

**LICENCE TO PARTICIPATE IN THE TRANSMISSION  
OF ELECTRICITY**

**granted to**

**SONI LIMITED**

**The Department of Enterprise, Trade and Investment**

## ANNEX 1 Charge Restrictions

### 1 Definitions

#### 1.1 In this Annex:

<b>Actual Regulated Revenue</b>	means the revenue (measured on an accruals basis) derived from SSS/TUoS Charges (including any revenue received from any Separate Business) after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
<b>Additional Approved Costs</b>	means the costs incurred by the Licensee in relation to any matter in respect of which: <ul style="list-style-type: none"> <li>(a) the Licensee has made a claim in accordance with paragraph 8.1 of this Annex; and</li> <li>(b) the Authority has, pursuant to paragraphs 8.5 to 8.11 of this Annex, approved an amount of costs that may be recovered by the Licensee in respect of that matter.</li> </ul>
<b>Annual Out-turn Report</b>	has the meaning given to it in paragraph 1 of Condition 39.
<b>Applicable Exchange Rate</b>	means the annual average exchange rate for the conversion of euro into sterling as published by Thomson Reuters.
<b>Average Specified Rate</b>	means one-year <a href="#">Bank of England Base Rate (BoEBR)</a> <del>LIBOR</del> (or such other bank as the Authority shall specify from time to time) current from time to time during the period in respect of which the calculation falls to be made.
<b>Capital expenditure</b>	means expenditure incurred by the Licensee which is (or is to be) capitalised or amortised for the purposes of its statutory accounts, excluding any borrowing costs or finance costs.
<b>Connections Income Attributable to Overheads</b>	means any income received by the Licensee in respect of the connection charges referred to at paragraph 2(g) of Condition 25 of this Licence, which is reasonably attributable to the recovery of Overhead Costs.
<b>CPIH</b>	means the Consumer Prices Index including owner occupiers' housing costs (2015 = 100), published by the Office for National Statistics (or any successor body).
<b>CPIH<sub>t</sub></b>	means the CPIH published or determined with respect to April in

	Relevant Year t.
<b>CPIH<sub>2019</sub></b>	means the CPIH published or determined with respect to April 2019 (value = 107.6).
<b>Demonstrably Inefficient or Wasteful Expenditure</b>	means expenditure which the Authority has (giving the reasons for its decision) determined having regard to such guidance as the Authority may from time to time issue, to be demonstrably inefficient and/or wasteful, given the information reasonably available to the Licensee at the time that the Licensee made the relevant decision about that expenditure. For the avoidance of doubt, no expenditure is demonstrably inefficient or wasteful expenditure simply by virtue of a statistical or quantitative analysis that compares aggregated measures of the Licensee's costs with the costs of other companies.
<b>Imperfections Charge</b>	has the meaning given to it in the Single Electricity Market Trading and Settlement Code.
<b>Legal Requirement</b>	means, in relation to the Licensee, any of the following: <ul style="list-style-type: none"> <li>(a) any enactment to the extent that it applies to the Licensee;</li> <li>(b) any regulation made by the Council or the Commission of the European Communities to the extent that it applies to the Licensee and impacts on the Transmission System Operator Business or a decision taken by that Council or Commission which is binding on the Licensee and impacts on the Transmission System Operator Business to the extent that it is so binding;</li> <li>(c) any interpretation of law, or finding, contained in any judgment given by a court or tribunal of competent jurisdiction in respect of which the period for making an appeal has expired;</li> <li>(d) any direction of a competent authority other than, insofar as it applies to the Licensee, the Authority (except in the exercise of its powers under paragraph 4 of Condition 16) or the Department.</li> </ul>
<b>Maximum Core Revenue</b>	means the revenue allowance calculated in accordance with the formula in paragraph 2.2 of this Annex.
<b>Maximum Regulated Revenue</b>	means the revenue allowance calculated in accordance with paragraph 2.1 of this Annex.

<b>Moyle Interconnector Collection Agency Agreement</b>	has the meaning given to that expression in Condition 37.
<b>Operating expenditure</b>	means expenditure incurred by the Licensee which is not Capital Expenditure and which excludes borrowing costs and finance costs.
<b>Other System Charges</b>	has the meaning given to it in the Single Electricity Market Trading and Settlement Code.
<b>Overhead Costs</b>	means the costs incurred by the Licensee that can reasonably be attributed to multiple areas of the business including, but not limited to, the costs of the following activities or functions: payroll, finance, HR, IT, Telecoms, facilities and intra-group recharges (insofar as these can reasonably be attributed to multiple areas of the business).
<b>Permitted One-Year Percentage</b>	means 4% of the Maximum Regulated Revenue.
<b>Permitted Three-Year Percentage</b>	means 5% of the Maximum Regulated Revenue in the second of the Relevant Years.
<b>Price Control Decision Paper</b>	means each of: (i) the decision paper issued by the Authority on 21 December 2020 and entitled "SONI Price Control 2020-2025, Final Determination" together with its Annexes; (ii) the decision paper issued by the Authority on 19 November 2021 and entitled " <i>Decision on Licence Modifications for the SONI Price Control 2020-2025</i> "; (iii) <a href="#">the decision paper issued by the Authority on XX May 2025 in relation to the two-year extension period</a> .
<b>Quantity Entering the Total System</b>	means the aggregate quantity of units metered on entry to the total system in Relevant Year t (minus any units consumed by generation sets and imported from the total system).
<b>Relevant Change of Law</b>	means the application to the Licensee of any Legal Requirement which did not previously so apply or the change of any Legal Requirement relating to the Licensee (including any such Legal Requirement ceasing to apply, being withdrawn or not being renewed).
<b>Relevant Year</b>	means a financial year commencing on 1 October and concluding 30 September.
<b>Relevant Year t</b>	means that Relevant Year for the purposes of which any calculation falls to be made; " <b>Relevant Year t - 1</b> " means the Relevant Year preceding

	Relevant Year t and similar expressions shall be construed accordingly.
<b>Requirements and Guidance on Uncertainty Mechanisms</b>	<p>means a document issued by the Authority following consultation with the Licensee, as it may be subsequently supplemented or amended following further such consultation, and setting out the requirements and guidance applicable to:</p> <ul style="list-style-type: none"> <li>(a) the process by which the Authority may determine variations to the allowance for pension deficit repair costs, under the PTRAt term at paragraph 2.2(c) of this Annex;</li> <li>(b) the process by which claims may be made by the Licensee in respect of potential increases to the allowance for the costs of transmission network planning scoping and feasibility activities, under the SFUt term at paragraph 2.2(h) of this Annex;</li> <li>(c) the process by which claims may be made by the Licensee under paragraph 8.1 of this Annex for the approval by the Authority of Additional Approved Costs, including claims for: <ul style="list-style-type: none"> <li>(i) an approval in respect of costs that are yet to be incurred;</li> <li>(ii) an approval in respect of costs that were incurred in any Relevant Year t falling prior to that in which the claim is made;</li> <li>(iii) the variation of any previous approval;</li> </ul> </li> <li>(d) the information and evidence to be provided by the Licensee on the submission of the types of claims referred to in paragraphs (b) or (c) above;</li> <li>(e) the process by which such claims will be reviewed and, if appropriate, approved by the Authority; and</li> <li>(f) any information or evidence that must be provided by the Licensee to the Authority following any determination or approval of such claims.</li> </ul>
<b>Requirements and Guidance on Conditional Cost Sharing</b>	<p>means a document issued by the Authority following consultation with the Licensee, as it may be subsequently supplemented or amended following further such consultation, and setting out the requirements and guidance applicable to:</p>

