

## Annex 2 - Distribution 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 Distribution 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 Bank of England (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>“CPIHt”</b>	means the Consumer Prices Index including owner occupiers’ housing costs (L522: 2015 = 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 ‘CPIHt = 2022’ is the CPIH figure for October 2021.
<b>“CPIHtpb”</b>	means CPIHt = 2022.
<b>“Connection Charging Statement”</b>	means the statement of charges for connection to the Licensee’s distribution system as prepared by the Licensee and approved by the Authority under Condition 32 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.
<b>“Demonstrably Inefficient or Wasteful Expenditure”</b>	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.
<b>“Distribution 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>“Distribution Charges”</b>	means all charges for the provision of Distribution Services and for Wheeling, but excluding charges levied under the PSO Agreements (as defined in Condition 24A).
<b>“Distribution Services”</b>	means all services provided as part of the Distribution Business other than Excluded Services.
<b>“Enduring Solution”</b>	means the IT system introduced to support competition in the electricity retail market in Northern Ireland, intended to aid complete separation of the customer billing processes and

legacy IT systems previously shared by the Licensee and Power NI (in its capacity as an electricity supplier), and to provide a level playing field for all suppliers, unrestricted switching capability for customers and support of global aggregation for settlement of the all-island wholesale market.

**“Evaluative Performance Framework Model”**

means the document of that name, prepared and published by the Authority following consultation with the Licensee, which sets out the principles and methodology for determining the allowed amount in respect of the Evaluative Performance Framework incentive.

**“ERDC”**

means early retirement deficit contributions.

**“Excluded Services”**

means those services provided as part of the Distribution Business which in accordance with the principles set out in paragraph 13 fall to be treated as Excluded Services.

**“Final Determination”**

means the final determination paper, relating to the Licensee’s Distribution Charge Restriction Conditions, as published by the Authority on **30 October 2024**, taken together with supporting 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 **RP7**.

**“Licensee’s Allowed Distribution Related Security Costs”**

means any cost incurred by the Distribution Business and approved by the Authority (in a published decision) as being an allowed security cost in

accordance with the Northern Ireland Fuel 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 Distribution Revenue”**

means the maximum Regulated Distribution 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.

means a new information technology system that is required by the Licensee’s Transmission Owner Business for the purposes of implementing any new energy policy which:

**“New Energy Strategy IT Solution”**

- (a) is introduced by a competent authority; and
- (b) requires a change to be made to the specification of services provided by the Licensee’s Transmission Owner Business.

**“Permitted One-Year Percentage”**

means 4% of the Maximum Regulated Distribution Revenue

**“Permitted Three-Year Percentage”**

means 5% of the Maximum Regulated Distribution Revenue

**“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 but only insofar as such regulation or decision has legal**

effect in Northern Ireland at the relevant time in accordance with any such treaty (or equivalent international law instrument) as may from time to time be agreed between the UK government and the European Union and ratified by each of them”;

- 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;
  - ii. no superior court or tribunal has reached a contrary interpretation or finding; and
- d) any direction of a competent authority other than the Authority or the Department.

**“Regulatory Asset Base”**

means one of the regulatory asset bases identified at paragraph 4.1.

**“Regulatory Instructions and Guidance (RIGs)”**

means the Regulatory Instructions and Guidance provided by the Authority, including guidance notes, reporting workbooks, commentary templates and assurance templates, as set out by the Authority, to capture various different types of information and data.

**“Regulatory Reporting Year”**

means a period of twelve months commencing on 1 April in any year and ending on 31 March in the year following its commencement.

**“Regulatory Reporting Year t”**

means the Regulatory Reporting Year which ends in year t, and is therefore to be read such that: a reference to ‘Regulatory Reporting year t = 2026’ is to the Regulatory Reporting Year ending on 31 March 2026; a reference to ‘Regulatory Reporting Year t-1’ means the Regulatory Reporting Year immediately preceding Regulatory Reporting Year t; and similar expressions are to be construed accordingly.

**“Regulatory Tariff Year”**

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

**“Regulatory Tariff Year t”**

means the Regulatory Tariff Year which ends in year t, and is therefore to be read such that: a reference to ‘Regulatory Tariff Year t = 2026’ is to the Regulatory Tariff Year ending on 30 September 2026.

**“Regulated Distribution Revenue”**

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

**“Related Party”**

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

**“Related Party Margin”**

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

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

	be removed.		specified in the document.
<b>"Relevant Change of Law"</b>	means any of the following, to the extent that it applies to or is binding on the Licensee:	<b>"Shared Asset Charges"</b>	means charges payable under and in accordance with the Cost Allocation Rules for Shared Assets set out in the Transmission Connection Charging Methodology Statement.
	<ul style="list-style-type: none"> <li>a) the application of any Provision of Law that did not previously have effect;</li> <li>b) the amendment of or change to any Provision of Law that did previously have effect; and</li> <li>c) the revocation or cessation of any Provision of Law that did previously have effect.</li> </ul>	<b>"Specified Information"</b>	means information (or a category of information) that is so described or defined at <a href="#">paragraph 12.</a>
<b>"Reliability Incentive Model"</b>	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 allowed amount in respect of the reliability incentive.	<b>"Transmission Connection Charging Methodology Statement"</b>	means the statement prepared by the Transmission System Operator under and in accordance with paragraph 1(b) of Condition 30 of the Transmission System Operator Licence and approved by the Authority.
<b>"RP6"</b>	means the period commencing on 1 October 2017 and ending on 31 March 2025.	<b>"Uncollected Revenue"</b>	means: <ul style="list-style-type: none"> <li>a) any amount owed to the Licensee in respect of Regulated Distribution Revenue (other than an amount owed to the Licensee by a system operator, such as SONI Limited), which amount remains unpaid for six months after the date it first fell due for payment or which amount the Licensee deems (in accordance with the payment security policy) to be unrecoverable before the expiry of that six months period; plus the reasonable interest attributable to such amount calculated in accordance with the payment security policy; and</li> <li>b) 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 Distribution Revenue which is to be included in the uncollected revenue amount in accordance with the payment security policy; plus the reasonable interest attributable to such amount, calculated in accordance with the payment security policy.</li> </ul>
<b>"RP6 Financial Model"</b>	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.		
<b>"RP7"</b>	means the period commencing on 1 April 2025 and ending on 31 March 2031.		
<b>"RP7 Financial Model"</b>	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 RP7 in respect of each of the entitlement lines		

“Unit”

means a kilowatt hour.

## 2. Introductory Provisions

- 2.1. Where, for the purposes of complying with its obligation at paragraph 3.1 in relation to the setting of Distribution Charges, the Licensee forecasts the Maximum Regulated Distribution 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 **2021/22 prices which are determined at CPIH index for October 2021**; and
  - b) all calculations for which provision is made in this Annex are to be carried out in nominal prices.

### 3. The Maximum Regulated Distribution Revenue

3.1. Without prejudice to paragraph 15, the Licensee shall with effect from 1 April 2025 use its best endeavours to set its Distribution Charges so as to ensure that, in each Regulatory Tariff Year t, the Regulated Distribution Revenue shall be equal to the Maximum Regulated Distribution Revenue for that Regulatory Tariff Year calculated in accordance with paragraph 3.3.

3.2. The Maximum Regulated Distribution Revenue for the Regulatory Tariff Year - RP7Tt

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

$$RP7T_t = (RP7R_t + RP7R_{t-1}) * 0.5$$

Where:

“RP7Tt” means the Maximum Regulated Distribution Revenue for the Regulatory Tariff Year t;

“RP7Rt” means the Maximum Regulated Distribution Revenue for the Regulatory Reporting Year t, calculated in accordance with paragraph 3.5.

