

## **Annex 2 - Transmission Charge Restriction Conditions**

### **1. Definitions**

#### **1.1. In this Annex:**

<b>“Allowed Related Party Margin”</b>	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.
<b>“Approved Generation Cluster Infrastructure”</b>	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.
<b>“Average Specified Rate”</b>	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.
<b>“Connection Charging Statement”</b>	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.
<b>“Deferred Revenue Expenditure”</b>	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 13 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~~final determination paper, relating to the Licensee’s Transmission Charge Restriction Conditions, as ~~presented to~~published by the Authority on ~~26 March 2014~~30 June 2017, taken together with ~~its~~ supporting ~~documentation~~Annexes.

**“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 Related Security Costs”**

means any cost incurred by the Transmission Owner 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:

- 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.

**“Provision of Law”**

means the following, to the extent that it applies to or is binding on the Licensee:

- a) any enactment;
- b) any regulation made by the Council or the Commission of the European Union or any decision taken by the Commission;
- c) any interpretation of law, or finding, contained in any judgment given by a court or tribunal of competent jurisdiction in respect of which:
  - i. the period for making an appeal has expired and;

	<ul style="list-style-type: none"> <li>ii. no superior court or tribunal has reached a contrary interpretation or finding; and</li> <li>d) any direction of a competent authority other than the Authority or the Department.</li> </ul>
<b>“Regulatory Asset Base”</b>	means one of the regulatory asset bases identified at paragraph 4.1.
<b>“Regulatory Instructions and Guidance (RIGs)”</b>	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.
<b>“Regulatory Reporting Year”</b>	means a period of twelve months commencing on 1 April in any year and ending on 31 March in the year following its commencement- <u>except for Regulatory Reporting Year t = 2018 where it means a period of six month commencing on 1 October 2017 and ending 31 March 2018.</u>
<b>“Regulatory Reporting Year t”</b>	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 = <u>2013’2018</u> ’ is to the Regulatory Reporting Year ending on 31 March <u>20132018</u> ; 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.
<b>“Regulatory Tariff Year”</b>	means a period of twelve months commencing on 1 October in any year and ending on 30 September in the immediately following year.
<b>“Regulatory Tariff Year t”</b>	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 = <u>2013’2018</u> ’ is to the

Regulatory Tariff Year ending on 30 September ~~2013~~2018.

**“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 it’s 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.

**“Relevant Change of Law”**

means any of the following, to the extent that it applies to or is binding on the Licensee:

- a) the application of any Provision of Law that did not previously have effect;

- b) the amendment of or change to any Provision of Law that did previously have effect; and
- c) the revocation or cessation of any Provision of Law that did previously have effect.

“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.

“RP5 Model”

means the document of that name, prepared and published by the Authority following consultation with the Licensee (which consultation may take place before or after this condition comes into force), which sets out the principles and methodology for determining the actual entitlement for RP5 in respect of each of the entitlement lines specified in the document.

“RP6”

means the period commencing on 1 October 2017 and ending on ~~30 September 2022~~31 March 2024.

“RP6 Model”

means the document of that name, prepared and published by the Authority following consultation with the Licensee (which consultation may take place before or after this condition comes into force), which sets out the principles and methodology for determining the actual entitlement for RP6 in respect of each of the entitlement lines specified in the document.

“RPI<sub>t</sub>”

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~~2016’ is to the RPI figure for October ~~2009~~2015.

<b>“Specified Information”</b>	means information (or a category of information) that is so described or defined at paragraph 12.
<b>“Transmission Charge Restriction Conditions”</b>	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.
<b>“Transmission Charges”</b>	means all charges for the provision of Transmission Services and for Wheeling.
<b>“Transmission Services”</b>	means all services provided as part of the Transmission Owner Business other than the Excluded Services.
<b>“Uncollected Revenue”</b>	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.
<b>“Unit”</b>	means a kilowatt hour.
<del><b>“Wheeled Unit”</b></del>	<del>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.</del>
<del><b>“Wheeling”</b></del>	<del>means the transportation of Wheeled Units on any part of the total system.</del>

## 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 15.~~

~~2.5. The Licensee is prohibited, in the period 26 March 2014 to 30 September 2014, from making changes to Transmission Charges.~~

~~a)b)~~



### 3. The Maximum Regulated Transmission Revenue

3.1. Without prejudice to paragraph 15, 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 -  $\text{RP5T}_t \text{RP6T}_t$

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

$$\text{RP5T}_t = (\text{RP5R}_t \text{RP6T}_t = (\text{RP6R}_t + \text{RP5R}_{t+1}) * 0.5$$

Where:

“ $\text{RP5T}_t \text{RP6T}_t$ ” means the Maximum Regulated Transmission Revenue for the Regulatory Tariff Year  $t$ ;

“ $\text{RP5R}_t \text{RP6R}_t$ ” means the Maximum Regulated Transmission Revenue for the Regulatory Reporting Year  $t$ , calculated in accordance with paragraph 3.4.

Save that for  $\text{RP6T}_{t=2018}$ , the Maximum Regulated Distribution Revenue shall be calculated as follows:

$$\text{RP6T}_{t=2018} = ((\text{RP5R}_{t=2018} + \text{RP6R}_{t=2018}) + (\text{RP6R}_{t+1})) * 0.5$$

Where:

$\text{RP5R}_{t=2018}$  means the Maximum Regulated Transmission Revenue for the period 1 April 2017 to 30 September 2017, calculated in accordance with paragraph 3.4 of Annex 2 of the licence in effect on 14 August 2017.