	<p>(a) the operation of:</p> <ul style="list-style-type: none"> <li>(i) the conditional cost sharing arrangements for Operating Expenditure for the purposes of paragraph 2.2 of this Annex;</li> <li>(ii) the conditional cost sharing arrangements for capital expenditure for the purposes of paragraph 2.3 of this Annex;</li> </ul> <p>(b) the calculation of:</p> <ul style="list-style-type: none"> <li>(i) the term <math>CSBA_t</math> in accordance with paragraph 2.2 of this Annex;</li> <li>(ii) the terms <math>CSCA_t</math> in accordance with paragraph 2.3 of this Annex;</li> </ul> <p>(c) the process by which the Licensee may make and support proposals to the Authority on the appropriate values for the <math>CSBA_t</math> and <math>CSCA_t</math> terms. The materiality threshold for the Conditional Cost Sharing mechanism is £500,000 (nominal prices);</p> <p>(d) any information or evidence that must be provided by the Licensee to the Authority, and any other requirements that must be met by the Licensee, for the purposes referred to in paragraph (c);</p> <p>(e) such other matters as appear to the Authority to be expedient for the purposes of giving effect to, and facilitating the operation of, the conditional cost sharing arrangements as more fully described in the Price Control Decision Paper.</p>
<p><b>Requirements and Guidance on the Evaluative Performance Framework</b></p>	<p>means a document issued by the Authority following consultation with the Licensee, as it may be subsequently supplemented or amended following further such consultation, and setting out the requirements and guidance applicable to:</p> <ul style="list-style-type: none"> <li>(a) the procedure to be followed by the Authority for the purposes of establishing and applying an evaluative performance framework which shall include: <ul style="list-style-type: none"> <li>(i) the criteria against which the Licensee's performance will be assessed;</li> <li>(ii) the methodology for determining the amount of any</li> </ul> </li> </ul>

	<p>financial reward or penalty applicable to the Licensee in the light of the assessment of its performance in any Relevant Year t;</p> <p>(b) setting a value for the term <math>EP_t</math> under paragraph 2.2(e) of this Annex in order to give effect to that reward or penalty;</p> <p>(c) the information and evidence to be provided by the Licensee to the Authority for the purpose of facilitating the operation of that evaluative performance framework;</p> <p>(d) any other obligations with which the Licensee is required to comply for the same purpose;</p> <p>(e) such other matters as appear to the Authority to be expedient for the purposes of giving effect to, and facilitating the operation of, the evaluative performance framework as more fully described in the Price Control Decision Paper.</p>
<p><b>Requirements and Guidance on Transmission Network Pre-construction Projects</b></p>	<p>means a document issued by the Authority following consultation with the Licensee, as it may be subsequently supplemented or amended following further such consultation, and setting out the requirements and guidance applicable to:</p> <p>(a) the process by which claims may be made by the Licensee to the Authority for approval under paragraphs 10.1 and 10.2 of this Annex, including claims for:</p> <p>(i) an approval in respect of costs that are yet to be incurred;</p> <p>(ii) an approval in respect of costs that were incurred in any Relevant Year t falling prior to that in which the claim is made;</p> <p>(iii) the variation of any previous approval;</p> <p>(b) the information and evidence to be provided by the Licensee on the submission of such claims;</p> <p>(c) the process by which such claims will be reviewed and, if appropriate, approved by the Authority; and</p> <p>(d) any information or evidence that must be provided by the Licensee to the Authority following any such approval.</p>
<p><b>RPI</b></p>	<p>means the Retail Prices Index (Jan 1987 = 100), published by the Office</p>

	for National Statistics (or any successor body).
<b>RPI<sub>t</sub></b>	means the RPI published or determined with respect to April in Relevant Year t.
<b>Special Project Costs</b>	means the costs incurred by the Licensee in relation to any project in respect of which: <ul style="list-style-type: none"> <li>(a) the Licensee has made a claim in accordance with paragraph 8.1 of this Annex; and</li> <li>(b) the Authority has, pursuant to paragraph 8.9 of this Annex, determined that the costs of the project are to be treated as Special Project Costs.</li> </ul>
<b>Specified Proportions</b>	means the proportions as defined and set out in the Market Operator Agreement entered into under and for the purposes of Condition 14 of the licence granted under Article 10(1)(d) of the Order.
<b>SSS/TUoS Charge(s)</b>	means the charges for System Support Services and for use of the All-Island Transmission Networks as provided for under Condition 30.
<b>SSS/TUoS Charge Restriction Condition</b>	means this Annex as from time to time modified or replaced in accordance with its own terms or pursuant to any enactment.
<b>Transmission Network Pre-construction Project</b>	means a transmission network project: <ul style="list-style-type: none"> <li>(a) identified, by the Licensee or the Transmission Owner, as a project which is necessary for the purposes of developing the transmission system;</li> <li>(b) in respect of which the Licensee is, as the Transmission System Operator, responsible for carrying out activities required to progress the project from the conceptual design stage to, but not including, the construction stage; and</li> <li>(c) which has been approved by the Authority, following a claim by the Licensee for such approval in accordance with paragraph 10.1 of this Annex.</li> </ul>
<b>Transmission Network Pre-construction Project Costs</b>	means costs incurred by the Licensee in relation to a Transmission Network Pre-construction Project, where the Authority has approved the incurring of costs in relation to that project following a claim by the Licensee for such approval in accordance with paragraph 10.2 of this



	Annex.
<b>Uncollected SSS/TUoS Revenue</b>	means any amount owed to the Licensee in respect of Regulated SSS/TUoS Revenue, which amount remains unpaid six months after the date it first fell due for payment or which amount the Licensee deems (in accordance with the payment security policy) to be unrecoverable before the expiry of that six month period; plus the reasonable recovery costs incurred by the Licensee in respect of such amount and the reasonable interest attributable to such amount (calculated, in both cases, in accordance with the payment security policy).
<b>Unit</b>	means a kilowatt hour.

1.2 Where any table or calculation refers to a numbered Relevant Year t (or similarly Relevant Year y) the applicable Relevant Year is as follows:

<b>Relevant Year t / y</b>	<b>Relevant Year</b>
-6	May 2014 – September 2014
-5	October 2014 – September 2015
-4	October 2015 – September 2016
-3	October 2016 – September 2017
-2	October 2017 – September 2018
-1	October 2018 – September 2019
0	October 2019 - September 2020
1	October 2020 - September 2021
2	October 2021 - September 2022
3	October 2022- September 2023
4	October 2023 - September 2024
5	October 2024 - September 2025
<u>6</u>	<u>October 2025 - September 2026</u>

## 2 Restriction of SSS/TUoS Charges

### The Restriction

2.1 The Licensee shall, in setting the SSS/TUoS Charges, use its best endeavours to ensure that in each Relevant Year the Actual Regulated Revenue shall not exceed the Maximum Regulated Revenue, and for these purposes the Maximum Regulated Revenue shall be the aggregate of:

(a) the Maximum Core Revenue in Relevant Year  $t$  ( $MC_t$ ), calculated in accordance with paragraph 2.2 of this Annex;

plus

(b) the  $CAIR_t$  amount,

where:

$CAIR_t$  has, in respect of each Relevant Year  $t$ , the same meaning as is given to that expression in the Moyle Interconnector Collection Agency Agreement.

### The Maximum Core Revenue ( $MC_t$ )

2.2 The Maximum Core Revenue, from Relevant Year  $t=1$  onwards, shall be calculated as follows:

$$MC_t = A_t + B_t + PR_t + CSB_t + EP_t + NIA_t + D_t + SF_t + K_t + N_t + BNB_t + PCR_t + AB\_PC_t + Z_t - CIO_t$$

where each component term has the meaning, and shall be calculated, in accordance with subparagraphs (a) to (o) below.

