

Annex 2 - Transmission Charge Restriction Conditions

1. Definitions

1.1. In this Annex:

“Allowed Related Party Margin”	means the part (if any) of any Related Party Margin that provides for a reasonable and transparently calculated allowance for depreciation and return on capital in relation to assets to the extent that these are employed by the Related Party in the provision of relevant services to the Licensee and not otherwise included in the calculation of the Maximum Regulated Transmission Revenue or recoverable through the Licensee’s connection charges.
“Approved Generation Cluster Infrastructure”	means infrastructure that has been approved by the Authority for the purposes of the arrangements set out in the Connection Charging Statement for funding generation cluster infrastructure partly through the Licensee’s RAB.
“Average Specified Rate”	means the arithmetic mean of the daily base rates of Danske Bank Limited (or such other bank as the Authority shall specify from time to time) current from time to time during the period in respect of which the calculation falls to be made.
“Connection Charging Statement”	means the statement of charges for connection to the Licensee’s transmission system as prepared by the Licensee and approved by the Authority under Condition 22 hereof which is effective for the relevant period.
“Deferred Revenue Expenditure”	means expenditure which is classified as capital expenditure for accounting purposes (because it gives rise to economic benefits over more than one year) but is not capital expenditure for tax purposes (because it does not create a sufficiently identifiable asset). For example, Deferred Revenue Expenditure may include the replacement of age-expired network components when (for tax

purposes) the network as a whole is seen as a single asset.

“Demonstrably Inefficient or Wasteful Expenditure”

means expenditure which the Authority has (in a published decision giving reasons) determined to be demonstrably inefficient and/or wasteful, given the information reasonably available to the Licensee at the time that the Licensee made the relevant decision about that expenditure. For the avoidance of doubt, no expenditure is Demonstrably Inefficient or Wasteful Expenditure simply by virtue of a statistical or quantitative analysis that compares very aggregated measures of the Licensee’s costs with the costs of other companies.

“ERDC”

means early retirement deficit contributions.

“Excluded Services”

means those services provided as part of the Transmission Owner Business which in accordance with the principles set out in paragraph 14 fall to be treated as Excluded Services.

“Final Determination”

means the report of the Competition Commission (the statutory predecessor to the Competition and Markets Authority) in relation to the Licensee’s Transmission Charge Restriction Conditions, as presented to the Authority on 26 March 2014, taken together with its supporting documentation.

“Fuel Security Event”

means a Fuel Security Event as defined in the Northern Ireland Fuel Security Code, published by the Department of Enterprise, Trade and Investment.

“HMRC”

means HM Revenues and Customs or, in relation to any function of that body referred to in this Annex, such other person as may (whether in relation to the United Kingdom as a whole or Northern Ireland) be allocated the role of performing that function after the commencement of RP5.

“Licensee’s Allowed Transmission

means any cost incurred by the Transmission Owner

Related Security Costs"	<p>Business and approved by the Authority (in a published decision) as being an allowed security cost in accordance with the Northern Ireland Fuel Security Code (as that term is therein defined), but excluding any cost which forms part of:</p> <ul style="list-style-type: none"> a) the allowed power procurement business related security costs; or b) the payments to generators in relation to services provided to the power procurement business during Fuel Security Events.
"Maximum Regulated Transmission Revenue"	means the maximum Regulated Transmission Revenue that the Licensee is entitled to recover in the Regulatory Tariff Year and the Regulatory Reporting Year (as the case may be) as calculated in accordance with the provisions of this Annex.
"Permitted One-Year Percentage"	means 4% of the Maximum Regulated Transmission Revenue.
"Permitted Three-Year Percentage"	means 5% of the Maximum Regulated Transmission Revenue in the second of the Regulatory Tariff years.
"Regulatory Asset Base"	means one of the regulatory asset bases identified at paragraph 4.1.
"Regulatory Instructions and Guidance (RIGs)"	means the Regulatory Instructions and Guidance provided by the Authority, including guidance notes, reporting workbooks, commentary templates and assurance templates, as set out by the Authority, to capture various different types of information and data.
"Regulatory Reporting Year"	means a period of twelve months commencing on 1 April in any year and ending on 31 March in the year

following its commencement.

“Regulatory Reporting Year t”

means the Regulatory Reporting Year which ends in year t, and is therefore to be read such that: a reference to ‘**Regulatory Reporting year t = 2013**’ is to the Regulatory Reporting Year ending on 31 March 2013; a reference to ‘**Regulatory Reporting Year t-1**’ means the Regulatory Reporting Year immediately preceding Regulatory Reporting Year t; and similar expressions are to be construed accordingly.

“Regulatory Tariff Year”

means a period of twelve months commencing on 1 October in any year and ending on 30 September in the immediately following year.

“Regulatory Tariff Year t”

means the Regulatory Tariff Year which ends in year t, and is therefore to be read such that: a reference to ‘**Regulatory Tariff Year t = 2013**’ is to the Regulatory Tariff Year ending on 30 September 2013.

“Regulated Transmission Revenue”

means the revenue (measured on an accruals basis) that is derived by the Licensee from Transmission Charges after deduction of value added tax (if any) and any other taxes based directly on the amount of the Transmission Charges.

“Related Party”

means both Affiliates and Related Undertakings of the Licensee as defined in Condition 1 of this licence. An Affiliate or Related Undertaking shall remain as a Related Party for the whole of the price control period even if it is no longer part of the group due to restructuring.

“Related Party Margin”

The profit or loss recorded on a transaction with an affiliate being the excess or deficit on actual direct costs and indirect costs (excluding financing costs) fairly attributable to the transaction or the charge and the cost of providing that transaction.

For Captive Insurance businesses the margin is to be

computed based on the captive's premium income less reinsurance premiums, claims paid out and movements on technical and IBNR reserves attributable to the Licensee's business only, i.e. usually reported as the profits/loss on the Technical account. Where a captive insures more than the Licensee, then its profit/loss should be computed pro rata to the premiums paid by the Licensee to total premium income in the captive for the year and the movements on technical and IBNR reserves not attributable to the Licensee's business must first be removed.

"RP4"

means the period commencing on 1 April 2007 and ending on 31 March 2012.

"RP5"

means the period commencing on 1 April 2012 and ending on 30 September 2017.

"RP6"

means the period commencing on 1 October 2017 and ending on 30 September 2022.

"RPI_t"

means the Retail Prices Index (CHAW: 1987 = 100) published by the Office for National Statistics (or successor body) for the October month in each Regulatory Reporting Year *t* and is therefore to be read such that: a reference to 'RPI *t* = 2010' is to the RPI figure for October 2009.

"Specified Information"

means information (or a category of information) that is so described or defined at paragraph 13.

"Transmission Charge Restriction Conditions"

means the paragraphs set out in this Annex 2 as from time to time modified or replaced in accordance therewith or pursuant to Article 14, 14A, 14E or 18 of the Order, under the Energy Order, under the SEM Order or under the Directive Regulations.

"Transmission Charges"

means all charges for the provision of Transmission

Services and for Wheeling.

“Transmission Services”

means all services provided as part of the Transmission Owner Business other than the Excluded Services.

“Uncollected Revenue”

means, where the Licensee is not an affiliate of the system operator (such as SONI Limited, a body corporate registered in Northern Ireland under company number NI038715), any amount owed to the Licensee by that system operator in respect of Regulated Transmission Revenue which is to be included in the uncollected revenue amount in agreement with the Authority; plus the reasonable interest attributable to such amount, calculated in accordance with any such agreement.

“Unit”

means a kilowatt hour.

“Wheeled Unit”

means a unit (whether generated inside or outside Northern Ireland) which enters the total system at any point and is delivered to a place outside Northern Ireland.

“Wheeling”

means the transportation of Wheeled Units on any part of the total system.

2. Introductory Provisions

- 2.1. Where, for the purposes of complying with its obligation at paragraph 3.1 in relation to the setting of Transmission Charges, the Licensee forecasts the Maximum Regulated Transmission Revenue for any Regulatory Tariff Year t (or any data relevant to its calculation), it shall:
 - a) have regard to any information notified to it by the Authority; and
 - b) where directed to do so by the Authority, base its forecast on any such information or make it in accordance with such methodology as the Authority may specify in the direction.
- 2.2. Unless the contrary is expressly stated:
 - a) all monetary figures in this Annex are stated in nominal prices; and
 - b) all inputs and calculations for which provision is made in this Annex are to be carried out in nominal prices.
- 2.3. The values marked with an estimation symbol (e) in Table 3, Table 6, Table 9, Table 10 and Appendix 2 are without prejudice to any future licence modifications made or proposed by the Authority to implement a new restriction on the Licensee's Maximum Regulated Transmission Revenue that is effective from 1 October 2017.
- 2.4. For the purposes of this Annex, the provisions of paragraph 3 shall be deemed to apply with effect from the commencement of RP5, so that the Maximum Regulated Transmission Revenue shall be calculated from the commencement of RP5 onwards, notwithstanding paragraph 16.
- 2.5. The Licensee is prohibited, in the period 26 March 2014 to 30 September 2014, from making changes to Transmission Charges.

3. The Maximum Regulated Transmission Revenue

3.1. Without prejudice to paragraph 16, the Licensee shall with effect from 1 October 2017 use its best endeavours to set its Transmission Charges so as to ensure that, in each Regulatory Tariff Year t , the Regulated Transmission Revenue shall be equal to the Maximum Regulated Transmission Revenue for that Regulatory Tariff Year calculated in accordance with paragraph 3.3.

