

**NIE Networks' Electricity Transmission  
Licence and  
NIE Networks' Electricity Distribution  
Licence**

**A consultation paper on our proposed  
Licence modifications**

November 2016



## About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

### Our Mission

Value and sustainability in energy and water.

### Our Vision

We will make a difference for consumers by listening, innovating and leading.

### Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference

Act with integrity.

## Abstract

This second consultation paper sets out the Utility Regulator's (UR's) proposed changes to the two licences held by Northern Ireland Electricity Networks Limited (NIE Networks). We have taken into account representations received in the September 2015 consultation and also CMA's comments on the same. We are proposing a slightly revised set of proposals in respect of the licence modifications to be made under Article 17(1) of the order and under Article 14(1) of the Order.

## Audience

This document is likely to be of interest to NIE Networks, electricity customers, other regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

## Consumer impact

The main impact of the modifications is to formalise the outcome of the CC's FD which covers the RP5 period from 1<sup>st</sup> March 2012 to 31<sup>st</sup> October 2017. In practice the monetary impact of the CC FD has been accounted for in electricity bills from October 2014. The CC's FD forecast that the transmission and distribution component of the representative domestic customer's annual bill would reduce by approximately £10 relative to RPI by the end of the four years to September 2017 from £152 per year to around £142 per year in 2012/13 prices.

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## 1. Background

- 1.1 The September 2015 consultation set out the licence modifications proposed by the UR to the electricity distribution licence and electricity transmission licence held by Northern Ireland Networks Limited (NIE).
- 1.2 The consultation proposed two sets of licence modifications, these being –
  - (a) modifications to be made under Article 17(1)<sup>1</sup> of the Electricity (Northern Ireland) Order 1992 (the Order); and
  - (b) modifications to be made under Article 14(1) of the Order.
- 1.3 The modifications proposed to be made under Article 17(1) of the Order were for the purposes of implementing the Competition and Markets Authority (previously the Competition Commission)'s Final Determination<sup>2</sup> for the RP5 price control period (1 March 2012 to 31 October 2017).
- 1.4 The UR also sought and received the CMA's views on the modifications proposed under Article 17(1) of the Order. The UR has considered the CMA's views and made certain amendments to its proposals in order to accommodate, where necessary or appropriate, the CMA's views.
- 1.5 Accordingly, having taken account of representations received to the September 2015 consultation<sup>3</sup> and also the CMA's comments on the same, we propose a slightly revised set of proposals in respect of licence modifications to be made under Article 17(1) of the Order and under Article 14(1) of the Order.

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<sup>1</sup> Although Article 17 is no longer in force it continues to have effect for the purposes of implementing the RP5 licence modifications by virtue of Regulation 6(2) of the Gas and Electricity Licence Modification and Appeals Regulations (Northern Ireland) 2015.

<sup>2</sup> As published on 15 April 2014 and available here [insert link].

<sup>3</sup> We will publish and address responses to the September 2015 consultation and this consultation prior to making final Article 14 modifications.

1.6 More particularly, the revised set of proposals emanating from the UR's consideration of the CMA's comments relate to modifications to be made to Annex 2 of NIE's transmission licence and to Annex 2 of NIE's distribution licence.

1.7 Given the elapse of time since the first ~~consultation~~consultation we have also included all of the modifications from the first consultation (albeit some are unchanged from the first consultation).

1.8 We explain further below.

## **2. Change of Law Provisions**

2.1 The CMA was of the view that its Final Determination did not propose or require any changes to the existing change of law provisions in each of the relevant Annexes.

2.2 On this basis the CMA noted that the UR's proposed modifications in respect of the change of law provisions could not be considered to be changes required to implement the Final Determination and accordingly should not be made pursuant to Article 17(1) of the Order.

2.3 The UR accepts the CMA's considerations on this particular matter. Nonetheless, it considers it is appropriate to modify the existing change of law provisions along the lines proposed in the September 2015 consultation and therefore proposes to make such changes pursuant to the UR's Article 14(1) powers.