(a) **The Pass-Through Amount ( $A_t$ )**

$A_t$  relates to certain costs which the Licensee is permitted to recover on a pass-through basis, and is calculated as the aggregate of the following amounts:

(i) the costs of System Support Services in Relevant Year  $t$  (including amounts payable by the Licensee to any person for the provision or use of any System Support Services provided over any interconnector in Relevant Year  $t$ );

plus

(ii) amounts payable to the Transmission Owner Business for the provision of transmission services in Relevant Year  $t$ ;

plus

- (iii) amounts levied in Relevant Year t on the Transmission System Operator Business by the Market Operation Activity in accordance with Annex 1 of the Northern Ireland Market Operator Licence to the extent not recovered under any other provision of this Licence or under the Northern Ireland Market Operator Licence.

(b) **The Ex Ante Allowance for Operating Expenditure Subject to Cost Sharing (B<sub>t</sub>)**

**B<sub>t</sub>** means the total ex ante allowance in Relevant Year t for Operating Expenditure subject to cost-sharing arrangements, and is calculated in accordance with the following formula:

$$B_t = \left( (BO_t + UO_t + E_t) \times \frac{CPIH_t}{CPIH_{2019}} \right)$$

where:

- (i) **BO<sub>t</sub>** means the ex ante allowance for Relevant Year t determined in the Price Control Decision Paper for Operating Expenditure which is subject to *conditional cost-sharing arrangements*, and for each Relevant Year t shall be as set out in Table A below;
- (ii) **UO<sub>t</sub>** means the ex ante allowance for Relevant Year t determined in the Price Control Decision Paper for Operating Expenditure on new initiatives which is subject to *mechanistic cost-sharing arrangements*, and for each Relevant Year t shall be as set out in Table A below;
- (iii) Table A is as follows:

Relevant Year t	1	2	3	4	5	6	7
	£m	£m	£m	£m	£m	£m	£m
<b>BO<sub>t</sub></b>	<a href="#">13.106</a> <del>12.856</del>	<a href="#">13.020</a> <del>12.770</del>	<a href="#">13.065</a> <del>12.815</del>	<a href="#">13.398</a> <del>13.148</del>	<a href="#">11.856</a> <del>11.606</del>	<a href="#">12.668</a>	<a href="#">12.678</a>
<b>UO<sub>t</sub></b>	<a href="#">1.376</a> <del>1.626</del>	<a href="#">1.358</a> <del>1.608</del>	<a href="#">1.521</a> <del>1.771</del>	<a href="#">1.622</a> <del>1.871</del>	<a href="#">1.651</a> <del>1.901</del>	<a href="#">1.695</a>	<a href="#">1.696</a>

- (iv)  $\frac{CPIH_t}{CPIH_{2019}}$  applies an adjustment for inflation up to Relevant Year t;
- (v) **E<sub>t</sub>** means the aggregate of the ex ante allowances determined by the Authority in accordance with any approvals given pursuant to paragraph 8.10(b) of this Annex, in relation to Additional Approved Costs remunerated via the Et

uncertainty mechanism in Relevant Year t;  $E_t$  takes the value of zero for any Relevant Year t for which no ex ante allowances have been determined by the Authority pursuant to paragraph 8.10(b) of this Annex.

(c) **The Pension Deficit Repair Amount ( $PR_t$ )**

$PR_t$  means the allowance for pension deficit repair in Relevant Year t, which is calculated in accordance with the following formula:

$$PR_t = (PDR_t + PTRAt) \times \frac{CPIH_t}{CPIH_{2019}}$$

where:

- (i)  $PDR_t$  means the allowance for pension deficit repair determined in the Price Control Decision Paper for each Relevant Year t, and shall have the value set out in Table B below;
- (ii) Table B is as follows:

Relevant Year t	1	2	3	4	5	6	7
	£m	£m	£m	£m	£m	£m	£m
<b>Pension Deficit Repair Allowance (<math>PDR_t</math>)</b>	0.861	0.861	0.861	0.258	0.258	0.668	0.654

- (iii)  $PTRAt$  means an adjustment to the ex ante allowance for pension deficit repair for Relevant Year t, and is an amount determined by the Authority, as an adjustment to the figures in Table B above (expressed in April 2019 prices) following the outcome of a triennial review of any applicable Licensee pension scheme(s) and which is determined in a manner consistent with the Requirements and Guidance on Uncertainty Mechanisms and following consultation with the Licensee. If no such determination is made by the Authority for Relevant Year t,  $PTRAt$  shall be zero.
- (iv)  $\frac{CPIH_t}{CPIH_{2019}}$  is designed to index the allowance for pension deficit repair (which is given in 2019 prices) for inflation up to Relevant Year t.

(d) **The Cost Sharing Operating Expenditure Amount ( $CSB_t$ )**

$CSB_t$  means the cost sharing amount for Operating Expenditure, which is an amount (which may be positive or negative) that is designed – in accordance with the principles and subject to the conditions set out in the Price Control Decision Paper – to share between the Licensee and customers the cost of any over-spend against the total ex ante

allowance for Operating Expenditure subject to cost-sharing arrangements and the benefit of any under-spend against that allowance. It is calculated in accordance with the following formula:

$$CSB_t = [AO_t - B_t] \times 75\% + CSBA_t$$

where:

- (i)  $B_t$  has the meaning given in sub-paragraph 2.2(b) above;
- (ii)  $AO_t$  means the relevant actual Operating Expenditure in Relevant Year t, and shall be an amount which is calculated as the result of (A) minus (B) below:
  - (A) the actual Operating Expenditure incurred in Relevant Year t by the Licensee insofar as the expenditure is incurred in the performance of its activities that are authorised by or subject to obligations under the Licence, and excluding all Operating Expenditure which forms part of:
    - 1) the costs attributable to transmission network planning activities (including project scoping and feasibility activities or transmission network preconstruction projects), insofar as these costs do not fall within any cost categories for the Licensee's overheads or support functions that are covered by the ex ante allowance determined in the Price Control Decision Paper;
    - 2) the costs of System Support Services in Relevant Year t (including amounts payable by the Licensee to any person for the provision or use of any System Support Services provided over any interconnector in Relevant Year t);
    - 3) amounts payable to the Transmission Owner Business for the provision of transmission services in Relevant Year t;
    - 4) amounts levied in Relevant Year t on the Transmission System Operator Business by the Market Operation Activity in accordance with Annex 1 of the Northern Ireland Market Operator Licence to the extent not recovered under any other provision of this Licence or under the Northern Ireland Market Operator Licence;
    - 5) the  $CAIR_t$  amount referred to at paragraph 2.1 above;
    - 6) pension deficit repair contributions;
    - 7) costs that are recoverable under the  $D_t$  term of the Maximum Core Revenue calculation at paragraph 2.2 above;

- 8) any other costs recoverable by the Licensee under the terms of the Maximum Core Revenue calculation at paragraph 2.2 above besides the  $B_t$  and  $CSB_t$  terms; and
- 9) any costs reasonably attributed to activities or services subject to the Licensee's connection charges, insofar as these costs do not fall within any cost categories for the Licensee's overheads or support functions that are covered by the ex ante allowance determined in the Price Control Decision Paper.

minus

(B) the sum of the amounts attributable to each of the following items:

- 1) that part (if any) of such costs that the Authority determines at any time to be Demonstrably Inefficient and Wasteful Expenditure;
- 2) any part of such costs which was incurred by the Licensee in Relevant Year  $t$  in connection with preparing for, or bringing, or participating in a licence modification appeal to the Competition and Markets Authority under Article 14B of the Electricity Order (including any costs of the Competition and Markets Authority required to be borne by the Licensee in accordance with an order made under paragraph 12 of Schedule 5B to the Electricity Order); and
- 3) any part of such costs which the Authority may determine from time to time to be manifestly unreasonable to include in costs which are subject to the cost sharing arrangements;

(iii)  $CSBA_t$  is an adjustment amount which has been determined by the Authority in accordance with the Requirements and Guidance on Conditional Cost Sharing for the purposes of implementing the conditional cost sharing arrangements in respect of those costs falling under those arrangements.  $CSBA_t$  takes the value of zero if no such determination has been made and in Relevant Year  $t=1$  shall be equal to zero.