3.4. The Maximum Regulated Distribution Revenue for the Regulatory Reporting Year - RP7Rt

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

$$RP7R_t = DEP_t + RET_t + BD_t + RI_t + EPF_t + O_t + P_t + TAX_t - RPSI_t + K_t$$

Where:

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

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

BDt 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;

RIt is the allowed amount (if any) in Regulatory Reporting Year t, being the amount, the Authority determines in a published decision to be appropriate

for the Licensee to recover in respect of the reliability incentive in that Regulatory Reporting Year t, as calculated by the Authority under and in accordance with the Reliability Incentive Model;

EPFt is the allowed amount (if any) in Regulatory Reporting Year t, being the amount, the Authority determines in a published decision to be appropriate for the Licensee to recover in respect of the Evaluative Performance Framework incentive in that Regulatory Reporting Year t, as calculated by the Authority under and in accordance with the Evaluative Performance Framework Model;

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

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

TAXt means the tax amount due in Regulatory Reporting Year t, calculated in accordance with paragraph 9;

RPSIt means the revenue protection services incentive amount, in Regulatory Reporting Year t, calculated in accordance with paragraph 10;

Kt means the correction factor amount (whether a positive or negative number) calculated in accordance with paragraph 11.

#### 4. The Regulatory Asset Bases - RAB\_Xt

- 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 Distribution Business Regulatory Asset Bases

RAB name	RAB_X
5 Year D.RAB	RAB_D5Y
Distribution RAB	RAB_DN
10 Year RAB	RAB_D10Y
Metering RAB	RAB_MTRN

- 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\_Xt

- 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\_Xt, being the value of that Regulatory Asset Base at the beginning of Regulatory Reporting Year t, shall be defined as:

$$ORAB_{Xt} = OE_{Xt} + OADD_{Xt}$$

Where:

OE\_Xt being the opening value of existing assets, calculated in accordance with paragraph 4.6; and

OADD\_Xt being the opening value of additional assets, calculated in accordance with paragraph 4.13.

#### 4.5. The opening value of existing assets - OE\_Xt

- 4.6. For the purposes of this Annex, in respect of Regulatory Reporting Year t = 2026, for each RAB\_X, the opening value of existing assets (OE\_X2026) shall be calculated as follows:

$$OE_{X2026} = CE_{X2025} + CADD_{X2025} * CPIH_t / CPIH_{t-1}$$

Where:

CE\_X2025 is, for each RAB\_X, the closing value of existing assets for Regulatory Reporting Year t = 2025, as calculated in accordance with paragraph 4.9 of Annex 2 of the Licence in effect on the 1 April 2025 within the RP6 Financial Model including conversion to CPIH

CADD\_X2025 is, for each RAB\_X, the closing value of additional assets for Regulatory

Reporting Year t = 2025, as calculated in accordance with paragraph 4.9 of Annex 2 of the Licence in effect on the 1 April 2025 within the RP6 Financial Model including conversion to CPIH, plus the amounts in respect of RAB\_D5Y, the addition of £941,588.33 (nominal).

- 4.7. For the purposes of this Annex, in each Regulatory Reporting Year t other than t = 2026, and for each RAB\_X the opening value of existing assets (OE\_Xt) shall be calculated as follows:

$$OE_{Xt} = (CE_{X_{t-1}}) * CPIH_t / CPIH_{t-1}$$

Where:

CE\_Xt is the closing value of existing assets, calculated in accordance with paragraph 4.9.

#### 4.8. The closing value of existing assets - CE\_Xt

- 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\_Xt) being the value of the existing assets in that RAB at the end of Regulatory Reporting Year t, shall be calculated as follows:

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

Where:

OE\_Xt is the opening value of existing assets calculated in accordance with paragraph 4.6; and

FDEP\_Xt is the fixed depreciation amount, calculated in accordance with paragraph 4.11.

#### 4.10. The fixed depreciation amount - FDEP\_Xt

- 4.11. For the purposes of this Annex, in each Regulatory Reporting Year t, and for each RAB\_X, the fixed depreciation amount (FDEP\_Xt) means the amount representing depreciation of assets acquired pre-31 March 2025 and shall be calculated as follows:

$$FDEP_{Xt} = (FDEP_{RP6_{Xt}}) * CPIH_t / CPIH_{t-1}$$

Where:

FDEP\_RP6\_Xt is, for each RAB\_X, the fixed depreciation amount in Regulatory Reporting Year t, as calculated by the Authority in accordance with the Licence in effect on the 31 March 2025 within the RP6 Financial Model including conversion to CPIH.

**4.12. The opening value of additional assets - OADD\_Xt**

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\_Xt) shall be:

- a) 0 (zero) in Regulatory Reporting Year **t = 2026**; and
- b) in each subsequent Regulatory Reporting Year t, calculated as follows:

$$OADD\_X_t = (CADD\_X_{t-1}) * CPIH_t / CPIH_{t-1}$$

Where:

**CADD\_Xt-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\_Xt**

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\_Xt) shall be calculated as follows:

$$CADD\_X_t = OADD\_X_t + QCE\_X_t - DIQCE\_X_t + PTCE\_X_t - DIPTCE\_X_t - DEPADD\_X_t - CD\_X_t + CI\_X_t$$

Where:

**OADD\_Xt** means the opening value of additional assets calculated in accordance with paragraph 4.13;

**QCE\_Xt** means the qualifying capex expenditure amount, calculated in accordance with paragraph 4.17;

**DIQCE\_Xt** means the demonstrably inefficient qualifying capex expenditure amount, calculated in accordance with paragraph 4.19;

**PTCE\_Xt** means the pass through capex expenditure amount, calculated in accordance with paragraph 4.21;

**DIPTCE\_Xt** means the demonstrably inefficient pass through capex expenditure amount, calculated in accordance with paragraph 4.23;

**DEPADD\_Xt** means the depreciation amount for additional assets, calculated in accordance with paragraph 4.25;

**CD\_Xt** means the capex disposal amount, calculated in accordance with paragraph 4.28; and

**CI\_Xt** means the capex incentive amount, calculated in accordance with paragraph 4.30.

**4.16. The qualifying capex expenditure amount - QCE\_Xt**

4.17. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB\_X, the qualifying capex expenditure amount (QCE\_Xt) shall:

- a) be the value of capex incurred by the Licensee (excluding any costs included in the calculation of **PTCE\_Xt**) reasonably allocated or attributed to:
  - i. the Distribution Business;
  - ii. the Regulatory Reporting Year t; and
  - iii. RAB\_X; and
- b) exclude any amounts reasonably allocated or attributed to any of the following:
  - i. pension deficit repair contributions;
  - ii. the 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. 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\_Xt**

4.19. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB\_X, demonstrably inefficient qualifying capex expenditure (DIQCE\_Xt) shall be the part (if any) of QCE\_Xt that is Demonstrably Inefficient or Wasteful Expenditure.

**4.20. The pass through capex expenditure amount - PTCE\_Xt**

4.21. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB\_X, the pass through capex expenditure amount (PTCE\_Xt), shall:

- a) be the value of capex incurred by the Licensee (excluding QCE\_Xt) reasonably allocated or attributed to:
  - i. the Distribution Business;
  - ii. the Regulatory Reporting Year t; and



iii. RAB<sub>X</sub>; and

b) be calculated as follows:

$$PTCE_{X_t} = CC_{X_t} + CCSA_{X_t}$$

Where:

**CC<sub>X<sub>t</sub></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. housing sites with 12 or more domestic premises; and
- ii. Approved Generation Cluster Infrastructure.