3.2. The Maximum Regulated Transmission Revenue for the Regulatory Tariff Year - $RP5T_t$

3.3. The Maximum Regulated Transmission Revenue for the Regulatory Tariff Year t shall be calculated as follows:

$$RP5T_t = (RP5R_t + RP5R_{t+1}) * 0.5$$

Where:

" $RP5T_t$ " means the Maximum Regulated Transmission Revenue for the Regulatory Tariff Year t ;

" $RP5R_t$ " means the Maximum Regulated Transmission Revenue for the Regulatory Reporting Year t , calculated in accordance with paragraph 3.4.

3.4. The Maximum Regulated Transmission Revenue for the Regulatory Reporting Year - $RP5R_t$

3.5. For the purposes of paragraph 3.3, the Maximum Regulated Transmission Revenue for the Regulatory Reporting Year t shall be calculated as follows:

$$RP5R_t = DEP_t + RET_t + BD_t + O_t + P_t + COI_t + TAX_t + COL_t + K_t$$

Where:

DEP_t means the depreciation amount in Regulatory Reporting Year t , calculated in accordance with paragraph 4;

RET_t means the return amount in Regulatory Reporting Year t , calculated in accordance with paragraph 5;

BD_t is the allowed opex amount (if any) in Regulatory Reporting Year t , for Uncollected Revenue, being the amount appropriate for the Licensee to recover in that Regulatory Reporting Year, in respect of Uncollected Revenue, less any amount or part of an amount treated as Uncollected Revenue in respect of a preceding Regulatory Reporting Year t that has been paid to the Licensee in Regulatory Reporting Year t ;

O_t means the opex amount in Regulatory Reporting Year t , calculated in accordance with paragraph 6;

P_t means the pension deficit amount in Regulatory Reporting Year t , calculated in accordance with paragraph 7;

COI_t	means the costs of the investigation amount in Regulatory Reporting Year t , calculated in accordance with paragraph 8;
TAX_t	means the tax amount due in Regulatory Reporting Year t , calculated in accordance with paragraph 9;
COL_t	means the change of law amount in Regulatory Reporting Year t , calculated in accordance with paragraph 11; and
K_t	means the correction factor amount (whether a positive or negative number) calculated in accordance with paragraph 12.

4. The Regulatory Asset Bases - RAB_X_t

- 4.1. For the purposes of this Annex, there shall be, as set out in Table 1 below, the following Regulatory Asset Bases:

Table 1 - The Transmission Owner Business Regulatory Asset Bases

RAB name	RAB_X
Transmission RAB	RAB_{TN}
Renewables RAB	RAB_{RN}
Old NS Interconnector RAB	RAB_{NSI}
5 Year T.RAB	RAB_{T5Y}

- 4.2. In this Annex, each Regulatory Asset Base is identified as a **RAB**, and RAB_X refers to a Regulatory Asset Base for which X represents the suffix assigned to that RAB at paragraph 4.1.

4.3. The Opening Regulatory Asset Base - $ORAB_X_t$

- 4.4. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X , the opening Regulatory Asset Base, $ORAB_X_t$, being the value of that Regulatory Asset Base at the beginning of Regulatory Reporting Year t, shall be defined as:

$$ORAB_X_t = OE_X_t + OADD_X_t$$

Where:

OE_X_t being the opening value of existing assets, calculated in accordance with paragraph 4.5; and

$OADD_X_t$ being the opening value of additional assets, calculated in accordance with paragraph 4.13.

4.5. The opening value of existing assets - OE_X_t

- 4.6. For the purposes of this Annex, in respect of Regulatory Reporting Year t = 2013, for each RAB_X , the opening value of existing assets ($OE_{X_{2013}}$) shall be calculated as follows:

$$OE_{X_{2013}} = OE_{2010_X_{2013}} * RPI_{2013} / RPI_{2010}$$

Where:

$OE_{2010_X_{2013}}$ is the opening value of existing assets, in a 2010 price base, for each RAB_X and for the Regulatory Reporting Year $t = 2013$, and shall be equal to the amounts specified in Table 2 below.

Table 2 - The Transmission Owner Business opening value of existing assets (£ million, 2010 prices)

RAB_X	$OE_{2010_X_{2013}}$
RAB_TN	191.20
RAB_RN	11.91
RAB_NSI	1.06
RAB_T5Y	0.00

- 4.7. For the purposes of this Annex, in each Regulatory Reporting Year t other than $t = 2013$, and for each RAB_X the opening value of existing assets (OE_{X_t}) shall be calculated as follows:

$$OE_{X_t} = (CE_{X_{t-1}}) * RPI_t / RPI_{t-1}$$

Where:

CE_{X_t} is the closing value of existing assets, calculated in accordance with paragraph 4.9.

- 4.8. The closing value of existing assets - CE_{X_t}

- 4.9. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X, the closing value of existing assets (CE_{X_t}) being the value of the existing assets in that RAB at the end of Regulatory Reporting Year t , shall be calculated as follows:

$$CE_{X_t} = OE_{X_t} - FDEP_{X_t}$$

Where:

OE_{X_t} is the opening value of existing assets calculated in accordance with paragraph 4.5; and

$FDEP_{X_t}$ is the fixed depreciation amount, calculated in accordance with paragraph 4.11.

- 4.10. The fixed depreciation amount - $FDEP_{X_t}$

- 4.11. For the purposes of this Annex, in each Regulatory Reporting Year t , and for each RAB_X , the fixed depreciation amount ($Fdep_X_t$) means the amount representing depreciation of assets acquired pre 31 March 2012 and shall be calculated as follows:

$$FDEP_X_t = FDEP_2010_X_t * RPI_t / RPI_{2010}$$

Where:

$FDEP_2010_X_t$ is the fixed depreciation amount, in a 2010 price base, for each RAB_X and for each Regulatory Reporting Year t , and shall be equal to the amounts specified in Table 3 below.

Table 3 - The Transmission Owner Business fixed depreciation amount per RAB_X for each Regulatory Reporting Year t (£ million, 2010 prices)¹

Year \ RAB_X	$t=2013$	$t=2014$	$t=2015$	$t=2016$	$t=2017$	$t=2018$
RAB_TN	9.36	9.07	8.74	8.46	8.15	3.98 + 3.98e
RAB_RN	0.37	0.37	0.37	0.37	0.37	0.19 + 0.19e
RAB_NSI	0.06	0.06	0.06	0.04	0.04	0.02 + 0.02e

- 4.12. The opening value of additional assets - $OADD_X_t$
- 4.13. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X , the opening value of additional assets ($OADD_X_t$) shall be:
- 0 (zero) in Regulatory Reporting Year $t = 2013$; and
 - in each subsequent Regulatory Reporting Year t , calculated as follows:

$$OADD_X_t = (CADD_X_{t-1}) * RPI_t / RPI_{t-1}$$

Where:

$CADD_X_{t-1}$ means the closing value of additional assets in the previous Regulatory Reporting Year, calculated in accordance with paragraph 4.15.

- 4.14. The closing value of additional assets - $CADD_X_t$
- 4.15. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X , the closing value of additional assets ($CADD_X_t$) shall be calculated as follows:

$$CADD_X_t = OADD_X_t + QCE_X_t - DIOCE_X_t + PTCE_X_t - DIPTCE_X_t - DEPADD_X_t - CD_X_t + CI_X_t$$

Where:

¹ See paragraph 2.3 regarding figures in this table marked with an estimation symbol (e).

$OADD_{X_t}$	means the opening value of additional assets calculated in accordance with paragraph 4.13;
QCE_{X_t}	means the qualifying capex expenditure amount, calculated in accordance with paragraph 4.17;
$DIQCE_{X_t}$	means the demonstrably inefficient qualifying capex expenditure amount, calculated in accordance with paragraph 4.19;
$PTCE_{X_t}$	means the pass through capex expenditure amount, calculated in accordance with paragraph 4.21;
$DIPTCE_{X_t}$	means the demonstrably inefficient pass through capex expenditure amount, calculated in accordance with paragraph 4.25;
$DEPADD_{X_t}$	means the depreciation amount for additional assets, calculated in accordance with paragraph 4.27;
CD_{X_t}	means the capex disposal amount, calculated in accordance with paragraph 4.30; and
CI_{X_t}	means the capex incentive amount, calculated in accordance with paragraph 4.32.

4.16. The qualifying capex expenditure amount - QCE_{X_t}

4.17. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X , the qualifying capex expenditure amount (QCE_{X_t}) shall:

- a) be the value of capex incurred by the Licensee (excluding any costs included in the calculation of $PTCE_{X_t}$) reasonably allocated or attributed to:
 - i. the Transmission Owner Business;
 - ii. the Regulatory Reporting Year t ; and
 - iii. RAB_X ; and
- b) exclude any amounts reasonably allocated or attributed to any of the following:
 - i. pension deficit repair contributions;
 - ii. the costs recovered or recoverable as part of the Licensee's connection charges levied in accordance with the Licensee's Connection Charging Statement or the costs of any other service that is treated as Excluded Services for the purposes of this Annex;
 - iii. any costs recharged by the Licensee to associated businesses or related parties;
 - iv. any positive Related Party Margin (but excluding any Allowed Related Party Margin) that is charged to the Licensee by a Related Party;
 - v. costs of external advisers incurred by the Licensee in relation to the Competition Commission inquiry which resulted in the Final Determination;
 - vi. any Uncollected Revenue;

- vii. any costs incurred by the Licensee and allowed for as part of the calculation or determination of COL_t ; and
- viii. other costs of any description which the Authority may determine in a published decision from time to time are manifestly unreasonable to include in the qualifying capex expenditure amount.