2.4 The main change to the existing change of law provisions is to provide for the UR to make a change of law determination of its own volition. This is because at present the change of law provisions operate only one-way as it is only when NIE apply for a change of law amount that it can be so determined by the UR. The existing provisions therefore implicitly assume that a change of law will necessarily be one that

results in increased costs for NIE (as it would only apply for a determination in respect of increased costs) when it is of course possible that the change in law results in decreased costs for NIE. Accordingly the UR considers it wholly appropriate and relevant to ensure that changes of law which may result in decreased costs can be taken into account and reflected within the price control mechanism in the same way as changes of law which may result in increased costs.

2.5 In light of the above the following changes are reflected in this consultation –

- (a) the existing change of law provisions are retained, with minor consequential changes as appropriate to reflect the new price control period and structure and the separate transmission and distribution licences, are set out in paragraph 11 of each Annex (for the purposes of modifications to be made pursuant to Article 17(1)),
- (b) consequential changes, i.e. to reflect the retention of the current change of law provisions, (and also to be made pursuant to Article 17(1)) are proposed to the maximum regulated distribution/transmission revenue formula, to the formulas for the capex incentive amount and opex incentive amount and to the provisions setting out the costs to be excluded for the purposes of determining the qualifying capex expenditure amount and the qualifying opex expenditure,
- (c) the changes initially proposed in the September 2015 consultation in respect of the change of law provisions are now proposed to be made under Article 14 of the Order. The changes are shown in mark-up form but against the version of Annex 2 that includes the Article 17(1) proposed modifications.

### **3. Connection Costs**

- 3.1 A similar point was made by the CMA in respect of the UR's proposed modifications relating to the costs of connections in that the CMA considered that certain of the changes proposed pursuant to Article 17(1) appeared to inconsistent with its Final Determination on the treatment of connection costs.
- 3.2 In this respect the CMA acknowledged that the UR had proposed other changes to the relevant provisions relating to connection costs pursuant to Article 14 and indicated that much of the content of the Article 17 modifications in respect of this particular element of the price control was better suited to being made under the Article 14 process.
- 3.3 More particularly the CMA considered that –
- (a) the drafting of pass through capex and expenditure provisions allowed for pass through of costs for all financial years whereas in its Final Determination the pass through was limited to certain years,
  - (b) its Final Determination did not provide for the 'net costs' approach that the UR had adopted.
- 3.4 The UR accepts that a number of its proposals with regard to treatment of connection costs and modifications proposed pursuant to Article 17 may not necessarily have aligned with the CMA's Final Determination and are therefore more suited to the Article 14 process.
- 3.5 Accordingly, the UR now proposes to make certain modifications relating to treatment of connection costs under Article 14 rather than Article 17.
- 3.6 This means that the changes to be made pursuant to Article 17 are amended from the September 2015 consultation as follows –



- (a) the connection costs to be excluded from the calculation of the qualifying capex expenditure amount are not determined by reference to the net costs approach the UR proposes to adopt as these changes will be made under the Article 14 process,
- (b) the costs that are allowed as pass through costs in respect of capex and opex expenditure reflect the CMA's Final Determination in respect of pass through of such costs, and
- (c) the allowances for connections relating to particular categories of domestic/small business connections (namely distribution connections) also consistent with the CMA's Final Determination.

3.7 However, the changes initially proposed under Article 17 in the September 2015 consultation are now proposed under Article 14.

#### **4. Definition of demonstrably inefficient or wasteful expenditure**

4.1 The CMA noted NIE's response to the September 2015 consultation with regard to the definition and use of the term "Demonstrably Inefficient or Wasteful" and suggested that the definition could be changed such that the UR's determination would be reasonably made and that the decision would be published.

4.2 In addition it suggested that those paragraphs which use this term could be amended so as to remove the reference to the matter being as determined by the UR.

4.3 With regard to the definition incorporating a test of 'reasonableness' on the part of the UR in making any determination, the UR does not consider it necessary or appropriate to make such a change.

4.4 The UR is a public body that is subject to public law, including the public law requirement to act reasonably. It is therefore already subject to a 'reasonable' test in its decision-making (including when determining

matters under licence condition) in public law terms and an additional or different test is not required. This principle applies to all decisions made by the UR (whether made under licence condition or otherwise) and a separate or additional test is not required.