(e) **The Evaluative Performance Framework Amount ( $EP_t$ )**

**$EP_t$**  means the evaluative performance framework amount, which is an amount (which may be positive or negative) representing a penalty or reward in Relevant Year  $t$  applicable in respect of an assessment of the performance of the Licensee in Relevant Year  $t-1$ . For these purposes:

- (i) in Relevant Years  $t=1$  and  $t=2$ ,  $EP_t$  shall be equal to zero;

- (ii) in Relevant Year  $t=3$  and all subsequent Relevant Years,  $EP_t$  shall have a value (whether positive or negative) determined by the Authority by:
  - (A) applying any such methodology as may be set out in the Requirements and Guidance on the Evaluative Performance Framework;
  - (B) following such procedure as may be set out in that document;
  - (C) having regard to such matters as may be described in that document;
- (iii) the Licensee shall be required to comply with all requirements to which it is subject under the Requirements and Guidance on the Evaluative Performance Framework.

(f) **The Net Incentive Adjustment Amount ( $NIA_t$ )**

$NIA_t$  is an amount (which may be positive or negative) representing an adjustment designed to ensure that the combined effect of the (pre-tax) financial incentives arising from the mechanistic and conditional cost sharing arrangements and the evaluative performance framework shall not, in any Relevant Year  $t$ , take a net value of less than -£0.75m or more than £1.25m.  $NIA_t$  shall have the value calculated in accordance with the following sub-paragraphs:

- (i) where  $-\text{£}0.75m \leq NIV_t \leq \text{£}1.25m$ ,  $NIA_t$  shall be zero;
- (ii) where  $NIV_t > \text{£}1.25m$ ,  $NIA_t$  shall have a negative value that is calculated in accordance with the following formula:

$$NIA_t = \text{£}1.25m - NIV_t$$

- (iii) where  $NIV_t < -\text{£}0.75m$ ,  $NIA_t$  shall have a positive value that is calculated in accordance with the following formula:

$$NIA_t = -\text{£}0.75m - NIV_t$$

- (iv) where in each case  $NIV_t$  means the net incentive value in respect of Relevant Year  $t$ , and shall be an amount which is calculated as follows:

$$NIV_t = EP_t + (B_t + CSB_t - AO_t) + \sum_{All_R} (C_{R_t} + CSC_{R_t} - AC_{R_t})$$

where  $C_{R_t}$  and  $AC_{R_t}$  are calculated in accordance with paragraph 2.3(d) of this Annex.

(g) **The Dt Uncertainty Mechanism Amount ( $D_t$ )**

$D_t$  means:

- (i) the aggregate of the total amount, allowed by the Authority in accordance with any approvals given pursuant to paragraph 8.8 of this Annex, for Additional Approved Costs remunerated by the Dt uncertainty mechanism in Relevant Year t;

plus

- (ii) the total amount, allowed by the Authority in accordance with paragraph 6.1 of this Annex, for Relevant Year t for change of law;

(h) **The Network Planning Scoping and Feasibility Amount (SF<sub>t</sub>)**

**SF<sub>t</sub>** means the allowance for the costs of transmission network planning scoping and feasibility activities in Relevant Year t, which is calculated as the lower of:

- (i) SFA<sub>t</sub>, where SFA<sub>t</sub> is the actual costs incurred by the Licensee in Relevant Year t (excluding any such costs that are determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure) that are reasonably attributable to transmission network planning scoping and feasibility activities; and
- (ii) SFC<sub>t</sub>, where SFC<sub>t</sub> is the capped allowance for the costs of transmission network planning scoping and feasibility activities for Relevant Year t and is calculated in accordance with the following formula:

$$SFC_t = SFP_t \times \frac{CPIH_t}{CPIH_{2019}} + SFU_t$$

where:

- (A) SFP<sub>t</sub> means the provisional annual allowance for the costs of transmission network planning scoping and feasibility activities in Relevant Year t determined in the Price Control Decision Paper for each Relevant Year t, and shall have the value set out in Table C below;

- (B) Table C is as follows:

Relevant Year t	1	2	3	4	5	<u>6</u>	<u>7</u>
	£m	£m	£m	£m	£m	£m	£m
SFP <sub>t</sub>	0.588	0.587	0.587	0.583	0.581	<u>0.581</u>	<u>0.581</u>



- (C)  $\frac{CPIH_t}{CPIH_{2019}}$  is designed to index the provisional annual allowance for the costs of transmission network planning scoping and feasibility activities (which is given in 2019 prices) for inflation up to Relevant Year t; and
- (D) SFU<sub>t</sub> means an uplift to the provisional annual allowance for the costs of transmission network planning scoping and feasibility activities in Relevant Year t, and is an amount (in nominal prices) determined by the Authority, in accordance with the Requirements and Guidance on Uncertainty Mechanisms, which represents an addition to the allowances in Table C. If no such determination is made by the Authority for Relevant Year t, SFU<sub>t</sub> shall be zero. SFU<sub>t</sub> cannot be negative.

(i) **The Correction Factor (K<sub>t</sub>)**

**K<sub>t</sub>** means the correction factor (whether a positive or negative number) to be applied to the Maximum Core Revenue in Relevant Year t. K<sub>t</sub> shall be derived using the following formula:

$$K_t = (F_{t-2} - R_{t-2}) (1 + I_t)$$

where:

(i) F<sub>t-2</sub> means:

(A) the Maximum Core Revenue (MC<sub>t</sub>) for Relevant Year t-2;

minus

(B) (D<sub>t-2</sub> – AD<sub>t-2</sub>),

where:

AD<sub>t-2</sub> means the aggregate, across (i) all claims approved by the Authority in accordance with paragraph 8.8 of this annex and (ii) all amounts determined by the Authority in accordance with paragraph 6 of this annex, of the following (which is to be first calculated separately for each approval or determination before aggregation):

- 1) where actual costs (excluding any such costs that are determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure) incurred by the Licensee in relation to Approved Dt Costs (as defined at paragraph 8.8 of this annex) or change of law in Relevant Year t-2 are less than the costs allowed for D<sub>t</sub> in Relevant Year t-2, the total of such actual costs;

- 2) where actual costs (excluding any such costs that are determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure) incurred by the Licensee in relation to Approved Dt Costs and change of law in Relevant Year t-2 are greater than the costs allowed for  $D_t$  in Relevant Year t-2, the total of the costs allowed for  $D_t$  in Relevant Year t-2;
- (ii)  $R_{t-2}$  means:
- (A) the Actual Regulated Revenue in Relevant Year t-2;
- minus
- (B) the CAIR<sub>t</sub> amount in Relevant Year t-2;
- (iii)  $I_t$  means:
- (A) where the amount derived from the calculations undertaken pursuant to paragraphs 2.2(i)(i) and (ii) is a positive figure, the Average Specified Rate for Relevant Year t-2 plus 2% of that rate (as expressed in decimal figures); and
- (B) where the amount derived from the calculations undertaken pursuant to paragraphs 2.2(i)(i) and (ii) is a minus figure, the Average Specified Rate for Relevant Year t-2 plus 1% of that rate (as expressed in decimal figures).

and for the purpose of calculating the value of  $K_t$  in Relevant Years  $t=1$  and  $t=2$ , any reference in this paragraph to a term having a value in Relevant Year t-2 shall be treated as a reference to the value that was attributable to the corresponding term in this Annex under the provisions of this Annex as they were in force on the last day of that Relevant Year t-2, in accordance with the following:

- (i) the corresponding term for  $F_t$  in the Annex in force on the last day of that Relevant Year t-2 is the term  $F_{TSO_t}$ ;
- (ii) the corresponding term for  $R_t$  in the Annex in force on the last day of that Relevant Year t-2 is the term  $R_{TSO_t}$ ;
- (iii) The corresponding term for  $MC_t$  in the Annex in force on the last day of that Relevant Year t-2 is the term  $M_{TSO_t}$ ;
- (iv) the corresponding term for  $D_t$  in the Annex in force on the last day of that Relevant Year t-2 is the term  $D_{TSO_t}$ ; and
- (v) the corresponding term for  $AD_t$  in the Annex in force on the last day of that Relevant Year t-2 is the term  $AD_{TSO_t}$ .