4.18. **Demonstrably inefficient qualifying capex expenditure - $DIOCE_{X_t}$**

4.19. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X , demonstrably inefficient qualifying capex expenditure ($DIOCE_{X_t}$) shall be the part (if any) of QCE_{X_t} that is Demonstrably Inefficient or Wasteful Expenditure.

4.20. **The pass through capex expenditure amount - $PTCE_{X_t}$**

4.21. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X , the pass through capex expenditure amount ($PTCE_{X_t}$), shall be calculated as follows:

$$PTCE_{X_t} = CLD_{X_t} + GCI_{X_t}$$

Where:

CLD_{X_t} means the capex legacy D_t amount reasonably allocated or attributed to RAB_X in Regulatory Reporting Year t and calculated in accordance with paragraph 4.23; and

GCI_{X_t} means an amount for each RAB_{X_t} calculated as the costs incurred by the Licensee in Regulatory Reporting Year t which are reasonably allocated or attributed to Approved Generation Cluster Infrastructure and not recoverable as part of the capex legacy D_t amount calculated in accordance with paragraph 4.23, minus the revenue recovered in Regulatory Reporting Year t from the connection charges paid in respect of Approved Generation Cluster Infrastructure.

4.22. **The capex legacy D_t amount - CLD_{X_t}**

4.23. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X , CLD_{X_t} is the capex legacy D_t amount incurred by the Licensee that the Authority determines in a published decision, insofar as the Licensee has incurred these costs in line with the original approval terms, for each of the items referenced in Table 4 below:

Table 4 - The Transmission Owner Business capex legacy Dt items (£ million, 2010 prices)

Legacy Dt items	Approval reference date	Total maximum RP5 spend
Wind farm clusters	21 December 2010	0.5
Medium term plan I	15 June 2011	3.8
Medium term plan II	22 February 2013	25.2

4.24. **Demonstrably inefficient pass through capex expenditure - DIPTCE_{X_t}**

4.25. For the purposes this Annex, in each Regulatory Reporting Year *t* and for each RAB_X, demonstrably inefficient pass through capex expenditure (DIPTCE_{X_t}) shall be the part (if any) of PTCE_{X_t} that is Demonstrably Inefficient or Wasteful Expenditure.

4.26. **The depreciation amount for additional assets - DEPADD_{X_t}**

4.27. For the purposes of paragraph 4.15, in each Regulatory Reporting Year *t* and for each RAB_X, the depreciation amount for additional assets (DEPADD_{X_t}) shall be calculated as follows:

a) in Regulatory Reporting Year *t*=2013:

$$\text{DEPADD}_{X_t} = 0.5 * \text{DEPN}_{X_t}$$

b) in each other Regulatory Reporting Year *t* :

$$\text{DEPADD}_{X_t} = 0.5 * \text{DEPN}_{X_t} + (\text{DEPADD}_{X_{t-1}} + 0.5 * \text{DEPN}_{X_{t-1}}) * \text{RPI}_t / \text{RPI}_{t-1}$$

subject to a limitation on the value of DEPADD_{X_t} to ensure that the cumulative depreciation (up to and including Regulatory Reporting Year *t*) in respect of any past value of DEPN_X does not represent excessive depreciation given the depreciation and RAB policies reflected in this Annex, including the RPI indexation of the RAB.

4.28. For the purposes of paragraph 4.27, DEPN_{X_t} is the full year depreciation for net assets added to RAB_X in Regulatory Reporting Year *t* and shall be calculated as follows:

$$\text{DEPN}_{X_t} = (\text{QCE}_{X_t} - \text{DIOCE}_{X_t} + \text{PTCE}_{X_t} - \text{DIPTCE}_{X_t} - \text{CD}_{X_t} + \text{CI}_{X_t}) * \text{DEPR}_X$$

Where:

QCE_{X_t} means the qualifying capex expenditure amount, calculated in accordance with paragraph 4.17;

DIOCE_{X_t} means the demonstrably inefficient qualifying capex expenditure amount, calculated in accordance with paragraph 4.19;

PTCE _{X_t}	means the pass through capex expenditure amount, calculated in accordance with paragraph 4.21;
DIPTCE _{X_t}	means the demonstrably inefficient pass through capex expenditure amount, calculated in accordance with paragraph 4.25;
CD _{X_t}	means the capex disposal amount, calculated in accordance with paragraph 4.30;
CI _{X_t}	means the capex incentive amount, calculated in accordance with paragraph 4.32; and
DEPR _X	is the depreciation rate for each RAB _X as set out in Table 5 below:

Table 5 - The Transmission Owner Business depreciation rate for each RAB_X

RAB _X	Depreciation rate (DEPR _X)
RAB _{TN}	3%
RAB _{RN}	3%
RAB _{NSI}	3%
RAB _{T5Y}	20%

4.29. The capex disposal amount - CD_{X_t}

4.30. For the purposes of this Annex, in each Regulatory Reporting Year *t* and for each RAB_X, the capex disposal amount (CD_{X_t}) shall be calculated as follows:

$$CD_{X_t} = OCD_{X_{t-5}} * RPI_t / RPI_{t-5}$$

Where:

OCD_{X_t} means the outturn capex disposal amount, during Regulatory Reporting Year *t*, the value of which constituted part of RAB_X, being the proceeds of the disposal of any relevant asset/s (including Land, Buildings, Plant, Equipment, but not comprising Land Bank premises or scrap) minus any costs of such disposal that were reasonably incurred by the Licensee.

4.31. The capex incentive amount - CI_{X_t}

4.32. For the purposes of this Annex, in each Regulatory Reporting Year *t* and for each RAB_X, the capex incentive amount (CI_{X_t}) is a sum designed to share equally between the Licensee and customers the value of any outperformance or underperformance of the Licensee against its capex allowances and shall be calculated as follows:

$$CI_{X_t} = (AC_{X_t} + ACIA_{X_t} + ACTS_{X_t} - (QCE_{X_t} - DIOCE_{X_t})) * 50\%$$

Where:

- AC_{X_t}** is the allowed capex as set out at paragraph 4.34;
- ACIA_{X_t}** is the allowed capex (if any) in respect of Regulatory Reporting Year t, for injurious affectation claims, that the Authority determines in a published decision to be appropriate for the Licensee to recover, where X corresponds to the suffix which is assigned to RAB_X at paragraph 4.1;
- ACTS_{X_t}** is the allowed capex (if any) for transmission system capacity or capability, in an amount determined by the Authority (in a published decision giving reasons) to be appropriate in accordance with paragraph 4.35;
- QCE_{X_t}** is the qualifying capex expenditure amount determined in accordance with paragraph 4.16; and
- DIQCE_{X_t}** means the demonstrably inefficient qualifying capex expenditure amount calculated in accordance with paragraph 4.19.

4.33. Allowed capex - AC_{X_t}

- 4.34. For the purposes of this Annex, in each Regulatory Reporting Year t, and for each RAB_X, the allowed capex (AC_{X_t}) amounts shall be calculated as follows:

$$AC_{X_t} = AC_{2010_{X_t}} * RPI_t / RPI_{2010}$$

Where:

- AC_{2010_{X_t}}** is the allowed capex amount, in a 2010 price base, for each RAB_X and for each Regulatory Reporting Year t, and shall be equal to the amounts specified in Table 6 below.

Table 6 - The Transmission Owner Business allowed capex per RAB_X for each Regulatory Reporting Year t (£ million, 2010 prices)²

Year RAB_X	t=2013	t=2014	t=2015	t=2016	t=2017	t=2018
RAB_{TN}	5.65	9.48	23.17	22.96	22.82	11.31 + 11.31 ^e
RAB_{T5Y}	0.30	0.72	0.70	0.70	0.69	0.34 + 0.34 ^e

4.35. Allowed capex for transmission system capacity or capability - ACTS_{X_t}

² See paragraph 2.3 regarding figures in this table marked with an estimation symbol (e).

- 4.36. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X , the allowed capex for transmission system capacity or capability ($ACTS_{X_t}$), is any amount that the Authority determines in a published decision to be appropriate, for the expected incremental efficient costs to increase the transmission system capacity or capability in respect of specific projects.
- 4.37. The value of $ACTS_{X_t}$ in each Regulatory Reporting Year t and for each RAB_X shall be that which the Authority considers appropriate, and for these purposes:
- an allowance may be determined in respect of any project only if the project is sufficiently material and has been requested by the relevant system operator (e.g. SONI) in line with the Transmission Interface Arrangements, in a submission which is in such format and contains such information as may be specified by the Authority for that purpose (e.g. including whole life costs and benefits in an objective cost benefit analysis);
 - no allowance may be determined in respect of any project to the extent to which it takes the form of:
 - distribution network expenditure ; or
 - Asset replacement expenditure which is not necessary for the purposes of increasing the capacity or capability of the transmission system and which does not form part of the Ballylumford switchboard project or the Coolkeeragh-Magherafelt 275 kV overhead line project
 - the Authority may follow such procedure as it considers appropriate prior to making its determination, including by providing for any audit, assessment or consultation in respect of the project submission;
 - the Authority may make its determination subject to conditions with which the Licensee shall be required to comply, including in particular conditions as to any monitoring, audit and reporting in relation to the project; and
 - the Authority may only make a fresh assessment of projects considered in the Final Determination where there has been substantial changes to the nature or scope of these projects, otherwise, the allowances for these projects shall be based on the project cost estimates provided in Table 7 below.