4.5 However, the UR proposes to make the other changes suggested by the CMA and these are incorporated into the revised Article 17 proposals.

4.6 In a similar vein, the CMA suggested that any other formal determinations made by the UR under the price control provisions should be published decisions and the UR has revised the relevant provisions accordingly.

## 5. More Specific Comments

5.1 We have also made changes to the following provisions in light of the CMA's comments –

- (a) Potential for Retrospective Obligations - The CMA noted that it should be clear from the drafting of Annex 2 in each licence that the obligations imposed on NIE do not have retrospective effect. The UR has therefore made some minor changes to paragraphs 3.1, 12.12 and 12.13 of each Annex 2 to ensure that the relevant obligations in these paragraphs do not inadvertently apply so as to have retrospective application.
- (b) Depreciation Calculation - The CMA considered that the drafting of the depreciation calculation for additional assets could be clearer and also provide for RPI indexation. The revised drafting reflects the CMA's suggested revisions.
- (c) Depreciation Rate for the FEMO and NI2007 RABs (distribution licence only) – The CMA was of the view that the depreciation

rate for these two RABs should be 20% (as opposed to the September 2015 proposal of 10%). We agree and have amended the relevant table (Table 5) accordingly.

- (d) Definition of Related Party Margin – The CMA suggested that this definition be amended to reflect more clearly the intention set out in the CMA's Final Determination and that a new term of 'allowed related party margin' be introduced to better reflect the amounts that are to be excluded for the purposes of calculating the qualifying capex amount. We agree and have (i) amended the definition of Related Party Margin, (ii) included a new definition of Allowed Related Party Margin, and (iii) made an amendment which confirms that any Allowed Related Party Margin is not excluded from qualifying capex expenditure.
- (e) Exclusion of distribution expenditure from allowed capex for transmission capacity/capability (transmission licence only) – The CMA considered that the UR's drafting which provided that the allowance for this cost element excluded expenditure relating to 'distribution works which were directly required to facilitate the transmission development' may be too restrictive and suggested that it should simply exclude distribution network expenditure as provided for in the Final Determination. The UR agrees and has amended the relevant provision accordingly. In addition, changes have been made to confirm that asset replacement expenditure relating to two specific projects would not be considered as excluded costs for this purpose.
- (f) Opening tax capital allowance value (distribution licence only) – The opening tax allowance has been revised.
- (g) The correction factor ( $K_t$ ) – The CMA considered that providing a special calculation for the 6 month period to 30 September 2017

was unnecessary and did not necessarily work without making changes to other terms. On further reflection we agree and have therefore removed this special calculation and simply included t year 2018 in the general calculation provisions.

- (h) Definition of regulatory capital allowances term – The CMA highlighted some potential issues with this definition, namely in terms of it not reflecting any possible allowances applicable to opex and ensuring consistency of the calculation of such allowances with the tax submissions. We have therefore proposed changes to this definition to better reflect the intended position. The CMA also thought that definitions of 'opex' and 'capex' could be included for the purposes of this term (and more generally). However, the UR is of the view that the RIG reporting provisions are sufficient for this purpose and duplication is unhelpful in this context.
- (i) Uncollected Revenue Allowance – The CMA considered that the adjustment for uncollected revenue should be part of the overall calculation of the maximum regulated revenue as opposed to being part of the calculation of the allowance for other opex. This is because the latter effectively limits the allowance to 50% and although the other 50% could potentially be recoverable through other terms there was no guarantee that would work out to be the case. To mitigate the concerns the UR has moved the bad debt term into the formula for the maximum regulated revenue and made consequential changes to the list of exclusions for qualifying capex and opex.
- (j) Metering Volume Driven Allowance (*distribution licence only*) – The original drafting provided that the volumes would those reported to the UR by NIE – the CMA rightly noted that this raised the risk of mis-reporting and in any event was

unnecessary. It also queried whether meters were necessarily being 'installed' if they were being certified or recertified. We therefore propose some minor changes to these provisions.