(j) **The Supplemental Revenue Amount ( $N_t$ )**

$N_t$  means an amount designed to allow the Licensee to recover supplemental revenues in respect of a number of additional activities or risks undertaken by it, and shall be calculated in accordance with the following formula:

$$N_t = PCGR_t + ARA_t + CARV_t$$

where:

- (i)  $PCGR_t$  is an allowance in respect of the value of the parent company undertaking given by EirGrid plc in accordance with Condition 3A, and shall be calculated as follows:

$$PCGR_t = PCG_t \times 0.0175$$

where:

$PCG_t$  is an amount which is equal to the financial value in Relevant Year t of the guarantee which forms part of the undertaking given by EirGrid for the purposes of meeting the Licensee's obligation under Condition 3A (and if no such undertaking is given, or none is required, in accordance with Condition 3A in that Relevant Year t,  $PCG_t$  shall be equal to zero);

- (ii)  $ARA_t$  is an adjustment for asymmetric risk in Relevant Year t, and shall be calculated as follows:

$$ARA_t = \text{£}136,000 \times \frac{CPIH_t}{CPIH_{2019}}$$

- (iii)  $CARV_t$  is an additional allowance in respect of certain revenues collected by the Licensee, and shall be calculated as follows:

$$CARV_t = (TUoS_t + AS_t + IMP_t) \times 0.005$$

where:

- (A)  $TUoS_t$  means the amounts payable to the Transmission Owner Business for the provision of transmission services in Relevant Year t;
- (B)  $AS_t$  means the costs of System Support Services in Relevant Year t (including in respect of amounts payable by the Licensee to any person for the provision or use of any System Support Services provided over any interconnector in Relevant Year t); and

- (C)  $IMP_t$  means the revenues collected by the Licensee in Relevant Year  $t$  in respect of the amount of the Imperfections Charge allocated to the Licensee in accordance with the Specified Proportions.

(k) **The Remuneration of the Buildings RAB and the Non-Buildings RAB ( $BNB_t$ )**

$BNB_t$  is an amount relating to the remuneration of the Licensee's building and non-building regulated asset bases, and is calculated as follows:

$$BNB_t = DEP\_BNB_t + RET\_BNB_t$$

where:

- (i)  $DEP\_BNB_t$  means the total depreciation amount for the building and non-building regulated asset bases, as calculated in accordance with paragraph 2.4 of this Annex;
- (ii)  $RET\_BNB_t$  means the total rate of return allowance for the building and non-building regulated asset bases, as calculated in accordance with paragraph 2.5 of this Annex.

(l) **The Transmission Network Pre-Construction Project Amount ( $PCR_t$ )**

$PCR_t$  means the rate of return allowance for Transmission Network Pre-construction Projects and is calculated in accordance with paragraph 2.6 of this Annex.

(m) **The Abandoned Transmission Network Pre-Construction Project Amount ( $AB\_PC_t$ )**

$AB\_PC_t$  means the inflation-adjusted value of any Transmission Network Pre-construction Projects:

- (i) which the Licensee has determined in Relevant Year  $t$  will not proceed to construction; or
- (ii) which the Authority is satisfied (having first consulted with the Licensee) will not proceed to construction, and in respect of which the Authority has given written notice to the Licensee in Relevant Year  $t$  that it has reached that conclusion,

and in either case is calculated in accordance with paragraph 2.6 of this Annex.

(n) **The Remuneration of the Special Project RAB ( $Z_t$ )**

$Z_t$  is an amount relating to the remuneration of the Licensee's Special Project regulated asset base (RAB) and is calculated as follows:

$$Z_t = DEP\_SP_t + RET\_SP_t$$

where:

- (i) DEP\_SP<sub>t</sub> means the depreciation amount for the Special Project RAB as calculated in accordance with paragraph 2.7 of this Annex;
- (ii) RET\_SP<sub>t</sub> means the rate of return allowance for Special Project RAB as calculated in accordance with paragraph 2.8 of this Annex.

(o) **The Contribution from Connection Charges Income (CIO<sub>t</sub>)**

**CIO<sub>t</sub>** is an amount to be deducted as part of the calculation of Maximum Core Revenue in respect of certain income from connection charges and is defined as the Connections Income Attributable to Overheads in Relevant Year t.

**2.3 The Buildings and Non-buildings RAB**

The terms described in this paragraph 2.3 shall have effect for the purposes of paragraphs 2.4 and 2.5 of this Annex.

(a) **The Buildings and Non-buildings Regulated Asset Bases (RAB<sub>R</sub>)**

There are two regulated asset bases (each a ‘RAB’) to which paragraphs 2.4 and 2.5, are applicable, and in respect of these:

- (i) one RAB relates to the Licensee’s building assets and the other to its non-building assets, each of which is represented by a suffix in accordance with Table D below;
- (ii) Table D is as follows:

<b>Regulated Asset Base (RAB)</b>	<b>Suffix (RAB<sub>R</sub>)</b>
Building Assets (Building RAB)	RAB <sub>BD</sub>
Non-Building Assets (Non-building RAB)	RAB <sub>NB</sub>

- (iii) RAB<sub>R</sub> refers to a regulated asset base for which R represents the suffix assigned to that RAB in accordance with sub-paragraph (ii) above.

(b) **The Weighted Average Cost of Capital (WACC<sub>t</sub>)**

**WACC<sub>t</sub>** means the pre-tax weighted average cost of capital for Relevant Year t, which is expressed as a percentage and is calculated in accordance with the following formula:

$$WACC_t = (NG_t * COD_t) + \left( [1 - NG_t] \times \frac{COE_t}{1 - CT_t} \right)$$

where:

- (i)  $NG_t$  means the notional gearing assumption used for the calculation of the WACC and takes the value of 0.40;
- (ii)  $COD_t$  means the allowance for the cost of debt and takes the value 0.75%.
- (iii)  $COE_t$  means the allowance for the post-tax cost of equity and takes the value 5.03%.
- (iv)  $CT_t$  means the main rate of corporation tax applicable in Northern Ireland in Relevant Year t, expressed in decimal form (e.g. 19% = 0.19) and shall be calculated as a weighted average across calendar days within Relevant Year t in the event that the main rate of corporation tax applicable in Northern Ireland varies within that year.

(c) **The Opening Asset Value (ORAB<sub>R,t</sub>)**

**ORAB<sub>R,t</sub>** means the opening asset value of each RAB<sub>R</sub> in Relevant Year t, where:

- (i) in Relevant Year t=1, the value of ORAB<sub>R,t</sub> shall be derived from the values for financial year 2020/21 calculated in row 4 (for ORAB<sub>NB,t</sub>) and row 11 (for ORAB<sub>BD,t</sub>) of tab “RAB Summary (2020-25)” of the spreadsheet “RAB Model 2020-25” published by the Authority on 19 November 2021 provided that: (i) any applicable corrections are made to the input data in the spreadsheet as specified by any determination (subject to consultation) published by the Authority concerning errors in that spreadsheet; and (ii) no other changes are made to that spreadsheet.
- (ii) for each other Relevant Year t, the value of ORAB<sub>R,t</sub> for each RAB shall be calculated in accordance with the following formula:

$$ORAB_{R,t} = CRAB_{R,t-1} \times \frac{CPIH_t}{CPIH_{t-1}}$$

where:

- (A)  $CRAB_{R,t-1}$  means the closing asset value of RAB<sub>R</sub> in Relevant Year t-1 and shall be interpreted in accordance with sub-paragraph (d) below;
- (B)  $\frac{CPIH_t}{CPIH_{t-1}}$  is designed to index the closing asset value of RAB<sub>R</sub> in Relevant Year t-1 for inflation in Relevant Year t.