3.4. The Maximum Regulated Transmission Revenue for the Regulatory Reporting Year -  $\text{RP5R}_t \text{RP6R}_t$

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:

$$\text{RP5R}_t \text{RP6R}_t = \text{DEP}_t + \text{RET}_t + \text{BD}_t + \text{O}_t + \text{P}_t + \text{COI}_t - \text{TAX}_t + \text{K}_t$$

Where:

$\text{DEP}_t$  means the depreciation amount in Regulatory Reporting Year  $t$ , calculated in accordance with paragraph 4;

$\text{RET}_t$  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;
<del><math>COI_t</math></del>	<del>means the costs of the investigation amount in Regulatory Reporting Year <math>t</math>, calculated in accordance with paragraph 8;</del>
$TAX_t$	means the tax amount due in Regulatory Reporting Year $t$ , calculated in accordance with paragraph 9;
and	
$K_t$	means the correction factor amount (whether a positive or negative number) calculated in accordance with paragraph 11.

#### 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~~2018, for each  $RAB_X$ , the opening value of existing assets ( $OE_{\text{X}_{\del{2013}}\text{X}_{2018}}$ ) shall be calculated as follows:

$$OE_{X_{2013}} = OE_{2010\_X_{2013}} * RPI_{2013} / RPI_{2010} X_{2018} = CE_{X_{2018}} + CADD_{X_{2018}}$$

Where:

~~$OE_{2010\_X_{2013}} - CE_{X_{2018}}$~~  is, for each RAB\_X, the ~~opening~~ closing 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~~ 2018 (30 September 2017), as calculated in accordance with paragraph 4.9 of Annex 2 of the Licence in effect on 14 August 2017.

~~$CADD_{X_{2018}}$~~  is, for each RAB\_X, the ~~amounts specified in Table 2 below,~~ closing value of additional assets for Regulatory Reporting Year t = 2018 (30 September 2017), as calculated in accordance with paragraph 4.15 of Annex 2 of the Licence in effect on 14 August 2017.

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

<del>RAB_X</del>	<del><math>OE_{2010\_X_{2013}}</math></del>
<del>RAB_TN</del>	<del>191.20</del>
<del>RAB_RN</del>	<del>11.91</del>
<del>RAB_NSI</del>	<del>1.06</del>
<del>RAB_T5Y</del>	<del>0.00</del>

- 4.7. For the purposes of this Annex, in each Regulatory Reporting Year t other than t = ~~2013~~2018, 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 ( ~~$Fdep$~~  $FDEP_{X_t}$ ) means the amount representing depreciation of assets acquired pre ~~31 March 2012~~30 September 2017 and shall be calculated as follows:

$$FDEP_{X_t} = (FDEP_{2010RP5_{X_t}} + DEPADD_{RP5_{X_t}}) * RPI_t / RPI_{2010} / RPI_{2018}$$

Where:

~~$FDEP_{2010RP5_{X_t}}$  is, for each  $RAB_X$ , 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 as calculated in Table 3 below, accordance with paragraph 4.28,  $FDEP_{X_t}$  of Annex 2 of the Licence in effect on 14 August 2017.~~

~~Table 3 – The Transmission Owner Business fixed depreciation  $DEPADD_{RP5_{X_t}}$  is, for each  $RAB_X$ , the depreciation amount per  $RAB_X$  for each additional assets for Regulatory Reporting Year  $t$  (£ million, 2010 prices)<sup>†</sup>, as calculated in accordance with paragraph 4.27,  $DEPADD_{X_t}$  of Annex 2 of the Licence in effect on 14 August 2017.~~

<del>Year</del>	<del>t=2013</del>	<del>t=2014</del>	<del>t=2015</del>	<del>t=2016</del>	<del>t=2017</del>	<del>t=2018</del>
<del><math>RAB_X</math></del>						
<del><math>RAB_{TN}</math></del>	<del>9.36</del>	<del>9.07</del>	<del>8.74</del>	<del>8.46</del>	<del>8.15</del>	<del>-3.98 + 3.98e</del>
<del><math>RAB_{RN}</math></del>	<del>0.37</del>	<del>0.37</del>	<del>0.37</del>	<del>0.37</del>	<del>0.37</del>	<del>-0.19 + 0.19e</del>
<del><math>RAB_{NSI}</math></del>	<del>0.06</del>	<del>0.06</del>	<del>0.06</del>	<del>0.04</del>	<del>0.04</del>	<del>-0.02 + 0.02e</del>

~~save that for regulatory reporting year  $t = 2018$  (half year) in which it will be calculated by the Authority in accordance with provisions of the RP5 and RP6 Models, as notified to the Licensee by the Authority.~~

#### 4.12. The opening value of additional assets - $OADD_{X_t}$

<sup>†</sup> See paragraph 2.3 regarding figures in this table marked with an estimation symbol (e).