**CCSA<sub>X<sub>t</sub></sub>** means the capex connections shared asset amount in Regulatory Reporting Year t and for each RAB<sub>X</sub> being the amount that the Authority determines, in a published decision, to be appropriate in respect of Shared Asset Charges payable by the Distribution Business for the connection of the Distribution System to that part of the transmission system that has been funded by a third party pursuant to a connection agreement entered into between that third party and the Transmission System Operator.

4.22 The value of CCSA<sub>X<sub>t</sub></sub> in each Regulatory Year t and for each RAB<sub>X</sub> 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;
- b) 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 Shared Asset Charges;
- c) 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
- d) 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 amount and timings of the Shared Asset Charges.

4.23. **Demonstrably inefficient pass-through capex expenditure - DIPTCE<sub>X<sub>t</sub></sub>**

4.24. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB<sub>X</sub>, demonstrably inefficient pass-through capex expenditure (DIPTCE<sub>X<sub>t</sub></sub>) shall be the part (if any) of PTCE<sub>X<sub>t</sub></sub> that is Demonstrably Inefficient or Wasteful Expenditure.

4.25. **The depreciation amount for additional assets - DEPADD<sub>X<sub>t</sub></sub>**

4.26. For the purposes of paragraph 4.25, in each Regulatory Reporting Year t and for each RAB<sub>X</sub>, the depreciation amount for additional assets (DEPADD<sub>X<sub>t</sub></sub>) shall be calculated as follows:

a) in Regulatory Reporting Year **t = 2026**

$$DEPADD_{X_t} = 0.5 * DEPN_{X_t}$$

b) in each other Regulatory Reporting Year t :

$$DEPADD_{X_t} = 0.5 * DEPN_{X_t} + ( DEPADD_{X_{t-1}} + 0.5 * DEPN_{X_{t-1}} ) * CPIH_t / CPIH_{t-1}$$

subject to a limitation on the value of DEPADD<sub>X<sub>t</sub></sub> to ensure that the cumulative depreciation (up to and including Regulatory Reporting Year t) in respect of any past value of DEPN<sub>X</sub> does not represent excessive depreciation given the depreciation and RAB policies reflected in this Annex, including the CPIH indexation of the RAB.

4.27. For the purposes of paragraph 4.25, DEPN<sub>X<sub>t</sub></sub> is the full year depreciation for net assets added to RAB<sub>X</sub> in Regulatory Reporting Year t and shall be calculated as follows:

$$DEPN_{X_t} = ( QCE_{X_t} - DIQCE_{X_t} + PTCE_{X_t} - DIPTCE_{X_t} - CD_{X_t} + CI_{X_t} ) * DEPR_X$$

Where:

**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 4.20;

**DIPTCE<sub>X<sub>t</sub></sub>** means the demonstrably inefficient pass through capex expenditure amount, calculated in accordance with paragraph 4.23;

**CD<sub>X<sub>t</sub></sub>** means the capex disposal amount, calculated in accordance with paragraph 4.28;

**CI<sub>X<sub>t</sub></sub>** means the capex incentive amount, calculated in accordance with paragraph 4.30; and

**DEPR<sub>X</sub>** is the depreciation rate for each RAB<sub>X</sub> as set out in Table 2 below:

**Table 2 - The Distribution Business depreciation rate for each RAB\_X**

RAB_X	Depreciation rate
RAB_DN	3%
RAB_D10Y	10%
RAB_MTRN	6.667%
RAB_D5Y	20%

**4.28. The capex disposal amount - CD\_Xt**

4.29. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB\_X, the capex disposal amount (CD\_Xt) shall be calculated as follows:

$$CD_{Xt} = OCD_{X_{t-5}} * CPIH_t / CPIH_{t-5}$$

Where:

OCD\_Xt 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.

**4.30. The capex incentive amount - CI\_Xt**

4.31. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB\_X, the capex incentive amount (CI\_Xt) 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:

$$CI_{Xt} = (AC_{Xt} + ACDR_{Xt} - (QCE_{Xt} - DIQCE_{Xt})) * 50\%$$

Where:

AC\_Xt is the allowed capex for RAB\_X for Regulatory Reporting Year t;

ACDR\_Xt is the allowed capex (if any) in an amount determined by the Authority (in a published decision giving reasons) to be appropriate in accordance with paragraph 4.46;

QCE\_Xt is the qualifying capex expenditure amount determined in accordance with paragraph 4.17; and

DIQCE\_Xt means the demonstrably inefficient qualifying capex expenditure amount calculated in accordance with paragraph 4.19.

The allowed capex for RAB\_D5Y is calculated in accordance with paragraph 4.32. The allowed capex for RAB\_DN is calculated in accordance with paragraph 4.34. The allowed

capex for RAB\_D10Y is calculated in accordance with paragraph 4.36. The allowed capex for RAB\_MTRN is calculated in accordance with paragraph 4.38

**4.32. Allowed capex for 5 Year D.RAB - AC\_D5Yt**

4.33. For the purposes of this Annex, in each Regulatory Reporting Year t, and for RAB\_D5Y the allowed capex (AC\_D5Yt) amounts shall be calculated as follows:

$$AC_{D5Yt} = (AC_{FD\_DY5t} * CPIH_t / CPIH_{tpb}) * CRPEPF_t$$

Where:

AC\_FD\_D5Yt is the allowed capex determined amount for RAB\_D5Y for each Regulatory Reporting Year t before adjusting for capex real price effect & productivity factor, excluding any amounts determined by the application of determined rates to actual volumes, and excluding any additional allowed capex (ACDR\_Xt) determined under paragraph 4.46, and shall be equal to the amounts specified in Table 3 below.

CRPEPFt is the capex real price effect & productivity factor for each Regulatory Reporting Year t, and shall be calculated in accordance with paragraph 4.49.

**Table 3 - The Distribution Business allowed capex determined amount AC\_FD\_D5Y for each Regulatory Reporting Year t (£ million, 2022 prices)**

Year	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
AC_FD_D5Y	26.283	32.210	6.607	6.406	6.097	6.047

**4.34. Allowed capex for Distribution RAB - AC\_DNt**

4.35. For the purposes of this Annex, in each Regulatory Reporting Year t and for RAB\_DN, the allowed capex (AC\_DNt) shall be calculated as follows:

$$AC_{DNt} = (AC_{FD\_DNt} + VDAt) * CPIH_t / CPIH_{tpb} * CRPEPF_t$$

Where:

AC\_FD\_DNt is the allowed capex determined amount for RAB\_DN for each Regulatory Reporting Year t before adjusting for real price effect & productivity factor, excluding any amounts determined by the application of determined rates to actual volumes, and excluding any additional allowed capex (ACDR\_Xt) determined under paragraph 4.46, and shall be equal to the amounts specified in Table 3 below.

CRPEPFt is the capex real price effect & productivity factor for each Regulatory Reporting Year t, and shall be calculated in accordance with paragraph

4.49.

