

About the Utility Regulator

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

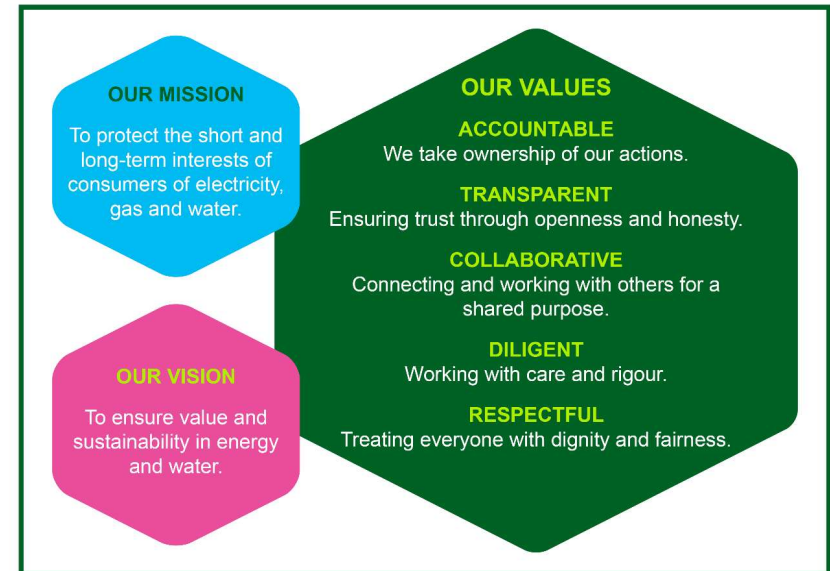
We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

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

We are based at Queens House in the centre of Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls; Networks and Energy Futures; and Markets and Consumer Protection. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Licence Modifications Pursuant to the RP7 Final Determination and other Regulatory Decisions

Consultation Paper
30 October 2024



Abstract

We are publishing a consultation on licence modifications pursuant to the RP7 Final Determination and to other regulatory decisions. RP7 is the price control for the NIE Networks for the six year period from 1 April 2025.

The RP7 Final Determination sets out the amounts NIE Networks will have to run its businesses and invest in the electricity network. Licence modifications are required to bring the price control into effect.

Furthermore, we propose to make additional licence modifications that are consequential to other decision papers published by the Authority or required to address some inconsistencies with the Transmission and Distribution licences.

We are consulting on all proposed licence modifications in order to preserve the right of licence holder and stakeholders to challenge our price control decisions and allow consideration of responses before making a final decision on licence modifications to bring them into effect.

Audience

NIE Networks, consumers, consumer representatives, consumer groups, other regulated companies in the energy industry, government, and other bodies with an interest in the energy industry.

Consumer impact

NIE Networks has a pivotal role in terms of connecting generation with consumers and facilitating the transition to net-zero. Both the effectiveness and efficiency of NIE Networks are key to industry and domestic consumers. The RP7 price control aims to set an efficient revenue cap to enable NIE Networks to deliver quality outputs that customers need. NIE Networks' costs are a material and controllable element of electricity tariffs, and RP7 investment decisions are expected to underpin improvements in service delivery for consumers.

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Annexes

Annex	Annex Title
Annex A	Proposed Article 14 modifications to Annex 1 of the Distribution Licence
Annex B	Proposed Article 14 modifications to Annex 2 of the Distribution Licence
Annex C	Proposed Article 14 modifications to Annex 2 of the Transmission Licence
Annex D	Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 – Modifications Proposed to Annex 2 of the Distribution Licence Held by Northern Ireland Electricity Networks (Ltd)
Annex E	Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 – Modifications Proposed to Annex 2 of the Transmission Licence Held by Northern Ireland Electricity Networks (Ltd)

1. Introduction

Purpose of this Document

- 1.1 RP7 is the name given to the price control for NIE Networks covering the six year period from 1 April 2025 to 31 March 2025. It sets out how NIE Networks will recover the revenue it needs to operate, maintain and expand the electricity transmission and distribution networks up to March 2031.
- 1.2 This consultation on licence modifications to the NIE Networks distribution licence and transmission licence pursuant to the RP7 Final Determination and other regulatory decisions is published together with our Final Determination on the RP7 price control. As part of this price control package, we made a number of decisions which are detailed in the RP7 Final Determination and need to be implemented through licence modifications to bring them into effect and preserve the right of the licence holder and other key stakeholders to challenge our price control determination as set out in Paragraph 1.21 below.
- 1.3 With this document we are consulting on several licence modifications we propose to make to the transmission and distribution licences for NIE Networks. The modifications proposed in this consultation relate to Annex 1 of the distribution licence and Annex 2 of the distribution and transmission licences. Annex 1 of the distribution licence sets out the basis and calculation of the Public Service Obligation revenue recovered by NIE Networks. Annex 2 of the distribution and transmission licences (the Charge Restriction Conditions) sets out the basis for a calculation of the Maximum Regulated Revenue which NIE Networks can recover.
- 1.4 We (the Utility Regulator (UR), the Authority) consider that the licence modifications proposed in this document are required to comply with our legal and regulatory obligations (summarised in the section Legal and Regulatory Framework below), to follow-up on several decisions published by the Authority. The main proposed changes include:
 - Restructuring the revenue equation in the licence to allow determined financial amounts to be input on a consistent basis before the application of frontier shift.
 - Increasing the scope of volume drivers used to determine ex-ante allowances (in particular, for secondary network investment), to allow the determination to be more flexible and responsive to need.
 - Replacing RPI with CPIH as the general measure of inflation used across the price control.

- Standardising and expanding the definition of additional allowances which may be determined during the course of the price control to align with the design of the price control set out in the RP7 Final Determination.
 - Replacing and / or introduce determined financial amounts, unit rates and other data and factors necessary to give effect to the final determination for RP7.
 - Introducing an Evaluative Performance Framework to incentivise NIE Networks to take advantage of new opportunities which will help us to adapt to the emerging energy landscape.
 - Expanding the scope of pass through opex costs to include Business Rates and shared asset costs.
 - Modifying a range of definitions, dates and terms necessary reflect the RP7 Price Control period which will run from 1 April 2025 to 31 March 2031.
 - Amending, simplifying or reducing reporting requirements based on our experience of the current price control and suggestions made by NIE Networks.
 - Other proposed minor licence modifications to clarify the current wording of the licence or necessary to give effect to the decisions of the RP7 Final Determination.
- 1.5 The purpose of this document is to follow-up on these proposals and consult on the licence modifications we consider required to bring them into effect.
- 1.6 We also propose to make some additional modifications to the transmission and distribution licences to address known drafting errors and some licence inconsistencies.

Document Structure

- 1.7 This consultation document is structured in a number of chapters as follows:
- | | |
|-----------|---|
| Chapter 2 | Reasons and Effects of Modifications which apply across a number of Sections of Annex 2 of the Licences |
| Chapter 3 | Annex 1 - PSO Charge Restriction Conditions |
| Chapter 4 | Annex 2, Section 1 - Definitions |
| Chapter 5 | Annex 2, Section 2 - Introductory Provisions |

- | | |
|------------|---|
| Chapter 6 | Annex 2, Section 3 - The Maximum Regulated Revenue |
| Chapter 7 | Annex 2, Section 4 - The Regulatory Asset Bases – Distribution Licence |
| Chapter 8 | Annex 2, Section 4 - The Regulatory Asset Bases – Transmission Licence |
| Chapter 9 | Annex 2, Section 5 – The Return Amount |
| Chapter 10 | Annex 2 Section 6 - The Opex Amount |
| Chapter 11 | Annex 2 Section 7 - The Pension Deficit Amount |
| Chapter 12 | Annex 2, Section 9 - The Tax Amount |
| Chapter 13 | Annex 2, Section 11 - The Correction Factor Amount |
| Chapter 14 | Annex 2, Section 12 - Distribution and Transmission Charge Restriction Conditions |
| Chapter 15 | Annex 2, Section 15 - Duration of the Charge Restriction Conditions |
| Chapter 16 | Next Steps |

- 1.8 The present document is complemented by five annexes. One annex provides a modified version of Annex 1 of the distribution licence, consistent with our proposed modifications. For each licence, there is one further annex providing a modified version of Annex 2 of the respective licences, consistent with our proposed modifications. Finally, there is one annex for each licence containing the legislative notices of the proposed modifications.
- 1.9 Chapter 2 of this consultation sets out the reasons and effects of a number of modifications which are either material changes or additions since the previous price control (RP6), and / or have an impact across a number of sections of Annex 2 of the transmission and distribution licences. This provides clarity on these issues and avoids repetition throughout the document. We refer to the reasons and effects set out in Chapter 2 in the remainder of this document as appropriate.
- 1.10 Chapter 3 sets out the proposed modifications to Annex 1 of the distribution licence covering Public Service Obligation (PSO) charges. Then, each of the Chapters 4 to 15 set out the modifications proposed to individual sections of Annex 2 of the distribution and transmission licences. Each Chapter follows the same structure:

- a) An overview is provided of the general purpose of the relevant Section of Annex 1 of the distribution licence and Annex 2 of the distribution and transmission licences.
 - b) Where necessary, the reasons and effects of material modifications specific to that section are set out in detail.
 - c) Separate tables of the modifications proposed to the distribution licence and the transmission licence are provided in the relevant chapters. These tables describe the general purpose/reason for each modification and then provided the detail of each modification. Because the modifications proposed for RP7 lead to some restructuring of the licences, we have included a reference to the original licence paragraph (that is the current RP6 licence) and the final licence paragraph (that is the proposed RP7 licence).
 - d) Finally, we set out the reasons and effects of the proposed modifications. Reasons and effects are summarised by the purpose/reason for the modifications as set out in the detailed tables of modifications.
- 1.11 Because there is significant commonality between the modifications proposed for the distribution and transmission licences, our explanations of reasons and effect generally cover both licences. In some cases, the purpose/reason for the changes are self-explanatory, for example the modifications which adjust for the relevant price control period (from RP6 to RP7). In these circumstances we have provided a simple restatement of the modification as the reasons and effects. In some cases, a substantial number of changes flow from one common purpose/reason, an example is the modifications proposed to change the general measure of inflation for the price control from RPI in RP6 to CPIH in RP7. In these circumstances we have provided an explanation of the reasons and effects in Chapter 2 which is then referenced in the subsequent chapters.
- 1.12 As a result, a single chapter is generally used to explain proposed modifications to the same sections of Annex 2 of the transmission and distribution licences. One exception to this approach is the way we have addressed Section 4 of Annex 2 of the respective licences (the Regulatory Asset Bases). Due to the extent of the proposed modifications to these sections and the differences between the respective licences, we considered it necessary to include separate chapters explaining the proposed modifications to the distribution and transmission licences. While this involves some repetition, it adds to the clarity of this consultation.

Approach

- 1.13 In the interest of transparency and in line with best practice regulation, we consider it important to give NIE Networks appropriate notice of any licence modifications we intend to make and to offer adequate opportunities for engagement on such proposals.
- 1.14 In the draft determination for RP7, we set our proposed design of the price control in Annex S. This provided information on the licence modifications we proposed to bring forward. Since then, we have provided NIE Networks with some advance sight of the proposed tracked changes to their licence, at as early a stage as possible.
- 1.15 In preparing the present document, we have considered the comments we have received from NIE Networks on the proposed licence modifications to date.
- 1.16 This consultation document presents a further opportunity for NIE Networks and any other interested stakeholders to provide comments on the proposed modifications. Section 16 Next Steps sets out the details on how to respond to this consultation as well as timelines for the remainder of the licence modification process.
- 1.17 We note that, subject to the responses we receive to this consultation, changes to our proposed licence modifications are possible.

Legal and Regulatory Framework

- 1.18 Our principal objective in carrying out our electricity functions is to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity, and by having regard to a number of matters, as set out more fully in Article 14 of the Energy (Northern Ireland) Order 2003 (the Energy Order)¹.
- 1.19 NIE Networks has a licence to participate in the transmission of electricity and a separate licence to participate in the distribution of electricity in the authorised areas identified in the respective licences (the Transmission Licence and the Distribution Licence respectively). These licences set out NIE Networks rights and the obligations it needs to comply with when developing and operating the electricity network in its licenced areas.

¹ [The Energy \(Northern Ireland\) Order 2003 \(legislation.gov.uk\)](http://legislation.gov.uk)

- 1.20 In fulfilment of our duties, we may propose to make modifications to these licences under Article 14 of the Electricity (Northern Ireland) Order 1992² (the Electricity Order). Article 14 sets out the process we need to follow when making licence modifications. We need to give notice of at least 28 days of the proposed modification. We must give due consideration to any representations made during this period and publish our decision and the licence modification, stating the reasons for it and its effects. The effective date for the licence modification must be at least 56 days after the publication of the licence modification decision.
- 1.21 Since the coming into effect of the Gas and Electricity Licence Modifications and Appeals Regulations (Northern Ireland) 2015³ on 6 February 2015, we no longer need the consent of the licence holder to make a modification to their licence. In consequence of that, we no longer require a power to refer a licence to the Competition and Markets Authority (CMA) if consent is withheld. Licence modification decisions are automatically effective. However, any licence modification decision made under Article 14 of the Electricity Order may be appealed to the CMA by:
- the licence holder concerned;
 - any other licence holder materially affected by the decision;
 - a qualifying body or association representing a licence holder concerned or a licence holder materially affected by the decision; or
 - the Consumer Council for Northern Ireland.
- 1.22 If an appeal is brought to the CMA, the CMA will in a first step decide whether to give permission for the appeal to proceed or not. If permission is granted, the CMA has a period of 4 months, or in the case of licence modifications relating to price controls 6 months, in which to determine the appeal. These timelines can be extended to 5 months or 7 months for licence modifications relating to price controls, if required.

2. Reasons and Effects of Modifications which apply across a number of Sections of Annex 2 of the Licences

Introduction

- 2.1 In each of the subsequent Chapters 3 to 15 we set out the modifications proposed to individual sections of Annex 2 of the distribution and transmission licences. Each Chapter follows the same structure which explains the reasons and effects for the detailed modifications we propose for RP7.
- 2.2 In this chapter we set out the reasons and effects of a number of proposed modifications which are either material changes, or additions since the previous price control (RP6), and /or have an impact across a number of sections of Annex 2 of the transmission and distribution licences. This provides clarity on these issues and avoids repetition throughout the document. We refer to the reasons and effects set out in this Chapter in the remainder of this document as appropriate.
- 2.3 The material and / or common issue covered in this chapter are:
- a) The proposed change from the BoE Base rate
 - b) The proposed change from RPI to CPIH as the general measure of inflation for RP7.
 - c) Introduction of the Evaluative Performance Framework

Use of Bank of England base rate in place of Danske Bank base rate

Introduction

- 2.4 The calculation of the revenue which NIE Networks can recover in any one year must be based on forecasts for future allowed capital and opex, actual costs, revenues and inflation. The revenue for each year is corrected once actual values are available. The difference between the Maximum Regulated Revenue and the revenue collected is carried forward to the next Regulatory Year with an amount of interest calculated using the "Average specified rate" as defined in the licences.
- 2.5 In the current licences, the Average specified rate is calculated from the daily base rates of Danske Bank Limited (or such other bank as the Authority shall specify from time to time).

² [The Electricity \(Northern Ireland\) Order 1992 \(legislation.gov.uk\)](http://www.legislation.gov.uk)

³ <http://www.legislation.gov.uk/nisr/2015/1/contents/made>.

- 2.6 For RP7, we propose modifying the definition of the Average specified rate so that it is calculated using Bank of England Base rates.

Change from RPI to CPIH as the General Measure of Inflation for RP7

Introduction

- 2.7 The RP7 price control uses a general measure of inflation which is applied to various determined values to convert them to nominal prices relevant for the calculation of revenue in a particular year.
- 2.8 In RP6 and previous price controls we used the Retail Prices Index (RPI) as the general measure of inflation. In RP7 we propose the use the Consumer Prices Index including owner occupiers' housing costs (L522: 2015 = 100) published by the Office for National Statistics (or successor body) (CPIH)
- 2.9 In previous price controls we used the October index for the general measure of inflation as representative of the Regulatory Year. We do not propose to change this in RP7.

Reasons for changing to CPIH

- 2.10 Our price control determinations, and the subsequent annual assessments of tariffs take account of a general measure of inflation. In the past RPI, has been used, but for RP7, we propose to adopt CPIH as the general measure of inflation. This change reflects concerns expressed by the UK Statistics Authority (UKSA) over the robustness of RPI. As a result, the UKSA urged Government and others to cease using RPI. The move to CPIH reflects changes the UKSA plan to make in 2030. Moving to CPIH provides a more equitable distribution of cost between today's and future consumers, and it helps maintain financeability of NIE Networks.
- 2.11 RPI is no longer considered a robust measure of general inflation by those responsible for publishing it. It has been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as a National Statistic. The UK Statistics Authority (UKSA) has noted that: *"We have been clear that the RPI is not a good measure, at times significantly overestimating inflation and at other times underestimating it and have consistently urged all - in Government and the private sector - to stop using it."*
- 2.12 In our approach to RP7, we noted proposals by the chair of UKSA to eventually cease the publication of RPI and, in the meantime, to incrementally adjust RPI to align with CPIH. In response to the UKSA's proposals, the Chancellor of the Exchequer ruled out any alignment

beginning until at least 2025, but agreed with further consultations on this subject, before coming to a final decision.

- 2.13 However, following the UKSA's consultation, which closed in November 2020, we note that:
- The Chancellor of the Exchequer concluded that he would be unable to offer his consent to the implementation of a proposal (such that the UKSA intends to make) before the maturity of the final specific index-linked gilt in 2030.
 - In light of the clarification provided by the Bank of England and given the UKSA's position to address the shortcomings in the RPI in full at the earliest practical time, the UKSA's Chair replied to the Chancellor informing him that the UKSA would be able to legally and practically implement its proposal to the RPI in February 2030.
- 2.14 While it is now clear that RPI will continue to be calculated and published in its current form until 2030, we think that it is reasonable to plan on the assumption that UK Statistics Agency intends to bring the methods and data sources of the Consumer Prices Index including owner-occupiers' housing costs (CPIH) into RPI shortly thereafter.
- 2.15 In view of both the UK Statistics Agency's intent to align RPI with CPIH from 2030, and the Agency's view that RPI is not a good measure of inflation, we have concluded that we should replace RPI with CPIH as the measure of general inflation in RP7. Not only will this use a more robust measure of general inflation in our decisions, but it will also ensure that the level of inflation of network prices will follow the general Consumer Prices Index (CPI) which is becoming the commonly quoted measure of inflation and a benchmark for increases in pensions, benefits and wages.
- 2.16 Changing from RPI to CPIH as a general measure of inflation changes how the cost of networks is paid for by consumers today and in the future. Because CPIH is generally lower than RPI, there will be an increase in revenue and tariffs for today's consumers while future consumers will pay less.
- 2.17 The increase in capital investment and operational expenditure in RP7 which is necessary to improve the capacity and capability of the network as we move to net zero places pressure on NIE Networks ability to finance its investment. A move to CPIH will result in an increase in revenue and charges in the short term with lower revenue and charges in the longer term. This improves financeability in RP7 in the face of increasing capital investment.