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:

- a) 0 (zero) in Regulatory Reporting Year  $t = 20132018; and$
- b) in each subsequent Regulatory Reporting Year  $t$ , calculated as follows:

$$\text{OADD}_X{}_t = (\text{CADD}_X{}_{t-1}) * \text{RPI}_t / \text{RPI}_{t-1}$$

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:

$$\text{CADD}_X{}_t = \text{OADD}_X{}_t + \text{QCE}_X{}_t - \text{DIQCE}_X{}_t + \text{PTCE}_X{}_t - \text{DIPTCE}_X{}_t - \text{DEPADD}_X{}_t - \text{CD}_X{}_t + \text{CI}_X{}_t$$

Where:

**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 4.23;

**DEPADD $_X$  $_t$**  means the depreciation amount for additional assets, calculated in accordance with paragraph 4.25;

**CD $_X$  $_t$**  means the capex disposal amount, calculated in accordance with paragraph 4.28; and

**CI $_X$  $_t$**  means the capex incentive amount, calculated in accordance with paragraph 4.30.

**4.16. The qualifying capex expenditure amount - QCE<sub>Xt</sub>**

4.17. For the purposes of this Annex, in each Regulatory Reporting Year *t* and for each RAB<sub>X</sub>, the qualifying capex expenditure amount (QCE<sub>Xt</sub>) shall:

- a) be the value of capex incurred by the Licensee (excluding any costs included in the calculation of PTCE<sub>Xt</sub>) reasonably allocated or attributed to:
  - i. the Transmission Owner Business;
  - ii. the Regulatory Reporting Year *t*; and
  - iii. RAB<sub>X</sub>; and
- b) exclude any amounts reasonably allocated or attributed to any of the following:
  - i. pension deficit repair contributions;
  - ii. the net costs (or net contributions) relating to: activities or services subject to the Licensee's connection charges such that the exclusion is consistent with the Licensee's Connection Charging Statement; or any other activities or services that are 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; and
  - vii. 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 - DIQCE<sub>Xt</sub>**

4.19. For the purposes of this Annex, in each Regulatory Reporting Year *t* and for each RAB<sub>X</sub>, demonstrably inefficient qualifying capex expenditure (DIQCE<sub>Xt</sub>) shall be the part (if any) of QCE<sub>Xt</sub> that is Demonstrably Inefficient or Wasteful Expenditure.

**4.20. The pass through capex expenditure amount - PTCE<sub>Xt</sub>**

4.21. For the purposes of this Annex, in each Regulatory Reporting Year *t* and for each RAB<sub>X</sub>, the pass through capex expenditure amount (PTCE<sub>Xt</sub>), shall:

- a) be the value of capex incurred by the Licensee (excluding QCE<sub>Xt</sub>) reasonably allocated or attributed to:
  - i. the Transmission Owner Business;
  - ii. the Regulatory Reporting Year *t*; and
  - iii. RAB<sub>X</sub>; and

b) be calculated as follows:

$$PTCE_{Xt} = CLD_{Xt} + CC_{Xt}$$

Where:

~~CLD<sub>Xt</sub> means the capex legacy Dt amount calculated in accordance with paragraph 4.23; and~~

CC<sub>Xt</sub> means the capex connections amount in Regulatory Reporting Year t and for each RAB<sub>X</sub>, being the net costs (or net contributions) relating to activities or services subject to the Licensee's connection charges such that the inclusion is consistent with the Licensee's Connection Charging Statement as approved by the Authority, and where contributions from connecting parties are included on a cash basis. The capex connections amount shall exclude the cost of alterations to existing connections and shall only include costs of the following types of connection:

- i. Approved Generation Cluster Infrastructure; ~~and~~
- ii. ~~all other connections governed by the Licensee's Connection Charging Statement.~~

#### ~~4.22. The capex legacy Dt amount - CLD<sub>Xt</sub>~~

~~4.23. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB<sub>X</sub>, CLD<sub>Xt</sub> is the capex legacy Dt 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)~~

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

#### 4.24.4.22. Demonstrably inefficient pass through capex expenditure - DIPTCE<sub>Xt</sub>



4.25.4.23. 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.

4.26.4.24. The depreciation amount for additional assets -  $DEPADD_{X_t}$

4.27.4.25. 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  $t=2013:2018$  (half year):

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

$DEPADD_{X_t}$  will be calculated by the Authority in accordance with provisions of the RP5 and RP6 Models, as notified to the Licensee by the Authority.

- 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.

4.28.4.26. For the purposes of paragraph 4.25,  $DEPN_{X_t}$  is the full year depreciation for net assets added to RAB\_X in Regulatory Reporting Year  $t$  and shall be calculated as follows:

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

Where:

$\text{QCE}_{X_t}$	means the qualifying capex expenditure amount, calculated in accordance with paragraph 4.17;
$\text{DIQCE}_{X_t}$	means the demonstrably inefficient qualifying capex expenditure amount, calculated in accordance with paragraph 4.19;
$\text{PTCE}_{X_t}$	means the pass through capex expenditure amount, calculated in accordance with paragraph 4.21;
$\text{DIPTCE}_{X_t}$	means the demonstrably inefficient pass through capex expenditure amount, calculated in accordance with paragraph 4.23;
$\text{CD}_{X_t}$	means the capex disposal amount, calculated in accordance with paragraph 4.28;
$\text{CI}_{X_t}$	means the capex incentive amount, calculated in accordance with paragraph 4.30; and
$\text{DEPR}_X$	is the depreciation rate for each RAB_X as set out in Table 2 below:

Table 2 - 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%

**4.29.4.27. The capex disposal amount -  $CD_{X_t}$**

**4.30.4.28.** 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.

**4.31.4.29. The capex incentive amount -  $CI_{X_t}$**

**4.32.4.30.** 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:

$$CI_{X_t} = ( AC_{X_t} + ACIA_{X_t} + \text{ACTSACTR}_{X_t} + ACCOL_{X_t} - ( QCE_{X_t} - DIQCE_{X_t} ) ) * 50\%$$

Where:

$AC_{X_t}$  is the allowed capex as set out at paragraph 4.32;

$ACIA_{X_t}$  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;

- ACTSACTR<sub>t</sub>** 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 4.33;
- ACCOL<sub>t</sub>** is the allowed capex (if any) for changes of law, in an amount determined by the Authority to be appropriate in accordance with paragraph 4.33;
- QCE<sub>t</sub>** is the qualifying capex expenditure amount determined in accordance with paragraph 4.16; and
- DIQCE<sub>t</sub>** means the demonstrably inefficient qualifying capex expenditure amount calculated in accordance with paragraph 4.19.