**VDA\_DNt** which is a volume driven allowed capital for RAB\_DN for each Regulatory Reporting Year t in 2022 prices, before the application of capex real price effect & productivity factor calculated in accordance with the formula below:

$$VDA\_DNt = \sum_{All\_A} (VDV\_DN_{tA} * VDU\_DN_A)$$

Maximum expenditure under this term shall not exceed £152.3m over the duration of the price control unless determined by the authority in a published decision

Where:

**$\sum_{All\_A}$**  means the summation of each category A listed in Table 5 - The Volume Driven allowance unit cost for each category A below;

**VDV\_DN<sub>tA</sub>** means the volume of units delivered in Regulatory Reporting Year t, for each category of volume driver A in Table 5 below;

**VDU\_DN<sub>A</sub>** is the capex allowance unit cost for each category of volume driver A in Table 5 below.

**Table 4 - The Distribution Business allowed capex determined amount for AC\_FD\_DN for each Regulatory Reporting Year t (£ million, 2022 prices)**

Year	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
AC_FD_DN	143.567	152.990	145.853	145.841	145.346	145.280

**Table 5 - The Distribution Business allowed capex determined unit costs for each category of volume driver A (£ million, 2022 prices)**

Distribution Capex Category A	Capex Allowance Unit Cost (£)VDU_DN <sub>A</sub>
D57c1. Ground Mounted Transformer (site). Includes replacement of transformer, LV cabinet and RMU	62,444
D57c2. Pole Mounted Transformer (MVA). Includes the cost to replace any capacity of pole mounted transformer from 16kVA to 200kVA	84,719
D57c3. LV Cable (km). Includes replace or overlay existing cable with larger capacity cable	118,706
D57c4. LV Overhead Lines (km). The construction of new, low voltage, overhead line utilising aerial bundled conductors (ABC)	40,423
D57c5. LV Cabinet (each). Replacement of existing LV cabinet with new cabinet containing more feeder ways.	16,265

D57c6. HV Cable (km). Includes replace or overlay existing cable with larger capacity cable	87,411
D57c7. HV Overhead Line (km). The construction of new, high voltage, overhead line utilising 50sqmm AAAC	44,716
D57c8. HV Circuit Breaker [in contract] (each)	25,024
D57c9. HV Circuit Breaker [out of contract] (each)	68,136
D57c10. Switch House Extension (each)	77,406
D57c11. Switch House New-Build (each)	210,836
D57c12. TTNO Ground Mounted Transformer (site). The extra over cost to replace a ground mounted transformer with new capacity >500kVA and replacement LV cabinet	7,250
D57c13. TTNO Pole Mounted Transformer (site). The extra overcost to convert a pole mounted transformer arrangement to either an "H pole" or ground mounted arrangement	50,556
D57c14. TTNO LV Cable (km). The extra over cost to install a second cable in an existing trench to facilitate circuit splitting	43,638
D57c15. TTNO LV Overhead Line (km)	10,860
D57c16. TTNO HV Cable (km)	47,678
D57c17. TTNO HV Overhead Line (km)	7,271
D10a. the volume of properties with undereaves services and/or mains replaced, in respect of Regulatory Reporting Year t, as reported to the Authority by the Licensee and which shall not exceed a total of 25,000 properties in RP7 price control period	510.99
D11c. the volume of single phase cutout replacements resulting from a customer application to connect a low carbon technology, which identified the cut-out as being in poor condition/non-compliant/<80A rating.	288.42
D11d. the volume of three phase cutout replacements resulting from a customer application to connect a low carbon technology, which identified the cut-out as being in poor condition/non-compliant/<80A rating.	1,050
D43h. Remove Looped Services. The volume of properties supplied with shared single phase underground service cable to be re-supplied with individual service cables: <ul style="list-style-type: none"> <li>only after 2028/29 reporting year; and</li> <li>all ex-ante outputs have been delivered</li> </ul>	1,137

4.36. Allowed capex for 10 Year RAB - AC\_D10Yt

4.37. For the purposes of this Annex, in each Regulatory Reporting Year t and for RAB\_D10Y, the allowed capex (AC\_D10Yt) shall be calculated as follows:

$$AC\_D10Yt = (AC\_FD\_D10Yt) * CPIHt / CPIHtpb * CRPEPft$$

Where:

**AC\_FD\_D10Y<sub>t</sub>** is the allowed capex determined amount for RAB\_D10Y for each Regulatory Reporting Year t before adjusting for capex real price effect & productivity factor, excluding any amounts determined by the application of determined rates to actual volumes, and excluding any additional allowed capex (ACDR\_Xt) determined under paragraph 4.46, and shall be equal to the amounts specified in Table 6 below.

**CRPEPF<sub>t</sub>** is the capex real price effect & productivity factor for each Regulatory Reporting Year t, and shall be calculated in accordance with paragraph 4.49.

**Table 6 - The Distribution Business allowed capex determined amount for RAB\_FD\_D10Y for each Regulatory Reporting Year t (£ million, 2022 prices)**

Year	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
RAB_FD_D10Y	0.000	0.000	0.000	0.000	0.000	0.000

4.38. Allowed capex for Metering RAB - AC\_MTRN<sub>t</sub>

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

$$AC\_MTRN_t = (FMFA_t + SMFA_t + MVA_t) * CPIH_t / CPIH_{tpb} * CRPEPF_t$$

Where:

**FMFA<sub>t</sub>** means the first metering fixed allowance, in Regulatory Reporting Year t, before adjusting for real price effect & productivity factor, excluding any amounts determined by the application of determined rates to actual volumes, and shall be equal to the amounts specified in Table 7 below;

**SMFA<sub>t</sub>** means the second metering fixed allowance, in Regulatory Reporting Year t, before adjusting for real price effect & productivity factor, excluding any amounts determined by the application of determined rates to actual volumes, and shall be equal to the amounts specified in Table 7 below;

**CRPEPF<sub>t</sub>** is the capex real price effect & productivity factor for each Regulatory Reporting Year t, and shall be calculated in accordance with paragraph 4.49; and,

**MVA<sub>t</sub>** means the metering volume driven capex allowance, in Regulatory Reporting Year t, and shall be calculated in accordance with the equation below.

$$MVA_t = \sum_{All\_C} (MV\_Ct * MAU\_FD\_Ct) + (AMV\_Ct * AMAU\_Ct)$$

Where:

$\sum_{All\_C}$  means the summation of each metering category C listed in Table 8 - The Distribution Business metering allowance unit cost for each metering category C below;

**MV\_Ct** means the volume of Metering units installed (whether as a new Metering unit or replacement or adjustment of an existing Metering unit) in respect of Regulatory Reporting Year t, for each category C listed in Table 8 below;

**MAU\_FD\_Ct** is the metering allowance unit cost, in respect of Regulatory Reporting Year t, for each metering category C listed in Table 8 below;

**AMV\_Ct** means the volume of Metering units installed (whether as a new Metering unit or replacement or adjustment of an existing Metering unit) in respect of Regulatory Reporting Year t, for each additional Metering Category C identified by the Authority in a decision made under paragraph 4.41 of this Annex; and

**AMAU\_Ct** is the additional metering allowance unit cost, in respect of Regulatory Reporting Year t, for each additional Metering Category C, determined by the Authority in a decision made under paragraph 4.41 of this Annex.

**Table 7 - The Distribution Business first metering fixed allowance FMFA<sub>t</sub> and second metering fixed allowance SMFA<sub>t</sub> for each Regulatory Reporting Year t (£ million, 2022 prices)**

Year	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
FMFA <sub>t</sub>	1.172	1.188	1.477	1.345	1.245	1.240
SMFA <sub>t</sub>	2.171	1.898	1.858	1.885	1.916	2.138

**Table 8 - The Distribution Business metering allowed capex determined unit cost for each metering category C (£ million, 2022 prices)**

Metering category C	Metering allowance unit cost (MAU_Ct)
Meter Installs/Changes: Credit	£26.81
Meter Installs/Changes: Keypad	£65.10
Meter Installs/Changes: Commercial	£168.28
Meter Installs/Changes: LCT (Basic)	£37.92
Meter Installs/Changes: LCT (Higher)	£59.80
Meter Installs/Changes: LCT (Advanced)	£165.96

Recertification/certification: Credit	£29.87
Recertification: Keypad	£75.40
Recertification: Commercial	£159.15
Recertification: Commercial: 110/33kv Bulk Supply Point and Sub-Station metering	£1771.02
Recertification: Commercial: Power Stations >100MW Metering	£6089.78
Recertification: Commercial: Generator metering <100MW and >1MW	£848.29
Recertification: Commercial: HV Demand customer Metering >1MW	£429.56
Recertification: Commercial: HV Demand customer Metering <1MW	£353.98
Recertification: Commercial: Teleswitch/Telemeter replacement programme	£86.69
Meter Replacement for theft	£124.04

4.40 **Additional metering allowance unit costs for additional Metering category C - AMAU<sub>Ct</sub>**

4.41 For the purpose of this Annex, an additional metering allowance unit cost (AMAU<sub>Ct</sub>) is any unit rate which the Authority determines, in a published decision, to be appropriate for an additional Metering Category C which is identified in that decision.