- (k) Publication of Information re tax affairs – There was some concern that Annex 2 provisions may unnecessarily require the publication of confidential information. We have therefore made some changes to paragraph 12 to clarify the position.
- (l) Revenue protection (distribution licence only) – The original drafting of the revenue protection incentive provision did not quite work as intended (i.e. to enable NIE to retain 50% of the revenue recovered or earned). We have therefore revised paragraph 10 and the maximum regulated revenue formula to reflect the intended position.

5.2 Finally, the CMA also commented on a number of other aspects of the September 2015 consultation proposals which the UR is not proposing to change. These are as follows –

- (a) Deferred Revenue Expenditure – The CMA had doubts over the definition of this term and its use within the calculation of tax allowances. NIE Networks provided clarification and given that deferred revenues are treated slightly differently to capital allowances we continue to be of the view that the UR's approach is appropriate.
- (b) Nature of Obligation - The CMA raised some concern that the price control obligation, which requires NIE to use best endeavours to ensure that its regulated revenue is equal to its maximum regulated revenue, was different to previous (and other sectoral) price controls which sought to impose a limit or a cap rather than specifying a target. In this context, the CMA

suggested that there could be legitimate reasons for a company setting tariffs that generated less than the maximum regulated revenue. However, given the monopoly status of NIE and given that the obligation itself is a best endeavours obligation, we continue to be of the view that the UR's approach is appropriate, works as intended and reflects the CMA's Final Determination.

## 6. Next steps

- 1.1. The UR proposes to consult simultaneously on both Article 17 and Article 14 modifications for a period of 28 days from the publication date of this document.
- 1.2. Given the interlinking nature of many of the modifications, any responses, representations or objections to this consultation will be considered by the UR, prior to submission of Article 17 modifications to the CMA and any decision by the UR on Article 14 modifications. The Article 14 modifications will be made a short time after the Article 17 modifications and will be accompanied by the publication of all responses to RP5 modifications and address consultation responses at this time.
- 1.3. Responses to this consultation paper should be submitted by 12.00 noon on 22<sup>nd</sup> December 2016. Responses should be sent to:

Alan Craig

Utility Regulator

Queens House

14 Queens Street

Belfast BT1 6ER

[alan.craig@uregni.gov.uk](mailto:alan.craig@uregni.gov.uk)

- 1.4. The Utility Regulator's preference would be for responses to be submitted by e-mail.
- 1.5. Individual respondents may ask for their responses (in whole or in part) not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, the Utility Regulator will also ask respondents to supply the redacted version of the response that can be published.
- 1.6. As a public body and non-ministerial government department, the Utility Regulator is required to comply with the Freedom of Information Act (FOIA). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this and in particular, if asking the Utility Regulator to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.
- 1.7. This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office of the Utility Regulator, which will be happy to assist.

## **Appendix 1 – Reasons and effects notice of Article 14 and Article 17 Licence Modifications**

### **THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION**

**NOTICE UNDER: (1) (CURRENT) ARTICLE 14(2) OF THE ELECTRICITY (NORTHERN IRELAND) ORDER 1992 and (2) (PREVIOUS) ARTICLE 17(3) OF THE ELECTRICITY (NORTHERN IRELAND) ORDER 1992<sup>4</sup>**

**MODIFICATIONS PROPOSED TO (1) THE ELECTRICITY DISTRIBUTION LICENCE, AND  
(2) THE ELECTRICITY TRANSMISSION LICENCE, HELD BY NORTHERN IRELAND  
ELECTRICITY NETWORKS LIMITED**

The Northern Ireland Authority for Utility Regulation (hereafter referred to as 'the Authority') hereby gives notice under (current) Article 14(2) of the Electricity (Northern Ireland) 1992 (the Order) and under (previous) Article 17(3) of the Order as follows:

1. It proposes to make modifications to –
  - (a) the electricity distribution licence granted or treated as granted under Article 10(1)(bb) of the Order and held by Northern Ireland Electricity Networks Limited, (the 'Distribution Licence'), and
  - (b) the electricity transmission licence granted or treated as granted under Article 10(b) of the Order and held by the Northern Ireland Electricity Networks Limited (the 'Transmission Licence'),

each a 'Licence' and Northern Ireland Electricity Networks Limited in each case 'the Licensee'.