Effects of changing to CPIH

- 2.18 A change to CPIH ensures that the RP7 price control is based on a method of assessing general inflation which is considered robust by the relevant competent statistical authorities. This improves the alignment of payments with the way network services are consumed, improving intergenerational equity.
- 2.19 Inflation as measured by CPIH is generally lower than inflation measured by RPI. As a result, revenues and tariffs will increase in the short term as the real weighted average cost of capital increases to reflect lower level of general inflation. Over the longer term, the level of inflation applied to revenues and tariffs will be lower and the RABs will be subject to a lower level of general inflation. As a result, revenues and tariffs in the longer term will be lower that they would be if RPI was retained as the general measure of inflation.
- 2.20 A change to CPIH improves financeability in RP7 and avoids using more complex mechanisms to maintain financeability by enhancing revenues in the RP7 period.
- 2.21 In practical terms, changing from RPI to CPIH as the general measure of inflation for RP7 has impacted on the following:
- The determination of a real weighted average cost of capital on a CPIH stripped basis.
 - The determination of a frontier shift on a CPIH stripped basis.
 - A final adjustment to the opening Regulatory Asset Bases (RABs), calculated using RPI to provide an opening value for RP7 which reflects the use of CIPH in RP7.

Introduction of an Evaluative Performance Framework

Introduction

- 2.22 The Evaluative Performance Framework (EPF) aims to incentivise NIE Networks to take advantage of new opportunities, proactively progress initiatives in areas that will bring the greatest benefit to Northern Ireland customers and ensure we continually adapt to the emerging energy landscape. Some areas can be categorised as either new or emerging, with limited historic benchmark data to provide a basis for setting targets, and/or are subject to strong influence by exogenous factors. It is in these areas where the creation of an EPF can deliver the most benefit.

Reasons for introducing an Evaluative Performance Framework

- 2.23 A key reason for the new EPF is to bring additional skills, insights and knowledge to our review of NIE Networks' performance. The EPF Panel will bring together independent expertise to assess and constructively challenge performance in the key defined areas in line with identified principles. Consideration will also be given to NIE Networks Roles and Services, Service Performance, the Performance Baseline and any longer-term initiatives.

Effects of introducing an Evaluative Performance Framework

- 2.24 The effect will be to incentivise NIE Networks to take advantage of new opportunities, proactively progress initiatives in areas that will bring the greatest benefit to Northern Ireland customers and ensure we continually adapt to the emerging energy landscape.

3. Annex 1, PSO Charge Restriction Conditions

Overview

- 3.1 Annex 1 of the distribution licence (PSO Charge Restriction Conditions) allows NIE Networks to recover certain amounts through tariffs variously described as:
- the NIE Energy Supply Amount;
 - the PPB Amount;
 - the Land Bank Amount;
 - NISEP costs (covering the reasonable and necessary costs of the energy efficiency programme incurred by the Licensee;
 - the reasonable cost incurred by the Licensee in complying with the with the requirements imposed on the Licensee under legislation and other legal requirement through which the Directive (or Directive 2003/54/EC) is implemented to the extent such costs are approved by the Authority; and,
 - Uncollected Revenue (in respect of the amounts above)

Distribution licence definition modifications

- 3.2 We propose modifying Annex 1 of the distribution licence as set out in Table 3.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
1.1	1.1	Amend the Average Specified Rate	In the definition of 'Average Specified Rate@, delete 'Danske Bank Limited (or such other bank as the Authority shall specify from time to time)' and replace with 'Bank of England'.
1.1	1.1	RPIt no longer relevant to this section.	Delete the term 'RPIt' and its associate definition.
7.4(b)	7.4(b)	Adjust for the relevant price control periods.	Delete 30 September 2017 and replace with 31 March 2031.

Table 3.1: Modifications to Annex 1 of the distribution licence

Reasons

- 3.3 The reasons for modifying the definition of the Average Specified Rate are set out in Section 2, beginning at Paragraph 2.4.
- 3.4 The reasons for deleting the term RPIt is that it is no longer relevant to the calculation of PSO revenue.
- 3.5 The reason for modifying the limit on the date which a Disapplication Request (the Disapplication Date) can come into effect is to prevent any disapplication of the licence in respect of the PSO Charge Restriction Condition coming into effect before the end of the RP7 period.

Effects

- 3.6 The effect of modifying the Average Specified Rate is explained in Section 2, beginning at Paragraph 2.4.
- 3.7 The effect for modifying the limit on the date which a Disapplication Request (the Disapplication Date) can come into effect is that the PSO Charge Restriction Condition will apply for the duration of RP7. The revised date included in the licence allows NIE Networks to seek disapplication of the Condition from the end of RP7 and allows the company to seek modifications to the Condition which would have effect from that date, if it chooses to do so.

4. Annex 2, Section 1 - Definitions

Overview

- 4.1 Annex 2 of the transmission and distribution licences sets out in detail how the maximum regulated revenue charged by NIE Networks is calculated from the determined values, unit costs and other amounts which are a key output of the RP7 price control determination.
- 4.2 In this chapter, we consider the proposed modifications to Paragraphs 1 of Annex 2 (Definitions).

Distribution licence definition modifications

- 4.3 We propose modifying the definitions Section 1 of Annex 2 of the distribution licence set out in Table 4.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
Definitions	Definitions	Amend Average specified rate	Amend the 'Average Specified Rate' means the arithmetic mean of the daily base rates of the Bank of England Danske Bank Limited (or such other bank as the Authority shall specify from time to time) current from time to time during the period in respect of which the calculation falls to be made.
Definitions	Definitions	Adjust for CPIH	Add a definition for CPIH _{tpb} 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 'CPIH t = 2022' is to the CPIH figure for October 2021.
Definitions	Definitions	Adjust for CPIH	Add a definition for "CPIH _t ", being the CPIH index for Regulatory Reporting Year t.
Definitions	Definitions	Make provision for the Evaluation Performance Framework	Add the definition '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 Evaluative Performance Framework incentive.'

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
Definitions	Definitions	Adjust for the relevant price control periods	In the definition of "Final Determination", replace "30 June 2017" with "30 October 2024"
Definitions	Definitions	Adjust for the relevant price control periods	In the definition of "HRMC", replace "RP6" with "RP7".
Definitions	Definitions	Change of legal definition for Provision of Law	In the definition for b) add... "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";
Definitions	Definitions	Adjustments to remove the RP6 half year, not relevant for RP7	In the definition of "Regulatory Reporting Year", delete from and including "except for regulatory Reporting Year t=2018 to the end of the definition.
Definitions	Definitions	Adjust for the relevant price control periods	In the definition of "Regulatory Reporting Year t", delete 2018 in two positions and replace with 2026.
Definitions	Definitions	Adjust for the relevant price control periods	In the definition of "Regulatory Tariff Year t", delete 2018 in two positions and replace with 2026.
Definitions	Definitions	Adjust definition	Update the 'RP6 Model' definition to include the word 'Financial' therefore 'RP6 Financial Model'
Definitions	Definitions	Adjust for the relevant price control periods	Delete the definition of "RP4" in its entirety.
Definitions	Definitions	Adjust for the relevant price control periods	Delete the definition of "RP5" in its entirety.
Definitions	Definitions	Adjust for the relevant price control periods	Delete the definition of "RP5 Model" in its entirety.
Definitions	Definitions	Adjust for the relevant price control periods	Add a definition of "RP7", being the period commencing on 1 April 2025 and ending on 31 March 2031.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
Definitions	Definitions	Adjust for the relevant price control periods	Add a definition of "RP7 Financial Model", being 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 specified in the document.
Definitions	Definitions	Adjust for CPIH	Delete the definition of "RPI" in its entirety.
Definitions	Definitions	Amend referencing	Specified information Paragraph reference update to Paragraph 12

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
Definitions	Definitions	Adjust for the relevant price control periods	In the definition of "HRMC", replace "RP6" with "RP7".
Definitions	Definitions	Change of legal definition for Provisions of law	In the definition for b) add... "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";
Definitions	Definitions	Adjustments to remove the RP6 half year, not relevant for RP7	In the definition of "Regulatory Reporting Year", delete from and including "except for regulatory Reporting Year t=2018 to the end of the definition.
Definitions	Definitions	Adjust for the relevant price control periods	In the definition of "Regulatory Reporting Year t", delete 2018 in two positions and replace with 2026.
Definitions	Definitions	Adjust for the relevant price control periods	In the definition of "Regulatory Tariff Year t", delete 2018 in two positions and replace with 2026.
Definitions	Definitions	Adjust definition	Update the 'RP6 Model' definition to include the word 'Financial' therefore 'RP6 Financial Model'
Definitions	Definitions	Adjust for the relevant price control periods	Delete the definition of "RP4" in its entirety.
Definitions	Definitions	Adjust for the relevant price control periods	Delete the definition of "RP5" in its entirety.
Definitions	Definitions	Adjust for the relevant price control periods	Delete the definition of "RP5 Model" in its entirety.
Definitions	Definitions	Adjust for the relevant price control periods	Add a definition of "RP7", being the period commencing on 1 April 2025 and ending on 31 March 2031.
Definitions	Definitions	Adjust for the relevant price control periods	Add a definition of "RP7 Financial Model", being 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 specified in the document.
Definitions	Definitions	Adjust for CPIH	Delete the definition of "RPI" in its entirety.

Table 4.1: Modifications to the definitions for Annex 2 of the distribution licence

Transmission licence definition modifications

4.4 We propose modifying the definitions Section 1 of Annex 2 of the transmission licence set out in Table 4.2 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
Definitions	Definitions	Amend Average specified rate	Amend the 'Average Specified Rate' means the arithmetic mean of the daily base rates of the Bank of England Danske Bank Limited (or such other bank as the Authority shall specify from time to time) current from time to time during the period in respect of which the calculation falls to be made.
Definitions	Definitions	Adjust for CPIH	Add a definition for CPIH _{tpb} 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 'CPIH t = 2022' is to the CPIH figure for October 2021.
Definitions	Definitions	Adjust for CPIH	Add a definition for "CPHIt", being the CPIH index for Regulatory Reporting Year t.
Definitions	Definitions	Adjust for the relevant price control periods	In the definition of "Final Determination", replace "30 June 2017" with "30 October 2024"

Table 4.2: Modifications to the definitions for Annex 2 of the transmission licence

Reasons

- 4.5 The reasons for modifying the definition of the Average Specified Rate are set out in Section 2, beginning at Paragraph 2.4.
- 4.6 The reasons for modifying the licences to use CPIH as the general measure of inflation are set out in Section 2, beginning at Paragraph 2.7.
- 4.7 The reasons for modifying the distribution licence to introduce an Evaluative Performance Framework are set out in Section 2, beginning at Paragraph 2.23.
- 4.8 The reason for modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031. This includes modifications to remove the RP6 half year which is not relevant to RP7.
- 4.9 The reasons for modifying the definition of Provision of Law, in particular sub-paragraph (b), is the need to clarify the scope of the definition of a Provision of Law now the United Kingdom has left the European Union.
- 4.10 The reasons for modifying other minor adjustments to the definitions not covered by the purpose / reasons above is to correct and clarify minor details of the definitions in the licences.

Effects

- 4.11 The effects of modifying the Average Specified Rate is explained in Section 2, beginning at Paragraph 2.7.
- 4.12 The effects of modifying the licences to use CPIH as the general measure of inflation are set out in Section 2, beginning at Paragraph 2.18.
- 4.13 The effects of modifying the distribution licence to introduce an Evaluative Performance Framework are set out in Section 2, beginning at Paragraph 2.24.
- 4.14 The effects of modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031.

- 4.15 The effects of modifying the definition of Provision of Law, in particular sub-paragraph (b), is to clarify the scope of the definition of a Provision of Law following now the United Kingdom has left the European Union.
- 4.16 The effects for modifying other minor adjustments to the definitions not covered by the purpose / reasons above is to correct and clarify minor details of the definitions in the licences.

5. Annex 2, Section 2 - Introductory Provisions

Overview

- 5.1 In this chapter, we consider the proposed modifications to Section 2 of Annex 2, Introductory Provisions.

Distribution licence modifications

- 5.2 We propose modifying Paragraph 2.2(a) of the distribution licence to reflect the base year for the determined values of the price control of 2021/22 (in October 2021 prices) to read as follows:

all monetary figures in this Annex are stated in 2021/22 prices which are determined by CPIH index for October 2021;

- 5.3 We propose modifying the definitions Section 2 of Annex 2 of the distribution licence set out in Table 5.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
2.2a	2.2a	Adjust for the relevant price control periods.	Delete "15/16 prices" and replace with "2021/22 prices which are determined at CPIH index for October 2021"
2.2a	2.2a	Delete	Delete "inputs and"

Table 5.1: Modifications to Introductory Provisions for Annex 2 of the distribution licence

Transmission licence modification

- 5.4 We propose modifying the definitions Section 2 of Annex 2 of the transmission licence set out in Table 5.2 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
2.2a	2.2a	Adjust for the relevant price control periods.	Delete "15/16 prices" and replace with "2021/22 prices which are determined at CPIH index for October 2021"
2.2a	2.2a	Minor modification	Delete "inputs and"

Table 5.2: Modifications to Introductory Provisions for Annex 2 of the transmission licence

Reasons

- 5.5 The reason for modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031. In this case, the modification clarifies the fact that monetary figures in the licence are in 2021/22 prices which is the base year for our RP7 final determination.
- 5.6 The reasons for the minor modification to Paragraph 2.2a of Annex 2 Section 2 is to clarify that it is the calculations for which provision is made in Annex 2 which are carried out in nominal prices. Key monetary figures from the licence stated in the Annex are in 2021/22 prices and are adjusted for inflation in accordance with the calculations provided for in the Annex 2.

Effects

- 5.7 The effect of modifying for key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031. In this case, the modification clarifies the fact that monetary figures in the licence are in 2021/22 prices which is the base year for our RP7 final determination.
- 5.8 The effect of the minor modification to Paragraph 2.2a of Annex 2 Section 2 is to clarify that it is the calculations for which provision is made in Annex 2 which are carried out in nominal prices. Key monetary figures from the licence stated in the Annex are in 2021/22 prices and are adjusted for inflation in accordance with the calculations provided for in the Annex 2.

6. Annex 2, Section 3 - The Maximum Regulated Revenue

Overview

- 6.1 Section 3 of Annex 2 of the current transmission and distribution licences sets out how the Maximum Regulated Revenue which NIE Networks can recover from consumers will be calculated.
- 6.2 The Regulatory Year runs from 1 April to 31 March of the subsequent year. The Tariff Year runs from 1 October to 30 September of the subsequent year. We intend to maintain the process set out and Paragraph 3.2 of the Annex 2 of the current transmission and distribution licences whereby the Maximum Regulated Revenue for a Tariff Year is half the Maximum Regulatory Revenue of each Regulatory Year falling in that Tariff Year.
- 6.3 We have proposed modifications to the calculation of the Maximum Regulated Revenue for the distribution licence to include the financial incentive amount, if any, from the Evaluative Performance Framework described in Annex V of the final determination for RP7. We have proposed other modifications to adjust for the relevant price control periods.

Modification of the distribution licence to introduce the Evaluative Performance Framework.

- 6.4 We propose to introduce an Evaluative Performance Framework incentive mechanism in RP7 which is described in Annex V of the final determination. The reasons and effects of this modification are described in Chapter 2 beginning at Paragraph 2.23
- 6.5 We will give effect to this proposal by

Replacing the equation for the calculation of the Maximum Regulated Revenue in Paragraph 3.5 of Section 3 of Annex 2 of the distribution licence with the following equation:

$$RP7Rt = DEPt + RETt + BDt + RIt + EPFt + Ot + Pt + TAXt - RPSIt + Kt$$

Introducing a definition of the EPFt term now inserted in this equation of the distribution licence as follows:

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.

Modifications to the distribution licence

- 6.6 We propose modifying the Maximum Regulated Distribution Revenue, Section 3 of Annex 2, of the distribution licence set out in Table 6.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
3.1	3.1	Adjust for the relevant price control periods.	Delete "1 October 2017" and replace with "1 April 2025".
3.2	3.2	Adjust for the relevant price control periods.	Delete "RP6Tt" and replace with "RP7Tt".
3.3	3.3	Adjust for the relevant price control periods.	In the equation for the "Maximum Regulated Distribution Revenue", delete "RP6Tt = (RP6Rt + RP6Rt+1) * 0.5" and replace with "RP7Tt = (RP7Rt + RP7Rt+1) * 0.5".
3.3	3.3	Adjust for the relevant price control periods.	In the definitions following the equation for the "Maximum Regulated Distribution Revenue": delete "RP6Tt and replace with RP7Tt; and, "RP6Rt" with "RP7Rt".
3.3	3.3	Adjustments to remove the RP6 half year, not relevant for RP7	Delete from "Save that for" to the end of the paragraph.
3.4	3.4	Adjust for the relevant price control periods.	Delete "RP6Rt" and replace with "RP7Rt".
3.5	3.5	Adjust for the relevant price control periods.	In the equation for the "Maximum Regulated Distribution Revenue", delete "RP6Rt" and replace with "RP7Rt".
3.5	3.5	Make provision for the Evaluative Performance Framework	In the equation for the "Maximum Regulated Distribution Revenue", add an additional term "EPFt" to introduce incentive payments and penalties arising from the Evaluative Performance Framework.
3.5	3.5	Make provision for the Evaluative Performance Framework	In the definition of terms following the equation for the "Maximum Regulated Distribution Revenue", add a definition of the term EPFt .

Table 6.1: Modifications to the Maximum Regulated Revenue for Annex 2 of the distribution licence

Transmission licence modifications

6.7 We propose modifying Section 3 of Annex 2 of the transmission licence as set out in Table 6.2 below.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
3.1	3.1	Adjust for the relevant price control periods.	Delete "1 October 2017" and replace with "1 April 2025".
3.2	3.2	Adjust for the relevant price control periods.	Delete "RP6Tt" and replace with "RP7Tt".
3.3	3.3	Adjust for the relevant price control periods.	In the equation for the "Maximum Regulated Transmission Revenue", delete "RP6Tt = (RP6Rt + RP6Rt+1) * 0.5" and replace with "RP7Tt = (RP7Rt + RP7Rt+1) * 0.5".
3.3	3.3	Adjust for the relevant price control periods.	In the definitions following the equation for the "Maximum Regulated Transmission Revenue": delete "RP6Tt and replace with RP7Tt; and, "RP6Rt" with "RP7Rt".
3.3	3.3	Adjustments to remove the RP6 half year, not relevant for RP7	Delete from "Save that for" to the end of the paragraph.
3.4	3.4	Adjust for the relevant price control periods.	Delete "RP6Rt" and replace with "RP7Rt".
3.5	3.5	Adjust for the relevant price control periods.	In the equation for the "Maximum Regulated Transmission Revenue", delete "RP6Rt" and replace with "RP7Rt".