4.42 The value of any additional metering allowance unit cost in respect of an additional Metering Category C (AMAU<sub>Ct</sub>) shall be that which the Authority considers appropriate in all the circumstances, and for these purposes:

- a) no additional metering allowance unit cost may be determined in respect of any outputs or costs that are funded through other provisions of this Annex;
- b) 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;
- c) 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 any information provided to it by or on behalf of the Licensee (whether or not in accordance with a requirement to do so); and
- d) the Authority may make its determination subject to conditions with which the Licensee shall be required to comply as if they were specified in this Annex, including in particular conditions as to any monitoring, audit and reporting in relation to any additional Metering Category C.

4.43. **Meter Replacement for Theft**

4.44. For the purposes of the metering volume driven allowance (MVAt), the metering unit allowance cost:

- a) set out in Table 8 for the metering category C 'Meter Replacement for theft' shall only be for units delivered during the RP7 period up to the determined programme limit of 30,000 Metering units in aggregate inclusive of units already delivered prior to the RP7 period, or such higher number as the Authority may determine; and
- b) shall be £0 for each additional Metering unit falling within that metering category C 'Meter Replacement for theft'.

4.45. **Additional allowed capex - ACDR<sub>Xt</sub>**

$$ACDR_{X_t} = ACDR_{Xt} * CPIHt / CPIHtpb$$

4.46. For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB<sub>Xt</sub>, the additional allowed capex (ACDR<sub>Xt</sub>) is the sum of:

- a) the allowed capex (if any) amount in Regulatory Reporting Year t, for primary sub station load growth, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of primary station load growth;
- b) the allowed capex (if any) amount in Regulatory Reporting Year t, for primary sub station reverse flow, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of primary sub-station reverse flow;
- c) the allowed capex (if any) amount in Regulatory Reporting Year t, for the net zero reopener, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of for the net zero reopener;
- d) the allowed capex (if any) amount in Regulatory Reporting Year t, for sub-sea cables, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of sub-sea cables following surveys planned in RP7;
- e) the allowed capex (if any) amount in Regulatory Reporting Year t, for development of the Operational Network Telecoms, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of development a capacity of the Operational Network Telecoms as follows:

- expenditure associated with planning and design of the Operational Network Telecoms (OTN) for any new telecoms standard such as the long-term evolution (LTE) standard;
  - expenditure associated with the delivery of any new telecoms standard such as the long-term evolution (LTE) standard;
  - expenditure associated with expansion of the capacity of the Operational Network Telecoms (OTN) in line with operational needs in respect of interactions with low carbon technology and digitalization.
- f) the allowed capex (if any) amount in Regulatory Reporting Year t, for trials undertaken to assess and demonstrate innovative future investment in the distribution system, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of any trials undertaken to assess and demonstrate innovative future investment in the distribution system;
- g) the allowed capex (if any) amount in Regulatory Reporting Year t, for planning and preparation for the rollout of smart metering, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year for preparation and planning for the rollout of smart metering which is clearly in pursuit of a Ministerial policy decision;
- h) the allowed capex (if any) amount in Regulatory Reporting Year t, for the Enduring Solution, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of any significant changes in the specification of the service that the Licensee is required to provide in relation to the Enduring Solution market opening system;
- i) the allowed capex (if any) amount in Regulatory Reporting Year t, for additional IT investment from and including year t = 2028, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of additional IT investment from the year t = 2028 in line with the approach set out in Annex W of the Final Determination;
- j) the allowed capex (if any) amount in Regulatory Reporting Year t, for injurious affection, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of injurious affectation claims;
- k) the allowed capex (if any) amount in Regulatory Reporting Year t, for changes of law, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of Relevant Change of law, in accordance with paragraph 6.16

- 4.47. The value of  $ACDR_{Xt}$  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;
  - b) 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;
  - c) 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;
  - d) 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 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;
  - e) the determination of an additional allowance for primary sub station load growth will only be determined following careful consideration of actual and planned delivery of the existing allowance, including substitution at fair value and the development of flex services;
  - f) the determination of an additional allowance for primary sub station reverse flow will only be determined if expenditure on primary sub-station reverse flow has exceed 10% of the determined amount and the company has delivered the planned volume of work in RP7;
  - g) the net-zero reopener mechanism can only be initiated by the Authority following consideration of representations from NIE Networks and other stakeholders, and subject to a materiality threshold of £800,000;
  - h) an allowance may only be determined in respect of trials undertaken to assess and demonstrate innovative future investment in the distribution system at times determined by the Authority to fall immediately after year 1 (August 2026), year 3 (August 2028) and year 5 (August 2030) of the RP7 price control, in respect of submissions made by the Licensee in these prescribed months;
  - i) an allowance may be determined in respect of any project to prepare or plan for the development of smart metering only if the project is sufficiently material, is clearly in pursuit of a Ministerial policy decision, and has been justified 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 costs, outputs and benefits);
  - j) no allowance may be determined in respect of any costs to facilitate the planning and preparation of smart metering which takes the form of procurement of new metering assets, installation of new metering assets, or investment in information technology assets or other assets;

k) an allowance may only be determined in respect of additional IT investment at times determined by the Authority to fall immediately in advance of year 3 (April 2027), in respect of submissions made by the Licensee at least 6 months in advance of that times.

4.48. The capex real price effect & productivity factor (CRPEPF<sub>t</sub>)

4.49. For the purposes of this Section 4 (The Regulatory Asset Bases - RAB<sub>Xt</sub>), the capex real price effect & productivity factor (CRPEPF<sub>t</sub>) shall, for each Regulatory Reporting Year t be equal to the values set out in Table 9 below.

Table 9 - The Distribution Business capex real price effect & productivity factor for each Regulatory Reporting Year t

Year	Real price effect & productivity factor (CRPEPF <sub>t</sub> )
t=2026	0.94546
t=2027	0.94912
t=2028	0.95162
t=2029	0.94593
t=2030	0.95027
t=2031	0.95464

4.50 Capex amount for changes of law

4.51 For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB<sub>X</sub>, the allowed capex amount for changes of law, being the Relevant Change of Law capex amount (being a positive or negative figure), subject to a threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period), determined by the Authority, for the purposes of this paragraph, in accordance with paragraphs 4.56 to 4.60.

4.52 For the purposes of paragraph 4.56, the calculation of the Relevant Change of Law capex amount 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 the Relevant Change of Law capex amount 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.

4.53. The Authority may make a determination in accordance with paragraph 4.56:

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

4.54. An application made to the Authority by the Licensee pursuant to paragraph 4.56 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 Relevant Change of Law capex amount.

4.55. Where the Authority determines that an anticipated cost or revenue is appropriate for inclusion in the calculation of the Relevant Change of Law capex amount, 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.