#### **Article 17(3)**

2. The proposed modifications under Article 17(3) of the Order are –

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<sup>4</sup> Among others Article 17(3) of the Order as in effect on 5 February 2015 continues to have effect for these purposes pursuant to Regulation 6(2) of The Gas and Electricity Modification and Appeals Regulations (Northern Ireland) 2015 - see <http://www.legislation.gov.uk/nisr/2015/1/regulation/4/made>



- (a) in respect of the Distribution Licence, to Condition 19 and Annex 2 of the Licence,
  - (b) in respect of the Transmission Licence, to Annex 2 of the Licence.
- 3. The reasons for the modifications proposed under Article 17(3) of the Order to the Distribution Licence and the Transmission Licence are –
  - (a) to remedy or prevent the adverse effects specified in the report of the Competition Commission (now the Competition and Markets Authority), as presented to the Authority on 26 March 2014, on a reference made to it by the Authority on 30 April 2013 under (previous) Article 15 of the Order (the 'Final Determination'<sup>5</sup>),
  - (b) to ensure that the total amount of revenue that the Licensee can recover, in any relevant year commencing on or after 1st April 2012, in respect of the Distribution Business (as defined in Condition 1 of the Distribution Licence) and in respect of the Transmission Owner Business (as defined in Condition 1 of the Transmission Licence) is as specified in the Final Determination,
  - (c) to ensure that Annex 2 of each Licence now applies only in respect of the activities authorised by that Licence, and
  - (d) to update definitions of certain terms used in Annex 2 in order to take account of changes made in the regulatory framework in respect of licensable activities.
- 4. Schedule 1 to this notice identifies those modifications (or categories of modification) which the Authority proposes to make under and in accordance with Article 17(3) of the Order and explains, by way of cross-referencing, where within the proposed modifications each relevant decision of the Competition Commission (now the Competition and Markets Authority), as set out in its Final Determination, is reflected.
- 5. The effects of the modifications proposed under Article 17(3) of the Order will be to -
  - (a) provide for a separate price control for each of the Distribution Business and the Transmission Owner Business,

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<sup>5</sup> In accordance with (previous) Article 16(5)(b) of the Order, the Authority published the CC's Final Determination on 15th April 2014. It can be accessed from the Authority's website at <http://www.uregni.gov.uk/news/utilityregulatorpublishescompetitioncommissionfinaldetermination>

- (b) alter the total amount of revenue that the Licensee can recover, in any relevant year commencing on or after 1st April 2012, in respect of each of the Distribution Business and the Transmission Owner Business,
  - (c) remedy the adverse effects identified in the detailed conclusions of the Competition Commission as set out in the Final Determination, and
  - (d) further implement the separation of the transmission and distribution licenses.
6. The modifications proposed under Article 17(3) of the Order are as set out in –
- (a) Schedule 3 to this notice in respect of the Conditions of the Distribution Licence,
  - (b) Schedule 4 to this notice in respect of Annex 2 of the Distribution Licence, and
  - (c) Schedule 5 to this notice in respect of Annex 2 of the Transmission Licence.

Modifications being made under Article 17 and relating to the main body of the Distribution Licence are presented as tracked changes at Schedule 3. However modifications being made under Article 17 and relating to, Annex 2 of the Distribution Licence and Annex 2 of the Transmission Licence, are presented as new Annexes at Schedules 4 and 5 respectively..

**Article 14(2)**

7. The modifications proposed to be made under Article 14(2) of the Order (which shall be made subsequent to the making of the modifications proposed under Article 17(3) of the Order) are –
- (a) in respect of the Distribution Licence, modifications to Conditions 23, 24A and Condition 43; Annex 1; and Annex 2 of the Licence;
  - (b) in respect of the Transmission Licence, modifications to Annex 2 of the Licence.
8. The reasons for the modifications proposed under Article 14(2) of the Order to the Distribution Licence and the Transmission Licence are –
- (a) to enable the Authority to make a determination for the purposes of changing allowances in consequence of a relevant change of law without the need for an application by the Licensee;
  - (b) to retain the current cost recovery mechanism in respect of the treatment of costs and income in respect of particular types of network connections,

