGSPM) is the total amount of payments in the regulatory year and must be entered by DNOs.

## **R6 – Base Demand Revenue**

2.60. No input is required from DNOs. This worksheet calculates Base Demand Revenue (BR) in accordance with the formula in CRC 2A Part C. It requires the following inputs:

- Opening Base Revenue Allowance (PU)
- the modification to revenue from the Annual Iteration Process (MOD)
- the revenue adjustment for the true-up of the RPI forecast (TRU)
- the price index adjustment factor (RPIF).

2.61. PU, MOD and RPIF are auto populated from other worksheets in the reporting pack. TRU is calculated in this worksheet.

## **R7 – Output Incentives**

2.62. No input is required from DNOs. This worksheet calculates the value of the incentive revenue adjustment (IP). It is the sum of the:

- broad measure of customer service revenue adjustment (BM)
- interruptions-related quality of service incentive revenue adjustment (IQ)
- incentive on connections engagement revenue adjustment (ICE)
- Time to Connect Incentive revenue adjustment (TTC)
- losses discretionary reward scheme revenue adjustment (LDR).

2.63. The terms above are calculated in this worksheet through a number of calculations. The values required in these calculations are auto populated from other worksheets in the reporting pack.

## **R8 – Pass-Through Items**

2.64. No input is required from DNOs. This worksheet calculates the Allowed Pass-Through Items revenue adjustment (PT). It requires the following:

- Licence fee adjustment (LF)
- Business Rates adjustment (RB)
- Transmission Connection Point Charges adjustment (TB)
- Assistance for high-cost distributors adjustment (HB)
- Smart Meter Communication Licensee Costs adjustment (SMC)
- Smart Meter Information Technology Costs adjustment (SMIT)
- Ring Fence Costs adjustment (RF)
- Shetland Variable Energy Costs (SEC)
- Shetland integrated plan costs (UNC)
- Supplier of Last Resort adjustment (SLR)
- Eligible Use of Service Bad Debt Costs adjustment (EBD)
- Shetland Extension Variable Energy Costs adjustment (SEVEC)
- Shetland New Energy Solution Residual Costs adjustment (SNESRC).

2.65. The values for the assistance for high-cost distributors adjustment and Shetland integrated plan costs are inputs to *R5 – Input Page*. The values for the other terms listed above are calculated in this worksheet using information auto populated from other worksheets in the reporting pack. Note, assistance for high-cost distributors, Shetland Variable Energy Costs, Shetland integrated plan costs, Shetland Extension Variable Energy Costs and Shetland New Energy Solution Residual Costs are only applicable to SSEH.

## **R9 – Network Innovation Allowance**

2.66. No input is required from DNOs. This worksheet calculates the allowed Network Innovation Allowance (NIA) adjustment. It requires the following inputs:

- Unrecoverable Expenditure (NIAR)
- Pass-through factor (PTRA)
- Eligible NIA Expenditure (ENIA)
- Eligible NIC Bid Preparation Costs (BPC)
- the NIA Percentage (NIAV)
- Base Demand Revenue (BR).

2.67. The values for the terms listed above are auto populated from other worksheets in the reporting pack.

## **R10 – Low Carbon Networks Fund**

2.68. No input is required from DNOs. This worksheet calculates the Low Carbon Networks Fund revenue adjustment (LCN). It requires the following inputs:

- Second Tier and Discretionary Funding Mechanism amount (LCN2)
- First Tier Funding Mechanism amount (LCN1).

2.69. The values for the terms listed above are inputs to *R5 – Input Page*.

## **R11 – Connections Performance Standards Payments**

2.70. No input is required from DNOs. This worksheet calculates the connections performance standards payments adjustment (CGSRA). It requires the following:

- the Connection Guaranteed Standards Payments Made (CGSPM)
- the total connection guaranteed standards revenue exposure (TCGSR).

2.71. The values for the terms listed above are inputs to *R5 – Input Page* and *R4 – Licence Condition Values*, respectively.

## **R12 – DPCR4 Losses and Growth**

2.72. No input is required from DNOs. This worksheet calculates the DPCR4 residual distribution losses incentive and growth term (DLGT), made up of two component parts, the growth term (GTA) and the residual distribution losses incentive (PPL). The GTA term does not apply to WPD or SSE owned DNOs but the PPL term is applicable to all DNOs.

2.73. The PPL term in respect of each regulatory year is set out in Ofgem's March 2014 determination letter.<sup>4</sup> The values determined are in 2012-13 prices. This worksheet calculates the final value of PPL used in the calculation of Allowed Distribution Network Revenue by replicating the formula in the direction issued.

2.74. For ENWL, NPg, UKPN and SP the value of the growth term adjustment is calculated based on inputs in *R5 – Input Page*.

## **R13 – Correction Factor**

2.75. No input is required from DNOs. This worksheet calculates the correction factor (K) which is used to account for over or under recovery of revenue in any regulatory year. It requires the following inputs:

- Regulated Distribution Network Revenue (RD)
- Allowed Distribution Network Revenue (AR)
- Average Specified Rate (I)
- Energy supplier temporary rebate (ESTR) (NPgN and NPgY only)
- Any directed value for the interest rate adjustment (PRDIR).

2.76. The terms listed above are auto populated from other worksheets in the reporting pack.

2.77. For regulatory years 2015-16 and 2016-17 the calculation of the correction factor varies by DNO. This worksheet auto calculates using the relevant method.

## **R14 – Allowed Distribution Network Revenue Summary**

2.78. No input is required from DNOs. The worksheet brings together the values calculated in this reporting pack in order to calculate Allowed Distribution Network Revenue.

## **Licence Values**

2.79. No input is required from DNOs. The worksheet contains fixed data taken from each DNO's licence. The data in this worksheet automatically populates *R4 – Licence Condition Values*.

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<sup>4</sup> [Direction pursuant to paragraph 7.7 of CRC 7 of the Electricity Distribution Licence \(March 2014\)](#)