Table 7 - The Transmission Owner Business pre-determined transmission load related project allowances (2010 prices)

Project	Project Name	Allowed capex before adjusting for: real price effects; productivity factors; or price base.
T26	Ballylumford 110kV switchboard	£15.3 million

	replacement	
T27	Airport Road 110/33kV substation	£4.0 million
T30	4 th transformer at Castlereagh 275/110 kV substation	£2.2 million
T31	Armagh Main 110/33 kV substation	£2.0 million
T33	Castlereagh-Knock 110kV partial cable replacement	£1.6 million
T34	Tandragee 275kV substation 2 nd bus coupler	£1.3 million
T38	Cregagh 110kV substation isolators and earth switches	£0.4 million
T39	Hannahstown & Kells 275kV substation	£0.2 million

4.38. The depreciation amount - DEP_t

4.39. For the purposes of this Annex, in each Regulatory Reporting Year t , the depreciation amount (DEP_t) shall be calculated as follows:

$$DEP_t = \sum_{AllRAB_X} (DEPADD_X_t + FDEP_X_t)$$

Where:

\sum_{AllRAB_X} means the summation of the values for all Regulatory Asset Bases;

$DEPADD_X_t$ means the depreciation amount for additional assets for each RAB_X , calculated in accordance with paragraph 4.26; and

$FDEP_X_t$ means the fixed depreciation amount for each RAB_X , calculated in accordance with paragraph 4.11.

5. The return amount - RET_t

- 5.1. For the purposes of this Annex, in Regulatory Reporting Year t , the return amount (RET_t) is calculated as follows:

$$RET_t = \left(\sum_{AllRAB_X} (ORAB_X_t + CRAB_X_t) / 2 \right) * AVWACC_t$$

Where:

\sum_{AllRAB_X} means the summation of the values for every Regulatory Asset Base, RAB_X ;

$ORAB_X_t$ means the opening Regulatory Asset Base in respect of each RAB_X in Regulatory Reporting Year t , has the value established in accordance with paragraph 4.4;

$CRAB_X_t$ means the closing Regulatory Asset Base in respect of each RAB_X in Regulatory Reporting Year t , and is equal to:

$$CE_X_t + CADD_X_t$$

Where:

CE_X_t , is the closing value of existing assets, and has the value calculated in accordance with paragraph 4.9; and

$CADD_X_t$ is the closing value of additional assets, and has the value calculated in accordance with paragraph 4.15.

$AVWACC_t$ means the adjusted vanilla weighted average cost of capital in Regulatory Reporting Year t , and shall be calculated as follows:

$$AVWACC_t = \frac{VWACC_t}{\sqrt{(1 + VWACC_t)}}$$

Where:

$VWACC_t$ means the vanilla weighted average cost of capital in Regulatory Reporting Year t and has a value equal to 4.10%.

6. The opex amount - O_t

- 6.1. For the purposes of paragraph 3.5, in each Regulatory Reporting Year t , the opex amount (O_t) shall be calculated as follows:

$$O_t = QOE_t - DIQOE_t + PTOE_t - DIPTOE_t + OI_t$$

Where:

- QOE_t means the qualifying opex expenditure amount, calculated in accordance with paragraph 6.3;
- $DIQOE_t$ means the demonstrably inefficient qualifying opex expenditure amount, calculated in accordance with paragraph 6.5;
- $PTOE_t$ means the pass through opex expenditure amount, calculated in accordance with paragraph 6.7;
- $DIPTOE_t$ means the demonstrably inefficient pass through opex expenditure amount, calculated in accordance with paragraph 6.11; and
- OI_t means the opex incentive amount in Regulatory Reporting Year t , calculated in accordance with paragraph 6.13.

6.2. The qualifying opex expenditure amount - QOE_t

- 6.3. For the purposes of this Annex, in each Regulatory Reporting Year t , the qualifying opex expenditure amount (QOE_t), shall:

- a) be the value of opex incurred by the Licensee (excluding $PTOE_t$) reasonably allocated or attributed to:
- i. the Transmission Owner Business; and
 - ii. the Regulatory Reporting Year t ; and
- b) exclude any amounts reasonably allocated or attributed to any of the following:
- i. pension deficit repair contributions;
 - ii. the costs recovered or recoverable as part of the Licensee's connection charges levied in accordance with the Licensee's Connection Charging Statement or the costs of any other service that is treated as Excluded Services for the purpose of this Annex;
 - iii. any costs recharged by the Licensee to associated businesses or related parties;
 - iv. any positive Related Party Margin (but excluding any Allowed Related Party Margin) that is charged to the Licensee by a Related Party;
 - v. costs of external advisers incurred by the Licensee in relation to the Competition Commission inquiry which resulted in the Final Determination;
 - vi. any Uncollected Revenue;

- vii. any costs incurred by the Licensee and allowed for as part of the calculation or determination of COL_t ; and
- viii. other costs of any description which the Authority may determine in a published decision from time to time are manifestly unreasonable to include in the qualifying opex expenditure amount.

6.4. Demonstrably inefficient qualifying opex expenditure - $DIQOE_t$

6.5. For the purposes this Annex, in each Regulatory Reporting Year t , $DIQOE_t$ shall be the part (if any) of QOE_t that is Demonstrably Inefficient or Wasteful Expenditure.

6.6. Pass through opex expenditure amount - $PTOE_t$

6.7. For the purposes of this Annex, in each Regulatory Reporting Year t , the pass through opex expenditure amount ($PTOE_t$) shall:

- a) be the value of opex incurred by the Licensee (excluding QOE_t) reasonably allocated or attributed to:
 - i. the Transmission Owner Business; and
 - ii. the Regulatory Reporting Year t ; and
- b) be calculated as follows:

$$PTOE_t = OLF_t + OLD_t$$

Where:

- OLF_t is the opex licence fee amount in Regulatory Reporting Year t , being the licence fee apportioned or allocated to or required from the Licensee under Condition 7 of this Licence;
- OLD_t is the opex legacy D_t amount, calculated in accordance with paragraph 6.9.

6.8. The opex legacy D_t amount - OLD_t

6.9. For the purposes of this Annex, in each Regulatory Reporting Year t , OLD_t is the opex legacy D_t amount incurred by the Licensee that the Authority determines in published decision, insofar as the Licensee has incurred these costs in line with the original approval terms, for each of the items referenced in Table 8 below:

Table 8 - The Transmission Owner Business opex legacy Dt amounts (2010 prices)

Legacy Dt items	Approval reference date(s)	Total maximum RP5 spend
SONI pension deficit repair	30 June 2008	£4.3 million
North-South Interconnector	12 Jan 2012, 11 June 2012, and 20 September 2012	£4.1 million

6.10. **Demonstrably inefficient pass through opex expenditure - DIPTOE_t**

6.11. For the purposes this Annex, in each Regulatory Reporting Year *t*, DIPTOE_t shall be the part (if any) of PTOE_t that is Demonstrably Inefficient or Wasteful Expenditure.

6.12. **The opex incentive amount - OI_t**

6.13. For the purposes of this Annex, in each Regulatory Reporting Year *t*, the opex incentive amount (OI_t) is a sum designed to share equally between the Licensee and customers the value of any outperformance or underperformance of the Licensee against its opex allowances and shall be calculated as follows:

$$OI_t = (AO_t + AOO_t - (QOE_t - DIQOE_t)) * 50\%$$

Where:

AO_t is the allowed opex amount calculated in accordance with paragraph 6.15;

AOO_t is the allowed opex other amount calculated in accordance with paragraph 6.17;

QOE_t is the qualifying opex expenditure amount calculated in accordance with paragraph 6.3; and

DIQOE_t is the demonstrably inefficient qualifying opex expenditure amount calculated in accordance with paragraph 6.5.

6.14. **Allowed opex amount - AO_t**

6.15. For the purposes of this Annex, in each Regulatory Reporting Year *t*, the allowed opex (AO_t) amounts shall be calculated as follows:

$$AO_t = AO_{2010_t} * RPI_t / RPI_{2010}$$

Where:

AO_{2010_t} means the allowed opex amount, in a 2010 price base, for each Regulatory Reporting Year t , and shall be equal to the amounts specified in specified in Table 9 below:

Table 9 - The Transmission Owner Business allowed opex amount for each Regulatory Reporting Year t (£ million, 2010 prices)³

Year	t=2013	t=2014	t=2015	t=2016	t=2017	t=2018
Term						
Allowed opex amount (AO_{2010_t})	5.73	5.84	5.65	5.64	5.63	2.80 + 2.80e

6.16. Allowed opex other amount - AOO_t

6.17. For the purposes of this Annex, in each Regulatory Reporting Year t , the allowed opex other amount (AOO_t), being the amounts for other opex items listed immediately below, shall be calculated as follows:

$$AOO_t = IA_t + RR_t$$

Where:

IA_t is the allowed opex (if any) amount in Regulatory Reporting Year t , for injurious affectation, being the amount that the Authority determines in a published decision to be appropriate for the Licensee to recover in respect of injurious affectation claims in that Regulatory Reporting Year; and

RR_t is the allowed opex (if any) amount in Regulatory Reporting Year t , for regulatory reporting, being the additional amount that the Authority determines in a published decision to be appropriate for the Licensee to recover in that Regulatory Reporting Year, in respect of regulatory reporting costs.