- (c) to ensure that appropriate adjustments are made to the k factor provisions and revenues to reflect the updated position in respect of allowances for market opening costs are included in the distribution price control and not within the PSO charge restriction provisions,
  - (d) to provide greater transparency in the price base of the calculations in the PSO charge restriction provisions and PSO revenues and alignment of associated definitions.
  - (e) to update the format, layout and structure of the Licences in order to present them in a way which is more readily accessible, transparent, logical, fit for purpose, workable and consistent with each other.
9. Schedule 2 to this notice sets out the proposed modifications being made under Article 14(2) of the Order and explains, by way of cross-referencing, the reasoning (in addition to the reasoning set out above) and location of each of the proposed modifications.
10. The modifications proposed under Article 14(2) of the Order are set out in -
- (a) Schedule 6 to this notice in respect of the relevant conditions of the Distribution Licence, and
  - (b) Schedule 7 to this notice in respect of Annex 1 of the Distribution Licence,
  - (c) Schedule 8 to this notice in respect of Annex 2 of the Distribution Licence, and
  - (d) Schedule 9 to this notice in respect of Annex 2 of the Transmission Licence,

Modifications being made under Article 14 (which are to be made subsequent to the Article 17 modifications) are presented as tracked changes at Schedules 6 (the main body of the Distribution Licence), 8 (Annex 2 of the Distribution Licence) and 9 (Annex 2 of the Transmission Licence). However modifications being made under Article 14 to Annex 1 of the Distribution Licence are presented as a new Annex 1 at Schedule 7.

11. The effects of the modifications proposed under Article 14(2) of the Order will be –
- (a) that the Authority will be able to make a determination without an application having been made by the Licensee for the purpose of making adjustments to the price control allowances to reflect changes in the Licensee's costs as a consequence of any relevant change of law,

- (b) that there will be no change to the treatment of costs relating to certain types of network connections from the current position applicable to such types of network connections,
- (c) to allow the Authority to approve additional distribution allowances as part of an approved transmission load-related project,
- (d) make more clear and transparent the treatment of market opening costs and income, and
- (e) to require the Licensee to report to the Authority in accordance with the Authority's Regulatory Instructions and Guidance, and to allow for comparisons of the Licensee's business against the business of the electricity network operators in Great Britain.

#### Representations

12. Representations with respect to the proposed modifications may be made in accordance with the guidance set out in the 'Next steps' section of the consultation paper accompanying this notice.
13. All responses will normally be published on the Authority's website in accordance with the 'Next steps' section of the consultation paper.

**Schedule 1 – List of Article 17 modifications cross referenced to the Competition Commission’s Final Determination (CC FD)**

<b>Number</b>	<b>Description</b>	<b>CC FD Reference</b>	<b>T or D or both</b>	<b>Licence Reference 1</b>	<b>Licence Reference 2</b>
1	Maximum tariff revenue to be half of two reporting years including correction factors for each reporting year	19.117 (b)	Both	Annex 2	Paragraph 3.3
2	RP4 Capex efficiency incentive term (not the value)	19.86	Both	Annex 2	Paragraph 12.1b)
3	Capex disposal incentive (5 year lag)	19.74	Both	Annex 2	Paragraph 4.30
4	D1 Cost risk share of 50%	19.49 & 19.50	Both	Annex 2	Paragraphs 4.32 and 6.13
5	Metering: volume driven allowance	10.136	D	Annex 2	Paragraph 4.42
6	Recovery of specific costs previously approved (under RP4 Dt term)	5.393(a) & 10.368	Both	Annex 2	Paragraphs 4.23 and 6.9
7	Specific changes for Enduring Solution	5.393(b)	D	Annex 2	Paragraph 4.32 & 6.17
8	Bad debt costs	5.393(c)	Both	Annex 2	Paragraph 3.5
9	Injurious affection costs	19.60	Both	Annex 2	Paragraphs 4.32 & 6.17
10	Regulatory reporting costs	19.66	Both	Annex 2	Paragraph 6.17
11	Revenue protection services incentive	6.44	D	Annex 2	Paragraph 10.1
12	Pension deficit forecast	12.83	Both	Annex 2	Paragraph 7.1
13	Assumed gearing for tax	16.45	Both	Annex 2	Paragraph 9.1
14	Assumed cost of debt for tax	16.46	Both	Annex 2	Paragraph 9.1
15	Assumed Capital allowances for tax	16.60	Both	Annex 2	Paragraph 9.1
16	D5 Additional Transmission Capex	19.55	T	Annex 2	Paragraphs 4.35