Table 6.2: Modifications to the Maximum Regulated Revenue for Annex 2 of the transmission licence

Reasons

- 6.8 The reasons for modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031. This includes modifications to remove the RP6 half year which is not relevant to RP7.
- 6.9 The reasons for modifying the distribution licence to introduce an Evaluative Performance Framework are set out in Section 2, beginning at Paragraph 2.23.

Effects

- 6.10 The effects of modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031. This includes modifications to remove the RP6 half year which is not relevant to RP7.
- 6.11 The effects of modifying the distribution licence to introduce an Evaluative Performance Framework are set out in Section 2, beginning at Paragraph 2.24.

7. Annex 2, Section 4 - The Regulatory Asset Bases – Distribution Licence

- 7.1 The treatment of the Regulatory Asset Bases (RABs) in the transmission and distribution licences is similar in principle. However, they are sufficiently different in detail and the modifications proposed sufficiently complex that we have included separate chapters in this consultation to explain the modifications we propose.
- 7.2 In this chapter, we provide an explanation of the modifications proposed to the distribution licence. In Chapter 8, we provide an explanation of the modifications proposed to the transmission licence.
- 7.3 Much of the general explanation behind the modifications and reasons and effects is common to both transmission and distribution licences. Having set out these explanations in this chapter, we have avoided duplicating this information in Chapter 8 where possible. Instead, we have referenced back to the general explanations provided below when that was sufficient.

Overview

- 7.4 Section 4 of Annex 2 of the current transmission and distribution licences sets how out a regulatory asset value is maintained and how that value is depreciated. It secures the remuneration of capital expenditure (capex) through a return of capex (depreciation) and a return on capex (by maintaining a residual asset value to which a cost of capital is applied).
- 7.5 Section 4 of Annex 2 of the licences establishes a series of Regulatory Asset Bases (RABs) for distribution and transmission. It then sets out, for each RAB and each year of the price control:
- how an opening value of the RAB is established for the relevant year, including, taking account of inflation from the previous year;
 - how investment in the year is added to the RAB after deduction of any expenditure deemed to be demonstrably inefficient and wasteful and the application of a cost sharing incentive mechanism; and
 - how depreciation of the RAB is calculated, with the depreciation amount deducted from the RAB and recovered through revenue.
- 7.6 Capex is divided into two categories: “qualifying capex” and “pass through capex”. The qualifying capex added to the RAB is subject to a 50% cost risk sharing mechanism which incentivises the company to control costs and reveal efficient costs. Through this mechanism, 50% of the difference

between the actual “qualifying expenditure” and an amount determined in this final determination is deducted from the RAB. As a result, the company retains 50% of the difference if it delivers its obligations for less than the determined allowed capex and pays 50% of any overspend if it spends more than the determined allowed capex to deliver its obligations.

- 7.7 The calculation of the values of the RABs and the depreciation amount is set out in Section 4 of Annex 2 of the distribution and transmission licences as follows, with supporting definitions and calculations referenced in the relevant sections:
- Paragraph 4.5 – the opening value of existing assets. The ‘existing assets’ reflects the value of assets which exist at the start of RP7.
 - Paragraph 4.8 - the closing value of existing assets. This includes the deduction of fixed depreciation amount which has been determined for the existing assets and is recovered through revenue.
 - Paragraph 4.12 - the opening value of additional assets. The ‘additional’ assets’ reflects the value of investment in the RP7 period.
 - Paragraph 4.14 - the closing value of additional assets. This includes the addition of qualifying capex and pass through capex, the deduction of demonstrably inefficient and wasteful expenditure, the deduction of the capital disposal amount (the inflated value of assets disposed of by NIE Networks 5 years previously) and the adjustment of the 50% cost sharing capital incentive.
 - Paragraph 4.25 - the depreciation amount for additional assets. This is the amount deducted from the value of additional assets each year and is recovered through revenue.
- 7.8 We propose to maintain the basic structure of the existing licence in respect of the maintenance and depreciation of the RABs, including the calculation of the capex incentive amount. However, we do propose to make several modifications to the equations used to calculate the RABs, the depreciation of the RABs, the capex incentive amount and the various terms of the equations. Because these modifications are material and fundamental to the calculation of the capex amount, we have described each one in the sections below. The key modifications described in this way are:
- Modification of the RABs defined for the purposes of Annex 2 of the licence.
 - Modification of the treatment of the allowed Capex amount so that the allowed capex amount from the RP7 final determination can be

entered in the licence before the application of real price effects and productivity factor.

- c) Modification of the licence to include the determined values for allowed capex from the RP7 final determination.
- d) Modification of the definition of the allowed capex other amount to simplify the licence, ensure consistency with our revised approach if the definition of additional capital allowances and make provision for certain categories of additional Capex incurred to be determined during the price control.
- e) Further modification of the definition of the allowed Capex other amount to add additional categories of capex necessary to ensure that NIE Networks is able to finance its activities in RP7.
- f) Modification in respect of the Change of Law mechanism to introduce a materiality threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period).

7.9 We then conclude this chapter of the consultation with a full statement of the modifications to the distribution licence in tabular format. This includes the key modifications itemised above and other general modifications required to change the general measure of inflation in the licence from RPI to CPIH, adjusting for the relevant price control periods and other minor amendments to the text.

Modification of the RABs defined for the purposes of Annex 2 of the distribution licence

7.10 There are five RABs defined in Table 1 of Annex 2 of the current distribution licence as shown in Table 7.1 below:

RAB name	RAB_X
Distribution licence Regulatory Asset Base	
Distribution RAB	RAB_DN
Enduring Solution RAB	RAB_ES
Metering RAB	RAB_MTRN
Rathlin RAB	RAB_RT
5 Year D.RAB	RAB_D5Y

Table 7.1: Current distribution RABs

7.11 We propose modifying the distribution licence RABs by removing the Rathlin RAB and renaming the Enduring Solutions RAB the 10 Year D RAB.

7.12 Therefore, we propose to delete Table 1 of Section 4 of Annex 2 of the distribution licence and replace it with Table 7.2 below:

RAB name	RAB_X
Distribution licence Regulatory Asset Base	
Distribution RAB	RAB_DN
10 Year D RAB	RAB_D10Y
Metering RAB	RAB_MTRN
5 Year D.RAB	RAB_D5Y

Table 7.2: Modified distribution RABs

7.13 Following on from this proposal, it necessary to delete Table 2 of Section 4 of Annex 2 of the distribution licence and replace it with Table 7.3 below.

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

Table 7.3: Modified Distribution Business depreciation rate for each RAB_X

Reasons and effects – modification of the definition of distribution RABs.

- 7.14 We propose to modify the definition of the distribution of RABs for the purpose of Annex 2 to simplify the licence and more closely align the definition of RABs with their rate of depreciation rather than the purpose of the investment.
- 7.15 We propose to remove the Rathlin RAB and combine it with the Distribution RAB which has the same depreciation profile. The closing value of the Rathlin RAB at the end of the RP6 will be added to the opening values of the Distribution RAB for RP7. This will simplify the licence and revenue calculation by removing the need to maintain more than one RAB with the same distribution profile.
- 7.16 We propose to remove the Enduring Solution RAB which will have been depreciated to zero at the end of RP6. However, we propose to add a D10YR distribution RAB which will retain the option of adding investment with a 10-year depreciation period in future decisions, if we consider that to be appropriate.

- 7.17 These proposed modifications simplify the licence but have no other effect on the value of the RABs or the calculation of the depreciation amount.

Modification of the treatment of the opening value of existing assets

- 7.18 In the current licence, we made provision to add amounts to the RP6 opening regulatory asset base for costs associated with the RP5 price control period. This was a single one-off adjustment in respect of costs already incurred by NIE Networks.
- 7.19 Similarly, during RP6 there was several opex type activities that were not allocated during the RP6 period due to no term in the RP6 licence. UR had given comfort to NIE Networks that these opex costs would be considered in the opening RAB of RP7. These include costs for LV monitors for the RP6 extension year, costs associated with the Use of Shared Asset Charge (UoSAC) and allowances for implementing the Contestability into connections.
- 7.20 We propose to amend the CADD_X2025 term in respect of RAB_D5Y, the addition of £941,588.33 (nominal).
- 7.21 We propose to restate the equation for the closing value of additional assets as:

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 31 March 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).

Reasons and effects - for modifying the treatment of the opening value of existing assets

- 7.22 This treatment allows a common approach across both the RP6 and the RP7 price controls in the treatment of RP6 carry over costs. It allows for a single one-off adjustment in respect of costs already incurred by NIE Networks.

Modification of the treatment of the allowed capex amounts

- 7.23 In the current licence, additional investment is added to the RABs through the equation for the closing value of the additional assets (CADD_Xt) at Paragraph 4.14 of Annex 2. This allows for the addition of actual qualifying expenditure and pass-through expenditure (subject to the deduction of

demonstrably inefficient expenditure, the deduction of capex disposals (on a 5 year lag) and the addition of a capex incentive amount.

- 7.24 We do not propose to modify the calculation of the closing value of additional assets. However, we do propose to modify the definition of the capex incentive amount (CI_Xt) which forms part of the term for the closing value of the additional assets (CADD_Xt).
- 7.25 The capex incentive amount (CI_Xt) is calculated as 50% of the difference between the qualifying capital expenditure less demonstrably inefficient expenditure and various categories of allowed capex through an equation set out at Paragraph 4.30 of the existing (RP6) licence, as follows:

$$CI_Xt = (AC_D5Yt + AC_DNt + AC_MTRNt + ACIA_Xt + ACES_Xt + ACDR_Xt + ACCOL_Xt - (QCE_Xt - DIQCE_Xt)) * 50\%$$

- 7.26 This equation includes allowed capex which is determined
- from the price control as sums or as unit rates applied to actual volumes for the 5 Year D.RAB (AC_D5Yt), the Distribution RAB (AC_DNt) and the Metering RAB (AC_MTRNt); and,
 - through reopener mechanisms for Injurious Affection (ACIA_Xt), for the Enduring Solution (ACES_Xt), more general allowed capex (ACDR_Xt) and Change of Law (ACCOL_Xt).
- 7.27 The equation has extended over time as new terms have been added for new categories of additional allowed capex. It includes items which relate to specific RABs and items which might apply across a number of RABs. The term AC_D5Yt, which began as a sum determined in the price control, now includes a reopener term (ACNES_Xt) which covers any New Energy Strategy IT Solution - any significant changes required to the specification of IT utilised by the Licensee for the purposes of providing the Market Data Service or the Market Registration Service.
- 7.28 For the sake of simplicity, we propose to restate the equation for the capital incentive as:

$$CI_Xt = (AC_Xt + ACDR_Xt - (QCE_Xt - DIQCE_Xt)) * 50\%$$

Where:

AC_Xt is the allowed capex for RAB_X for Regulatory Reporting Year t; and

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.

Reasons and effects - for modifying the treatment of allowed capex amounts through the capex incentive equation

- 7.29 This formulation allows a common approach across each RAB for the definition in the licence of the allowed capex from the allowances and rates determined in the final determination (AC_Xt). It provides a single term to cover all additional capital allowances determined by the Authority in a published decision after the RP7 final determination in line with the conditions of the licence (ACDR_Xt). It allows conditions of the licence which permit additional capex allowances to be determined for the ACDR_Xt term to be grouped in one section of the licence and treated in a consistent way.
- 7.30 This proposed modification simplifies the licence by facilitating a common and consistent approach to the treatment of capital allowances in the licence will also allow additional terms to be added in the future should that prove necessary.

Modification of the licence to incorporate the determined values for allowed capex from the RP7 final determination

- 7.31 Following on from our proposal to modify the equation for the CI_Xt term as described above, it is necessary to redefine the allowed capex which can be determined from the allowances and rates determined in the final determination (the AC_Xt term).
- 7.32 In the current licence, the definition of the AC_Xt terms is a mix values stated before and after the application of capex real price effects and frontier shift (CRPE&FS). We propose to modify the definition of the AC_Xt terms to allow all relevant monetary values in the licence to be stated before the application of CRPE&FS with CRPE&FS applied through the licence equations.
- 7.33 In the current licence, the definitions of the AC_Xt terms are a mix values determined from values and unit rates in the RP7 Final Determination and additional amounts determined through subsequent decisions made by the Authority. We propose to modify the definitions of the AC_Xt terms of the licence to cover values determined from values and unit rates in the RP7 Final Determination only. Additional amounts determined through subsequent decisions made by the Authority will be collected under an expanded definition of the ACDR_Xt term of the licence, which is described below, beginning at Paragraph 7.51

Allowed capex for 5 Year D.RAB – AC_D5Yt

- 7.34 In the current licence, the allowed capex for the 5 Year D.RAB – AC_D5Yt is defined by the equation:

$$AC_D5Yt = (AC_2016_Xt * RPIt / RPI2016) + ACNES_Xt$$

7.35 Where:

- a) AC_2016_Xt covered annual amounts from the RP6 final determination which were then adjusted for RPI inflation; and,
- b) ACNES_Xt made provision for additional capital allowances determined in respect of any New Energy Strategy IT Solution or in respect of information technology systems used for Market Data Service or the Market Registration Service.

7.36 We propose to modify the definition of AC_D5Yt by replacing the existing equation with the following:

$$AC_D5Yt = (AC_FD_DY5t * CPIHt / CPIHtpb) * CRPEPFt$$

and add the following definition of key terms:

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.

- 7.37 The term ACNES_Xt which is removed from this equation is moved to the expanded ACDR_Xt term which covers additional amounts determined through decisions made by the Authority after the RP7 Final Determination.
- 7.38 For the purpose of definition of AC_FD_D5Yt we propose to delete Table 3 of Section 4 of Annex 2 of the distribution licence and replace it with the following Table 7.4 below.

Period	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

Table 7.4: The Distribution Owner Business allowed capex per AC_FD_D5Y for each Regulatory Reporting Year t (£ million, 2022 prices)

Allowed capex for Distribution RAB – AC_DNt

- 7.39 In the current licence, the allowed capex for Distribution RAB – AC_DNt is defined by the equation:

$$AC_DNt = (ACA_DNt + UVAt) * RPIt / RPI2016$$

Where:

- ACA_DNt covered annual amounts from the RP6 final determination which were then adjusted for RPI inflation; and,
- UVAt made provision for a volume driver allowance for undereaves upgrades calculated using unit rates determined in the RP6 Final Determination.

7.40 We propose to modify the definition of AC_DNt by replacing the existing equation with the following:

$$AC_DNt = (AC_FD_DNt + VDAt) * CPIHt / CPIHtpb * CRPEPFt$$

and add the following definition of key terms:

AC_FD_DNt is the allowed capex determined amount for RAB_DN 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 4.48, 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

∑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_DNtA means the volume of units delivered in Regulatory Reporting Year t, for each category of volume driver A in **Table 5** below;

VDU_DNA is the capex allowance unit cost for each category of volume driver A in Table 5 below.

7.41 For the purpose of the definition of AC_FD_DNt, we propose to delete Table 4 of Section 4 of Annex 2 of the distribution licence and replace it with Table 7.5 below.

Period	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 7.5: The Distribution Business allowed capex determined amount for AC_FD_DN for each Regulatory Reporting Year t (£ million, 2022 prices)

7.42 In the RP7 Final Determination we have included a wider range of volume drivers to cover secondary network investment, cut-outs and removal of looped services as well as the category of undereaves upgrade included as a volume driver in the RP6 period. For the purpose of the definition of VDU_DNA, we propose to delete Table 4 of Section 4 of Annex 2 of the distribution licence and replace it with Table 7.6 below.

Distribution Capex Category A	Capex Allowance Unit Cost (£) VDU_DNA
D57c1. Ground Mounted Transformer (site). Includes replacement of transformer, LV cabinet and RMU	62,513
D57c2. Pole Mounted Transformer (MVA). Includes the cost to replace any capacity of pole mounted transformer from 16kVA to 200kVA	84,721
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 over cost to convert a pole mounted transformer arrangement to either an "H pole" or ground mounted	50,556

Distribution Capex Category A	Capex Allowance Unit Cost (£) VDU_DN _A
arrangement	
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"> only after 2028/29 reporting year; and all ex-ante outputs have been delivered 	1,137

Table 7.6: The Distribution Business allowed capex determined unit costs for each category of volume driver A (£ million, 2022 prices)

Allowed capex for 10 Year RAB – AC_{D10Yt}

7.43 The current licence includes an Enduring Solution RAB which is depreciated over a 10 year period. The closing value of this RAB at the end of RP6 is zero. However, we have chosen to retain this RAB in RP7 to preserve the ability to depreciate new investment over a 10 year period if that is considered appropriate. To break the link between the RAB and a specific purpose it has been renamed RAB_{D10Y}.

7.44 To give effect to the revised equation for the capital incentive amount (CI_{Xt}) above, we propose to introduce the following equation for AC_{10Yt}:

$$AC_{D10Yt} = (AC_{FD_{D10Yt}}) * CPIHt / CPIHtpb * CRPEPFt$$

and add the following definition of key terms

AC_{FD_D10Yt} 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_t is the capex real price effect & productivity factor for each Regulatory Reporting

7.45 For the purpose of the definition of AC_{FD_D10Yt}, we propose to introduce Table 7.7 below as Table 6 of Annex 2.

Period	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
AC _{FD_D10Y}	0.000	0.000	0.000	0.000	0.000	0.000

Table 7.7: The Distribution Business allowed capex for RAB_{D10Y} for each Regulatory Reporting Year t (£ million, 2022 prices)

Allowed capex for Metering RAB – AC_{MTRNt}

7.46 In the current licence, the allowed capex for the Metering RAB is defined by the following equation:

$$AC_{Xt} = (FMFAt + SMFAt + MVAt) * CRPEPFt$$

7.47 Where:

- FMFAt and SMFAt were annual amounts set in the RP6 final determination which were then adjusted for RPI inflation;
- MVAt was an amount calculated from the application of determined unit rates to actual volumes delivered adjusted for CPIH inflation; and,
- CRPEPF_t was an adjustment for real price effects and productivity.

7.48 This was the only area of the existing licence where determined values were entered before that application of real price effects and productivity with the adjustments made in the licence equations. We propose to retain the underlying principles of this approach for the Metering RAB, replacing the equation in the current licence with the following:

$$AC_{MTRNt} = (FMFAt + SMFAt + MVAt) * CPIHt / CPIHtpb * CRPEPFt$$

and amending the definitions of the terms to clarify that the monetary terms entered in the equation are before adjusting for real price effect & productivity factor and making other minor adjustments to the definition.