³ See paragraph 2.3 regarding figures in this table marked with an estimation symbol (e).

7. The pension deficit amount - P_t

- 7.1. For the purposes of this Annex, in each Regulatory Reporting Year t , P_t means the pension deficit amount, including the ERDC amount in Regulatory Reporting Year t , and shall be calculated as follows:

$$P_t = P_{2010_t} * RPI_t / RPI_{2010}$$

Where:

P_{2010_t} means the pension deficit amount, in a 2010 price base, for each Regulatory Reporting Year t , and shall be equal to the amounts specified in specified in Table 10 below:

Table 10 - The Transmission Owner Business pension deficit amount for each Regulatory Reporting Year t (£ million, 2010 prices)⁴

Period Term	t=2013	t=2014	t=2015	t=2016	t=2017	t=2018
Historic Deficit Repair	1.10	1.10	1.10	1.10	1.10	0.55 + 0.55e
ERDC Disallowance	(0.31)	(0.31)	(0.31)	(0.31)	(0.31)	(0.16) + (0.16)e
Pension deficit amount (P_{2010_t})	0.78	0.78	0.78	0.78	0.78	0.39 + 0.39e

⁴ See paragraph 2.3 regarding figures in this table marked with an estimation symbol (e).

8. The costs of the investigation amount (COI_t)

- 8.1. For the purposes of paragraph 3.5, in each Regulatory Reporting Year *t*, the costs of the investigation amount (COI_t), shall be calculated as follows:

$$COI_t = COI_{2010_t} * RPI_t / RPI_{2010}$$

Where:

COI_{2010_t} means the costs of the investigation amount, in a 2010 price base, and shall be equal to zero in every Regulatory Reporting Year *t* except for Regulatory Reporting Year *t* = 2014 where it shall be equal to £0.181 million.

9. The Tax Amount - TAX_t

9.1. For the purposes of paragraph 3.5, in Regulatory Reporting Year t , the tax amount (TAX_t) is calculated as follows in nominal prices:

$$TAX_t = TR_t / (1 - TR_t) * (RET_t + DEP_t - INT_t - CA_t)$$

Where:

- TR_t means the corporation Tax Rate applicable in Northern Ireland in Regulatory Reporting Year t , as specified from time to time by HMRC;
- RET_t means the return amount in Regulatory Reporting Year t , calculated in accordance with paragraph 5.1;
- DEP_t means the depreciation amount in Regulatory Reporting Year t , calculated in accordance with paragraph 4.38;
- INT_t means an amount equal to the Interest on the value of the average of all Regulatory Asset Bases, in Regulatory Reporting Year t and shall be calculated as follows:

$$INT_t = \frac{\left(\sum_{AllRAB_X} (ORAB_X_t + CRAB_X_t) \right)}{2} * G * NCOD$$

Where:

- \sum_{AllRAB_X} means the summation of the values for all Regulatory Asset Bases;
- $ORAB_X_t$ is the value of the opening Regulatory Asset Base for each RAB_X in Regulatory Reporting Year t , calculated in accordance with paragraph 4.4;
- $CRAB_X_t$ is the value of the closing Regulatory Asset Base for each RAB_X in Regulatory Reporting Year t , calculated in accordance with paragraph 5.1;
- G means notional gearing and has the value of 45%;
- $NCOD$ means the notional nominal cost of debt and has the value of 6.45%; and

CA_t means, in each Regulatory Reporting Year t , an amount equal to the value of regulatory capital allowances in accordance with guidelines published by HMRC for the purposes of calculating Maximum Regulated Transmission Revenue in respect of that Regulatory Reporting Year, calculated on a notional basis, under the hypothetical assumptions that:

- i. the regulatory capital allowances are , while considering ii, iii, and iv immediately below, the capital allowances that would be applicable if the Licensee's opex in

Regulatory Reporting Year t were to be equal to O_t and the Licensee's capex in Regulatory Reporting Year t were to be equal to:

$$\sum_{AllRAB_X} (QCE_X_t - DIOCE_X_t + PTCE_X_t - DIPTCE_X_t - CD_X_t + CI_X_t)$$

Where:

\sum_{AllRAB_X} means the summation of the values for all Regulatory Asset Bases;

QCE_X_t means the qualifying capex expenditure amount, calculated in accordance with paragraph 4.17;

$DIOCE_X_t$ means the demonstrably inefficient qualifying capex expenditure amount, calculated in accordance with paragraph 4.19;

$PTCE_X_t$ means the pass through capex expenditure amount, calculated in accordance with paragraph 4.21;

$DIPTCE_X_t$ means the demonstrably inefficient pass through capex expenditure amount, calculated in accordance with paragraph 4.24;

CD_X_t means the capex disposal amount, calculated in accordance with paragraph 4.30; and

CI_X_t means the capex incentive amount, calculated in accordance with paragraph 4.32; and

- ii. the regulatory capital allowances are the maximum capital allowance available to the Licensee, irrespective of whether or not the Licensee chooses to utilise such allowances in full;
- iii. if the Licensee opts to defer capital allowance claims in respect of any capital allowance in any given year, the amount of capital allowance available in any subsequent year excludes any amounts for which claims were so deferred (to avoid double counting any capital allowance);
- iv. the regulatory capital allowances should include an appropriate allowance in relation to Deferred Revenue Expenditure which is, subject to i, ii, iii above and vi below, consistent with the Licensee's treatment of such expenditure for the purposes of its tax submissions to HMRC;
- v. the regulatory capital allowances are, subject to i, ii, iii above and vi below, calculated in a manner that is consistent with the Licensee's tax submissions to HMRC; and
- vi. the opening written down values are as specified in Table 11 below:

Table 11 - The Transmission Owner Business opening tax capital allowance values (£ million, nominal prices)

Category	Opening RP5 written down value
General Pool	0.00
Long life asset pool	65.05
Deferred revenue	24.50 ⁵

⁵ The gross value of capital additions before RP5 was £27.18million

10. Not Used

11. The change of law amount - COL_t

11.1. Where it appears to the Licensee that there has been, or is likely to be, a relevant change of law which has had or is likely to have a material effect on the financial position and performance of the Transmission Owner Business, the Licensee may require the Authority to determine whether the relevant change of law has had or is likely to have such an effect, and if so what amounts, if any, should be treated as allowed change of law revenues in calculating COL_t for Regulatory Reporting Year t and each succeeding Regulatory Reporting Year to ensure that the financial position and performance of the Transmission Owner Business is likely, so far as reasonably practicable, to be the same as if the relevant change of law had not taken place. In determining the matters provided for in the paragraph above, the Authority shall have regard, where relevant, to:

- a) the period over which the Licensee shall incur costs by reason of the relevant change of law;
- b) the incremental costs (including financing costs) which the Licensee has been or will be required to incur as a consequence of the relevant change of law; and
- c) the other circumstances of the case.

11.2. A notice given to the Authority by the Licensee pursuant to paragraph 11.1 shall contain or be accompanied by all relevant details of the relevant change of law and such other information as the Authority shall require and, unless the Authority shall otherwise consent, shall be given not later than the first day of October immediately preceding the first of the Regulatory Reporting Years in respect of which the Licensee wishes any change in such elements to take effect.

11.3. In this paragraph 11:

“legal requirement” means, in relation to the Licensee, any of the following:

- (a) any enactment to the extent that it applies to the Transmission Owner Business;
- (b) any regulation made by the Council or the Commission of the European Communities to the extent that it applies to the Licensee and impacts on its Transmission Owner Business or a decision taken by the said Commission which is binding on the Licensee and impacts on the Transmission Owner Business to the extent that it is so binding;
- (c) any interpretation of law, or finding, contained in any judgment given by a court or tribunal of competent jurisdiction in respect of which the period for making an

appeal has expired which requires any legal requirement falling within (a) or (b) above to have effect in a way different to that in which it previously had effect;

- (d) any direction of a competent authority other than, insofar as it applies to the Transmission Owner Business, the Authority (except in the exercise of its powers under paragraph 4 of Condition 27) or the Department; and

“relevant change of law” means the application to the Licensee of any legal requirement which did not previously so apply or the change of any legal requirement relating to the Licensee (including any such legal requirement ceasing to apply, being withdrawn or not being renewed), in each case as applicable in respect of the Transmission Owner Business.

12. The correction factor amount - K_t

12.1. For the purposes of paragraph 3.5 and for the closure of the RP5 period, the correction factor amount (K_t) shall be calculated as follows:

a) in Regulatory Reporting Year $t = 2013$:

$$K_t = K_{RP4}$$

Where:

KRP4 means the closing K factor for the RP4 price control at 31st March 2012 and has the value of £13.087 million.

b) in Regulatory Reporting Years $t = 2014$, $t = 2015$, $t = 2016$, $t = 2017$ and $t = 2018$:

$$K_t = (RP5R_{t-1} - ARP5_{t-1}) * (1 + I_t) + RP4CI_t$$

Where:

RP5R_{t-1} means the Maximum Regulated Transmission Revenue, in Regulatory Reporting Year $t-1$;

ARP5_{t-1} means the actual Regulated Transmission Revenue recovered through Transmission Charges in Regulatory Reporting Year $t-1$; and

I_t means the Average Specified Rate; and

RP4CI_t means the amounts due to the Licensee under the capex efficiency incentive that applied under the RP4 price control.