17	Inclusion of RIGs reporting requirements	18.51	Both	Annex 2	Paragraph 13.15
18	Prohibition on tariff increases before October 2014	4.24	Both	Annex 2	Paragraph 2.5
19	D9 Passthrough of licence fees	19.59	Both	Annex 2	Paragraph 6.7b)
20	Refunds to customers / Adjustment to k factor for market opening revenues	19.33	D	Annex 2	Paragraph 12.1b)
21	Transparency of RAB calculation	19.77	Both	Annex 2	Paragraphs 4.1 to 4.39(transmission) / 4.46(distribution)
22	Opening K factor specified	19.82	Both	Annex 2	Paragraph 12.1a)
23	Publication of historical data to calculate revenue	19.93	Both	Annex 2	Paragraph 13.23
24	Eliminate existing and forecast over- or under- recovery	19.120	Both	Annex 2	Paragraph 3.1
25	Publishing of report: forecast maximum entitlement and forecast over or under-recovery.	19.17	Both	Annex 2	Paragraph 13.10
26	D2 Inefficient spend clause	19.53	Both	Annex 2	Paragraphs 4.19, 4.25, 6.5 and 6.11
27	Network investment (outturn and forecast) reporting annually	5.159	Both	Annex 2	Paragraph 13.4g
28	Publication of interruptions and customer minutes lost (outturn and forecast)	6.9	D	Main body	Condition 19 Paragraph 13
29	Preparation, auditing and publication of tax information	16.63	Both	Annex 2	Paragraph 13.34
30	Pass-through of certain types of Connections capex & contributions only (Legacy subsidies, 12 housing sites and clusters for distribution and clusters for transmission)	10.277, 19.64 and 19.65	Both	Annex 2	Paragraph 4.21
31	D10 Powerteam profit sharing	5.387	Both	Removed from Annex 2	removed
32	D10 Revenue cap term	5.387	Both	Removed from Annex 2	removed
33	D10 Dt term	5.387	Both	Removed from Annex 2	removed

34	Qualifying items for Cost Risk Share	19.48	Both	Annex 2	Paragraphs 4.17b) and 6.3b)
35	Calculation of revenue for Tariff year ending September 2017	19.123	Both	Annex 2	Tables referenced in paragraph 2.3
36	Outturn information required for cost risk-sharing calculations	19.52	Both	Annex 2	Paragraph 13.4d
37	Outturn information certified by a director and confidence graded	18.52 & 18.57c)	Both	Annex 2	Paragraph 13.17
38	In case of a failure to implement a new price control in time: no increases in tariffs	4.47	Both	Annex 2	Paragraph 16.2

## Schedule 2 – List of Article 14 modifications

Number	Description	Reasoning	T or D or Both	Licence Reference 1	Licence Reference 2
1	Restructuring of Annex 1	Alignment with Annex 2	D	Annex 1	All of Annex 1
2	Adjustment to k factor for market opening revenues	PSO overcharges	D	Annex 1	Paragraph 5.1b)
3	Alignment of PSO definitions with restructured Annex 1	Alignment with Annex 1	D	Main body	Condition 23, Condition 24A and Condition 43
4	Exclusion of market opening systems from Annex 1	Recovery of costs in annex 2	D	Annex 1	Deletion of old paragraph 3(d)
5	RP4 Capex efficiency incentive value	Approval by the UR	Both	Annex 2	Paragraph 11.1b)
6	Change of Law	To enable the UR to make a determination of its own volition.	Both	Annex 2	Definitions, 3.5, 4.32, 6.17-6.23, 4.45-4.50 Distribution, 4.38-4.43 Transmission.
7	Pass-through of connections costs and contributions.	To retain current mechanism	Both	Annex 2	4.17b, 4.21, 6.3b, 6.7