7.49 For the purpose of the definition of AC_MTRNt:

- a) we propose replacing Tables 6 and 7 of Annex 2 with Table 7.7 below as Table 7 of Annex 2

Period	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
for FMFAt	1.172	1.188	1.477	1.345	1.245	1.240
for SMFAt	2.171	1.898	1.858	1.885	1.916	2.138

Table 7.8: The Distribution Business first metering fixed allowance FMFAt and second metering fixed allowance SMFAt for each Regulatory Reporting Year t (£ million, 2022 prices)

- b) and, we propose introducing Table 7.9 below as Table 8 of Annex 2.

Period	Metering allowance unit cost
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

Table 7.9: The Distribution Business allowed capex for RAB_MTRN for each Regulatory Reporting Year t (£ allowance per unit cost, 2022 prices)

The capex real price effect & productivity factor (CRPEPFt)

To give effect to the equations and definitions of the of allowed capex which will be determined from the allowances and rates determined in the final determination (the AC_Xt term) as set out above, we propose to maintain the definition of the capex real price effect & productivity factor (CRPEPFt) and replace the table which defines the values of CRPEPFt at Paragraph 4.49 of the new licence with Table 10.2 below.

Year	Capex real price effect & productivity factor (CRPEPFt)
t=2026	0.94546
t=2027	0.94912
t=2028	0.95162
t=2029	0.94593
t=2030	0.95027
t=2031	0.95464

Table 7.10: The Distribution Business capex real price effect & productivity factor for each Regulatory Report Year t

Reasons and effects – of the modifications proposed to the licence to incorporate the determined values for allowed capex from the RP7 final determination

- 7.50 The reasons and effects for the modifications proposed to the licence to incorporate the determined values for allowed capex from the RP7 final determination are:
- To support a consistent approach to the definition of allowed capex (AC_Xt) for each RAB, consistent with the revised equation for the capex incentive amount (CI_Xt) set out above.
 - To allow all monetary amounts in the licence equations for AC_Xt to be entered before the application of real price effects and productivity with a consistent approach applied to the adjustment for real price effects and productivity through the licence equations.
 - To allow additional capital allowances, which will be determined after the RP7 Final Determination, to be excluded from the equations for the AC_Xt term and treated in a consistent basis through the modified ACDR_Xt term (see below beginning at Paragraph 4.46).
 - To introduce monetary values determined in the RP7 Final Determination through the various equations in Annex 2 which allow

capital allowances and the capex incentive to flow through to revenue and value of the RABs.

Modification of the definition of the allowed capex other amount **ACDR_Xt**

- 7.51 The current licence includes four general re-opener mechanisms which might apply to any RAB as follows:
- (i) ACIA_Xt term in respect of injurious affection claims;
 - (ii) ACES_Xt term in respect of significant changes in the specification of the service that the Licensee is required to provide in relation to the Enduring Solution market opening system;
 - (iii) ACDR_Xt term in respect of any amount determined by the Authority to be appropriate within the definition of the term included in the licence;
 - (iv) ACCOL_Xt term in respect of changes of law as determined by the Authority to be appropriate within the definition of the term included in the licence.
- 7.52 We have removed the injurious affections claim term (ACIA_Xt), the enduring solutions term (ACES_Xt) and the change of law term (ACCOL_Xt) from the Capital Incentive (CI_Xt) term and including them in the re-opener mechanisms as part of the list included under the ACDR_Xt term which allows for simplification and clarity.
- 7.53 We propose to delete paragraphs 4.37 and 4.38 in Annex 2. We propose to replace paragraph 4.37 with the following:
- For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X, the additional allowed capex (**ACDR_Xt**) 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:
 - (i) 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;
 - (ii) expenditure associated with the delivery of any new telecoms standard such as the long-term evolution (LTE) standard;
 - (iii) 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 affection 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

7.54 We propose to replace paragraph 4.38 with the following conditions in respect of the determination of additional allowed capex amounts.

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.

Reasons and effects – of the modifications proposed to the licence to the definition of the allowed capex other amount ACDRt

- 7.55 The general reasons and effects for the modifications proposed to the licence to the definition of the allowed capex other amount ACDR are:
- a) To give effect to our decisions on the additional allowances which may be determined during the course of the RP7 Price Control, as set out in Annex S of the final determination for RP7.
 - b) To avoid the proliferation of additional terms and equations throughout the revenue equations when these terms serve the same purpose and are subject to the same process and calculations.
 - c) To collate all potential additional allowances under the one term with a series of sub-paragraphs identifying the individual reasons that an additional allowance can be considered and determined.
 - d) To ensure consistency with our revised approach and make provision for certain categories of additional Capex incurred to be determined during the price control.

Modification in respect of the Change of Law mechanism

- 7.56 In the current licence, the Change of Law mechanism is given effect through the allowed capex amount for change of law – ACCOL_Xt in Annex 2 paragraph 4.54.
- 7.57 We consider the definition of the scope of the mechanism to be sufficient to allow NIE Networks to funded for necessary changes and to protect consumers from funding changes the company might wish to make at its own discretion.
- 7.58 In the current licences a change of law term ACCOL_Xt was included in the equation defining the capex incentive amount (CI_Xt). In the modifications of this term proposed above, we propose to incorporate change of law as one

of a number of items allowed under a more general term. To facilitate this, we propose to delete the text "ACCOL_Xt at six places in the existing licence across Paragraphs 4.53 to 4.58 of Section 4 of Annex 2.

- 7.59 The current licence does not place any limit on the amount which can be requested or determined in respect of the Change of Law mechanism. This creates a risk (which has not materialised to date) of changes of law which result in small changes of costs triggering this mechanism on a frequent basis.
- 7.60 We propose placing a materiality threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period) on the amount considered in any decision under this mechanism.

Reasons and effects – of the modifications proposed to Change of Law

- 7.61 The reasons and effects for the modifications proposed to the Change of Law mechanism to introduce a materiality threshold of £125,000 are:
- a) To address the potential asymmetry of applications which might not identify small reductions in costs arising from minor changes in law.
 - b) To reduce the administrative burden on NIE Networks and UR in developing, challenging and completing applications and decision.

Modifications to Annex 2, Section 4 of the distribution licence

- 7.62 We propose modifying Section 4 of Annex 2 of the distribution licence as set out in Table 7.11 below.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.6	4.6	Adjust for the relevant price control periods.	In the opening paragraph: delete "t=2018" and replace with "t=2026"; and delete "OE_X2018" and replace with "OE_X2026".
4.6	4.6	Adjust for the relevant price control periods.	Delete the equation for "Opening Value of Existing Assets" and replace with OE_X2026 = CE_X2025 + CADD_X2025
4.6	4.6	Adjust for CPIH	In the equation Opening Value of Existing Assets "RPIt / RPIt-1" and replace with "CPIHt / CPIHt-1"

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.6	4.6	Adjust for the relevant price control periods.	In the definition of the Closing Value of Existing Assets for t=2025 (the closing value for RP6): delete CE_X2018 and replace with CE_X2025; delete t=2018 and replace with t=2025; and, delete "14 August 2017" and replace with "April 2025"
4.6	4.6	Adjust for the relevant price control periods.	Delete the definition of Closing Value of Additional Assets in its entirety and replace with CADD2025 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. plus the amounts in respect of RAB_D5Y, the addition of £941,588.33 (nominal).
4.7	4.7	Adjust for the relevant price control periods.	Replace t = 2018 with t = 2026
4.7	4.7	Adjust to use of CPIH	In the equation for the Opening Asset Value, delete "RPIt / RPIt-1" and replace with "CPIHt / CPIHt-1"
4.11	4.11	Adjust for the relevant price control periods.	In the first part of the paragraph, delete "30 September 2017" and replace with "31 March 2025"
4.11	4.11	Adjust for the relevant price control periods.	In the equation for the Fixed Depreciation Amount, delete "RP6_Xt" and replace with "RP7_Xt".
4.11	4.11	Adjust to use of CPIH	In the equation for the Fixed Depreciation Amount, delete "RPIt / RPI2016" and replace with "CPIHt / CPIHtp".
4.11	4.11	Adjust for the relevant price control periods.	In the definition of the Fixed Depreciation Amount: delete "FDEP_RP6_Xt" and replace with "FDEP_RP7_Xt".
4.11	4.11	Adjust to reference conversion to CPIH	In the definition of the Fixed Depreciation Amount: delete "FDEP_RP6_Xt" and replace wording with "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
4.13(a)	4.13(a)	Adjust for the relevant price control periods.	In the definition of the Opening Value of Additional Assets, delete t=2018 and replace with 2026.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.13	4.13	Adjust to use of CPIH	In the equation for OADD_Xt, "RPIt / RPIt-1" and replace with "CPIHt / CPIHt-1".
4.25(a)	4.26 (a)	Adjust for the relevant price control periods.	In sub-(a): delete "t=2018" and replace with "t=2026"
4.25(a)	4.26 (a)	Simplification of equation	Simplification of the depreciation amount for additional assets DEPADD_Xt equation to DEPAA_Xt = 0.5 * DEP_N_Xt
4.25 (b)	4.26 (b)	Adjust to use of CPIH	In the equation for the Depreciation Amount for Additional Assets, delete "RPIt / RPIt-1" and replace with "CPIHt / CPIHt-1".
4.25 (b)	4.26 (b)	Adjust to use of CPIH	In the section following the equation for the Depreciation Amount for Additional Assets, delete "RPI" and replace with "CPIH".
4.28	4.29	Adjust to use of CPIH	In the equation for the Capital Disposal Amount, delete "RPIt / RPIt-5" and replace with "CPIHt / CPIHt-5".
4.30	4.31	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Delete the equation for the Capex Incentive Amount and replace with "CI_Xt = (AC_Xt + ACDR_Xt - (QCE_Xt - DIQCE_Xt)) * 50%".
4.30	4.31	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definitions of terms following the equation, delete the definition for ACCOL and ACIA which will now form part of the ACDR term.
4.30	4.31	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definitions of terms following the equation, delete the definition of individual RAB terms AC_D5Y, AC_DN and AC_MTRN which are now covered in the general term for AC_Xt. Replace with a definition of the general term AC_Xt
4.30	4.31	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	After the definition of the terms of the equation, add a paragraph signposting to the calculation of allowed capex for each RAB_X.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.32	4.33	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Delete (AC_Xt) and replace with (AC_D5Yt). To be RAB specific in each section and be consistent with the approach for other RAB AC definitions.
4.32	4.33	Adjust to use of CPIH	In the equation for the Allowed Capex RAB_D5Y, delete "RPIt / RPI2016" and replace with "CPIHt / CPIHtpb".
4.32	4.33	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the equation for the Allowed Capex RAB_D5Y, add the multiplier for frontier shift CRPEPFt. This allows all allowances to be determined pre frontier shift and the final allowance to be adjusted. At present, we have a mix and match in the detail sections of the licence leading to inconsistency and potential for confusion.
4.32	4.33	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the equation for the Allowed Capex RAB_D5Y, delete ACNES for New Energy Strategy IT solution.
4.32	4.33	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Amend the equation the Allowed Capex RAB_D5Y to: $AC_D5Yt = (AC_FD_DY5t * CPIHt / CPIHtpb) * CRPEPFt$. This amends replaces 2016 with FD in the term for the determined capex, making the terms more enduring and allows all values in the licence to be pre real price effects so that every number is on a consistent basis.
4.32	4.33	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definition of terms following the equation for AC_D5Yt: delete AC_2016_Xt and replace with AC_FD_D5Yt which is then defined as: the allowed capex determined amount for RAB_D5Y 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 4.48, and shall be equal to the amounts specified in Table 3 below.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.32	4.33	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definition of terms following the equation for AC_D5Yt, add the definition of CRPEPFt as is the real price effect & productivity factor for each Regulatory Reporting Year t.
4.32 - Table 3	4.33 - Table 3	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the title to Table 3 to read "Table 3 – The Distribution Business allowed capex determined amount per AC_FD_D5Y for each Regulatory Reporting Year t (£ million, 2022 prices)". This on the basis that the table is not the allowed capex which is the amount calculated from the formula above using these amounts as one input.
4.34	4.35	Adjust to use of CPIH	In the equation for the Allowed Capex RAB_DN, delete "RPIt / RPI2016" and replace with "CPIHt / CPIHtpb".
4.34	4.35	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the equation the Allowed Capex RAB_DN: rename the term ACA_DNt as AC_FD_DNt to reflect the determined capex in the FD making the terms more enduring and clarifying that this is only part of making the allowed capex.
4.34	4.35	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the equation the Allowed Capex RAB_DN: introduce a multiplier term CRPEPFt which allows, and requires all input parts of the term to be input to the licence on a consistent pre real price effects basis.
4.34	4.35	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the equation the Allowed Capex RAB_DN: delete the term UVAt (a volume driven allowance for undereaves_ and replace with a term VDA_DNt subsequently defined to be the sum of multiple volume drivers.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.34	4.35	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definition of terms following the equation for AC_D5Yt: delete ACA_Xt and replace with AC_FD_DNt which is then defined as: 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), and shall be equal to the amounts specified in Table 3 below.
4.34	4.35	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definition of terms following the equation for AC_DNt, delete the definition for UVAt (the volume driven allowance for undereaves) which is no longer required.
4.34	4.35	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definition of terms following the equation for AC_DNt, add a definition of the VDA_DNt term referencing a formula which is the production of determined unit rates and volumes. CPIH adjustment from FD base year and the application of real price effects are taken care of in the equation of AC_DNt
4.34	4.35	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Below the new equation for VDA_DNt, add definitions for: sigma all, VDV_DNtA and VDU_DNA
4.34, Table 4	4.35, Table 4	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the title to Table 4 to read "Table 4 – The Distribution Business allowed capex determined amount per AC_FD_DN for each Regulatory Reporting Year t (£ million, 2022 prices)".
4.34, Table 5	4.35, Table 5	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Delete existing Table 5 and replace with Table 5 – The Distribution Business allowed capex determined unit costs for each category of volume driver A (£ million, 2022 prices).

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.34	4.35, Table 5	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Move the totality of conditions in respect of Additional Allowed Capex to beyond the definition of the calculation of each RAB.
NEW	4.37	Adding in definition of allowances for RAB_D10Y which was formally Enduring Solutions where the previous licence was silent, recognising that the allowances are zero.	Title line "Allowed capex for D10Y RAB – AC_D10Yt.
NEW	4.37	Adding in definition of allowances for RAB_D10Y where the previous licence was silent, recognising that the allowances are zero.	Add introductory paragraph for RAB_D10Y allowed capex
NEW	4.37	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Add equation for AC_D10Yt = (AC_FD_D10Yt) * CPIHt / CPIHtpb * CRPEPFt
NEW	4.37	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Add definitions for the terms in equation for AC_D10Yt.
NEW	4.37	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Add Table 6 – The Distribution Business allowed capex determined amount for RAB_FD_ES for each Regulatory Reporting Year t (£ million, 2022 prices). Being the determined allowances for RAB_ES even if expected to be zero.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.38	4.39	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the equation for the Allowed Capex for RAB_MTRNt: Apply CPIH adjustment * CPIHt / CPIHtpb. This allows the subsequent allowance not to adjust for CPIH and be entered in FD terms at 2021/22 prices pre real price effect. Then all inflation and real price effects is applied at the Allowed Capex. It becomes consistent with the other Allowed Capex equations.
4.38	4.39	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definition of FMFAt, delete "and shall be calculated in accordance with paragraph 4.42" and replace with "and shall be equal to the amounts specified in Table 7 below." This allows a direct reference to a table rather than a further complexity of a calculation for inflation adjustment.
4.38	4.39	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definition of SMFAt, delete "and shall be calculated in accordance with paragraph 4.42" and replace with "and shall be equal to the amounts specified in Table 7 below." This allows a direct reference to a table rather than a further complexity of a calculation for inflation adjustment.
4.38	4.39	Reorder definitions to follow equation	Reorder the definitions below the equation for AC_MTRNt to allow the definition of MVAt to come last. This allows the metering equation and definitions to following on in the same structure as that for the RAB_DN (new) volume allowances.
4.38	4.39	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	In the definition of MVAt, delete "and shall be calculated in accordance with paragraph 4.45"; and replace it with "and shall be calculated in accordance with the equation below." This allows the metering equation and definitions to following on in the same structure as that for the RAB_DN (new) volume allowances.
4.38	4.39	Simplification of the term	In the equation for MAVt, the following changes have been made to terms: MAU_2016_Ct is deleted and replaced with MAU_FD_Ct; AMAU_2016_Ct is deleted and replaced with AMAU_Ct.
4.38	4.39	Simplification of the term	For the definition of MAU_Ct: the title has been amended from MAU_2016_Ct; and, the wording "in 2016 price base" deleted.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.38	4.39	Simplification of the term	For the definition of MAU_Ct: the title has been amended from MAU_2016_Ct.
4.38	4.39	Simplification of the term	For the definition of AMAU_Ct: the title has been amended from AMAU_2016_Ct.
4.38, Table 7	4.39, Table 7	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Introduce a new Table 7 setting out the pre inflation, pre real price effects for the first and second fixed meter allowances.
Paragraphs 4.41, 4.42, 4.43 and 4.44.	NA	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Because the first and second fix metering allowance are subject to inflation and real price effect adjustment in the formula for AC_MTRNt, the subsequent calculations in the existing licence at Paragraphs 4.41, 4.42, 4.43 and 4.44 can be deleted.
4.38	NA		In the existing equation for MVAt, delete the inflation adjustment factors. These are now included in the equation for AC_MTRNt.
Tables 6 and 7.	Table 7	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Because the first and second fix metering allowance are now included in Table 7, the Tables 6 and 7 of the existing licence can be deleted.
4.39	NA	Simplification of the term	Delete. The revised structure allows the metering volume driven allowance to be included in Paragraph 4.38 without other structure
4.40	NA	Simplification of the term	Moved to paragraph 4.40 above the tables. The revised structure allows the metering volume driven allowance equation and definitions to be included in Paragraph 4.38 without other structure
4.38, Table8	NA	Simplification of the term	Move the title of Table 8 (form metering unit costs) above the Table, consistent with other tables. Introduce additional rates for LCT meters.
4.39A	4.40	Simplification of the term	Delete "AMAU_2022_Ct" and replace with "AMAU_Ct".
4.39B	4.41	Simplification of the term	Delete "AMAU_2022_Ct" and replace with "AMAU_Ct".