13. Information to be provided to the Authority in connection with the Transmission Charge Restriction Conditions

13.1. Introduction

13.2. In addition to, and without prejudice to, the provisions of Condition 8 of the Licence, the Licensee shall, in relation to the Transmission Charge Restriction Conditions, furnish the Authority with Specified Information as set out in this paragraph 13.

13.3. Specified Information

13.4. The Licensee shall, subject to other provisions set out in the Licence and in this paragraph 13, provide to the Authority the following Specified Information:

- a) forecasts and/or estimates in accordance with paragraph 13.6, with regards to the setting of Transmission Charges;
- b) any explanation and/or statement as to whether or not the provisions at paragraph 13.11 are likely to be applicable, with regards to the restriction of Transmission Charges;
- c) information to comply with the Authority's Regulatory Instructions and Guidance (RIGs) in accordance with paragraph 13.15;
- d) information which provides a reconciliation of the values published in the accounting statements (referred to at Condition 2 of the Licence) for opex and capex with:
 - i. the qualifying opex expenditure amount (QOE_t) and the pass through opex expenditure amount ($PTOE_t$);
 - ii. the qualifying capex expenditure amount (QCE_{X_t}) for each RAB_X and the pass through capex expenditure amount ($PTCE_{X_t}$) for each RAB_X; and
 - iii. the cost information provided to comply with the Authority's RIGs in accordance with paragraph 13.15;
- e) information regarding pension deficits, in accordance with paragraph 13.20;
- f) information on historical revenues, including:
 - i. all data used in the calculation of the Licensee's Maximum Regulated Transmission Revenue, in accordance with paragraph 13.21;
 - ii. the revenue derived from Excluded Services (showing separately the revenue from each category of excluded service) in accordance with paragraph 14.6;
- g) information on network investment projects and volumes, including:
 - i. a forecast of the network investment for the RP6 price control period, in accordance with paragraph 13.25; and
 - ii. information on pre-funded costs, in accordance with paragraph 13.26;
 - iii. information on outturn RP5 projects and volumes, and planned RP5 projects and volumes in accordance with paragraph 13.29; and

- h) information on the Licensee's ESQCR compliance, in accordance with paragraph 13.32;
- i) information on tax, in accordance with paragraph 13.34; and
- j) the statutory accounts of any Related Party, in accordance with paragraph 13.37.

13.5. Unless otherwise specified in this Annex or the Licence, the Specified Information listed at paragraph 13.4 shall be submitted:

- a) for the time period as the Authority may reasonably require and as may be specified in directions issued by the Authority;
- b) by a date as the Authority may reasonably require and as may be specified in directions issued by the Authority;
- c) in a format as the Authority may reasonably require and as may be specified in directions issued by the Authority; and
- d) to the relevant employees of the Authority and to the electricity_network_reporting@uregni.gov.uk mailbox or subsequent equivalent mailbox.

13.6. **Forecasts / estimates with regards to setting Transmission Charges**

13.7. Where any change is intended to be made in Transmission Charges regulated under paragraph 3, the Licensee shall not later than 14 days prior to the time of publication of such change, provide the Authority with:

- a) a written forecast of the Maximum Regulated Transmission Revenue, together with its components, in respect of each Regulatory Reporting Year *t* upon which the intended change would affect;
- b) a written estimate of the Maximum Regulated Transmission Revenue, together with its components, in respect of each Regulatory Reporting Year prior to the first Regulatory Reporting Year *t* upon which the intended change would affect; and
- c) a written forecast of the over- or under-recovery in all future Regulatory Tariff Years for which the Licensee forecasts an over- or under- recovery.

13.8. If within 3 months of the commencement of any Regulatory Tariff Year *t* the Licensee has not made any such change in charges as is referred to in paragraph 13.7, the Licensee shall provide the Authority with:

- a) a written forecast of the Maximum Regulated Transmission Revenue, together with its components, in respect of each Regulatory Reporting Year upon which Regulatory Tariff Year *t* has an effect; and
- b) a written forecast of the over- or under-recovery in all future Regulatory Tariff Years for which the Licensee forecasts an over- or under- recovery.

13.9. Any forecast or estimate provided in accordance with paragraph 13.7 or 13.8 shall be accompanied by such information as regards the assumptions underlying the forecast or

estimate as may be necessary to enable the Authority to be satisfied that the forecast or estimate has been properly prepared on a consistent basis.

13.10. In addition, any forecast or estimate provided in accordance with paragraph 13.7 or 13.8 shall be published by the Licensee on the Licensee's website.

13.11. Restriction of Transmission Charges

13.12. If, in respect of any Regulatory Tariff Year commencing on or after 1 October 2017, the Regulated Transmission Revenue exceeds the Maximum Regulated Transmission Revenue by more than the Permitted One-Year Percentage, the Licensee shall furnish an explanation to the Authority, and in the next following Regulatory Tariff Year, the Licensee shall not effect any increase in Transmission Charges unless it has demonstrated to the reasonable satisfaction of the Authority that the Regulated Transmission Revenue would not be likely to exceed the Maximum Regulated Transmission Revenue in that following Regulatory Tariff Year.

13.13. If, in respect of any three successive Regulatory Tariff Years commencing on or after 1 October 2017, the sum of the amounts by which the Regulated Transmission Revenue has exceeded the Maximum Regulated Transmission Revenue, is more than the Permitted Three-Year Percentage, then in the next following Regulatory Tariff Year the Licensee shall, if required by the Authority, adjust its Transmission Charges such that the Regulated Transmission Revenue would not be likely, in the judgement of the Authority, to exceed the Maximum Regulatory Transmission Revenue in that next following Regulatory Tariff Year.

13.14. Not later than six weeks after the commencement of each Regulatory Tariff Year, the Licensee shall send to the Authority a statement as to:

- a) whether or not the provisions of:
 - i. paragraph 13.12 are likely to be applicable in consequence of the Regulated Transmission Revenue in the preceding Regulatory Tariff Year; and/ or
 - ii. paragraph 13.13 are likely to be applicable in consequence of the Regulated Transmission Revenue in the preceding 3 Regulatory Tariff Years; and
- b) the Licensee's best estimate as to the cumulative over- or under- recovery at the last day of the most recently ended Regulatory Tariff Year.

13.15. Information to comply with Authority's Regulatory Instructions and Guidance (RIGs)

13.16. The Licensee shall, furnish the Authority with any information required to comply with the Authority's RIGs, as may change from time to time.

13.17. The Licensee shall ensure that the RIGs information referred to at paragraph 13.16 includes estimations of the Licensee's confidence in that information and is certified by a relevant director.

13.18. The Licensee shall, publish on the Licensee's website, the information supplied in accordance with paragraph 13.16, subject to the minimum redactions considered necessary by the Authority to protect commercially sensitive information.

13.19. Pension deficits

13.20. The Licensee shall, furnish the Authority with relevant information regarding any pension deficits, splitting accordingly the historic deficit (assuming a cut-off date of 31 March 2012) and incremental deficit.

13.21. Historical data used in the calculation of the Licensee's Maximum Regulated Transmission Revenue

13.22. The Licensee shall, furnish the Authority with all historical data used to calculate the Maximum Regulated Transmission Revenue as set out in the formulas in this Annex.

13.23. The Licensee shall, for the period from 1 April 2012, publish, on the Licensee's website and in the Licensee's accounting statements referred to in Condition 2 of the Licence, the data referred to at 13.22.

13.24. Forecast network investment in the RP6 price control period

13.25. The Licensee shall, on an annual basis submit to the Authority the Licensee's estimate of the expected investments, volumes and projects for the RP6 price control period.

13.26. Information on pre-funded costs

13.27. The Licensee shall, on an annual basis submit to the Authority an estimate of the pre-funded costs, being the network investments, volumes and projects required in periods after RP5 which can be attributed to the cancellation, reduction or deferral of any investments, volumes or projects that the Competition Commission assumed as part of the cost assessment underpinning its Final Determination (the planned investments, volumes and projects).

13.28. The Licensee shall submit to the Authority, on an annual basis, to supplement the information referred to at paragraph 13.27, reconciliations of the information referred to at paragraph 13.27 to the planned investments, volumes and projects specified at Appendix 1 and Appendix 2 below.

13.29. Information on the outturn RP5 investments, projects and volumes, and planned RP5 investments, projects and volumes

13.30. The Licensee shall, on an annual basis, for the RP5 period, submit to the Authority:

- a) information on outturn investments, volumes and projects; and
- b) information on planned investments, volumes and projects.

13.31. The Licensee shall submit to the Authority, on an annual basis, to supplement the information referred to at paragraph 13.30, reconciliations of the information referred to at paragraph 13.30 to the planned investments, volumes and projects, specified at Appendix 1 and Appendix 2 below.

13.32. Reporting on the Licensee's ESQCR compliance

13.33. The Licensee shall, report on the Licensee's ESQCR compliance, with additional details on the Licensee's patrolling activity, including a split of low voltage work into low voltage undergrounds and low voltage overhead lines.