#### 4.33.4.31. Allowed capex - AC<sub>t</sub>

4.34.4.32. For the purposes of this Annex, in each Regulatory Reporting Year *t*, and for each RAB<sub>X</sub>, the allowed capex (AC<sub>t</sub>) amounts shall be calculated as follows:

$$AC_t = AC_{\text{20102016}_t} * RPI_t / \text{RPI}_{\text{20102016}}$$

Where:

AC<sub>20102016<sub>t</sub></sub> is the allowed capex amount, in a 20102016 price base, for each RAB<sub>X</sub> 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 allowed capex per RAB<sub>X</sub> for each Regulatory Reporting Year *t* (£ million, 20102016 prices)<sup>2</sup>

Year RAB <sub>X</sub>	t=2013 <sub>2018</sub>	t=2014 <sub>2019</sub>	t=2015 <sub>2020</sub>	t=2016 <sub>2021</sub>	t=2017 <sub>2022</sub>	t=2018 <sub>2023</sub>	t=2024
RAB_TN	5.654.72 0	9.48359	23.179.2 80	22.969.2 01	22.829.1 23	11.31+ 11.31e9.0 45	8.969
RAB_T5Y	0.30490	0.72728	0.70970	0.70794	0.69597	0.34+ 0.34e599	0.605

#### 4.35.4.33. AllowedAdditional allowed capex for transmission system capacity or capability – ACTS- ACTR<sub>t</sub>

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

4.34. For the purposes of this Annex, in each Regulatory Reporting Year  $t$  and for each RAB\_X, the additional allowed capex ~~for transmission system capacity or capability (ACTS(ACR\_X<sub>t</sub>))~~ is any amount that the Authority determines, in a published decision, to be appropriate, for the expected incremental efficient costs ~~to increase of:~~

- a) any project to address transmission system capacity or capability;
- b) any project to address major transmission system replacement requirements; and
- a)c) trials undertaken to assess and demonstrate innovative future investment in the transmission system ~~capacity or capability in respect of specific projects.~~

4.36.4.35. The value of ~~ACTS~~ACR\_X<sub>t</sub> in each Regulatory Reporting Year  $t$  and for each RAB\_X shall be that which the Authority considers appropriate, and for these purposes:

- a) no allowance may be determined in respect of any outputs or costs that are funded through any other provision of this Annex;
- a)b) an allowance may be determined in respect of any project to address transmission system capacity or capability 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);
- b) ~~no allowance may be determined in respect of any project to~~ address transmission system capacity of capability to the extent to which it takes the form of:
  - i. ~~distribution network expenditure; or~~
- c) ~~Asset 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;~~
- d) an allowance may be determined in respect of any project to address transmission replacement requirements only if the project has been identified in the Final Determination as a project which falls within the scope of this category;
- e) the total additional allowance which may be determined for trials undertaken to assess and demonstrate innovative future investment in the transmission system shall not, taken together with the total additional allowance that may be determined by the Authority pursuant to paragraph 4.37(b) of Annex 2 in the successor distribution licence, exceed £6.36 million in 2015/16 prices.
- d)f) 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;

- ~~g) f) the Licensee shall provide such information, including in such manner, format and within such period, as may be required by the Authority (and notified to the Licensee) for the purposes of making its determination; and~~
- ~~e)h) 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 or trial, the delivery date or milestones to be achieved in relation to the project or trial and the consequences (including financial consequences in respect of the amount set out in the determination) for non-compliance with the delivery date or milestones.~~
- ~~f) 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)~~

<del>Project</del>	<del>Project Name</del>	<del>Allowed capex before adjusting for: real price effects; productivity factors; or price base.</del>
<del>T26</del>	<del>Ballylumford 110kV-switchboard-replacement</del>	<del>£15.3 million</del>
<del>T27</del>	<del>Airport Road 110/33kV-substation</del>	<del>£4.0 million</del>
<del>T30</del>	<del>4<sup>th</sup> transformer at-Castlereagh 275/110 kV-substation</del>	<del>£2.2 million</del>
<del>T31</del>	<del>Armagh Main 110/33 kV-substation</del>	<del>£2.0 million</del>
<del>T33</del>	<del>Castlereagh-Knock-110kV partial cable-replacement</del>	<del>£1.6 million</del>
<del>T34</del>	<del>Tandragee 275kV-substation 2<sup>nd</sup> bus-coupler</del>	<del>£1.3 million</del>
<del>T38</del>	<del>Cregagh 110kV-substation isolators and-earth switches</del>	<del>£0.4 million</del>

T39	Hannahstown & Kells- 275kV-substation	£0.2 million
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4.37.4.36. The allowed capex amount for changes of law -  $ACCOL_X_t$

4.38.4.37. For the purposes of this Annex, in each Regulatory Reporting Year  $t$  and for each  $RAB_X$ , the allowed capex amount for changes of law ( $ACCOL_X_t$ ), being the Relevant Change of Law capex amount (being a positive or negative figure), determined by the Authority, for the purposes of this paragraph, in accordance with paragraphs 4.38 to 4.41.