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.39C	4.42	Simplification of the term	Delete "AMAU_2022_Ct" and replace with "AMAU_Ct".
4.48 (a)	4.44 (a)	Update metering units	Replace with '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
4.49	Delete	Section is no longer required	Superfluous
4.50	Delete	Section is no longer required	Superfluous
NEW	4.45	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Add equation for AC_EST = (AC_FD_EST) * CPIHt / CPIHtpb * CRPEPFt
NEW	4.46	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Add definitions for the terms in equation for AC_EST.
4.37	4.46	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACDR_Xt term.	Delete paragraphs 4.37 and 4.38 and replace paragraphs to bring all additional amounts under the ACDR_Xt term
4.53	4.50	Delete term	Delete the ACCOL_Xt term
4.54	4.51	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '
4.54	4.51	Addition of a materiality threshold to the Change of Law term.	Following the words "..... determined by the Authority, " insert "subject to a threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period)"
4.57	4.52	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
4.58	4.52 (c.)	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '
4.57	4.54	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '
4.58	4.55	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '

Table 7.11: Modifications to the Regulatory Asset Bases for Annex 2 of the distribution licence

8. Annex 2, Section 4 - The Regulatory Asset Bases – Transmission Licence

Overview

- 8.1 Section 4 of Annex 2 of the current transmission and distribution licences set how out a regulatory asset value is maintained and how that value is depreciated. It secures the remuneration of capital expenditure (capex) through a return of capex (depreciation) and a return on capex (by maintaining a residual asset value to which a cost of capital is applied).
- 8.2 The treatment of the Regulatory Asset Bases (RABs) in the transmission and distribution licences is similar in principle. In Chapter 7, we set out a general overview of the methodology applied in both the transmission and distribution licences and where the key elements of the calculations are set out in the current licences. To avoid duplication, we have not repeated these general explanations in this chapter which is limited to an explanation of the detail of the modifications proposed to the transmission licence.
- 8.3 We propose to maintain the basic structure of the existing licence in respect of the maintenance and depreciation of the RABs, including the calculation of the capex incentive amount. However, we do propose to make several modifications to the equations used to calculate the RABs, the depreciation of the RABs and the capex incentive amount and the various terms of those equations. Because these modifications are material and fundamental to the calculation of the capex amount, we have described each one in the sections below. The key modifications described in this way are:
- Modification of the RABs defined for the purposes of Annex 2 of the licence.
 - Modification of the treatment of the allowed Capex amount so that the allowed capex amount from the RP7 final determination can be entered in the licence before the application of real price effects and productivity factor.
 - Modification of the licence to include the determined values for allowed capex from the RP7 final determination.
 - Modification of the definition of the allowed capex other amount to simplify the licence, ensure consistency with our revised approach if the definition of additional capital allowances and make provision for certain categories of additional Capex incurred to be determined during the price control.

- Further modification of the definition of the allowed Capex other amount to add additional categories of capex necessary to ensure that NIE Networks is able to finance its activities in RP7.
- Modification in respect of the Change of Law mechanism to introduce a materiality threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period).

- 8.4 There is significant commonality between the explanation of the issues identified above and the same issues addressed in Chapter 7 in respect of the distribution licence. Therefore, where possible in this chapter, we have referred to Chapter 7 for an explanation of the issue and the reasons and effects of the proposed modifications and limited the description below to the substance of the proposed modification.
- 8.5 We then conclude this chapter of the consultation with a full statement of the modifications to the distribution licence in tabular format. This includes the key modifications itemised above and other general modifications required to change the general measure of inflation in the licence from RPI to CPIH, adjusting for the relevant price control periods and other minor amendments to the text.

Modification of the RABs defined for the purposes of Annex 2 of the transmission licence

- 8.6 There are four RABs defined in Table 1 of Annex 2 of the transmission licence as shown in Table 8.1 below.

RAB name	RAB_X
Transmission licence Regulatory Asset Base	
Transmission RAB	RAB_TN
Renewables RAB	RAB_RN
Old NS Interconnector RAB	RAB_NSI
5 Year T.RAB	RAB_T5Y

Table 8.1: Current transmission RABs

- 8.7 We propose modifying the transmission licence RABs by removing the Old NS Interconnector RAB.
- 8.8 Following on from this proposal, it necessary to delete Table 2 of Section 4 of Annex 2 of the transmission licence and replace it with Table 8.2 below.

RAB name	RAB_X
Transmission licence Regulatory Asset Base	
Transmission RAB	RAB_TN
Renewables RAB	RAB_RN
5 Year T RAB	RAB_T5Y

Table 8.2: Modified transmission RABs

8.9 Following on from this proposal, it necessary to delete Table 2 of Section 4 of Annex 2 of the transmission licence and replace it with Table 8.3 below.

RAB_X	Depreciation rate
RAB_TN	3%
RAB_RN	3%
RAB_T5Y	20%

Table 8.3: Modified Distribution Business depreciation rate for each RAB_X

Reasons and effects – modification of the definition of transmission RABs.

- 8.10 We propose to modify the definition of the transmission of RABs for the purpose of Annex 2 to simplify the licence and align the definition of RABs with their rate of depreciation rather than the purpose of the investment.
- 8.11 We propose to remove the Old NS Interconnector RABs which has depreciated to zero. This proposed modification simplifies the licence but has no other effect on the value of the RABs or the calculation of the depreciation amount.
- 8.12 We note that, the Renewables RAB has the same depreciation rate as the more general Transmission RAB and maintaining it as a separate RAB continues to add complexity without having any impact on the calculation of revenue. However, we have decided to retain the Renewables RAB for RP8 as it allows the costs of the major stream of transmission investment required to support renewable generation to be identified and the impact on revenue identified.

Modification of the treatment of the allowed capex amounts

8.13 In the current licence, additional investment is added to the RABs through the equation for the closing value of the additional assets (CADD_Xt) at Paragraph 4.14 of Annex 2. This allows for the addition of actual qualifying expenditure and pass-through expenditure (subject to the deduction of

demonstrably inefficient expenditure, the deduction of capex disposals (on a 5 year lag) and the addition of a capex incentive amount.

- 8.14 We do not propose to modify the calculation of the closing value of additional assets. However, we do propose to modify the definition of the capex incentive amount (CI_Xt) which forms part of the term for the closing value of the additional assets (CADD_Xt).
- 8.15 The capex incentive amount (CI_Xt) is calculated as 50% of the difference between the qualifying capital expenditure less demonstrably inefficient expenditure and various categories of allowed capex through an equation set out at Paragraph 4.31 of the existing (RP6) licence, as follows:

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

- 8.16 This equation includes allowed capex which is determined
- from the price control as sums for the 5 Year T.RAB (AC_T5Yt) and the Transmission RAB (AC_TNt) and the Renewables RAB (AC_RNt); and,
 - through reopener mechanisms for Injurious Affection (ACIA_Xt), for the Enduring Solution (ACES_Xt); more general allowed capex (ACTR_Xt) and Change of Law (ACCOL_Xt).

- 8.17 The equation has extended over time as new terms have been added for new categories of additional allowed capex. It includes items which relate to specific RABs and items which might apply across a number of RABs.
- 8.18 For the sake of simplicity, we propose to restate the equation for the capital inventive as:

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

Where:

AC_Xt is the allowed capex for RAB_X for Regulatory Reporting Year t; and

ACTR_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 4.38.

Reasons and effects - for modifying the treatment of allowed capex amounts through the capex incentive equation

8.19 This formulation allows a common approach across each RAB for the definition in the licence of the allowed capex from the allowances and rates

determined in the final determination (AC_Xt). It provides a single term to cover all additional capital allowances determined by the Authority in a published decision after the RP7 final determination in line with the conditions of the licence (ACTR_Xt). It allows conditions of the licence which permit additional capex allowances to be determined for the ACTR_Xt term to be grouped in one section of the licence and treated in a consistent way.

8.20 This proposed modification simplifies the licence by facilitating a common and consistent approach to the treatment of capital allowances in the licence will also allow additional terms to be added in the future should that prove necessary.

Modification of the licence to incorporate the determined values for allowed capex from the RP7 final determination.

8.21 Following on from our proposal to modify the equation for the CI_Xt term as described above, it is necessary to redefine the allowed capex which can be determined from the allowances and rates determined in the final determination (the AC_Xt term).

8.22 In the current licence, the definitions of the AC_Xt terms are a mix values stated before and after the application of capex real price effects and frontier shift (CRPE&FS). We propose to modify the definition of the AC_Xt terms to allow all relevant monetary values in the licence to be stated before the application of CRPE&FS with CRPE&FS applied through the licence equations.

8.23 In the current licence, the definitions of the AC_Xt terms are a mix values determined from values and unit rates in the RP7 Final Determination and additional amounts determined through subsequent decisions made by the Authority. We propose to modify the definition of the AC_Xt terms of the licence to cover values determined from values and unit rates in the RP7 Final Determination only. Additional amounts determined through subsequent decisions made by the Authority will be collected under an expanded definition of the ACTR_Xt term of the licence, which is described below, beginning at Paragraph 4.38.

8.24 In the current licence, the allowed capex for the Transmission RAB - RAB_TN, the Renewables RAB – RAB_RN and the 5 Year T.RAB – RAB T5Y is defined by the equation below. This is different from the approach used in the distribution licence where individual equations were provided for each RAB.

$$AC_Xt = (AC_2016_Xt * RPIt / RPI2016) + ACNES_Xt$$

Where:

- a) AC_2016_Xt covered annual amounts from the RP6 final determination which were then adjusted for RPI inflation; and,
- b) ACNES_Xt made provision for additional capital allowances determined in respect of any New Energy Strategy IT Solution or in respect of information technology systems used for Market Data Service or the Market Registration Service.

8.25 We propose to modify the definition of AC_Xt, deleting the existing equation and definitions and replacing it with individual definitions and equations for each RAB.

8.26 The term ACNES_Xt, which is removed from the individual equations for allowed capex is moved to the expanded ACTR_Xt term which covers additional amounts determined through decisions made by the Authority after the RP7 Final Determination.

Allowed capex for Transmission RAB – AC_TNt

8.27 We propose to introduce a definition of AC_TNt by:

- a) Adding the following paragraph and equation:

For the purposes of this Annex, in each Regulatory Reporting Year t, the allowed capex (AC_TNt) amounts shall be calculated as follows:

$$AC_TNt = (AC_FD_TNt * CPIHt / CPIHtpb) * CRPEPFt$$

- b) and, adding the following definition of key terms:

AC_FD_TNt is the allowed capex determined amount for RAB_TN for each Regulatory Reporting Year t before adjusting for capex real price effect & productivity factor, and excluding any additional allowed capex (ACTR_Xt) determined under paragraph 4.39, 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 4.43.

For the purpose of definition of AC_FD_TNt we propose to delete Table 3 of Section 4 of Annex 2 of the transmission licences and replace Table 3 of Annex 2 of the transmission licence Table 8.4 below.

Period	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
AC_FD_TN	18.460	19.420	23.971	23.382	21.636	21.634

Table 8.4: The Transmission Owner Business allowed capex per AC_FD_TN

for each Regulatory Reporting Year t (£ million, 2022 prices)

Allowed capex for Renewables RAB – AC_RNt

8.28 We propose to introduce a definition of AC_RNt by:

a) Adding the following paragraph and equation:

For the purposes of this Annex, in each Regulatory Reporting Year t, the allowed capex (AC_RNt) amounts shall be calculated as follows:

$$AC_RNt = (AC_FD_RNt * CPIHt / CPIHtpb) * CRPEPFt$$

b) and, adding the following definition of key terms:

AC_FD_RNt is the allowed capex determined amount for RAB_RN for each Regulatory Reporting Year t before adjusting for capex real price effect & productivity factor, and excluding any additional allowed capex (ACTR_Xt) determined under paragraph 4.39, and shall be equal to the amounts specified in Table 4 below.

CRPEPFt is the capex real price effect & productivity factor for each Regulatory Reporting Year t, and shall be calculated in accordance with paragraph 4.43.

For the purpose of definition of AC_FD_RNt we propose to add Table 8.5 below as Table 4 of Annex 2 of the transmission licence.

Period	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
AC_FD_RN	0.000	0.000	0.000	0.000	0.000	0.000

Table 8.5: The Transmission Owner Business allowed capex per AC_FD_RN for each Regulatory Reporting Year t (£ million, 2022 prices)

Allowed capex for 5 Year T.RAB – AC_T5Yt

8.29 We propose to introduce a definition of AC_T5Yt by:

a) Adding the following paragraph and equation:

For the purposes of this Annex, in each Regulatory Reporting Year t, the allowed capex (AC_T5Yt) amounts shall be calculated as follows:

$$AC_T5Yt = (AC_FD_T5Yt * CPIHt / CPIHtpb) * CRPEPFt$$

b) and, adding the following definition of key terms:

AC_FD_T5Yt is the allowed capex determined amount for RAB_T5Y for each Regulatory Reporting Year t before adjusting for real price effect & productivity factor, and excluding any additional allowed capex (ACTR_Xt) determined under paragraph 4.40, 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 4.43.

For the purpose of definition of AC_FD_T5Yt we propose to add Table 8.6 below as Table 5 of Annex 2 of the transmission licence.

Period	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
AC_FD_T5Y	2.240	2.613	0.363	0.341	0.342	0.343

Table 8.6: The Transmission Owner Business allowed capex per AC_FD_T5Y for each Regulatory Reporting Year t (£ million, 2022 prices)

The capex real price effect & productivity factor (CRPEPFt)

To give effect to the equations and definitions of the of allowed capex which will be determined from the allowances and rates determined in the final determination (the AC_Xt term) as set out above, we propose to add the definition of the capex real price effect & productivity factor (CRPEPFt) which defines the values of CRPEPFt at Paragraph 4.43 of the new licence with Table 10.2 below.

Year	Capex real price effect & productivity factor (CRPEPFt)
t=2026	0.94546
t=2027	0.94912
t=2028	0.95162
t=2029	0.94593
t=2030	0.95027
t=2031	0.95464

Table 8.7: The Transmission Business capex real price effect & productivity factor for each Regulatory Report Year t

Reasons and effects – of the modifications proposed to the licence to incorporate the determined values for allowed capex from the RP7 final determination

8.30 The reasons and effects for the modifications proposed to the to the licence to incorporate the determined values for allowed capex from the RP7 final determination are:

- a) To support a consistent approach to the definition of allowed capex (AC_Xt) for each RAB, consistent with the revised equation for the capex incentive amount (CI_Xt) set out above.
- b) To allow a consistent entry of all monetary amounts in the licence equations for AC_Xt to be entered in the licence before the application of real price effects and productivity with a consistent approach to the adjustment for real price effects and productivity in the licence equations.
- c) To exclude any additional capital allowances which will be determined after the RP7 Final Determination to be excluded from the equations for the AC_Xt term and treated in a consistent basis through the modified ACTR_Xt term.
- d) To introduce monetary values determined in the RP7 Final Determination necessary for the various equations in Annex 2 which allow capital allowances and the capex incentive to flow through to revenue and value of the RABs.

Modification of the definition of the allowed capex other amount ACTR_Xt

8.31 The current licence includes four general re-opener mechanisms which might apply to any RAB as follows:

- (i) ACIA_Xt term in respect of injurious affection claims;
- (ii) ACTR_Xt term in respect of any amount determined by the Authority to be appropriate within the definition of the term included in the licence;
- (iii) ACCOL_Xt term in respect of changes of law as determined by the Authority to be appropriate within the definition of the term included in the licence.

8.32 We have removed the injurious affections claim term (ACIA_Xt) and the change of law term (ACCOL_Xt) from the Capital Incentive (CI_Xt) term and

including them in the re-opener mechanisms as part of the list included under the ACTR_Xt term which allows for simplification and clarity.

8.33 We propose to delete paragraphs 4.34 in Annex 2 of the transmission licence and replace these paragraphs with the following:

For the purposes of this Annex, in each Regulatory Reporting Year t and for each RAB_X, the additional allowed capex (**ACTR_Xt**) is the sum of:

- a) 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;
- b) the allowed capex (if any) amount in Regulatory Reporting Year t, for any SONI asset transfer, 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 transfer of existing transmission assets from SONI to NIE Networks;
- c) 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:
 - (i) 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;
 - (ii) expenditure associated with the delivery of any new telecoms standard such as the long-term evolution (LTE) standard;
 - (iii) 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.
- d) the allowed capex (if any) amount in Regulatory Reporting Year t, for trials undertaken to assess and demonstrate innovative future investment in the transmission 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 transmission system;

- e) the allowed capex (if any) amount in Regulatory Reporting Year t, for any project to address transmission system capacity or capability, 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 project to address transmission system capacity or capability;
 - f) the allowed capex (if any) amount in Regulatory Reporting Year t, for any project to address large scale transmission asset replacement, 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 project to address large scale transmission asset replacement;
 - g) 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;
 - h) 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 affection claims;
 - i) 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
- 8.34 We propose to replace paragraph 4.35 with the following conditions in respect of the determination of additional allowed capex amounts.

The value of **ACTR_{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 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 address transmission system capacity or capability only if the project is sufficiently material and has been requested by the relevant system operator (e.g. SONI) in line with the Transmission Interface Arrangements, in a submission which is in such format and contains such information as may be specified by the Authority for that purpose (e.g. including whole life costs and benefits in an objective cost benefit analysis);
- h) no allowance may be determined in respect of any project to address large scale transmission asset replacement to the extent to which it takes the form of asset replacement expenditure which is not

necessary for the purposes of increasing the capacity or capability of the transmission system;

- i) an allowance may be determined in respect of any project to address large scale transmission asset replacement only if the project has been identified in the Final Determination as a project which falls within the scope of this category;
- j) 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.

Reasons and effects – of the modifications proposed to the licence to the definition of the allowed capex other amount ACTR

- 8.35 The reasons and effects for the modifications proposed to the to the licence to the definition of the allowed capex other amount ACTR are:
- a) To give effect to our decisions on the additional allowances which may be determined during the course of the RP7 Price Control, as set out in Annex S of the final determination for RP7.
 - b) To avoid the proliferation of additional terms and equations throughout the revenue equations when these terms serve the same purpose and are subject to the same process and calculations.
 - c) To collate all potential additional allowances under the one term with a series of sub-paragraphs identifying the individual reasons that an additional allowance can be considered and determined.
 - d) To ensure consistency with our revised approach and make provision for certain categories of additional Capex incurred to be determined during the price control.

Modification in respect of the Change of Law mechanism to introduce a materiality threshold of £125,000

- 8.36 In the current licence, the Change of Law mechanism is given effect through the allowed capex amount for change of law – ACCOL_Xt in Annex 2 paragraph 4.36.
- 8.37 We consider the definition of the scope of the mechanism to be sufficient to allow NIE Networks to funded for necessary changes and to protect consumers from funding changes the company might wish to make at its own discretion.

- 8.38 In the current licences a change of law term ACCOL_Xt was included in the equation defining the Capex incentive amount (CI_Xt). In the modifications of this term proposed above, we propose to incorporate change of law as one of a number of items allowed under a more general term. To facilitate this, we propose to delete the text "ACCOL_Xt at six places in the existing licence across Paragraphs 4.37 to 4.41 of Section 4 of Annex 2.
- 8.39 The current licence does not place any limit on the amount which can be requested or determined in respect of the Change of Law mechanism. This creates a risk (which has not materialised to date) of changes of law which result in small changes of costs triggering this mechanism on a frequent basis.
- 8.40 We propose placing a materiality threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period) on the amount considered in any decision under this mechanism.

Reasons and effects – of the modifications proposed to the licence to the Change of Law mechanism to introduce a materiality threshold of £125,000

- 8.41 The reasons and effects for the modifications proposed to the Change of Law mechanism to introduce a materiality threshold of £125,000 are:
- a) To address the potential asymmetry of applications which might not identify small reductions in costs arising from minor changes in law; and
 - b) To reduce the administrative burden on NIE Networks and UR in developing, challenging and completing applications and decision.