13.34. Information on tax

13.35. The Licensee shall, no later than 12 months after the end of each Regulatory Reporting Year, prepare and submit to the Authority an annual report, in a form to be approved by the Authority, setting out:

- a) audited tax reports that enable a full reconciliation between:
 - i. information submitted to HMRC on the Licensee's tax affairs; and
 - ii. information used for the calculation of the tax element of the Licensee's Maximum Regulated Transmission Revenue, as calculated at paragraph 9 of this Annex;
- b) information submitted to HMRC on the Licensee's tax affairs;
- c) information used for the calculation of the tax element of the Licensee's Maximum Regulated Transmission Revenue, as calculated at paragraph 9 of this Annex; and
- d) any retrospective adjustments in respect of previous years together with any restatement of 13.35.a), 13.35.b) and 13.35.c).

13.36. The Licensee shall, on an annual basis, publish on the Licensee's website the information supplied under 13.35.a) and, to the extent that it relates to information supplied under 13.35.a), under 13.35.d), subject to the minimum redactions, considered necessary by the Authority, to protect commercially sensitive information.

13.37. The statutory accounts of any Related Party

13.38. The Licensee shall, no later than 10 months after the end of each Regulatory Reporting Year, prepare and submit to the Authority the financial statements of any Related Party, for the Regulatory Reporting Year, with whom the Licensee has had a transaction in that Regulatory Reporting Year.

14. Excluded Services for purposes of Transmission Owner Business

14.1. There may be treated as Excluded Services provided by the Transmission Owner Business such services in respect of which charges are made which:

- a) do not fall within paragraph 14.2; and
 - b) may (subject to paragraph 14.7) be determined by the Licensee as falling under one of the principles set out in paragraphs 14.3 to 14.5.
- 14.2. No service provided as part of the Transmission Owner Business shall be treated as an excluded service insofar as it relates to the provision of services remunerated under charges in accordance with Condition 22 including (without prejudice to the foregoing):
- a) the transport of electricity;
 - b) the carrying out of works for the installation of electric lines or electrical plant (not otherwise payable in the form of connection charges) for the purpose of maintaining or upgrading the Licensee's transmission system;
 - c) the carrying out of works or the provision of maintenance or repair or other services for the purpose of enabling the Licensee to comply with Conditions 19 and 26, the Electricity Supply Regulations (Northern Ireland) 1991 as amended by the Electricity Supply (Amendment) Regulations (Northern Ireland) 1993 or any regulations made under Article 32 of the Order or any other enactment relating to safety or standards applicable in respect of the Transmission Owner Business;
 - d) the provision, installation and maintenance of any meters, switchgear or other electrical plant ancillary to the grant of use of system.
- 14.3. The whole or an appropriate proportion (as the case may be) of the charges of the type described in paragraph 3 of Condition 22 and borne by any person as connection charges in respect of connections made after the grant of this Licence may be treated as Excluded Services.
- 14.4. There may be treated as an excluded service charge for the relocation of electric lines or electrical plant and the carrying out of works associated therewith pursuant to a statutory obligation (other than under Article 12(2) of the Order) imposed on the Licensee.
- 14.5. There may be treated as an excluded service any service of a type not referred to above which:
- a) consists in the provision of services for the specific benefit of a third party requesting the same; and
 - b) is not made available as a normal part of the Transmission Owner Business remunerated by Transmission Charges, including (without prejudice to the foregoing):
 - i. special metering (including "time of day" metering) to facilitate energy saving programmes for the benefit of customers requesting the same;
 - ii. prepayment metering equipment;
 - iii. charges for moving mains, services or meters forming part of the Licensee's transmission system to accommodate extension, re-design or re-development of any premises on which the same are located or to which they are connected; and

- iv. the provision of electric lines and electrical plant (a) insofar as the same are required for the specific purpose of enabling the provision of top-up or standby or (b) to provide a higher degree of security than is required for the purposes of complying with Condition 19.

14.6. The Licensee shall following the end of each Regulatory Reporting Year furnish to the Authority, as being one of the items of Specified Information referred to in paragraph 13.3, details specifying separately the nature of all services provided as part of the Transmission Owner Business and treated as Excluded Services by the Licensee during the course of such year and stating the revenues derived in respect of each such service so treated.

14.7. Where the Authority is satisfied that it is reasonable in all the circumstances that any service treated by the Licensee as being or not being an excluded service should not be so treated, the Authority shall issue directions to that effect. Any such directions may, where a service is directed to be treated as an excluded service, contain such conditions as the Authority shall see fit in relation to the charges which the Licensee may make for such excluded service and the other terms and conditions upon which the Licensee may provide such excluded service. In accordance with the terms of such directions, such service shall cease to be treated as an excluded service with effect from the date of issue of such directions or such earlier date as may be specified in the directions.

15. Allowances in respect of security costs

15.1. At any time during a Fuel Security Event, the Authority may (having regard to its duties under the Energy Order) by means of directions:

- a) suspend or modify for the unexpired term of the Fuel Security Event the Transmission Charge Restriction Conditions or any part or parts thereof; or
- b) introduce for the unexpired term of the Fuel Security Event new Transmission Charge Restriction Conditions,

in either case, so as to make such provision as in the opinion or estimation of the Authority is requisite or appropriate to enable the Licensee to recover by means of appropriate equitable increases in the charges made in the course of the Transmission Owner Business an amount estimated as being equal to the Licensee's allowed transmission related security costs during such event, and the Licensee shall comply with the terms of any directions so issued.

15.2. Subject to paragraphs 15.3 and 15.5, the Licensee shall in any Regulatory Reporting Year be entitled to recover an aggregate amount equal to the Licensee's allowed transmission related security costs in that year or (insofar as not previously recovered) any previous year, by means of appropriate equitable increases in the charges made by the Licensee in the course of the Transmission Owner Business.

15.3. Paragraph 15.2 shall not apply insofar as such Licensee's allowed transmission related security costs:

- a) were otherwise recovered by the Licensee; or
- b) were taken into account by the Authority in setting charge restriction conditions by means of directions issued under paragraph 15.1.

15.4. The Licensee shall following the end of each Regulatory Reporting Year provide to the Authority details in respect of that Regulatory Reporting Year of:

- a) the aggregate amounts charged under paragraph 15.2 on account of the Licensee's allowed transmission related security costs; and
- b) the bases and calculations underlying the increases in charges made by the Licensee in the course of the Transmission Owner Business under paragraph 15.2.

15.5. Where the Authority is satisfied that the Licensee has recovered amounts in excess of the Licensee's allowed transmission related security costs, the Authority may issue directions requiring the Licensee to take such steps as may be specified to reimburse customers of the Transmission Owner Business for the excess amounts charged to them, and the Licensee shall comply with any directions so issued.

- 15.6. No amounts charged by the Licensee under this paragraph 15 (whether or not subsequently required to be reimbursed) shall be taken into account for the purpose of applying the transmission charge restriction provisions of paragraph 3.

16. Duration of the charge restriction conditions

- 16.1. Subject to the following paragraphs of this Annex, the Transmission Charge Restriction Conditions shall apply so long as the Licence continues in force.
- 16.2. The Transmission Charge Restriction Conditions outlined in paragraph 3.2 do not apply to tariff years from 1 October 2017 onwards. In the absence of modifications to those provisions, the licensee shall not be able to increase (in nominal terms) any of the tariffs or charges contributing to its Regulated Transmission Revenue above the levels applicable on 1 October 2016.
- 16.3. **Disapplication**
- 16.4. The Transmission Charge Restriction Conditions shall cease to have effect (in whole or in part, as the case may be) if the Licensee delivers to the Authority a request (a "Disapplication Request") made in accordance with paragraph 16.6 and:
- a) the Authority agrees in writing to the request; or
 - b) the application of this Annex (or any part of it) is terminated by a notice (a "Disapplication Notice") given by the Licensee in accordance with paragraph 16.6.c) and not withdrawn.
- 16.5. Save where the Authority agrees otherwise, no disapplication following delivery of a Disapplication Request pursuant to paragraphs 16.4 to 16.10 shall have effect earlier than the date (the "Disapplication Date") which is the later of:
- a) the date occurring 18 months after delivery of the Disapplication Request; and
 - b) 30 September 2017.
- 16.6. A Disapplication Request pursuant to paragraphs 16.4 to 16.10 shall:
- a) be in writing addressed to the Authority;
 - b) specify this Annex or any part of it to which the request relates (excluding in either case paragraphs 16.4 to 16.10); and
 - c) state the date from which the Licensee wishes the Authority to agree that the Annex or specified part of it shall cease to have effect.
- 16.7. A Disapplication Notice pursuant to paragraphs 16.4 to 16.10:
- a) may be given in the circumstances described in either paragraph 16.8 or 16.9;
 - b) may be withdrawn at any time prior to the Disapplication Date; and
 - c) where it is given, shall:
 - i. be in writing addressed to the Authority;
 - ii. specify this Annex or any part of it (which shall comprise only such part as was specified in the Disapplication Request) to which the notice relates; and

- iii. state the date from which the Licensee wishes the notice to take effect, which shall not be earlier than the Disapplication Date.

16.8. The circumstances described in this paragraph are that, by the beginning of the period of six months which will end with the Disapplication Date, the Authority has not in response to the Disapplication Request published a decision under Article 14(8) of the Order to modify:

- a) this Annex (or any part of it) to which the request relates; or
- b) paragraphs 16.4 to 16.10, so as to remove the right of the Licensee to give to the Authority a Disapplication Notice in respect of the relevant Disapplication Request.