4.56. The depreciation amount - DEP<sub>t</sub>

4.57 For the purposes of this Annex, in each Regulatory Reporting Year t, the depreciation amount (DEP<sub>t</sub>) shall be calculated as follows:

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

Where:

$\sum_{All\ RAB\_X}$  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<sub>t</sub>

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

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

Where:

$\sum_{All\ RAB\_X}$  means the summation of the values for all regulatory Asset Bases, RAB<sub>X</sub>;

ORAB<sub>X<sub>t</sub></sub> means the opening Regulatory Asset Base in respect of each RAB<sub>X</sub> in Regulatory Reporting Year t, has the value established in accordance with paragraph 4.4;

CRAB<sub>X<sub>t</sub></sub> means the closing Regulatory Asset Base in respect of each RAB<sub>X</sub> in Regulatory Reporting Year t, and is equal to:  
CE<sub>X<sub>t</sub></sub> + CADD<sub>X<sub>t</sub></sub>

Where:

CE<sub>X<sub>t</sub></sub>, is the closing value of existing assets, and has the value calculated in accordance with paragraph 4.9;  
and

CADD<sub>X<sub>t</sub></sub> is the closing value of additional assets, and has the value calculated in accordance with paragraph 4.15.

AVWACC<sub>t</sub> means the adjusted vanilla weighted average cost of capital in Regulatory Reporting Year t, and shall be calculated as follows:

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

VWACC<sub>t</sub> means the vanilla weighted average cost of capital in Regulatory Reporting Year t and has a value equal to the value specified in Annex I of the RP7 Final Determination (in accordance with the provisions of Annex H of the RP7 Final Determination), 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<sub>t</sub>

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

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

Where:

QOE<sub>t</sub> means the qualifying opex expenditure amount, calculated in accordance with paragraph 6.3;

DIQOE<sub>t</sub> means the demonstrably inefficient qualifying opex expenditure amount, calculated in accordance with paragraph 6.5 and in accordance with the Authority's Guidance on the interpretation and application of the Demonstrably Inefficient or Wasteful Expenditure (DIWE) Provision;

PTOE<sub>t</sub> means the pass through opex expenditure amount, calculated in accordance with paragraph 6.7;

DIPTOE<sub>t</sub> means the demonstrably inefficient pass through opex expenditure amount, calculated in accordance with paragraph 6.9 and in accordance with the Authority's Guidance on the interpretation and application of the Demonstrably Inefficient or Wasteful Expenditure (DIWE) Provision; and

OI<sub>t</sub> 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<sub>t</sub>

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

- a) be the value of opex incurred by the Licensee (excluding PTOE<sub>t</sub>) reasonably allocated or attributed to:
  - i. the Distribution 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. 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 opex expenditure amount.

**6.4. Demonstrably inefficient qualifying opex expenditure - DIQOE<sub>t</sub>**

6.5. For the purposes this Annex, in each Regulatory Reporting Year t, DIQOE<sub>t</sub> shall be the part (if any) of QOE<sub>t</sub> that is Demonstrably Inefficient or Wasteful Expenditure.

**6.6. Pass through opex expenditure amount - PTOE<sub>t</sub>**

6.7. For the purposes of this Annex, in each Regulatory Reporting Year t, the pass through opex expenditure amount (PTOE<sub>t</sub>) shall:

- a) be the value of opex incurred by the Licensee (excluding QOE<sub>t</sub>) reasonably allocated or attributed to:
  - i. the Distribution Business; and
  - ii. the Regulatory Reporting Year t; and
- b) be calculated as follows:

$$PTOE_t = OLF_t + OC_t + OCSA_t + OBRA_t$$

Where:

**OLF<sub>t</sub>** 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;

**OC<sub>t</sub>** 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. housing sites with 12 or more domestic premises;
- ii. Approved Generation Cluster Infrastructure.

**OCSA<sub>t</sub>** means the opex connections shared asset amount in Regulatory Reporting Year t and for each RAB<sub>X</sub> being the amount that the Authority determines, in a published decision, to be appropriate in respect of Shared Asset Charges

payable by the Distribution Business for the connection of the Distribution System to that part of the transmission system that has been funded by a third party pursuant to a connection agreement entered into between that third party and the Transmission System Operator.

The value of OCSAT in each Regulatory Year t 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;
- b) 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 Shared Asset Charges;
- c) 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
- d) 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 amount and timings of the Shared Asset Charges.

**OBRA<sub>t</sub>** the opex business rate amount in Regulatory Reporting Year t, being the payment by the company to Land and Property Service in respect of business rates, the rates payable by the Licensee in respect of hereditaments under the Valuation (Electricity) Order (Northern Ireland) 2003.

The value of OBRA<sub>t</sub> in each Regulatory Year t may be reduced by the Authority to the extent that the Authority has concluded that the Licensee has not acted prudently and reasonably when challenging revaluations, maintaining good records and challenging rates bills, and for these purposes:

- a) the Authority may follow such procedure as it considers appropriate prior to making any determination of an adjustment to the opex business rate amount; and
- b) 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.

6.8. **Demonstrably inefficient pass through opex expenditure - DIPTOE<sub>t</sub>**

6.9 For the purposes of this Annex, in each Regulatory Reporting Year t, DIPTOE<sub>t</sub> shall be the part (if any) of PTOE<sub>t</sub> that is Demonstrably Inefficient or Wasteful Expenditure.

6.10. **The opex incentive amount - OI<sub>t</sub>**

6.11. For the purposes of this Annex, in each Regulatory Reporting Year t, the opex incentive amount (OI<sub>t</sub>) 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<sub>t</sub> is the allowed opex amount calculated in accordance with paragraph 6.13;
- AOO<sub>t</sub> is the allowed opex other amount calculated in accordance with paragraph 6.15;
- QOE<sub>t</sub> is the qualifying opex expenditure amount calculated in accordance with paragraph 6.3; and
- DIQOE<sub>t</sub> is the demonstrably inefficient qualifying opex expenditure amount calculated in accordance with paragraph 6.5.

6.12. **Allowed opex amount - AO<sub>t</sub>**

6.13. For the purposes of this Annex, in each Regulatory Reporting Year t, the allowed opex (AO<sub>t</sub>) amounts shall be calculated as follows:

$$AO_t = AO\_FD_t * CPIH_t / CPIH_{tpp} * ORPEPF_t$$

Where:

- AO<sub>FD</sub><sub>t</sub> means the allowed opex amount, for each Regulatory Reporting Year t before adjusting for real price effect & productivity factor, and excluding any additional allowed opex (AOO<sub>t</sub>) determined under paragraph 6.13, and shall be equal to the amounts specified in specified in Table 10 below:

**ORPEPF<sub>t</sub>** is the opex real price effect & productivity factor for each Regulatory Reporting Year t, and shall be calculated in accordance with paragraph 6.21.

Table 10 - The Distribution Business allowed opex amount for each Regulatory Reporting Year t (£ million, 2022 prices)

Year	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
AO_FD	58.208	57.507	51.890	52.344	52.756	52.846

6.14 Allowed opex other amount -  $AOO_t$

6.15  $AOO_{X_t} = AOO_{Xt} * CPIH_t / CPIH_{tpb}$

6.15. For the purposes of this Annex, in each Regulatory Reporting Year t, the allowed opex other amount ( $AOO_t$ ), shall be the sum:

- a) the allowed opex (if any) amount in Regulatory Reporting Year t, for the net zero reopener, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of for the net zero reopener;
- b) the allowed opex (if any) amount in Regulatory Reporting Year t, for development of the Operational Network Telecoms, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of development a capacity of the Operational Network Telecoms as follows:
  - expenditure associated with planning and design of the Operational Network Telecoms (OTN) for any new telecoms standard such as the long-term evolution (LTE) standard;
  - expenditure associated with the delivery of any new telecoms standard such as the long-term evolution (LTE) standard;
  - expenditure associated with expansion of the capacity of the Operational Network Telecoms (OTN) in line with operational needs in respect of interactions with low carbon technology and digitalization.
- c) the allowed opex (if any) amount in Regulatory Reporting Year t, for trials undertaken to assess and demonstrate innovative future investment in the distribution system, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of any trials undertaken to assess and demonstrate innovative future investment in the distribution system;
- d) the allowed opex (if any) amount in Regulatory Reporting Year t, for planning and preparation for the rollout of smart metering, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year for preparation and

planning for the rollout of smart metering which is clearly in pursuit of a Ministerial policy decision;