(d) **The Closing Asset Value (CRAB<sub>R,t</sub>)**

**CRAB<sub>R,t</sub>** means the closing asset value of each RAB<sub>R</sub> in Relevant Year t, and shall be calculated in accordance with the following formula:

$$CRAB_{R_t} = ORAB_{R_t} + C_{R_t} + CSC_{R_t} - DP_{R_t}$$

where:

- (i)  $ORAB_{R_t}$  has the value determined in accordance with sub-paragraph (c) above;
- (ii)  $C_{R_t}$  means the allowance for capital additions in respect of  $RAB_R$  in Relevant Year t, and is calculated in accordance with the following formula

$$C_{R_t} = (BC_{R_t} + UC_{R_t} + V_{R_t}) \times \frac{CPIH_t}{CPIH_{2019}}$$

where:

- (A)  $BC_{R_t}$  means the ex ante allowance for Relevant Year t determined in the Price Control Decision Paper for Capital Expenditure which is subject to conditional cost-sharing arrangements, and for each  $RAB_R$  and for each Relevant Year t shall be as set out in Table E below;
- (B)  $UC_{R_t}$  means the ex ante allowance for Relevant Year t determined in the Price Control Decision Paper for Capital Expenditure on new initiatives which is subject to mechanistic cost-sharing arrangements, and for each  $RAB_R$  and for each Relevant Year t shall be as set out in Table E below;
- (C) Table E is as follows:

Relevant Year t	1	2	3	4	5	6	7
	£m	£m	£m	£m	£m	£m	£m
<b>BC<sub>BD<sub>t</sub></sub></b>	0.000	0.000	0.000	0.000	0.000	<u>0.000</u>	<u>0.000</u>
<b>BC<sub>NB<sub>t</sub></sub></b>	0.000	0.000	0.000	0.000	0.000	<u>0.000</u>	<u>0.000</u>
<b>UC<sub>BD<sub>t</sub></sub></b>	0.048	0.048	0.010	0.010	0.010	<u>0.010</u>	<u>0.010</u>
<b>UC<sub>NB<sub>t</sub></sub></b>	2.593	2.231	1.743	1.553	1.480	<u>0.516</u>	<u>0.516</u>

- (D)  $V_{R_t}$  means the aggregate of the ex ante allowances determined by the Authority for each  $RAB_R$  in accordance with any approvals given pursuant to paragraph 8.11(b) of this Annex, in relation to Additional Approved Costs remunerated via the  $V_t$  uncertainty mechanism in Relevant Year t;  $V_{R_t}$  takes the value of zero Relevant Year t for which

no ex ante allowances have been determined by the Authority pursuant to paragraph 8.11(b) of this Annex

(E)  $\frac{CPIH_t}{CPIH_{2019}}$  applies an adjustment for inflation up to Relevant Year t;

(iii) **CSC<sub>R<sub>t</sub></sub>** means the cost sharing amount for Capital Expenditure, which is an amount (which may be positive or negative) that is designed – in accordance with the principles and subject to the conditions set out in the Price Control Decision Paper – to share between the Licensee and customers the cost of any over-spend against the total ex ante allowance for Capital Expenditure allowance in respect of RAB<sub>R</sub> and the benefit of any under-spend against that allowance. It is calculated in accordance with the following formula:

$$CSC_{R_t} = [AC_{R_t} - C_{R_t}] \times 75\% + CSCA_{R_t}$$

where:

(A) AC<sub>R<sub>t</sub></sub> means the actual Capital Expenditure in Relevant Year t that is attributable to RAB<sub>R</sub>, and shall be an amount which is calculated as the result of 1) minus 2) below:

- 1) the Capital Expenditure incurred in Relevant Year t by the Licensee which is reasonably attributable to RAB<sub>R</sub> insofar as the expenditure is incurred in the performance of its activities that are authorised by or subject to obligations under the Licence, and excluding all Capital Expenditure which forms part of:
  - a) the costs attributable to transmission network planning activities (including project scoping and feasibility activities or transmission network preconstruction projects), insofar as these costs do not fall within any cost categories for the Licensee's overheads or support functions that are covered by the ex ante allowance determined in the Price Control Decision Paper;
  - b) amounts levied in Relevant Year t on the Transmission System Operator Business by the Market Operation Activity in accordance with Annex 1 of the Northern Ireland Market Operator Licence to the extent not recovered under any other provision of this Licence or under the Northern Ireland Market Operator Licence;
  - c) any other costs recoverable by the Licensee under the terms of the Maximum Core Revenue calculation at paragraph 2.2 above besides the BNB<sub>t</sub> term; and
  - d) any costs reasonably attributed to activities or services subject to the Licensee's connection charges, insofar as



these costs do not fall within any cost categories for the Licensee's overheads or support functions that are covered by the ex ante allowance determined in the Price Control Decision Paper;

- 2) the sum of the values attributable to each of the following items:
  - a) that part (if any) of such costs that the Authority determines at any time to be Demonstrably Inefficient and Wasteful Expenditure;
  - b) any part of such costs which was incurred by the Licensee in Relevant Year  $t$  in connection with preparing for, or bringing, or participating in a licence modification appeal to the Competition and Markets Authority under Article 14B of the Electricity Order (including any costs of the Competition and Markets Authority required to be borne by the Licensee in accordance with an order made under paragraph 12 of Schedule 5B to the Electricity Order); and
  - c) any part of such costs which the Authority may determine from time to time to be manifestly unreasonable to include in costs which are subject to the cost sharing arrangements;

(B)  $C_{R_t}$  has the meaning given in sub-paragraph (ii) above;

(C)  $CSCA_{R_t}$  is an adjustment amount which has been determined by the Authority in respect of  $RAB_R$  in accordance with the Requirements and Guidance on Conditional Cost Sharing for the purposes of implementing the conditional cost sharing arrangements in respect of those costs falling under those arrangements.  $CSCA_{R_t}$  takes the value of zero if no such determination has been made and in Relevant Year  $t=1$  shall be equal to zero.

(iv)  $DP_{R_t}$  means the depreciation amount for  $RAB_R$  in Relevant Year  $t$ , and has the value calculated in accordance with paragraph 2.4 of this Annex;

#### 2.4 The Buildings RAB and Non-buildings RAB Depreciation Amount ( $DEP_{BNB_t}$ )

**$DEP_{BNB_t}$**  means the total depreciation amount for the building and non-building regulated asset bases in Relevant Year  $t$ , and shall be calculated as follows:

$$DEP\_BNB_t = \sum_{All\_R} DP\_R_t$$

where  $DP\_R_t$  means the net RAB depreciation amount in respect of each RAB\_R for Relevant Year t, where that amount shall be derived from the values for Relevant Year t calculated in row 6 (for  $DP\_NB_t$ ) and row 13 (for  $DP\_BD_t$ ) of tab “RAB Summary (2020-275)” of the spreadsheet “RAB Model 2020-275” published by the Authority on ~~XX May19-November~~ 20254 provided that: (i) the values in rows 5, 6, 11, 12, 15, 16, 24 and 25 in the tab “Post FD inputs” in respect of financial years up to and including Relevant Year t are updated to match the applicable values for the licence term specified in that row which is to be calculated in accordance with the definitions of that term specified in this Annex 1; (ii) all the figures in row 3 of the tab “Inflation” in respect of financial years up to and including Relevant Year t are updated in accordance with the definition of CPIH at paragraph 1 of this licence; (iii) any applicable corrections are made to the input data in the spreadsheet as specified by any determination (subject to consultation) published by the Authority concerning errors in that spreadsheet; and (iv) no other changes are made to that spreadsheet.