Modifications to Annex 2, Section 4 of the transmission licence

- 8.42 We propose modifying Section 4 of Annex 2 of the transmission licence as set out in Table 8.8 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
4.1, Table 1	4.1, Table 1	Delete RAB	In Table 1, delete the Renewables RAB and the old NS interconnector RAB
4.6	4.6	Adjust for the relevant price control periods.	In the opening paragraph: delete "t=2018" and replace with "t=2026"; and delete "OE_X2018" and replace with "OE_X2026".

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
4.6	4.6	Adjust for the relevant price control periods.	Delete the equation for "Opening Value of Existing Assets" and replace with $OE_X2026 = CE_X2025 + CADD_X2025$
4.6	4.6	Adjust for the relevant price control periods.	In the definition of the Closing Value of Existing Assets for t=2025 (the closing value for RP6): delete CE_X2018 and replace with CE_X2025; delete t=2018 and replace with t=2025; and, delete "14 August 2017" and replace with "1 April 2025"
4.6	4.6	Adjust for the relevant price control periods.	Delete the definition of Closing Value of Additional Assets in its entirety and replace with CADD2025 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.
4.7	4.7	Adjust for the relevant price control periods.	Replace t = 2018 with t = 2026
4.7	4.7	Adjust to use of CPIH	In the equation for the Opening Value of Existing Assets, delete "RPIt / RPIt-1" and replace with "CPIHt / CPIHt-1"
4.11	4.11	Adjust for the relevant price control periods.	In the first part of the paragraph, delete "30 September 2017" and replace with "31 March 2025"
4.11	4.11	Adjust for the relevant price control periods.	In the equation for the Fixed Depreciation Amount, delete "RP6_Xt" and replace with "RP7_Xt".
4.11	4.11	Adjust to use of CPIH	In the equation for the Fixed Depreciation Amount, delete "RPIt / RPI2016" and replace with "CPIHt / CPIHtbp".
4.11	4.11	Adjust for the relevant price control periods.	In the definition of the Fixed Depreciation Amount: delete "FDEP_RP6_Xt" and replace with "FDEP_RP7_Xt"
4.11	4.11	Adjust to reference conversion to CPIH	In the definition of the Fixed Depreciation Amount: delete "FDEP_RP6_Xt" and replace wording with "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"

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
4.11	4.11	Adjustments to remove the RP6 half year, not relevant for RP7	Delete the sentence beginning "Save that for Regulatory Report Year t....."
4.12	4.13	Adjust for the relevant price control periods.	In the definition of the Opening Value of Additional Assets, delete t=2018 and replace with 2026.
4.13 (a)	4.13 (a)	Adjust for the relevant price control periods.	In sub-paragraph (a): delete "t=2018" and replace with "t=2026"
4.13 (b)	4.13 (b)	Adjust to use of CPIH	In the equation for OADD_Xt, "RPIt / RPIt-1" and replace with "CPIHt / CPIHt-1".
4.25(a)	4.26 (a)	Simplification of equation	Simplification of the depreciation amount for additional assets DEPADD_Xt equation to $DEPAA_Xt = 0.5 * DEP_Xt$
4.25 (b)	4.26 (b)	Adjust to use of CPIH	In the equation for the Depreciation Amount for Additional Assets, delete "RPIt / RPIt-1" and replace with "CPIHt / CPIHt-1".
4.25 (b)	4.26 (b)	Adjust to use of CPIH	In the section following the equation for the Depreciation Amount for Additional Assets, delete "RPI" and replace with "CPIH".
4.27, Table 2	4.27, Table 2	Delete RAB	In table 2 Delete RAB_RN and RAB NSI
4.28	4.28	Adjust to use of CPIH	In the equation for the Capital Disposal Amount, delete "RPIt / RPIt-5" and replace with "CPIHt / CPIHt-5".
4.30	4.31	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACTR_Xt term.	Delete the equation for the Capex Incentive Amount and replace with $CI_Xt = (AC_Xt + ACTR_Xt - (QCE_Xt - DIQCE_Xt)) * 50\%$.
4.30	4.31	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACTR_Xt term.	In the definitions of terms following the equation, delete the definition for COL and IA which will now form part of the ACTR term.
	4.32		Allow capex for Transmission RAB_AC_TN.
	4.34		Allow capex for Transmission RAB_AC_T5Yt.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
	4.38	Simplification of the approach to the capital incentive amount to bring all additional amounts under the ACTR_Xt term.	Delete paragraphs 4.34 and 4.35 and replace paragraphs to bring all additional amounts under the ACCDR_Xt term
New	4.41	Add RPE/frontier shift term	Insert the paragraph and table to include capex price effect & productivity factor
4.36	4.42	Delete term	Delete the ACCOL_Xt term
4.37	4.43	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '
4.37	4.43	Addition of a materiality threshold to the Change of Law term.	Following the words "..... determined by the Authority, " insert "subject to a threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period)"
4.38 (c.)	4.44 (c.)	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '
4.4	4.46	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '
4.41	4.47	Delete term	Delete the ACCOL_Xt term and place with the wording ' Relevant Change of Law capex amount '

Table 8.8: Modifications to the Regulatory Asset Bases for Annex 2 of the transmission licence

9. Annex 2, Section 5 – The Return Amount

Overview

- 9.1 Section 5 of Annex 2 of the current transmission and distribution licences set out the calculation of the return amount (RETt) which is a component of the Maximum Regulated Revenue.
- 9.2 This amount is provided to enable NIE Networks to earn a return on its investment. It represents a real rate of return (net of inflation), calculated using a vanilla weighted average cost of capital (WACC), which is applied to the average Regulatory Asset Value for the Regulatory Reporting Year.
- 9.3 We intend to maintain the process for calculating the return amount in the RP7 licence. Only limited modification within the licence is required to ensure reference to Annex H and I of the RP7 Final Determination which shows how the vanilla weighted average cost of capital applied in Section 5 of Annex 2 is calculated and amended from time to time during the course of the price control. However, both Annex H and I of the RP7 Final Determination have been modified from the mechanism that existed during RP6.

RP7 rate of return adjustment mechanism

- 9.4 During RP6, this mechanism adjusted for benchmark interest rates at the time NIE Networks raises finance. In RP7, we are proposing additional modifications within to the Rate of Return Adjustment Mechanism to allow the vanilla WACC to be adjusted for changes in risk free rate and inflation.
- 9.5 The timing of when the adjustments apply has also been modified. Changes in benchmark interest rates and the additional risk free rate mechanism will continue to be an 'in period' adjustment in the same way adjustments operated in RP6. The inflation adjustment will be an 'end of period' adjustment between the end of RP7 and the start of RP8.
- 9.6 An explanation of these changes is included in Chapter 13 and Annex H of the RP7 final determination. Annex I of the RP7 final determination is a spreadsheet which calculates the vanilla WACC and also demonstrates how the mechanism will work in practice.

Distribution licence modifications

- 9.7 We propose modifying Section 5 of Annex 2 of the distribution licence as set out in Table 9.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
5.1	5.1	Update Annex references	In the definition of VWACCT, Annex references to be updated for the RP7 Final Determination.

Table 9.1: Modifications to the Maximum Regulated Revenue for Annex 2 of the distribution licence

Transmission licence modifications

- 9.8 We propose modifying Section 5 of Annex 2 of the transmission licence as set out in Table 9.2 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
5.1	5.1	Update Annex references	In the definition of VWACCT, Annex references to be updated for the RP7 Final Determination.

Table 9.2: Modifications to the Maximum Regulated Revenue for Annex 2 of the transmission licence

Reasons

- 9.9 The reasons of updating the reference to the final determination Annex in Paragraph 9.1 is to ensure that the RP7 licence references the correct Annex in the RP7 Final Determination which sets out how the vanilla weighted average cost of capital applied in Section 5 of Annex 2 is calculated and amended from time to time during the course of the price control to adjust for changes in the benchmark rate for nominal interest, risk free rate and inflation.
- 9.10 The reason for modifying the Rate of Return Adjustment Mechanism to adjust for inflation is to align the calculation of the real cost of debt in the vanilla WACC with actual general measure of inflation (CPIH) used to inflate the Regulatory Asset Bases. This will remove the Licensee's exposure to unearned gain or loss from forecasting errors in our assessment of inflation at the time of the final determination.

Effect

- 9.11 The effect of updating the reference to the final determination Annex in Paragraph 9.1 is to ensure that the RP7 licence references the correct Annex in the RP7 Final Determination which sets out how the vanilla weighted average cost of capital applied in Section 5 of Annex 2 is

calculated and amended from time to time during the course of the price control to adjust for changes in the benchmark rate for nominal interest, risk free rate and inflation. The reasons for this change are set out in more detail in Chapter 13 and Annex H of the RP7 Final Determination.

- 9.12 The reason for modifying the Rate of Return Adjustment Mechanism to adjust for inflation is to align the calculation of the real cost of debt in the vanilla WACC with actual general measure of inflation (CPIH) used to inflate the Regulatory Asset Bases. This will remove the Licensee's exposure to unearned gain or loss from forecasting errors in our assessment of inflation at the time of the final determination.

10. Annex 2 Section 6 - The Opex Amount

Overview

10.1 Chapter 6 of Annex 2 of the current transmission and distribution licences set out the calculation of an opex amount (Ot term) which is recovered by the company in revenue.

10.2 Opex is divided into two categories: “qualifying opex” and “pass through opex”. Both categories can be subject to the deduction of opex which is determined to be demonstrably inefficient or wasteful in accordance with the licence. The qualifying opex is subject to a 50% cost risk sharing mechanism which incentivises the company to control costs and reveal efficient costs. Through this mechanism, 50% of the difference between the actual “qualifying expenditure” and an amount determined in this final determination is deducted from the RAB. As a result, the company retains 50% of the difference if it delivers its obligations for less than the determined allowed opex and pays 50% of any overspend if it spends more than the determined allowed opex to deliver its obligations.

10.3 The opex amount is calculated using the formula set out below:

$$Ot = QOEt - DIQOEt + PTOEt - DIPTOEt + OIt$$

10.4 Where:

QOEt	is the actual qualifying opex as defined in the Licence;
DIQOEt	is any demonstrably inefficient and wasteful qualifying opex expenditure deducted in accordance with the Licence and in accordance with the Authority’s Guidance on the interpretation and application of the Demonstrably Inefficient or Wasteful Expenditure (DIWE) Provision ⁴ ;
PTOEt	is the actual pass through opex are defined in the Licence;
DIPTOEt	is any demonstrably inefficient and wasteful pass through opex expenditure deducted in accordance with the Licence and in accordance with the Authority’s Guidance on the interpretation and application of the Demonstrably Inefficient or Wasteful Expenditure (DIWE) Provision.
OIt	is the opex incentive amount which gives effect to the 50/50 cost sharing incentive for qualifying opex.

10.5 We propose to maintain this basic structure and approach to determining the opex amount in RP7. Therefore, we do not propose any modifications to the equation used to calculate the opex amount or the equation used to calculate the opex incentive amount or the definition of the various terms in the equation.

10.6 However, we do propose to make several modifications to the scope of the terms in the equation above and the way in which the opex amount is calculated or can be varied. Because these modifications are material and fundamental to the calculation of the opex amount, we have described each one in the sub-sections below. Because these modifications apply to the distribution and transmission licences in the same way, we have described the modifications once only. The key modifications described in this way are:

- Modification of the scope of pass through opex to include both Business Rates and an opex connections shared asset amount in relation to the connection to parts of the network that has been funded by a third party under a connection agreement with the Transmission System Operator.
- Modification of the treatment of the allowed opex amount so that the allowed opex amount from the RP7 final determination can be entered in the licence before the application of real price effects and productivity factor.
- Modification of the licence to include the determined values for allowed opex from the RP7 final determination.
- Modification of the definition of the allowed opex other amount to simply the licence, ensure consistency with our revised approach the definition of additional capital allowances and make provision for certain categories of additional opex incurred to be determined during the price control.
- Further modification of the definition of the allowed opex other amount to add additional categories of opex necessary to ensure that NIE Networks can finance its activities in RP7.
- Modification in respect of the Change of Law mechanism to introduce a materiality threshold Materiality threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period).

10.7 We then conclude this chapter of the consultation with a full statement of the modifications to each licence in tabular format. This includes the key modifications itemised above and other general modifications required to change the general measure of inflation in the licence from RPI to CPIH,

⁴ [Guidance on the interpretation and application of Demonstrably Inefficient or Wasteful Expenditure \(uregni.gov.uk\)](http://www.uregni.gov.uk)

adjusting for the relevant price control periods and other minor amendments to the text.

Modification of the scope of pass through opex

- 10.8 The current licences allow certain categories of opex expenditure incurred by the Licensee to be remunerated as pass through expenditure (net of Demonstrably Inefficient and Wasteful Expenditure). The categories of pass through opex defined in the current distribution and transmission licences are set out in Table 10.1 below.

Category of expenditure	Term used in the distribution licence	Term used in the distribution licence
Existing location	Annex 2, 6.7	Annex 2, 6.7
Opex licence fee amount	OLF _t	OLF _t
Opex connections amount	OCT	OCT

Table 10.1: The current scope of pass through opex

- 10.9 We propose modifying the licences to add additional categories of pass through opex for RP7 as follows:
- An opex connections shared asset amount (the OCSAt term) in relation to the connection to parts of the network that has been funded by a third party under a connection agreement with the Transmission System Operator.
 - An opex business rate amount (the OBRA_t term) covering costs of business rates incurred, subject to NIEN demonstrating that the costs were efficiently incurred. This amount is relevant to both the distribution and transmission licences.
- 10.10 The proposed modification will be given effect by amending the equations for pass through opex (currently at Paragraph 6.7 of Annex 2 of each licence to read as following follows:

$$PTOE_t = OLF_t + OCT + OCSAt + OBRA_t$$

And by adding the following definition of the additional terms of the respective licences:

OCSAt means the opex connections shared asset amount in Regulatory Reporting Year *t* and for each RAB_X 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:

- no allowance may be determined in respect of any outputs or costs that are funded through any other provision of this Annex;
- 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;
- 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
- 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_t is 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_t 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:

- 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
- 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.

Reasons and effects - the opex connections shared asset amount pass through

- 10.11 The reason for adding the opex connections shared asset amount is to allow NIE Networks to recover reasonable and necessary costs incurred as a result of any decisions by the Authority in relation to the connection to parts of the network that has been funded by a third party under a connection agreement with the Transmission System Operator. The current licence makes for provision for pass through of capital costs incurred for the same reason which came into effect on 18 January 2020 following consultation. An explanation of that decision and reasons and effects are included in the decision document⁵. We have concluded that it is appropriate to make provision for NIE Networks to recover opex costs incurred for the same purpose.
- 10.12 The effect of this modification is to allow NIE Networks to recover reasonable and necessary costs incurred as a result of a decision by the Authority in relation to the connection to parts of the network that has been funded by a third party under a connection agreement with the Transmission System Operator.

Reasons and effects - the Business Rates pass through

- 10.13 In RP6, expenditure on Business Rates was included as part of **The qualifying opex expenditure amount – QOEt** at Annex 2, Paragraph 6.2, of both the current Distribution Licence and current Transmission Licence. This is defined in the respective Licences as the value of opex incurred by the Licensee excluding pass through opex and various other categories of opex which are covered by other mechanisms. As a result, expenditure on Business Rates is currently included in the qualifying opex amount which is subject to the 50/50 cost risk sharing mechanism for opex against the Allowed opex amount – AOt defined in Annex 2, Paragraph 6.12 of the Distribution Licence and Transmission Licence.
- 10.14 NIE Networks proposed that we move this category of expenditure to pass-through. In respect of this proposal, we note that:
- a) As NIE Networks has stated in its Business Plan submission:
 - (i) The rates liability for NIE Networks is set by multiplying the RV of NIE Networks assets by both the regional rate and the district rate, all set by the relevant authority.

⁵ [https://www.uregni.gov.uk/Decision on Proposed Modifications to NIE Networks Licences for Capex Connection Costs on a pass through basis Signed.pdf](https://www.uregni.gov.uk/Decision%20on%20Proposed%20Modifications%20to%20NIE%20Networks%20Licences%20for%20Capex%20Connection%20Costs%20on%20a%20pass%20through%20basis%20Signed.pdf)

- (ii) The poundage rates (regional and local rates) are set by central and local government and are also completely outside of NIE Networks' control.
 - (iii) NIE Networks can seek to influence the RV by proactively engaging with LPS. However, ultimately the decision on the appropriate level of RV is a matter for LPS.
- b) Economic regulators of similar network companies in GB (Ofwat, Ofgem and WICS) already allow Business Rates as a pass-through cost, subject to some level of check on the effectiveness of NIE Networks challenge of RV.
 - c) NIE Networks actual rates bill has fluctuated significantly upwards and downwards in the RP6 period, with actual bills being impacted by revaluations in 2020 and 2023, and the level of non-domestic rate in the pound. It is possible that there will be further non-domestic rates revaluations both in 2026 and 2029.
- 10.15 However, we are also aware that NIE Networks proposal to move this category of expenditure to a pass-through mechanism reduces risk and reward for NIE Networks, and weakens the incentive to challenge and minimise costs, which could provide long term benefits to consumers.
- 10.16 On the balance of the considerations above, we have concluded that it is appropriate to amend the current licence mechanisms so that efficiently incurred Business Rates becomes a pass-through cost subject to some level of check on the effectiveness of NIE Networks challenge of RV.
- 10.17 The effect of this modification is that NIE Networks will be recover Business Rates incurred by its distribution and transmission businesses as pass through opex. The modification of the licence makes the pass through of Business Rates subject to a test that NIE Networks has acted reasonably when challenging revaluations and maintaining good records and challenging rates bills. It makes provision for UR to allow a lower amount than that actually paid if it considers it appropriate, subject to the condition that it explains its reasons for any adjustment and allows NIE Networks to make representations in advance of making a final decision.

Modification of the treatment of the allowed opex amount (AOt)

- 10.18 The final determination of RP7 includes a determination of an allowed opex amount which represents our assessment of the efficient level of opex which NIE Networks requires to deliver its objectives and outputs in the RP7 period. This amount is determined in October 2021 prices and is subject to

inflation for the purpose of calculating revenue. This determined amount can be added to during the course of the price control by the determination from time to time of allowed opex other amount(s) (AOOt) within the terms of the licence.

10.19 In the current (RP6) licence the determined values for the allowed opex amount are stated after the application of the opex real price effects and productivity factors (RPE&PF) which are described in Annex C of the final determination. In other parts of the current licence, determined values are stated both before and after the application of ORPE&PF. While the treatment of each determined value in the licence is consistent with the way it is stated, we propose to modify to licence for RP7 to state determined monetary values, including the allowed opex amount, before the application of RPE&PF and amend various equations to apply RPE&PF to these values for the purpose of determining revenue.