- e) the allowed opex (if any) amount in Regulatory Reporting Year t, for the Enduring Solution, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of any significant changes in the specification of the service that the Licensee is required to provide in relation to the Enduring Solution market opening system;
- f) the allowed opex (if any) amount in Regulatory Reporting Year t, for additional IT investment from and including year t = 2028, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of additional IT investment from the year t = 2028 in line with the approach set out in Annex W of the Final Determination;
- g) the allowed opex (if any) amount in Regulatory Reporting Year t, for injurious affection, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of injurious affectation claims;
- h) the allowed opex (if any) amount in Regulatory Reporting Year t, for changes of law, being the additional amount that the Authority determines in a published decision, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of Relevant Change of Law, in accordance with paragraph 6.16

The value of  $AOO_{Xt}$  in each Regulatory Reporting Year t, 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;
- b) 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;
- c) 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;
- d) 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 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;

- e) the net-zero reopener mechanism can only be initiated by the Authority following consideration of representations from NIE Networks and other stakeholders, and subject to a materiality threshold of £800,000;
- f) an allowance may only be determined in respect of trials undertaken to assess and demonstrate innovative future investment in the distribution system at times determined by the Authority to fall immediately after year 1 (August 2026), year 3 (August 2028) and year 5 (August 2030) of the RP7 price control, in respect of submissions made by the Licensee in these prescribed months;
- g) an allowance may be determined in respect of any project to prepare or plan for the development of smart metering only if the project is sufficiently material, is clearly in pursuit of a Ministerial policy decision, and has been justified 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 costs, outputs and benefits);
- h) no allowance may be determined in respect of any costs to facilitate the planning and preparation of smart metering which takes the form of procurement of new metering assets, installation of new metering assets, or investment in information technology assets or other assets;
- i) an allowance may only be determined in respect of additional IT investment at times determined by the Authority to fall immediately in advance of year 3 (April 2027), in respect of submissions made by the Licensee at least 6 months in advance of that times.

6.16. **Opex amount for changes of law**

6.17. For the purposes of this Annex, in each Regulatory Reporting Year t, the allowed opex amount for changes of law, being the Relevant Change of Law opex amount (being a positive or negative figure) determined by the Authority, subject to a threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period), for the purposes of this paragraph, in accordance with paragraphs 6.18 to 6.21.

6.18. For the purposes of paragraph 6.17, the calculation of change of law 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 change of law 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.

- 6.19. 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.
- 6.20. 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 the change of law.
- 6.21. Where the Authority determines that an anticipated cost or revenue is appropriate for inclusion in the calculation of change of law 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.
- 6.21. **The opex real price effect & productivity factor (ORPEPF<sub>t</sub>)**
- 6.22. For the purposes of this Section 6 (The opex amount - O<sub>t</sub>), the opex real price effect & productivity factor (ORPEPF<sub>t</sub>) shall, for each Regulatory Reporting Year t be equal to the values set out in Table 11 below.

**Table 11 - The Distribution Business opex real price effect & productivity factor for each Regulatory Reporting Year t**

Year	Real price effect & productivity factor (ORPEPF <sub>t</sub> )
t=2026	0.95571
t=2027	0.95287
t=2028	0.94972
t=2029	0.93459
t=2030	0.93418
t=2031	0.93377

8. NOT USED

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:

$$P_t = P\_FD_t * CPIH_t / CPIH_{tpb}$$

Where:

$P\_FD_t$  means the pension deficit amount, for each Regulatory Reporting Year  $t$ , and shall be equal to the amounts specified in specified in Table 12 below:

Table 12 - The Distribution Business pension deficit amount for each Regulatory Reporting Year  $t$  (£ million, 2022 prices)

Year	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
Historic Deficit Repair	-15.800	0.000	0.000	0.000	0.000	0.000
ERDC Disallowance	0.000	0.000	0.000	0.000	0.000	0.000
Pension deficit amount $P\_FD_t$	-15.800	0.000	0.000	0.000	0.000	0.000

## 9. The Tax Amount - TAX<sub>t</sub>

- 9.1. For the purposes of paragraph 3.5, in Regulatory Reporting Year t, the tax amount (TAX<sub>t</sub>) is calculated as follows in nominal prices:

$$\text{TAX}_t = \text{TR}_t / (1 - \text{TR}_t) * (\text{RET}_t + \text{DEP}_t - \text{INT}_t - \text{CA}_t)$$

Where:

- TR<sub>t</sub>** means the corporation Tax Rate applicable in Northern Ireland in Regulatory Reporting Year t, as specified from time to time by HMRC;
- RET<sub>t</sub>** means the return amount in Regulatory Reporting Year t, calculated in accordance with paragraph 5.1;
- DEP<sub>t</sub>** means the depreciation amount in Regulatory Reporting Year t, calculated in accordance with paragraph 4.61;
- INT<sub>t</sub>** 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:

$$\text{INT}_t = \sum_{\text{All RAB}_X} \left( \frac{\text{ORAB}_{X_t} + \text{CRAB}_{X_t}}{2} \right) * G * \text{NCOD}$$

Where:

- $\sum_{\text{All RAB}_X}$  means the summation of the values for all Regulatory Asset Bases;
- ORAB<sub>Xt</sub>** is the value of the opening Regulatory Asset Base for each RAB<sub>X</sub> in Regulatory Reporting Year t, calculated in accordance with paragraph 4.4;
- CRAB<sub>Xt</sub>** is the value of the closing Regulatory Asset Base for each RAB<sub>X</sub> in Regulatory Reporting Year t, calculated in accordance with paragraph 5.1;
- G** means notional gearing and has the value of 55%;
- NCOD** means the notional nominal cost of debt in Regulatory Reporting Year t and has a value equal to the value specified in **Annex I of the Final Determination (in accordance with the provisions of Annex H of the Final Determination), 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 Distribution Revenue in respect of that Regulatory Reporting Year, calculated on a notional basis, under the hypothetical assumption that the regulatory capital allowances are, while considering ii, iii and iv immediately below, the capital allowances that would be applicable if:

- i. the Licensee's opex in Regulatory Reporting Year t were to be equal to O<sub>t</sub>; and,
- ii. the Licensee's capex in Regulatory Reporting Year t were to be equal to:

$$\sum_{\text{All RAB}_X} (\text{QCE}_{X_t} - \text{DIQCE}_{X_t} + \text{PTCE}_{X_t} - \text{DIPTCE}_{X_t} - \text{CD}_{X_t} + \text{CI}_{X_t})$$

Where:

$$\sum_{\text{All RAB}_X}$$

means the summation of the values for all Regulatory Asset Bases;

**QCE<sub>Xt</sub>** means the qualifying capex expenditure amount, calculated in accordance with paragraph 4.17;

**DIQCE<sub>Xt</sub>** means the demonstrably inefficient qualifying capex expenditure amount, calculated in accordance with paragraph 4.19;

**PTCE<sub>Xt</sub>** means the pass through capex expenditure amount, calculated in accordance with paragraph 4.21;

**DIPTCE<sub>Xt</sub>** means the demonstrably inefficient pass through capex expenditure amount, calculated in accordance with paragraph 4.24;

**CD<sub>Xt</sub>** means the capex disposal amount, calculated in accordance with paragraph 4.29; and

**CI<sub>Xt</sub>** means the capex incentive amount, calculated in accordance with paragraph 4.31; and

- i. 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;
- ii. 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);
- iii. the regulatory capital allowances should include an appropriate allowance in relation to Deferred Revenue Expenditure which is,

subject to i, ii, and iii above and vi below, consistent with the Licensee's treatment of such expenditure for the purposes of its tax submissions to HMRC;

- iv. the regulatory capital allowances are, subject to i, ii, iii above and v below, calculated in a manner that is consistent with the Licensee's tax submissions to HMRC; and
- v. the opening written down values, for each of the tax capital allowance categories specified in **the RP7 Model, are** those which are calculated by the Authority in accordance with provisions of **the RP6 Model**, as notified to the Licensee by the Authority.