## 2.5 The Buildings RAB and Non-buildings RAB Rate of Return Amount (RET\_BNB<sub>t</sub>)

**RET\_BNB<sub>t</sub>** means the total rate of return amount for the building and non-building regulated asset bases in Relevant Year t, and shall be calculated as follows:

$$RET\_BNB_t = \sum_{All\_R} RT\_R_t$$

where  $RT\_R_t$  means the rate of return amount in respect of each RAB\_R for Relevant Year t, and shall be calculated in accordance with the following formula:

$$RT\_R_t = WACC_t \times [(ORAB\_R_t + CRAB\_R_t) \times 0.5]$$

where:

- (a)  $WACC_t$  has the meaning given in paragraph 2.3(b) of this Annex;
- (b)  $ORAB\_R_t$  has the meaning given in paragraph 2.3(c) of this Annex;
- (c)  $CRAB\_R_t$  has the meaning given in paragraph 2.3(d) of this Annex.

## 2.6 The Transmission Network Pre-Construction Project Amount (PCR<sub>t</sub>)

**PCR<sub>t</sub>** means the Transmission Network Pre-construction Project amount, and represents a rate of return allowance for Transmission Network Pre-construction Projects, which shall be calculated as follows:

$$PCR_t = (RAB\_PC_t \times WACC_t)$$

where:

- (a)  $RAB_{PC_t}$  means the value of the regulated asset base relating to Transmission Network Pre-construction Project Costs in Relevant Year t, and is calculated in accordance with the following formula:

$$RAB_{PC_t} = (ORAB_{PC_t} + CRAB_{PC_t}) \times 0.5$$

where:

- (i)  $ORAB_{PC_t}$  means the opening value of the regulated asset base relating to Transmission Network Pre-construction Project Costs in Relevant Year t, and is calculated as follows:

(A) For Relevant Year t = -6 (minus six),  $ORAB_{PC_t}$  shall be zero;

(B) For each Relevant Year t from t = -5 (minus five) to t = 0 (zero),  $ORAB_{PC_t}$  shall be calculated as follows:

$$ORAB_{PC_t} = CRAB_{PC_{t-1}} \times \frac{RPI_t}{RPI_{t-1}}$$

(C) For each Relevant Year t from t = 1 onwards,  $ORAB_{PC_t}$  shall be calculated as follows:

$$ORAB_{PC_t} = CRAB_{PC_{t-1}} \times \frac{CPIH_t}{CPIH_{t-1}}$$

- (ii)  $CRAB_{PC_t}$  means the closing value of the regulated asset base relating to Transmission Network Pre-construction Project Costs in Relevant Year t, calculated in accordance with the following formula:

$$CRAB_{PC_t} = ORAB_{PC_t} + AD_{PC_t} - AB_{PC_t} - TN_{PC_t}$$

where:

(A)  $ORAB_{PC_t}$  has the meaning given in sub-paragraph (i) above;

(B)  $AD_{PC_t}$  means the aggregate amount of Transmission Network Pre-construction Project Costs incurred by the Licensee in respect of all Transmission Network Pre-construction Projects in Relevant Year t (excluding any such costs that are determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure), except that, if the sum of the costs incurred in relation to any such project in the period of time from 1 May 2014 up to and including Relevant Year t (excluding any such costs determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure) exceeds the total costs approved by the Authority in respect of that project, then the amount to

be taken into account in respect of that project in Relevant Year t shall be the maximum of:

(aa) the total costs approved by the Authority in respect of the project minus the sum of the costs incurred in relation to the project in the period preceding Relevant Year t (excluding any such costs determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure); and

(bb) zero;

(C)  $AB\_PC_t$  has the meaning given in paragraph 2.2(m) above and is calculated according to the following formula:

1) For each Relevant Year t from t = -6 (minus 6) to t = 0,  $AB\_PC_t$  is calculated as follows:

$$AB\_PC_t = \sum_{y=-6}^t \left( ABAD\_PC_{y,t} \times \frac{RPI_t}{RPI_y} \right)$$

2) For each Relevant Year t from t = 1 onwards,  $AB\_PC_t$  is calculated as follows:

$$AB\_PC_t = \sum_{y=-6}^{-1} \left( ABAD\_PC_{y,t} \times \frac{RPI_0}{RPI_y} \times \frac{CPIH_t}{CPIH_0} \right) + \sum_{y=0}^t \left( ABAD\_PC_{y,t} \times \frac{CPIH_t}{CPIH_y} \right)$$

where  $ABAD\_PC_{y,t}$  means the Transmission Network Pre-construction Project Costs (or parts thereof) which:

(aa) form part of  $AD\_PC_y$ ; and

(bb) were incurred by the Licensee in respect of any Transmission Network Pre-construction Project which either the Licensee or the Authority determined in Relevant Year t will not proceed to construction;

(D)  $TN\_PC_t$  means the amount received by the Licensee in Relevant Year t from the Transmission Owner (by virtue of a payment approved by the Authority and made in accordance with the Transmission Interface Arrangements) in respect of Transmission Network Pre-construction Project Costs added to the regulated asset base in Relevant Year t or in any previous Relevant Year y;

(b)  $WACC_t$  has the meaning given to it in paragraph 2.3(b) of this Annex.

## 2.7 The Special Project RAB Depreciation Amount (DEP\_SP<sub>t</sub>)

DEP\_SP<sub>t</sub> means the depreciation amount for the Special Project RAB, and is calculated as follows:

$$DEP\_SP_t = \sum_{All\_X} DP\_X_t$$

where:

- (a) DEP\_SP<sub>t</sub> means the depreciation amount for Special Project Costs in Relevant Year t; and
- (b) DP\_X<sub>t</sub> means the depreciation amount for each Special Project X in Relevant Year t, and is calculated as follows:

- (A) For each Relevant Year t from t = -6 (minus 6) to t = 0, DP\_X<sub>t</sub> is calculated as follows:

$$DP\_X_t = \sum_{m=t-n}^{t-1} \left[ \left( SP\_X_m \cdot \frac{1}{n} \right) \times \frac{RPI_t}{RPI_m} \right]$$

- (B) For each Relevant Year t from t = 1 onwards, and where n > t, DP\_X<sub>t</sub> is calculated as follows:

$$DP\_X_t = \sum_{m=t-n}^{-1} \left[ \left( SP\_X_m \cdot \frac{1}{n} \right) \times \frac{RPI_0}{RPI_m} \times \frac{CPIH_t}{CPIH_0} \right] + \sum_{m=0}^{t-1} \left[ \left( SP\_X_m \cdot \frac{1}{n} \right) \times \frac{CPIH_t}{CPIH_m} \right]$$

- (C) For each Relevant Year t from t = 1 onwards, and where n ≤ t, DP\_X<sub>t</sub> is calculated as follows:

$$DP\_X_t = + \sum_{m=t-n}^{t-1} \left[ \left( SP\_X_m \cdot \frac{1}{n} \right) \times \frac{CPIH_t}{CPIH_m} \right]$$

where:

- (i) SP\_X<sub>m</sub> has the same meaning, in respect of Relevant Year m, as is given to SP\_X<sub>t</sub> in sub-paragraph 2.8(b)(ii)(C) of this Annex;
- (ii) Relevant Year m is any Relevant Year which falls within the range of Relevant Years t-6 to t-n;
- (iii) n is a number representing the straight line depreciation period relevant to the Special Project Costs in respect of Special Project X, and shall be equal to 5 unless the Authority (in approving Special Project Costs in respect of that Special Project X in accordance with paragraph 8.9 of this Annex) has

specified a different number, in which case it shall be equal to the number so specified; and

- (iv) Special Project X refers to any project in respect of which the Authority has determined in accordance with paragraph 8.9 of this Annex that the costs shall be treated as Special Project Costs.