4.39.4.38. For the purposes of paragraph 4.37, the calculation of  $ACCOL_X_t$  shall occur when the Authority has determined that:

- there has been or will be a Relevant Change of Law;
- there has been or will be an amount (whether a positive or negative figure) that is directly attributable to the Relevant Change of Law; and
- having regard to all the circumstances, it is appropriate to include the amount within the calculation of  $ACCOL_X_t$  in order to ensure that the financial position and performance of an efficient Licensee will be, so far as is reasonably practicable, the same as if the Relevant Change of Law had not taken place.

4.40.4.39. The Authority may make a determination in accordance with paragraph 4.38:

- on an application made to it by the Licensee; or
- otherwise, following consultation with the Licensee.

4.41.4.40. An application made to the Authority by the Licensee pursuant to paragraph 4.38 shall contain or be accompanied by all relevant details of the anticipated cost or revenue, and such other information as the Authority may require and, unless the Authority otherwise consents, may not be given later than the first day of April in the year immediately preceding the first of the Regulatory Reporting Years in respect of which the Licensee wishes that cost or revenue to be included in the calculation of  $ACCOL_X_t$ .

4.42.4.41. Where the Authority determines that an anticipated cost or revenue is appropriate for inclusion in the calculation of  $ACCOL_X_t$  in one or more Regulatory Reporting Years, it shall specify the value to be attributed to that cost or revenue in respect of each Regulatory Reporting Year.

4.43.4.42. The depreciation amount -  $DEP_t$

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

$$DEP_t = \sum_{AllRAB\_X} \sum_{AllRAB\_X} (DEPADD\_X_t + FDEP\_X_t)$$

Where:

$\sum_{AllRAB\_X}$  means the summation of the values for all Regulatory Asset Bases;

**DEPADD<sub>X<sub>t</sub></sub>** means the depreciation amount for additional assets for each RAB<sub>X</sub>, calculated in accordance with paragraph 4.24; and

**FDEP<sub>X<sub>t</sub></sub>** means the fixed depreciation amount for each RAB<sub>X</sub>, 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:

$$RET_t = \sum_{AllRAB\_X} ( \sum_{AllRAB\_X} ( ORAB\_X_t + CRAB\_X_t ) / 2 ) * AVWACC_t$$

Save that for Regulatory Reporting Year  $t = 2018$ ,  $RET_t$  shall be 50% of the amount calculated in accordance with the above formula for that year

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:

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

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

Where:

$VWACC_t$  means the vanilla weighted average cost of capital in Regulatory Reporting Year  $t$  and has a value equal to 4.10% - the value specified in Annex I of the Final Determination Paper, as amended from time to time by the Authority in



accordance with the provisions of Annex I and notified to the Licensee.

## 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 6.9; and
$OI_t$	means the opex incentive amount in Regulatory Reporting Year $t$ , calculated in accordance with paragraph 6.11.

### 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 net costs (or net contributions) relating to: activities or services subject to the Licensee's connection charges such that the exclusion is consistent with the Licensee's Connection Charging Statement; or any other activities or services that are 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. any costs incurred by the Licensee as part of the PSO Agreement or otherwise recoverable under the restriction on the Licensee's PSO Charges;
  - vi. costs of external advisers incurred by the Licensee in relation to the Competition Commission inquiry which resulted in the Final Determination;

- vii. any Uncollected Revenue; 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:

$$PTOE_t = OLF_t + OLD_t + OC_t$$

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; and~~

$OC_t$  means the opex connections amount in Regulatory Reporting Year  $t$ , being the net costs (or net contributions) relating to activities or services subject to the Licensee's connection charges such that the inclusion is consistent with the Licensee's Connection Charging Statement as approved by the Authority, and where contributions from connecting parties are included on a cash basis. The opex connections amount shall exclude the cost of alterations to existing connections and shall only include costs of the following types of connection:

- i. Approved Generation Cluster Infrastructure; and
- ii. ~~all other connections governed by the Licensee's Connection Charging Statement.~~

~~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 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 8 below:~~

~~Table 8 – The Transmission Owner Business opex legacy  $D_t$  amounts (2010 prices)~~

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

~~6.10.6.8. Demonstrably inefficient pass through opex expenditure -  $DIPTOE_t$~~

~~6.11.6.9. For the purposes of 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.~~

~~6.12.6.10. The opex incentive amount -  $OI_t$~~

~~6.13.6.11. 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 6.13;

$AOO_t$  is the allowed opex other amount calculated in accordance with paragraph 6.15;

$QOE_t$  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.

#### 6.14.6.12. Allowed opex amount - $AO_t$

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

$$AO_t = AO_{\text{2010}_t\text{2016}_t} * RPI_t / RPI_{\text{2010}_t\text{2016}_t}$$

Where:

$AO_{\text{2010}_t\text{2016}_t}$  means the allowed opex amount, in a ~~2010~~~~2016~~ price base, for each Regulatory Reporting Year  $t$ , and shall be equal to the amounts specified in specified in Table 4 below:

Table 4 - The Transmission Owner Business allowed opex amount for each Regulatory Reporting Year  $t$  (£ million, ~~2010~~~~2016~~ prices)<sup>3</sup>