10.20 The proposed modification will be given effect by making the following modifications to the licence:

- a) replace the equations for pass through opex (currently at Paragraph 6.13 of Annex 2 of each licence to read as following follows:

$$AO_t = AO_FD_t * CPIH_t / CPIH_{tpb} * ORPEPF_t$$

- b) replace the definition of the term **AO_2016t** at Paragraph 6.13 of the current licences with:

AO_FD_t means the allowed opex amount, in a 2021 price base before the application of real price effects and productivity factor, for each Regulatory Reporting Year t, and shall be equal to the amounts specified in specified in Table 10 below:

- c) add a definition of the term **ORPEPF_t** at Paragraph 6.13 of the modified licence

ORPEPF_t is the opex real price effect & productivity factor for each Regulatory Reporting Year t, and shall be calculated in accordance with paragraph 6.23 of Annex 2

- d) add a new table which defines the values of **ORPEPF_t** at Paragraph 6.23 of the new licence to state the determined opex RPEPF, as set out in Table 10.2 below.

Year	Opex real price effect & productivity factor (ORPEPF _t)
t=2026	0.95571
t=2027	0.95287
t=2028	0.94972
t=2029	0.93459
t=2030	0.93418
t=2031	0.93377

Table 10.2: The Business opex real price effect & productivity factor for each Regulatory Report Year t

Reasons and effects – for modification of the treatment of the allowed opex amount

10.21 The reason for modifying the treatment of the allowed opex amount in respect of the application of opex real price effect & productivity factor is to ensure consistency across the capex and opex sections of the licence and to facilitate a consistent approach to the treatment to additional categories of allowance across the capex and opex sections. The change in approach has no impact on the calculated value of Maximum Regulatory Revenue.

Modification of the licence to include the determined values for allowed opex from the RP7 final determination.

10.22 The final determination of RP7 includes a determination of an allowed opex amount which represents our assessment of the efficient level of opex which NIE Networks requires to deliver its objectives and outputs in the RP7 period.

10.23 The current RP6 licences includes a statement of these allowed opex amounts in base year prices for each year of the price control. To give effect to the decisions on allowed opex in our final determination for RP7, we propose to modify the current licence to delete the values of allowed opex amount in 2016 price base the RP6 period and replace them with relevant values for the RP7 period in t=2022 price base.

10.24 As noted above, the values in the RP7 licence will be stated before the application of opex real price effect & productivity factor. The modification of the treatment of the allowed opex amount proposed above will ensure that the correct amounts are used in the calculation of Maximum Regulated Revenue.

10.25 The proposed modifications will be given effect by making the following modifications to the licence:

- a) delete Table 10 of Section 6 of Annex 2 of the distribution and transmission licences;
- b) in the distribution licence, replace Table 10 of Section 6 of Annex 2 with Table 10.3 below;

Period	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

Table 10.3: The Distribution Owner Business allowed opex amount for each Regulatory Reporting Year t before the application of real price effect & productivity factor (£ million, 2022 prices)

- c) and, in the transmission licence, replace Table 10 of Section 6 of Annex 2 with Table 10.4 below.

Period	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
AO_FD	5.652	5.492	4.740	4.659	4.694	4.704

Table 10.4: The Transmission Owner Business allowed opex amount for each Regulatory Reporting Year t before the application of real price effect & productivity factor (£ million, 2022 prices)

Reasons and effects – introduction of determined values for allowed opex from the RP7 final determination

10.26 The reasons for introducing the determined values for allowed opex from the RP7 final determination is to give effect to the relevant decisions set out on the RP7 Final Determination.

Modification of the current definition of the allowed opex other amount (AOOt term) – distribution licence

10.27 The allowed opex other amount (AOOt term) is defined at Section 6 of Annex 2 of the current (RP6) licences beginning at Paragraph 6.14. The term is defined as an equation below, with a definition provided for each of the component terms.

$$AOOt = ESt + IA_t + COL_t + NEST$$

10.28 In Chapter 7 we noted that, Section 4 of Annex 2 has developed over time to include several different mechanisms for allowed capex other amounts (ACDR_{Xt}). In this consultation we have proposed that these capex mechanisms should be drawn together into a single mechanism for the sake

of simplicity and to set a pattern for the future which avoids the additions of further terms and equations in the licence as additional modifications are made to allow additional categories of allowed other capex.

10.29 While the approach to the allowed opex other amount term in the current licence is simpler, we have decided to restructure the definition of the relevant section of Section 6 of Annex 2 of the current licences to adopt a consistent approach with Section 4.

10.30 We propose to delete paragraph 6.15 of Section 6 of Annex 2 in its entirety and replace it with a new paragraph 6.15 as follows:

For the purposes of this Annex, in each Regulatory Reporting Year t the allowed opex other (AOOt), is the sum of:

- 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:
 - (i) 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;
 - (ii) expenditure associated with the delivery of any new telecoms standard such as the long-term evolution (LTE) standard;
 - (iii) 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 affection 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
- 10.31 We propose to replace paragraph 6.15 of the distribution licence with the following conditions in respect of the determination of additional allowed opex amounts.

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.

Modification of the current definition of the allowed opex other amount (AOOt term) – transmission licence

- 10.32 While the approach to the allowed opex other amount term in the current licence is simpler, we have decided to restructure the definition of the relevant section of Section 6 of Annex 2 of the current licences to adopt a consistent approach with Section 4.
- 10.33 We propose to delete paragraph 6.15 of Section 6 of Annex 2 in its entirety and replace it with a new paragraph 6.15 as follows:

For the purposes of this Annex, in each Regulatory Reporting Year *t* the allowed opex other (**AOOt**), is the sum of:

- 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 capex (if any) amount in Regulatory Reporting Year *t*, for any SONI asset transfer, 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 transfer of existing transmission assets from SONI to NIE Networks;
- c) 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:
 - (i) 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;
 - (ii) expenditure associated with the delivery of any new telecoms standard such as the long-term evolution (LTE) standard;
 - (iii) 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.

- d) 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;
 - e) 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;
 - f) 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 affection claims;
 - g) 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
- 10.34 We propose to replace paragraph 6.15 with the following conditions in respect of the determination of additional allowed capex amounts.

The value of **AOOt** 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 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.

Reasons and effects – of the modifications proposed to the licence to the definition of the allowed opex other amount

- a) To give effect to our decisions on the additional allowances which may be determined during the course of the RP7 Price Control, as set out in Annex S of the final determination for RP7.
- b) To avoid the proliferation of additional terms and equations throughout the revenue equations when these terms serve the same purpose and are subject to the same process and calculations.
- c) To collate all potential additional allowances under the one term with a series of sub-paragraphs identifying the individual reasons that an additional allowance can be considered and determined.

- d) To ensure consistency with our revised approach and make provision for certain categories of additional Capex incurred to be determined during the price control.

Modification in respect of the Change of Law term

- 10.35 In the current licence, the Change of Law mechanism is given effect through the allowed opex amount for change of law – COL_Xt in Annex 2 paragraph 6.16. for the Distribution Licence and 6.16 of the Transmission Licence.
- 10.36 We consider the definition of the scope of the mechanism to be sufficient to allow NIE Networks to funded for necessary changes and to protect consumers from funding changes the company might wish to make at its own discretion.
- 10.37 In the current licences a change of law term COLt was included in the equation defining the Allowed opex other amount (AOOt term). In the modifications of this term proposed above, we propose to incorporate change of law as one of a number of items allowed under a more general term. To facilitate this, we propose to delete the text "(COLt) at four places in the existing licence across Paragraphs 6.17 to 6.21 of Section 6 of Annex 2.
- 10.38 The current licence does not place any limit on the amount which can be requested or determined in respect of the Change of Law mechanism. This creates a risk (which has not materialised to date) of changes of law which result in small changes of costs triggering this mechanism on a frequent basis.
- 10.39 We propose placing a materiality threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period) on the amount considered in any decision under this mechanism.

Reasons and effects – of the modifications proposed to the Change of Law mechanism

- 10.40 The reasons and effects for the modifications proposed to the to the Change of Law mechanism to introduce a materiality threshold of £125,0000 are:
 - a) To address the potential asymmetry of applications which might not identify small reductions in costs arising from minor changes in law.
 - b) To reduce the administrative burden on NIE Networks and UR in developing, challenging and completing applications and decision.

Distribution licence modifications

10.42 We propose modifying Section 6 of Annex 2 of the distribution licence as set out in Table 10.6 below.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
6.7(b)	6.7(b)	Add terms pass through for shared asset amount and business rates	In the equation for Pass Through Opex, add terms OCSA_Xt (pass through for shared asset amount) and + OBRA_Xt (pass through of rates bill).
6.7(b)	6.7(b)	Add definitions of terms for shared asset and business rates	In the definition of terms following the equation, add definitions for the terms OCSAt and OBRAt.
6.13	6.13	Correction of a term	In the equation for Allowed Opex, delete the term AO_2016t and replace with AO_FD _t . Makes the term future proof and consistent with the approach for determined amounts for Capex
6.13	6.13	Adjust to use of CPIH	In the equation for Allowed Opex Amount, delete "RPI _t / RPI2016" and replace with "CPIH _t / CPIH _{tbp} ".
6.13	6.13	Add RPE / Frontier shift term	In the equation for Allowed Opex Amount, add frontier shift term for consistency of approach with the capex section.
6.13	6.13	Correction of a term	In the definition of terms following the equation for Allowed Opex, delete the term AO_2016t and replace with AO_FD _t . Makes the term future proof and consistent with the approach for determined amounts for Capex.
6.13, Table 10	6.13, Table 10	Adjust for the relevant price control periods.	In the table title, change the date from 2016 to 2022.
6.13, Table 10	6.13, Table 10	Adjust for the relevant price control periods.	Amend for RP7 years and the term AO_FD.
6.15	6.15		In the opening section, delete the wording referencing the equation and add wording referencing the sub-paragraphs below as the definition of terms.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
6.15	6.15		In the definition of the Allowed Opex Other Amount AOO _t : remove the equation of terms to avoid a growing list of individual terms. No equation is provided and the term is the sum of the allowances determined under the subsequent sub-paragraphs. The existing terms in the equation EST, IAt, COL _t and NEST all become sub-paragraph definitions.
6.15	6.15	Delete and replace	Delete paragraphs 6.16 and replace paragraphs to bring all additional amounts under the AOO
6.17	6.17	Delete term	Delete the COL _t term and place with the wording 'change of law'
6.17	6.17	Addition of a materiality threshold to the Change of Law term.	Following the words "..... determined by the Authority, " insert "subject to a threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period)"
6.18	6.18	Amend the definition of Change of Law term to incorporate into the AOO _t .	Delete the COL _t term and place with the wording 'change of law'
6.18 (c.)	6.18 (c.)	Amend the definition of Change of Law term to incorporate into the AOO _t .	Delete the (COL _t) term'
6.20	6.20	Amend the definition of Change of Law term to incorporate into the AOO _t .	Delete the (COL _t) term'
6.21	6.21	Amend the definition of Change of Law term to incorporate into the AOO _t .	Delete the (COL _t) term'
6.22	6.22	Add RPE/frontier shift term	Insert the paragraph and table to include opex price effect & productivity factor

Table 10.5: Modifications to the Section 6 for Annex 2 of the distribution licence

Transmission licence modifications

10.43 We propose modifying Section 6 of Annex 2 of the transmission licence as set out in Table 10.6 below.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
6.7(b)	6.7(b)	Add terms pass through for shared asset amount and business rates	In the equation for Pass Through Opex, add terms OCSA_Xt (pass through for shared asset amount) and + OBRA_Xt (pass through of rates bill).
6.7(b)	6.7(b)	Add definitions of terms for shared asset and business rates	In the definition of terms following the equation, add definitions for the terms OCSAt and OBRAAt.
6.13	6.13	Correction of a term	In the equation for Allowed Opex, delete the term AO_2016t and replace with AO_FD. Makes the term future proof and consistent with the approach for determined amounts for Capex
6.13	6.13	Adjust to use of CPIH	In the equation for Allowed Opex Amount, delete "RPIt / RPI2016" and replace with "CPIHt / CPIHtbp".
6.13	6.13	Add RPI / frontier shift term	In the equation for Allowed Opex Amount, add frontier shift term for consistency of approach with the capex section.
6.13	6.13	Correction of a term	In the definition of terms following the equation for Allowed Opex, delete the term AO_2016t and replace with AO_FD. Makes the term future proof and consistent with the approach for determined amounts for Capex.
6.13, Table 10	6.13, Table 10	Adjust for the relevant price control periods.	In the table title, change the date from 2016 to 2022.
6.13, Table 10	6.13, Table 10	Adjust for the relevant price control periods.	Amend for RP7 years and the term AO_FD.
6.15	6.15	Delete and replace	In the opening section, delete the wording referencing the equation and add wording referencing the sub-paragraphs below as the definition of terms.

Original Licence Paragraph	Final licence Paragraph	Purpose/Reason	Modification
6.15	6.15	Delete and replace	In the definition of the Allowed Opex Other Amount AOO: remove the equation of terms to avoid a growing list of individual terms. No equation is provided and the term is the sum of the allowances determined under the subsequent sub-paragraphs. The existing terms in the equation IA, COLt and NEST all become sub-paragraph definitions.
6.15	6.15	Delete and replace	Delete paragraphs 6.16 and replace paragraphs to bring all additional amounts under the AOO
6.17	6.17	Delete term	Delete the COLt term
6.17	6.17	Addition of a materiality threshold to the Change of Law term.	Following the words "..... determined by the Authority," insert "subject to a threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period)"
6.17	6.17	Delete term	Delete the COLt term and place with the wording 'change of law'
6.17	6.17	Addition of a materiality threshold to the Change of Law term.	Following the words "..... determined by the Authority," insert "subject to a threshold of £125,000 for any one event (nominal terms for the duration of the RP7 period)"
6.18	6.18	Delete term	Delete the COLt term and place with the wording 'change of law'
6.18 (c.)	6.18 (c.)	Delete term	Delete the COLt term and place with the wording 'change of law'
6.20	6.20	Delete term	Delete the COLt term and place with the wording 'change of law'
6.21	6.21	Delete term	Delete the COLt term and place with the wording 'change of law'
6.22	6.22	Add RPE/frontier shift term	Insert the paragraph and table to include opex price effect & productivity factor

Table 10.6: Modifications to the Section 6 for Annex 2 of the transmission licence

11. Annex 2 Section 7 - The Pension Deficit Amount

Overview

- 11.1 Section 7 of Annex 2 of the current distribution and transmission licences set out the calculation of a pension deficit amount (Pt) which is then included in the calculation of Maximum Regulated Revenue. The amount is specified in the licence for each regulatory year in base year prices which is adjusted for inflation.
- 11.2 Annex F of the final determination explains our approach to pension deficit repair, the ERDC⁶ disallowance and the determination of the monetary figures used in this Section of Annex 2.

Licence Modifications common to both licences

- 11.3 We propose modifying the inflation equation in Paragraph 7.1 of Annex 2 of the transmission and distribution licences and associated text to reflect the base year for RP7 of t=2022.

Distribution licence modifications

- 11.4 We propose replacing Table 12 in Section 7 of Annex 2 of the distribution licence with Table 11.1 below which reflects the value of the historic deficit repair allowances included in RP6 which were not needed to reduce the historic deficit to zero (net of ERDC).

Period	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 _{2022t})	(15.800)	0.000	0.000	0.000	0.000	0.000

Note: figures in parentheses are negative and therefore deducted in the relevant licence equations

Table 11.1: The distribution business pension deficit amount for each Regulatory Reporting Year t (£million, 2022 prices).

- 11.5 We propose modifying Section 7 of Annex 2 of the distribution licence as set out in Table 11.2 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
7.1	7.1	Simplify equation	In the equation for The Pension Deficit Amount, delete P _{2016_Xt} and replace with P _{FDt} .
7.1	7.1	Simplify equation	In the definition following the equation for The Pension Deficit Amount, delete P _{2016_Xt} and replace with P _{FDt} .
7.1	7.1	Adjust to use of CPIH	In the equation for The Pension Deficit Amount, delete "RPIt / RPI2016" and replace with "CPIHt / CPIHtbp".
7.1,	7.1, Table 12	Adjust for the relevant price control periods.	Adjust the period (years) in the table for the RP7 Price Control.

Table 11.2: Modifications to Section 7 (the Pension Deficit) of Annex 2 of the distribution licence

Transmission licence modifications

- 11.6 We will replace the Table 9 in Section 7 of Annex 2 of the transmission licence with Table 11.3 below which reflect the value of the historic deficit repair allowances included in RP6 which were not needed to reduce the historic deficit to zero (net of ERDC).

Period	t=2026	t=2027	t=2028	t=2029	t=2030	t=2031
Historic deficit repair	(4.700)	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 _{2022t})	(4.700)	0.000	0.000	0.000	0.000	0.000

Note: figures in parentheses are negative and therefore deducted in the relevant licence equations

Table 11.3: The transmission business pension deficit amount for each Regulatory Reporting Year t (£million, 2022 prices).

- 11.7 We propose modifying Section 7 of Annex 2 of the transmission licence as set out in Table 11.4 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
7.1	7.1	Simplify equation	In the equation for The Pension Deficit Amount, delete P _{2016_Xt} and replace with P _{FDt} .

⁶ Early Retirement Deficiency Contributions

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
7.1	7.1	Simplify equation	In the definition following the equation for The Pension Deficit Amount, delete P_2016_Xt and replace with P_FDt.
7.1	7.1	Adjust to use of CPIH	In the equation for The Pension Deficit Amount, delete "RPIt / RPI2016" and replace with "CPIHt / CPIHtbp".
7.1,	7.1, Table 9	Adjust for the relevant price control periods.	Adjust the period (years) in the table for the RP7 Price Control.

Table 11.4: Modifications to Section 7 (the Pension Deficit) of Annex 2 of the transmission licence

Reasons

- 11.8 The reason for replacing Table 12 of Annex 2 of the distribution licence and Table 9 of the transmission licence is to give effect to our decisions on pension deficit repair in RP7 as set out and explained in Annex F of the RP7 final determination.
- 11.9 The reason for simplifying the equation for the deficit repair amount is to create an equation where amounts are defined by reference to the most recent final determination so that the licence term does not have to be modified following each determination.
- 11.10 The reasons for modifying the licences to use CPIH as the general measure of inflation are set out in Section 2, beginning at Paragraph 2.7.
- 11.11 The reasons for modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031.

Effects

- 11.12 The effect of replacing Table 12 of Annex 2 of the distribution licence and Table 9 of the transmission licence is to give effect to our decisions on pension deficit repair in RP7 as set out and explained in Annex F of the RP7 final determination.
- 11.13 The effect of simplifying the equation for the deficit repair amount is to create an equation where amounts are defined by reference to the most recent final determination so that the licence term does not have to be modified following each determination.

- 11.14 The effect of modifying the licences to use CPIH as the general measure of inflation are set out in Section 2, beginning at Paragraph 2.7.
- 11.15 The effect of modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031.