## 10. The revenue protection services incentive amount - $RPSI_t$

- 10.1. In each Regulatory Reporting Year, the revenue protection services incentive amount,  $RPSI_t$ , shall be calculated as follows:

$$RPSI_t = RPSR_t * 50\%$$

Where:

**$RPSR_t$**  means the revenue protection services revenue (being a positive amount or zero (0)), in Regulatory Reporting Year t, being the sums recovered or earned by the Licensee during that Regulatory Reporting Year from the provision of revenue protection services, which shall together include in particular:

- i. any money recovered by the Licensee from an electricity consumer in the exercise of the Licensee's powers in relation to illegal abstraction of electricity;
- ii. any money recovered by the Licensee from third parties to cover the cost of the network repairs or other repairs associated with illegal abstraction; and
- iii. any income generated by the Licensee from the provision of revenue protection services to third parties.

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

11.1. For the purposes of paragraph 3.5, the correction factor amount ( $K_t$ ) shall be calculated as follows:

a) in Regulatory Reporting Year  $t = 2026$  i.e. regulatory reporting year ending 31 March 2026:

$$K_t = KRP6$$

Where:

**KRP6** means the closing K factor for RP6 i.e. 31 March 2025 which will be calculated by the Authority in accordance with provisions of the RP6 Model, as notified to the Licensee by the Authority.

b) in Regulatory Reporting Years  $t = 2027$ ,  $t = 2028$  and  $t = 2029$ ,  $t = 2030$ ,  $t = 2031$ :

$$K_t = (RP7R_{t-1} - ARP7_{t-1}) * (1 + I_t)$$

Where:

**RP7R<sub>t-1</sub>** means the Maximum Regulated Distribution Revenue, in Regulatory Reporting Year  $t-1$ ;

**ARP7<sub>t-1</sub>** means the actual Regulated Distribution Revenue recovered through Distribution Charges in Regulatory Reporting Year  $t-1$ ; and

$I_t$  means the Average Specified Rate.

## 12. Information to be provided to the Authority in connection with the Distribution 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 Distribution 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 Distribution 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 Distribution 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 12.19;
- f) information on historical revenues, including:
  - i. all data used in the calculation of the Licensee's Maximum Regulated Distribution Revenue, in accordance with paragraph 12.22;
  - 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 RP7 price control period, in accordance with paragraph 12.24; and
  - ii. information on pre-funded costs, in accordance with paragraph 12.25;



volumes in accordance with paragraph 12.28; and

- h) information on the Licensee's ESQCR compliance, in accordance with paragraph 12.31;
- 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\\_networks\\_responses@uregni.gov.uk](mailto:electricity_networks_responses@uregni.gov.uk) mailbox or subsequent equivalent mailbox.

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

12.7. Where any change is intended to be made in Distribution Charges regulated under paragraph 3, the Licensee shall not later than 5 months prior to the time of publication of such change, provide the Authority with:

- a) a written forecast of the Maximum Regulated Distribution 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 Distribution 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 Distribution 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 Distribution Charges**

12.12. If, in respect of any Regulatory Tariff Year commencing on or after **1 October 2025**, the Regulated Distribution Revenue exceeds the Maximum Regulated Distribution 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 Distribution Charges unless it has demonstrated to the reasonable satisfaction of the Authority that the Regulated Distribution Revenue would not be likely to exceed the Maximum Regulated Distribution 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 2025**, the sum of the amounts by which the Regulated Distribution Revenue has exceeded the Maximum Regulated Distribution 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 Distribution Charges such that the Regulated Distribution Revenue would not be likely, in the judgement of the Authority, to exceed the Maximum Regulatory Distribution 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 Distribution Revenue in the preceding Regulatory Tariff Year; and/ or
  - ii. paragraph 12.13 are likely to be applicable in consequence of the Regulated Distribution 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) and incremental deficit.

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

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

12.23. The Licensee shall, for the period from 1 April 2025, publish, on the Licensee's website the data referred to at 12.22.

**12.24. Forecast network investment in the RP8 price control period**

12.25. The Licensee shall, when requested, submit to the Authority the Licensee's estimate of the expected investments, volumes and projects for the RP8 price control period.

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

12.27. The Licensee shall, when requested, basis submit to the Authority an estimate of the pre-funded costs, being the network investments, volumes and projects required in periods after 31 March 2018 can be attributed to the cancellation, reduction or deferral of any investments, volumes or projects that the Authority 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, when requested, 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 in the Final Determination Paper.

**12.29. Information on the outturn RP7 investments, projects and volumes, and planned RP7 investments, projects and volumes**

12.30. The Licensee shall, on an annual basis, for the RP7 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 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 undereaves and low voltage overhead lines.

**12.34. Information on tax**

12.35. The Licensee shall, no later than 27 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 Distribution 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 Distribution Revenue, as calculated at paragraph 9 of this Annex; and
- d) any retrospective adjustments in respect of previous years together with any restatement of 12.35a), 12.35b) and 12.35c).

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 13.35.a), under 13.35.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.

**12.39. Annual Environment Report**

12.40 The Licensee shall furnish the Authority with an Annual Environment Report for the preceding regulatory year to the same timescales as the RIGs information referred to in paragraph 12.16.

12.41 The Licensee shall publish on the Licensee's website, the information supplied in accordance with paragraph 12.40.

**13. Excluded Services for purposes of Distribution Business**

13.1. There may be treated as Excluded Services provided by the Distribution 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 Distribution Business shall be treated as an excluded service insofar as it relates to the provision of services remunerated under use of system charges in accordance with Condition 32 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 distribution 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, 26 and 27, 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 Distribution 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 32 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 Distribution Business remunerated by use of system charges, including (without prejudice to the foregoing):

- mi. 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 distribution 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 6.3, details specifying separately the nature of all services provided as part of the Distribution 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 Distribution Charge Restriction Conditions or any part or parts thereof; or
  - b) introduce for the unexpired term of the Fuel Security Event new Distribution 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 Distribution Business an amount estimated as being equal to the Licensee’s allowed distribution 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 distribution 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 Distribution Business.
- 14.3. 14.2 shall not apply insofar as such Licensee’s allowed distribution 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 distribution related security costs; and
  - b) the bases and calculations underlying the increases in charges made by the Licensee in the course of the Distribution 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 distribution related security costs, the Authority may issue directions requiring the Licensee to take such steps as may be specified to reimburse customers of the Distribution 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 distribution charge restriction provisions of paragraph 3.

## 15. Duration of the charge restriction conditions

- 15.1. Subject to the following paragraphs of this Annex, the Distribution Charge Restriction Conditions shall apply so long as the Licence continues in force.
- 15.2. The Distribution Charge Restriction Conditions outlined in paragraph 3.2 do not apply to tariff years from **1 October 2031** 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 Distribution Revenue above the levels applicable on 1 October 2031.
- 15.3. **Disapplication**
- 15.4. The Distribution 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 **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) **31 March 2031**.
- 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 15.87.7 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.