Year Term	t= <del>2013</del> <del>2018</del>	t= <del>2014</del> <del>2019</del>	t= <del>2015</del> <del>2020</del>	t= <del>2016</del> <del>2021</del>	t= <del>2017</del> <del>2022</del>	t= <del>2018</del> <del>2023</del>	t= <del>2024</del>
Allowed opex amount ( $AO_{\text{2010}_t\text{2016}_t}$ )	<del>5.734.02</del> <del>2</del>	<del>5.847.97</del> <del>6</del>	<del>5.657.89</del> <del>7</del>	<del>5.647.81</del> <del>9</del>	<del>5.637.76</del> <del>5</del>	<del>2.80+</del> <del>2.80e7.6</del> <del>85</del>	<del>7.599</del>

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

**6.16.6.14. Allowed opex other amount -  $AOO_t$**

**6.17.6.15.** 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:

$$AOO_t = IA_t + RR_t + COL_t$$

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;
- $RR_t$  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; and
- $COL_t$  is the allowed opex (if any) amount for changes of law, in an amount determined by the Authority to be appropriate in accordance with paragraph 6.16.

**6.18.6.16. The allowed opex amount for changes of law -  $COL_t$**

**6.19.6.17.** For the purposes of this Annex, in each Regulatory Reporting Year  $t$ , the allowed opex amount for changes of law ( $COL_t$ ), being the Relevant Change of Law opex amount (being a positive or negative figure) determined by the Authority, for the purposes of this paragraph, in accordance with paragraphs 6.18 to 6.21.

**6.20.6.18.** For the purposes of paragraph 6.17, the calculation of  $COL_t$  shall occur when the Authority has determined that:

- a) there has been or will be a Relevant Change of Law;
- b) there has been or will be an amount (whether a positive or negative figure) that is directly attributable to the Relevant Change of Law; and
- c) having regard to all the circumstances, it is appropriate to include the amount within the calculation of  $COL_t$  in order to ensure that the financial position and performance of an efficient Licensee will be, so far as is reasonably practicable, the same as if the Relevant Change of Law had not taken place.

**6.21.6.19.** The Authority may make a determination in accordance with paragraph 6.18:

- a) on an application made to it by the Licensee; or
- b) otherwise, following consultation with the Licensee.

6.22-6.20. An application made to the Authority by the Licensee pursuant to paragraph 6.18 shall contain or be accompanied by all relevant details of the anticipated cost or revenue, and such other information as the Authority may require and, unless the Authority otherwise consents, may not be given later than the first day of April in the year immediately preceding the first of the Regulatory Reporting Years in respect of which the Licensee wishes that cost or revenue to be included in the calculation of  $COL_t$ .

6.23-6.21. Where the Authority determines that an anticipated cost or revenue is appropriate for inclusion in the calculation of  $COL_t$  in one or more Regulatory Reporting Years, it shall specify the value to be attributed to that cost or revenue in respect of each Regulatory Reporting Year.

## 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:

$$P_t = P_{\frac{2010}{2016}_t} * RPI_t / \frac{RPI_{2010}}{RPI_{2016}}$$

Where:

$P_{\frac{2010}{2016}_t}$  means the pension deficit amount, in a  $\frac{2010}{2016}$  price base, for each Regulatory Reporting Year  $t$ , and shall be equal to the amounts specified in specified in Table 5 below:

Table 5 - The Transmission Owner Business pension deficit amount for each Regulatory Reporting Year  $t$  (£ million,  $\frac{2010}{2016}$  prices)<sup>4</sup>

Period Term	t= <u><del>2013</del></u> <u>018</u>	t= <u><del>2014</del></u> <u>019</u>	t= <u><del>2015</del></u> <u>020</u>	t= <u><del>2016</del></u> <u>021</u>	t= <u><del>2017</del></u> <u>022</u>	t= <u><del>2018</del></u> <u>023</u>	t= <u><del>2024</del></u>
Historic Deficit Repair	<u><del>1.10</del></u> <u>2.081</u>	<u><del>1.10</del></u> <u>4.142</u>	<u><del>1.10</del></u> <u>4.133</u>	<u><del>1.10</del></u> <u>4.145</u>	<u><del>1.10</del></u> <u>4.131</u>	<u><del>0.55</del></u> + <u><del>0.55</del></u> <u>e</u> <u>4.11</u> <u>2</u>	<u>4.018</u>
ERDC Disallowance	<u><del>(0.31)</del></u> <u>544</u>	<u><del>(0.31)</del></u> <u>1.10</u> <u>5</u>	<u><del>(0.31)</del></u> <u>1.10</u> <u>3</u>	<u><del>(0.31)</del></u> <u>1.10</u> <u>6</u>	<u><del>(0.31)</del></u> <u>1.10</u> <u>3</u>	<u><del>(0.16)</del></u> + <u><del>(0.16)</del></u> <u>e</u> <u>(1.</u> <u>097)</u>	<u>(1.073)</u>
Pension deficit amount ( $P_{\frac{2010}{2016}_t}$ )	<u><del>0.78</del></u> <u>1.538</u>	<u><del>0.78</del></u> <u>3.036</u>	<u><del>0.78</del></u> <u>3.030</u>	<u><del>0.78</del></u> <u>3.039</u>	<u><del>0.78</del></u> <u>3.028</u>	<u><del>0.39</del></u> + <u><del>0.39</del></u> <u>e</u> <u>3.01</u> <u>4</u>	<u>2.946</u>

<sup>4</sup>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:~~

~~**8.  $COI_t = COI_{2010} * RPI_t / RPI_{2010}$  NOT USED**~~

~~Where:~~

~~$COI_{2010}$  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 4.42;
- $INT_t$  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:

$$INT_t = \frac{\left( \sum_{AllRAB\_X} (ORAB\_X_t + CRAB\_X_t) \right)}{2} * G * NCOD$$

Save that for Regulatory Reporting Year  $t = 2018$ ,  $INT_t$  shall be 50% of the amount calculated in accordance with the above formula for that year.