16.9. The circumstances described in this paragraph are that:

- a) by no later than the beginning of the period of six months which will end with the Disapplication Date, the Authority has in response to the Disapplication Request published a decision of a type referred to in paragraph 16.8 above;
- b) the Licensee has exercised its right to appeal to the CMA against that decision in accordance with Article 14B of the Order;
- c) the CMA has, in respect of the provisions to which the Disapplication Request relates:
 - i. quashed the decision of the Authority under Article 14E(2)(a) of the Order; and
 - ii. neither remitted the matter back to the Authority under Article 14E(2)(b) of the Order nor substituted its own decision for that of the Authority under Article 14E(2)(c) of the Order; and
- d) no more than 30 days has elapsed since the date on which the CMA quashed the decision of the Authority.

16.10. A Disapplication Request or Disapplication Notice served under paragraphs 16.4 to 16.10 may be served in respect of a specified geographic area.

Appendix 1 - The Transmission Owner Business: planned investments, volumes and projects capitalised to RAB (2010 prices)

<i>Project ID</i>	<i>Project name</i>	<i>Asset name / further information</i>	<i>Predefined output</i>	<i>Direct</i>	<i>Indirect</i>	<i>Allowed capex</i>
T06	Transmission Plant Switch Houses	Refurbish two 275kV substation buildings and associated works	Specified improvement at specified location(s), as per BPQ	£2.22 million	£0.11 million	£2.33 million
T07	Kells 110kV substation	Increase fault rating of SWGR to 40kA	Specified improvement at specified location(s), as per BPQ	£7.23 million	£0.37 million	£7.60 million
T08	Tandragee 110kV Substation	Increase fault rating of SWGR to 40kA	Specified improvement at specified location(s), as per BPQ	£2.84 million	£0.15 million	£2.99 million
T09	Castlereagh 110kV Substation	Increase fault rating of SWGR to 40kA	Specified improvement at specified location(s), as per BPQ	£2.70 million	£0.14 million	£2.84 million
T10	110kV swithgear at 3 substations	Replacement SWGR at 3 substations (Ballyvallah, Dungannon, Lisburn)	Specified number of units	£5.63 million	£0.29 million	£5.92 million
		Associated cable replacement	Linked to associated deliverable			
T11	275kV Plant Ancillaries	Replacement 275kV switchgear and other equipment	As per BPQ	£4.94 million	£0.26 million	£5.19 million
		Catenaries	N/A			
		Cladding replacement	Specified improvement at specified location(s)			
		Protection	Specified improvement at specified location(s)			
		Asbestos removal	Specified improvement at specified location(s)			
		Concrete structure refurbishment	N/A			
		Transformer Bunding	Specified improvement at specified location(s)			
		Holthum	N/A			
		Security systems	Specified improvement at specified			

			location(s)			
		Generator	Replace 5 standby generators			
		DC Standby systems	Specified improvement at specified location(s)			
		FMJL & Reyrolle Hairpin CTs	N/A			
		Earthing	Specified improvement at specified location(s)			
		AC rewire	Specified improvement at specified location(s)			
		Control room refurb	Specified improvement at specified location(s)			
		Drainage	N/A			
T12	110kV Plant ancillaries	Replacement 110kV switchgear and other equipment.	As per BPQ	£6.22 million	£0.32 million	£6.55 million
		Protection	Specified improvement at specified location(s)			
		Cable ducts	N/A			
		Structure refurb	N/A			
		Tx Bunding	Specified improvement at specified location(s)			
		Holthum	N/A			
		Generator	Replace 2 standby generators			
		External lighting	N/A			
		DC standby systems	Specified improvement at specified location(s)			
		AC system rewire	Specified improvement at specified location(s)			
		Busbars, isolators and VTs	N/A			
		Security	Specified improvement at specified location(s)			
		CO2 refurb	N/A			
		Eathing	N/A			
		Civil	N/A			
		Strabane Main transformer refurbishment	Specified improvement at specified location(s)			
T13	275kV/110kV Transformer Replacement	Transformers (275/110kV)	Specified number of units	£6.92 million	£0.36 million	£7.28 million

T14	110/33kV Transformer Replacement	Procurement of transformers	Specified number of units	£6.16 million	£0.32 million	£6.48 million
		Installation of transformers	Linked to associated deliverable			
		Associated cable replacement	Linked to associated deliverable			
T15	22kV Reactor replacement	Procurement of reactors	Specified number of units	£1.25 million	£0.06 million	£1.31 million
		Installation of reactors	Linked to associated deliverable			
T16	Transmission Transformer Refurbishment	275kV Bushing Refurbishment	Specified number of units	£1.02 million	£0.05 million	£1.07 million
		275kV Plant Painting	Specified number of units			
		275kV disconnector Refurbishment and spares	Specified improvement at specified location(s)			
		275/110kV TX Tap changer refurbishment	Specified number of units			
		110kV Cooler replacements	Specified number of units			
		110kV Bushings replacements	Specified number of units			
		110kV Plant Painting	Specified number of units			
		110kV Disconnector Refurbishment	Specified improvement at specified location(s)			
		110/33kV TX Tap changer refurbishment	Specified number of units			
T17	275kV Overhead Line Asset Replacement	Replace colour and number plates	Specified number of units	£6.03 million	£2.39 million	£8.42 million
		Spacers	Specified number of units			
		Replace suspension insulator	Specified number of units			
		Replace tension insulator	Specified number of units			
		Tower Painting	Specified number of units			
		Foundation assessment (towers)	N/A			
		Condition assessment	N/A			
		Vegetation	N/A			
T19	110kV Overhead Line Asset Replacement	Replace conductors	Specified number of units	£6.33 million	£2.51 million	£8.85 million
		Replace colour and number plates	Specified number of units			

		Replace suspension insulator	Specified number of units			
		Replace damper	Specified number of units			
		Replace tension insulator	Specified number of units			
		Tower painting	Specified number of units			
		Replace wood poles	Specified number of units			
		Foundation assessment	N/A			
		Condition assessment	N/A			
		Vegetation Management	N/A			
T20	Transmission Cables	Refurbishment of cable tunnels & installation of permanent pumps	Specified improvement at specified location(s)	£4.17 million	£0.22 million	£4.39 million
		Replacement of 110kV double circuit (2.6km)	Specified number of units			
		Replacement of Sheath Voltage Limiters	Specified improvement at specified location(s)			
		Refurbishment cost of double circuit Donegal Main - Whitla Street	Specified improvement at specified location(s)			
		Replacement of existing mineral oil with modern DDB fluid	Specified number of units			
		Refurbishment of 110kV sealing ends	N/A			
		Refurbishment of hydraulic ancillary systems	Specified improvement at specified location(s)			
		Sheath testing programme and refurbishment	N/A			
T21	Fault and emergency ⁶	N/A	N/A			£2.77 million
T22	Transmission reactive ⁷	N/A	N/A			£0.50 million
T23	Design & Consultancy	N/A	N/A			£3.30 million
T36	Belfast North Main 110/33kV Bulk Supply Substation	Replace 90MVA transformer	Specified number of units	£1.43 million	£0.07 million	£1.51 million
T40	ESQCR	Full survey and asset register	A full ESQCR asset register and associated reporting	£0.77 million	£0.00 million	£0.77 million

⁶ This category of expenditure shall not be included in the calculation of pre-funded costs for price controls subsequent to RP5.

⁷ This category of expenditure shall not be included in the calculation of pre-funded costs for price controls subsequent to RP5.

T42	Substation Flooding Enforcement	Permanent protection to at risk substations	Specified improvement at specified location(s)	£0.55 million	£0.03 million	£0.58 million
N/A	Non-network capex: ICT	IT infrastructure, telecoms infrastructure and business applications	As per BPQ but after FD adjustments			£2.58 million
N/A	NIE Powerteam assets used for capex	N/A	N/A			£0.88 million
N/A	NIE Powerteam tools and equipment used for capex, plus non-network capex: premises	N/A	N/A			£0.26 million
N/A	Network investment embedded in managed service charge	N/A	N/A			£1.40 million
N/A	Capitalised Tree Cutting	N/A	N/A			£0.74 million
N/A	Other costs apportioned to Transmission RAB	N/A	N/A			£12.35 million
Total transmission investments capitalised to RAB ⁸						£98.86 million

⁸ The total of £98.86million equals the allowed capex in Table 6 for the RP5 period (subject to rounding).

Appendix 2 - The Transmission Owner Business: planned investments allowed as opex for each Regulatory Reporting Year t (2010 prices)⁹

<i>Year</i> <i>Category</i>	t=2013	t=2014	t=2015	t=2016	t=2017	t=2018
Benchmarked indirect, Inspections, Maintenance, Faults & Tree cutting costs (excl connections) allocated to opex	£3.94 million	£3.89 million	£3.85 million	£3.82 million	£3.80 million	£1.89 million + £1.89e million
Business Rates	£1.89 million	£1.91 million	£1.91 million	£1.92 million	£1.94 million	£0.97 million + £0.97e million
Other cost allowances	£0.15 million	£0.30 million	£0.15 million	£0.15 million	£0.15 million	£0.07 million + £0.07e million
Other income allowances	-£0.25 million	-£0.25 million	-£0.25 million	-£0.25 million	-£0.25 million	-£0.13 million - £0.13e million
Total ¹⁰	£5.73 million	£5.84 million	£5.65 million	£5.64 million	£5.63 million	£2.80 million + £2.80e million

⁹ See paragraph 2.3 regarding figures in this table marked with an estimation symbol (e).

¹⁰ The totals in this row match the allowed opex amounts in Table 9.