12. Annex 2, Section 9 - The Tax Amount

Overview

12.1 The Rate of Return included in the Maximum Regulated Revenue is calculated from a vanilla weighted average cost of capital (WACC) which does not allow for tax. Section 9 of Annex 2 of the current distribution and transmission licences set out the calculation of a tax amount (TAX_t) which is a component of the Maximum Regulated Revenue.

12.2 The tax amount is calculated using the equation set out below. We do not intend to modify this equation for the RP7 period.

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

12.3 The calculation of the INT_t term (being the interest on the value of the average of all Regulatory Asset Bases) is set out as an equation in the definition of the INT_t term. This includes a term G, defined as 'notional gearing' which represents the notional ratio of debt to the value of the Regulatory Asset Bases. This is defined as 45% in the current (RP6) licence.

12.4 We are proposing to modify the value of the notional gearing used in the calculation of the tax amount to 55%. This value is the gearing we used to determine the vanilla weighted average cost of capital (VWACC_t) which is used to calculate the return amount as set out in Section 5 of Annex 2.

Distribution licence modifications

12.5 We propose modifying Section 9 of Annex 2 of the distribution licence as set out in Table 12.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
9.1	9.1	Adjustments to remove the RP6 half year, not relevant for RP7	After the equation for INT _t , delete the sentence beginning "Save that for Regulatory Report Year t....."
9.1	9.1	Update of Gearing Value	Adjust gearing value of 45% to 55%
9.1	9.1	Adjustments to remove the RP6 half year, not relevant for RP7	Following the equation for the capital allowances, , delete the sentence beginning "Save that for Regulatory Report Year t

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
9.1	9.1	Adjust for the relevant price control periods.	In sub-paragraph vi at the end of Section 9, update the text "Specified in the RP6 model.... Provisions of the RP5 model" to "Specified in the RP7 models..... Provisions of the RP6 model"

Table 12.1: Modifications to Section 9 (the Tax Amount) of Annex 2 of distribution licence

Transmission licence modifications

12.6 We propose modifying Section 9 of Annex 2 of the transmission licence as set out in Table 12.2 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
9.1	9.1	Adjustments to remove the RP6 half year, not relevant for RP7	After the equation for INT _t , delete the sentence beginning "Save that for Regulatory Report Year t....."
9.1	9.1	Update of Gearing Value	Adjust gearing value of 45% to 55%
9.1	9.1	Adjustments to remove the RP6 half year, not relevant for RP7	Following the equation for the capital allowances, , delete the sentence beginning "Save that for Regulatory Report Year t
9.1	9.1	Update Price Control Period	Update the text "Specified in the RP6 model.... Provisions of the RP5 model" to "Specified in the RP7 models..... Provisions of the RP6 model"

Table 12.2: Modifications to Section 9 (the Tax Amount) of Annex 2 of transmission licence

Reasons

12.7 The reasons for modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031. This includes modifications to remove the RP6 half year which is not relevant to RP7.

12.8 The reason for modifying the value for gearing in the calculation of the term INT_t is to align the calculation of the tax amount with the calculation of the

return amount ensuring consistency across the calculation of Maximum Regulated Revenue.

Effects

- 12.9 The effects of modifying for dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031
- 12.10 The effect of modifying the value for gearing in the calculation of the term INT_t is to align the calculation of the tax amount with the calculation of the return amount ensuring consistency across the calculation of Maximum Regulated Revenue.

13. Annex 2, Section 11 - The Correction Factor Amount

Overview

- 13.1 Section 11 of Annex 2 of the current distribution and transmission licences set out the process for calculating a revenue correction amount which is added to the Maximum Regulatory Revenue which may be recovered for a Regulatory Year
- 13.2 to reflect the difference between the Maximum Revenue for the previous Regulatory Year and the actual revenue recovered, subject to an adjustment for interest at a defined Average Specified Rate.
- 13.3 The Correction Factor corrects for forecasting errors both in the calculation of Maximum Revenue and customer numbers and volumes at the time tariffs were calculated. It is calculated as the difference between the Maximum Regulated Revenue and the actual revenue recovered, subject to an adjustment for interest at a defined Average Specified Rate.
- 13.4 We will maintain the calculation of a correction factor amount (Kt) using the methodology set out in both the transmission and distribution licences. We will amend Section 11 of Annex 2 to align dates and years to reflect the RP7 period and amend the name of the KRP5 term to KRP6 (means the closing K factor for RP6).
- 13.5 The Correction Factor Amount carried forward includes an amount for interest calculated using an Average Specified Rate (It). In Chapter 2 we set out our proposals to modify the definition of the Average Specified Rate from one based daily base rates of Danske Bank Limited (or such other bank as the Authority shall specify from time to time) to one based on Bank of England base rates. While this modification to the definition of Average Specified Rate is made in Section 1 of Annex 2, its impact is realised in the calculation of the Correction Factor in Section 11 of Annex 2.

Distribution licence modifications

- 13.6 We propose modifying Section 11 of Annex 2 of the distribution licence as set out in Table 13.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
11.1	11.1	Adjust for the relevant price control periods.	In sub-paragraph 11(a): delete 2018 and replace with 2026 in two places; and delete 30 September 2017 and replace with 31 March 2025.
11.1	11.1	Adjust for the relevant price control periods.	In the equation for Kt and the subsequent definition, delete KRP5 and replace with KRP6.
11.1	11.1	Adjust for the relevant price control periods.	In the definition of KRP6. : delete RP5 and replace with RP6 in two places; and delete 30 September 2017 and replace with 31 March 2025.
11.1	11.1	Adjust for the relevant price control periods.	In sub paragraph (b), delete the years 2018 to 2025 and replace with 2027 to 2031.
11.1	11.1	Adjust for the relevant price control periods.	In sub paragraph (b), delete the year 2026
11.1	11.1	Adjust for the relevant price control periods.	In the equation for Kt and in the subsequent definitions, replace the terms RP6Rt-1 and ARP6t-1 with RP7Rt-1 and ARP6t-1 respectively.

Table 13.1: Modifications to Section 11 the Correction Factor Amount section for Annex 2 of the distribution licence

Transmission licence modifications

13.7 We propose modifying Section 11 of Annex 2 of the transmission licence as set out in Table 13.2 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
11.1	11.1	Adjust for the relevant price control periods.	In sub-paragraph 11(a): delete 2018 and replace with 2026 in two places; and delete 30 September 2017 and replace with 31 March 2025.
11.1	11.1	Adjust for the relevant price control periods.	In the equation for Kt and the subsequent definition, delete KRP5 and replace with KRP6.
11.1	11.1	Adjust for the relevant price control periods.	In the definition of KRP6. : delete RP5 and replace with RP6 in two places; and delete 30 September 2017 and replace with 31 March 2025.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
11.1	11.1	Adjust for the relevant price control periods.	In sub paragraph (b), delete the years 2018 to 2025 and replace with 2027 to 2031.
11.1	11.1	Adjust for the relevant price control periods.	In sub paragraph (b), delete the year 2026
11.1	11.1	Adjust for the relevant price control periods.	In the equation for Kt and in the subsequent definitions, replace the terms RP6Rt-1 and ARP6t-1 with RP7Rt-1 and ARP6t-1 respectively.

Table 13.2: Modifications to Section 11 the Correction Factor Amount for Annex 2 of the transmission licence

Reasons

13.8 The reasons for modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031.

Effects

13.9 The effects of modifying for dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031.

14. Annex 2, Section 12 Distribution and Transmission Charge Restriction Conditions

Overview

- 14.1 Section 12 of Annex 2 of the current distribution and transmission licences sets out the specific information which the Licensee shall furnish to the Authority in relation to the Charge Restriction Conditions of Annex 2 of the respective licences.
- 14.2 We propose modifying these conditions to ensure that they remain relevant for RP7, to take account of representations from NIE Networks on the purpose and relevance of specific information and to make minor corrections to known errors and other amendments to the wording of the licence.

Distribution licence modifications

- 14.3 We propose modifying Section 12 of Annex 2 of the distribution licence as set out in Table 14.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
12.5	12.5	Update email address	revised email address: electricity_networks_responses@uregni.gov.uk mailbox
12.12	12.12	Adjust for the relevant price control periods.	Adjust Regulatory Tariff Year commencing on or after to 1 October 2025
12.13	12.13	Adjust for the relevant price control periods.	Adjust Regulatory Tariff Year commencing on or after to 1 October 2025
12.23	12.23	Adjust for the relevant price control periods.	Adjust the period to "1 April 2025"
12.23	12.23	Delete wording	"and in the Licensee's accounting statements referred to in Condition 2 of the Licence"
12.24	12.24	Adjust for the relevant price control periods.	Delete RP7 and replace with RP8 and update wording to reflect 'when requested'
12.25	12.25	Updated wording	Update wording to say 'when requested' rather than 'on an annual basis'
12.25	12.25	Updated wording	Update wording to say 'when requested' rather than 'on an annual basis'

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
12.27	12.27	Updated wording	Update wording to say 'when requested' rather than 'on an annual basis'
12.27	12.27	Adjust for the relevant price control periods	Update wording to say 'in periods after 31 March 2018'
12.28	12.28	Updated wording	Update wording to say 'when requested' rather than 'on an annual basis'
12.35	12.35	Amend to 27 months information Tax Reports	In the first line of paragraph 12.35, delete '12 months' and replace with '27 months'
New	12.39	Inclusion of requirement for an Annual Environmental Report	Include a new paragraph with the wording "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."
New	12.40	Inclusion of requirement for an Annual Environmental Report	Include a new paragraph with the wording "The Licensee shall publish on the Licensee's website, the information supplied in accordance with paragraph 12.40."

Table 14.1: Modifications to Section 12 of Annex 2 of the distribution licence

Transmission licence modifications

- 14.4 We propose modifying Section 12 of Annex 2 of the transmission licence as set out in Table 14.2 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
12.5	12.5	Update email address	revised email address: electricity_networks_responses@uregni.gov.uk mailbox
12.12	12.12	Adjust for the relevant price control periods.	Adjust Regulatory Tariff Year commencing on or after to 1 October 2025
12.13	12.13	Adjust for the relevant price control periods.	Adjust Regulatory Tariff Year commencing on or after to 1 October 2025
12.23	12.23	Adjust for the relevant price control periods.	Adjust the period to "1 April 2025"
12.23	12.23	Delete wording	"and in the Licensee's accounting statements referred to in Condition 2 of the Licence"

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
12.24	12.24	Adjust for the relevant price control periods.	Delete RP7 and replace with RP8 and update wording to reflect 'when requested'
12.25	12.25	Updated wording	Update wording to say 'when requested' rather than 'on an annual basis'
12.25	12.25	Updated wording	Update wording to say 'when requested' rather than 'on an annual basis'
12.27	12.27	Updated wording	Update wording to say 'when requested' rather than 'on an annual basis'
12.27	12.27	Adjust for the relevant price control periods	Update wording to say 'in periods after 31 March 2018'
12.28	12.28	Updated wording	Update wording to say 'when requested' rather than 'on an annual basis'
12.35	12.35	Amend to 27 months information Tax Reports	In the first line of paragraph 12.35, delete '12 months' and replace with '27 months'
New	12.39	Inclusion of requirement for an Annual Environmental Report	Include a new paragraph with the wording "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."
New	12.40	Inclusion of requirement for an Annual Environmental Report	Include a new paragraph with the wording "The Licensee shall publish on the Licensee's website, the information supplied in accordance with paragraph 12.40."

Table 14.2: Modifications to Section 12 of Annex 2 of transmission licence

Reason

- 14.5 The reason for modifying the email address in Paragraph 12.5 is because the previous email address is no longer in used by UR.
- 14.6 The reasons for modifying key dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031. This includes modifications to remove the RP6 half year which is not relevant to RP7.
- 14.7 The reason for deleting the wording "and in the Licensee's accounting statements referred to in Condition 2 of the Licence" from Paragraph 12.25 of Annex 2 is that we have concluded that there is no merit in duplicating this publication in the Licensee's accounting statements. We expect the Licensee

to reference the publication of the relevant information on its website in its accounting statements.

- 14.8 The reason for updating wording in Paragraphs 12.25 and 12.27 to allow for the specific information to be provided on request rather than annually reflects our experience of when that information has been used and useful.
- 14.9 The reasons for changing the time between the end of the Regulatory Reporting Year and the submission of audited tax reports is that it has improved impractical for NIE Networks to meet the timescale due to a difference in its accounting and regulatory years and the time required to complete tax audits. We will amend our Regulatory Instructions and Guidance (see Paragraph 12.15 of Annex 2) to require NIEN to submit its latest best estimates and unaudited version of the information required under Paragraph 12.35 of Annex 2 where this would be useful to inform our regulatory decisions.

Effects

- 14.10 The effect of modifying the email address in Paragraph is to secure the communication of regulatory information following an administrative change by UR.
- 14.11 The effects of modifying for dates, terms and references to price control periods is to align the licences with the RP7 period which will run from 1 April 2025 to 31 March 2031.
- 14.12 The effect of deleting the wording "and in the Licensee's accounting statements referred to in Condition 2 of the Licence" from Paragraph 12.25 of Annex 2 is to reduce administrative burden on the Licensee.
- 14.13 The effect of updating wording in Paragraphs 12.25 and 12.27 to allow for the specific information to be provided on request rather than annually is to reduce the administrative burden on the Licensee.
- 14.14 The effect of changing the time between the end of the Regulatory Reporting Year and the submission of audited tax reports is that ensure that it is practical for NIE Networks to meet the timescale.

15. Annex 2, Section 15 Duration of the Charge Restriction Conditions

Overview

- 15.1 The duration of the charge restriction condition is set out in Section 15 of Annex 2 of the current distribution and transmission Licences.
- 15.2 For the current RP6 period, which ends on the 31 March 2025, the distribution and Transmission Charge Restriction Conditions outlined in Paragraph 3.2 of Annex 2 of the respective licences do not apply to tariff years from 1 October 2025 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 2024.
- 15.3 The process for “disapplication” in Section 15 of Annex 2 of the respective licences allows the Licensee to ask for the Charge Restriction Conditions to cease to have effect (in whole or in part, as may be the case). In effect, this gives the Licensee the ability to secure modifications to the Charge Restriction Conditions for the period after the end of the current price control either by UR, or failing that, the CMA.
- 15.4 Modifying the relevant dates in Paragraph 15.2 of Annex 2 of the respective licences to the 1 October 2031 and 1 October 2030 reflects the end date of RP7 of 31 March 2031 and preserves the right of the Licensee to secure changes in tariffs beyond that date if a new price control has not been put into effect at an appropriate time.

Distribution licence modifications

- 15.5 We propose modifying Section 15 of Annex 2 of the distribution licence as set out in Table 15.1 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
15.2	15.2	Adjust for the relevant price control periods.	Delete 1 October 2025 and replace with 1 October 2031. Delete 1 October 2024 and replace with 1 October 2030.
15.5(b)	15.5(b)	Adjust for the relevant price control periods.	Delete 31 March 2025 and replace with 31 March 2031.

Table 15.1: Modifications to Section 15 of Annex 2 of the distribution licence

Transmission licence modifications

- 15.6 We propose modifying Section 15 of Annex 2 of the transmission licence as set out in Table 15.2 below.

Original Licence Paragraph	Final Licence Paragraph	Purpose/Reason	Modification
15.2	15.2	Adjust for the relevant price control periods.	Delete 1 October 2025 and replace with 1 October 2031. Delete 1 October 2024 and replace with 1 October 2030.
15.5(b)	15.5(b)	Adjust for the relevant price control periods.	Delete 31 March 2025 and replace with 31 March 2031.

Table 15.2: Modifications to Section 15 of Annex 2 of the transmission licence

Reason

- 15.7 It is necessary to modify key dates in the licence which currently reflect the RP6 period to reflect the RP7 period, in this case, the end date of RP7 of 31 March 2031.

Effects

- 15.8 Modifying the relevant dates in Paragraph 15.2 of Annex 2 of the distribution and transmission licences to the 1 October 2031 and 1 October 2030 reflects the end date of RP7 of 31 March 2031 and preserves the right of the Licensee to secure changes in tariffs beyond that date if a new price control has not been put into effect at an appropriate time.

16. Next Steps

Submission of consultation responses

- 16.1 This is an open consultation paper. We invite stakeholders to express a view on any aspect of the paper or any related matter. Responses should be received on or before 5 pm on 2 December 2024 and should be addressed to:

Alan Craig
Price Control Manager
Queens House
14 Queen Street
Belfast
BT1 6ED
Tel: 028 9031 6327

- 16.2 Email: Electricity_Networks_Responses@uregni.gov.uk with cc to Alan.Craig@uregni.gov.uk
- 16.3 Our preference would be for responses to be submitted by e-mail.
- 16.4 Your response may be made public by us. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as 'CONFIDENTIAL'.
- 16.5 If you want other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.
- 16.6 Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 2018 (DPA)).
- 16.7 As stated in the GDPR Privacy Statement for consumers and stakeholders, any personal data contained within your response will be deleted once the matter being consulted on has been concluded though the substance of the response may be retained.
- 16.8 This document is available in other accessible formats, such as large print, Braille, audio cassette and a variety of relevant minority languages if required. Please contact Alan Craig on either 028 9031 6327 or email:

Electricity_Networks_Responses@uregni.gov.uk with cc to Alan.Craig@uregni.gov.uk to request this.

- 16.9 It is also envisaged that work will continue with key stakeholders, during the consultation phase to ensure that all areas are made clear, on how decisions have been reached.
- 16.10 If appropriate, we can have individual discussions with interested parties. Please contact us if you consider this to be more suitable.

Timelines

- 16.11 Table 16.1 provides an overview RP7 process to date, the next steps and timelines for the licence modification process.

RP7 Key Milestones	Revised timeline
UR issued draft Approach to RP7	2 March 2022
Consultation on RP7 Approach closed	4 May 2022
UR published final Approach to RP7	6 July 2022
UR issued final information requirements	31 August 2022
Business plan submission	31 March 2023
UR RP7 draft determination published for consultation	28 November 2023
Consultation on the UR RP7 Draft Determination ended	22 March 2024
UR publish RP7 Final Determination. Proposals on licence modifications published for consultation.	30 October 2024
RP7 Licence modifications consultation closes	2 December 2024
UR Decision on licence modifications pursuant to the RP7 final determination and other regulatory decisions published	No later than 4 February 2025
RP7 Price Control takes effect	1 April 2025

Table 16.1: RP7 Price Control Timelines

- 16.12 This timetable allows for the effective date of the licence modifications to be at least 56 days after the publication of the licence modification decision, in line with the requirements of Article 14(10) of the Electricity (Northern Ireland) Order 1996. This period provides an opportunity for the licence holder subject to the price control, any other licence holder materially affected by the decision, a qualifying body or association representing one of those licence holders, and/or the Consumer Council for Northern Ireland to appeal the decision on the proposed licence modifications to the CMA.