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%; in Regulatory Reporting Year  $t$  and has a value equal to the value specified in Annex I of the Final Determination Paper as amended from time to time by the Authority in accordance with the provision of Annex I and notified to the Licensee; and

**CA<sub>t</sub>** 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<sub>t</sub> and the Licensee's capex in Regulatory Reporting Year t were to be equal to:

$$\sum_{AllRAB\_X} ( QCE\_X_t - DIQCE\_X_t + PTCE\_X_t - DIPTCE\_X_t - CD\_X_t + CI\_X_t )$$

Save that for Regulatory Reporting Year t = 2018, CA<sub>t</sub> shall be 50% of the amount calculated in accordance with the above formula for that year.

Where:

- $\sum_{AllRAB\_X}$  means the summation of the values for all Regulatory Asset Bases;
- QCE<sub>X<sub>t</sub></sub>** means the qualifying capex expenditure amount, calculated in accordance with paragraph 4.17;
- DIQCE<sub>X<sub>t</sub></sub>** means the demonstrably inefficient qualifying capex expenditure amount, calculated in accordance with paragraph 4.19;
- PTCE<sub>X<sub>t</sub></sub>** means the pass through capex expenditure amount, calculated in accordance with paragraph 4.21;
- DIPTCE<sub>X<sub>t</sub></sub>** means the demonstrably inefficient pass through capex expenditure amount, calculated in accordance with paragraph 1.1.a)i;
- CD<sub>X<sub>t</sub></sub>** means the capex disposal amount, calculated in accordance with paragraph 4.28; and
- CI<sub>X<sub>t</sub></sub>** means the capex incentive amount, calculated in accordance with paragraph 4.30; 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, iiiiv 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:~~
- ~~vii.vi.~~ Table 11 — The Transmission Owner Business opening, for each of the tax capital allowance values (£ million, nominal prices) categories specified in the RP5 Model, are those which are calculated by the Authority in accordance with provisions of the RP5 Model, as notified to the Licensee by the Authority.

<del>Category</del>	<del>Opening RP5-written down-value</del>
<del>General Pool</del>	<del>0.00</del>
<del>Long life asset-pool</del>	<del>65.05</del>
<del>Deferred revenue</del>	<del>24.50<sup>5</sup></del>

<sup>5</sup> The gross value of capital additions before RP5 was £27.18million

**10. Not Used**

## 11. The correction factor amount - $K_t$

11.1. 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  $t = 20132018 i.e. 30 September 2017:$

$$K_t = \frac{K_{RP4}}{K_{RP5}}$$

Where:

~~$K_{RP4}$~~  $K_{RP5}$  means the closing K factor for the ~~RP4 price control at 31<sup>st</sup> March 2012 and has~~Regulatory Reporting Year  $t = 2018$  i.e. 30 September 2017 (half year) in which it will be calculated by the value~~Authority in accordance with provisions of £13.087 million~~the RP5 and RP6 Models, as notified to the Licensee by the Authority.

- b) in Regulatory Reporting Years  $t = 2014$ ,  ~~$t = 2015$~~ 2019,  $t = 2016$ 20120,  $t = 2017$ 2021 and  $t = 2018$ 2022,  $t = 2023$ ,  $t = 2024$ :

$$K_t = \left( \frac{RP5_t}{RP6_{t-1}} - \frac{ARP5_t}{ARP6_{t-1}} \right) * (1 + I_t) + RP4CI_t$$

Where:

~~$RP5_t$~~  $RP6_{t-1}$  means the Maximum Regulated Transmission Revenue, in Regulatory Reporting Year  $t-1$ ;

~~$ARP5_t$~~  $ARP6_{t-1}$  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 and is equal to £0.234 million in year  $t = 2015$  and zero (0) thereafter.

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

### 12.1. Introduction

12.2. 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 12.

### 12.3. Specified Information

12.4. The Licensee shall, subject to other provisions set out in the Licence and in this paragraph 12, provide to the Authority the following Specified Information:

- a) forecasts and/or estimates in accordance with paragraph 12.6, with regards to the setting of Transmission Charges;
- b) any explanation and/or statement as to whether or not the provisions at paragraph 12.11 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 12.15;
- 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 12.15;
- e) information regarding pension deficits, in accordance with paragraph 12.20;
- 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 12.21;
  - ii. the revenue derived from Excluded Services (showing separately the revenue from each category of excluded service) in accordance with paragraph 13.6;
- g) information on network investment projects and volumes, including:
  - i. a forecast of the network investment for the RP6RP7 price control period, in accordance with paragraph 12.25; and
  - ii. information on pre-funded costs, in accordance with paragraph 12.26;
  - iii. information on outturn RP5RP6 projects and volumes, and planned RP5RP6 projects and volumes in accordance with paragraph 12.29; and

- h) information on the Licensee's ESQCR compliance, in accordance with paragraph 12.32;
- i) information on tax, in accordance with paragraph 12.34; and
- j) the statutory accounts of any Related Party, in accordance with paragraph 12.37.

12.5. Unless otherwise specified in this Annex or the Licence, the Specified Information listed at paragraph 12.4 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](mailto:electricity_network_reporting@uregni.gov.uk) mailbox or subsequent equivalent mailbox.

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

12.7. 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.

12.8. 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 12.7, 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.

12.9. Any forecast or estimate provided in accordance with paragraph 12.7 or 12.8 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.

12.10. In addition, any forecast or estimate provided in accordance with paragraph 12.7 or 12.8 shall be published by the Licensee on the Licensee's website.

**12.11. Restriction of Transmission Charges**

12.12. 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.

12.13. 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.

12.14. 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 12.12 are likely to be applicable in consequence of the Regulated Transmission Revenue in the preceding Regulatory Tariff Year; and/ or
  - ii. paragraph 12.13 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.

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

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

12.17. The Licensee shall ensure that the RIGs information referred to at paragraph 12.16 includes estimations of the Licensee's confidence in that information and is certified by a relevant director.

12.18. The Licensee shall, publish on the Licensee's website, the information supplied in accordance with paragraph 12.16, subject to the minimum redactions considered necessary by the Authority to protect commercially sensitive information.

**12.19. Pension deficits**

12.20. 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~~2014) and incremental deficit.

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

12.22. 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.

12.23. 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 12.22.

**12.24. Forecast network investment in the ~~RP6~~RP7 price control period**

12.25. 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~~RP7 price control period.

**12.26. Information on pre-funded costs**

12.27. 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).

12.28. The Licensee shall submit to the Authority, on an annual basis, to supplement the information referred to at paragraph 12.27, reconciliations of the information referred to at paragraph 12.27 to the planned investments, volumes and projects specified ~~at Appendix 1 and Appendix 2 below~~in the Final Determination Paper.

**12.29. Information on the outturn ~~RP5~~RP6 investments, projects and volumes, and planned ~~RP5~~RP6 investments, projects and volumes**

12.30. The Licensee shall, on an annual basis, for the ~~RP5~~RP6 period, submit to the Authority:

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

12.31. The Licensee shall submit to the Authority, on an annual basis, to supplement the information referred to at paragraph 12.30, reconciliations of the information referred to at paragraph 12.30 to the planned investments, volumes and projects, specified ~~at Appendix 1 and Appendix 2 below~~ in the Final Determination Paper.

**12.32. Reporting on the Licensee's ESQCR compliance**

12.33. 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.

**12.34. Information on tax**

12.35. 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 12.35.a), 12.35.b) and 12.35.c).

12.36. The Licensee shall, on an annual basis, publish on the Licensee's website the information supplied under 12.35.a) and, to the extent that it relates to information supplied under 12.35.a), under 12.35.d), subject to the minimum redactions, considered necessary by the Authority, to protect commercially sensitive information.

**12.37. The statutory accounts of any Related Party**

12.38. 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.

### **13.Excluded Services for purposes of Transmission Owner Business**

- 13.1. 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 13.2; and
  - b) may (subject to paragraph 13.7) be determined by the Licensee as falling under one of the principles set out in paragraphs 13.3 to 13.5.
- 13.2. 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.
- 13.3. 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.
- 13.4. 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.
- 13.5. 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.
- 13.6. 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 12.3, 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.
- 13.7. 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.

## 14. Allowances in respect of security costs

14.1. 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.

14.2. Subject to paragraphs 14.3 and 14.5, 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.

14.3. Paragraph 14.2 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 14.1.

14.4. 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 14.2 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 14.2.

14.5. 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.

- 14.6. No amounts charged by the Licensee under this paragraph 14 (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.

## 15. Duration of the charge restriction conditions

- 15.1. Subject to the following paragraphs of this Annex, the Transmission Charge Restriction Conditions shall apply so long as the Licence continues in force.
- 15.2. The Transmission Charge Restriction Conditions outlined in paragraph 3.2 do not apply to tariff years from 1 October ~~2017~~2024 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~~2023.
- 15.3. **Disapplication**
- 15.4. 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 15.6 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 15.6.c) and not withdrawn.
- 15.5. Save where the Authority agrees otherwise, no disapplication following delivery of a Disapplication Request pursuant to paragraphs 15.4 to 15.10 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~~31 March 2024.
- 15.6. A Disapplication Request pursuant to paragraphs 15.4 to 15.10 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 15.4 to 15.10); 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.
- 15.7. A Disapplication Notice pursuant to paragraphs 15.4 to 15.10:
- a) may be given in the circumstances described in either paragraph 15.8 or 15.9;
  - 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.

15.8. 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 15.4 to 15.10, so as to remove the right of the Licensee to give to the Authority a Disapplication Notice in respect of the relevant Disapplication Request.

15.9. 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 15.8 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.

15.10. A Disapplication Request or Disapplication Notice served under paragraphs 15.4 to 15.10 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)

Project ID	Project name	Asset name / further information	Predefined output	Direct	Indirect	Allowed capex
-						-
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 switchgear at 3 substations	Replacement SWGR at 3 substations (Ballyvallyagh, 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 <sup>6</sup>	N/A	N/A			£2.77 million
-						-
T22	Transmission reactive <sup>7</sup>	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

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

<sup>7</sup> 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 <sup>8</sup>					£98.86 million
-	-	-	-	-	-	-

<sup>8</sup> 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)<sup>9</sup>

<b>Year</b>	<b>t=2013</b>	<b>t=2014</b>	<b>t=2015</b>	<b>t=2016</b>	<b>t=2017</b>	<b>t=2018</b>
<b>Category</b>						
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 <sup>10</sup>	£5.73 million	£5.84 million	£5.65 million	£5.64 million	£5.63 million	£2.80 million + £2.80e million

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

<sup>10</sup> The totals in this row match the allowed opex amounts in Table 9.