## 2.8 The Special Project Costs Rate of Return Amount (RET\_SP<sub>t</sub>)

RET\_SP<sub>t</sub> means the rate of return allowance for the Special Project RAB, and is calculated as follows:

$$RET\_SP_t = RAB\_Z_t \times WACC_t$$

where:

- (a) RET\_SP<sub>t</sub> means the rate of return allowance for the Special Project RAB in Relevant Year t;
- (b) RAB\_Z<sub>t</sub> means the value of the regulated asset base relating to Special Project Costs in Relevant Year t and is calculated in accordance with the following formula:

$$RAB\_Z_t = (ORAB\_Z_t + CRAB\_Z_t) \times 0.5$$

where:

- (i) ORAB\_Z<sub>t</sub> means the opening value of the regulated asset base relating to Special Project Costs in Relevant Year t, and is calculated as follows:
  - (A) For Relevant Year t = -6 (minus six), ORAB\_Z<sub>t</sub> shall be zero;
  - (B) For each Relevant Year t from t = -5 (minus five) to t = 0 (zero), ORAB\_Z<sub>t</sub> shall be calculated as follows:

$$ORAB\_Z_t = CRAB\_Z_{t-1} \times \frac{RPI_t}{RPI_{t-1}}$$

- (C) For each Relevant Year t from t = 1 onwards, ORAB\_Z<sub>t</sub> shall be calculated as follows:

$$ORAB\_Z_t = CRAB\_Z_{t-1} \times \frac{CPIH_t}{CPIH_{t-1}}$$

- (ii) CRAB\_Z<sub>t</sub> means the closing value of the regulated asset base relating to Special Project Costs in Relevant Year t, and is calculated in accordance with the following formula:

$$CRAB_{Z_t} = ORAB_{Z_t} + AP_t - DEP_{SP_t}$$

where:

- (a)  $ORAB_{Z_t}$  has the meaning given in sub-paragraph (i) above;
- (b)  $DEP_{SP_t}$  has the meaning given to it in paragraph 2.7 of this Annex; and
- (C)  $AP_t$  means the aggregate amount of Special Project Costs incurred by the Licensee in Relevant Year t in respect of all Special Projects X, and is calculated in accordance with the following formula:

$$AP_t = \sum_{All\ X} SP_{X_t}$$

where:

- 1)  $SP_{X_t}$  means an amount of Special Project Costs in respect of a Special Project X in Relevant Year t (but excluding any such costs that are determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure), where that amount either:
  - a) has been incurred by the Licensee prior to Relevant Year t but is specified by the Authority, in approving Special Project Costs in respect of that Special Project X in accordance with paragraph 8.9 of this Annex, as to be included in the calculation of  $CRAB_{Z_t}$  in Relevant Year t; or
  - b) to the extent that sub-paragraph 1) does not apply, has been incurred by the Licensee in Relevant Year t, except that if the sum of the costs incurred by the Licensee in respect of that Special Project X in the period of time from 1 May 2014 up to and including Relevant Year t (excluding any such costs determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure) exceeds the total costs approved by the Authority in respect of that project, then the amount to be taken into account in respect of that project in Relevant Year t shall be the maximum of:
    - i) the total costs approved by the Authority in respect of that project minus the sum of the costs incurred in relation to the project in the period preceding Relevant Year t (excluding any such

costs determined by the Authority at any time to be Demonstrably Inefficient or Wasteful Expenditure); and

ii) zero; and

2) Special Project X has the meaning given to it in paragraph 2.7(b)(C)(iv) of this Annex; and

(c) WACC<sub>t</sub> has the meaning given to it in paragraph 2.3(b) of this Annex.



### **3 Restriction of SSS/TUoS Charges: Adjustments**

- 3.1 If, in respect of any Relevant Year, the Actual Regulated Revenue exceeds the Maximum Regulated Revenue by more than the Permitted One-Year Percentage, the Licensee shall furnish an explanation to the Authority and in the next following Relevant Year the Licensee shall not effect any increase in the SSS/TUoS Charges unless it has demonstrated to the reasonable satisfaction of the Authority that the Actual Regulated Revenue would not be likely to exceed the Maximum Regulated Revenue in that next following Relevant Year.
- 3.2 If, in respect of any three successive Relevant Years, the sum of the amounts by which the Actual Regulated Revenue has exceeded the Maximum Regulated Revenue is more than the Permitted Three-Year Percentage, then in the next following Relevant Year the Licensee shall, if required by the Authority, adjust the SSS/TUoS Charges such that the Actual Regulated Revenue would not be likely, in the judgment of the Authority, to exceed the Maximum Regulated Revenue in that next following Relevant Year.

### **4 Information to be provided to the Authority**

- 4.1 Where any change is intended to be made in the SSS/TUoS Charges regulated under paragraph 2 of this Annex, the Licensee shall not later than the time referred to in paragraph 4.2 provide the Authority with:
- (a) a written forecast of the Maximum Regulated Revenue, together with its components, in respect of the Relevant Year  $t$  in which such change is to take effect;
  - (b) a written estimate of the Maximum Regulated Revenue, together with its components, in respect of the Relevant Year  $t-1$  immediately preceding the Relevant Year in which the change is to take effect, unless a statement complying with paragraphs 4.5 and 4.6 in respect of Relevant Year  $t-1$  has been furnished by the Licensee to the Authority before the time referred to in paragraph 4.2
- 4.2 The relevant time referred to in paragraph 4.1 shall be 1 month prior to the publication by the Licensee of such charges.
- 4.3 The Authority may issue directions providing that any forecast or estimate provided in accordance with paragraph 4.1 shall be accompanied by such information as regards the assumptions underlying the forecast or estimate as may be necessary to enable the Authority to be satisfied that the forecast or estimate has been properly prepared on a consistent basis and the Licensee shall comply with any such directions.
- 4.4 Not later than six weeks after the commencement of each Relevant Year  $t$ , the Licensee shall send to the Authority a statement as to:
- (a) whether or not the provisions of paragraph 3 of this Annex are likely to be applicable in consequence of the Actual Regulated Revenue in the preceding Relevant Year  $t-1$  or the three preceding Relevant Years  $t-1$ ,  $t-2$  and  $t-3$ ; and

- (b) its best estimate (calculated to the extent possible on the basis of the formula set out in paragraph 2.2(i) of this Annex) as to the relevant correction factor  $K_t$  in respect of Relevant Year  $t-1$ .
- 4.5 Not later than three months after the end of each Relevant Year the Licensee shall send to the Authority a statement, in respect of that Relevant Year, which includes:
- (a) the Maximum Regulated Revenue for that Relevant Year  $t$ ; and
  - (b) the specified items referred to in paragraph 4.7.
- 4.6 The statement referred to in paragraph 4.5 shall be:
- (a) accompanied by a report from the Auditors that in their opinion:
    - (i) such statement fairly presents each of the specified items referred to in paragraph 4.7 in accordance with the requirements of the SSS/TUoS Charge Restriction Condition; and
    - (ii) the amounts shown in respect of each of those specified items are in accordance with the Licensee's accounting records which have been maintained in respect of each of the relevant Separate Businesses in accordance with Condition 2; and
  - (b) certified by a director of the Licensee on behalf of the Licensee that to the best of his knowledge, information and belief having made all reasonable enquiries:
    - (i) there is no amount included in its calculations under paragraph 2 which represents other than an amount permitted under the SSS/TUoS Charge Restriction Condition to be so included;
    - (ii) all amounts which should properly be taken into account for the purposes of the SSS/TUoS Charge Restriction Condition have been taken into account.
- 4.7 The specified items to be contained in the statement referred to in paragraph 4.5 shall be the actual amounts in respect to:
- (a) the Actual Regulated Revenue;
  - (b) the actual costs of  $A_t$ , (which are to be calculated to the extent possible in accordance with paragraph 2.2(a) of this Annex) and showing separately each component thereof;
  - (c) the value of  $AO_t$ , calculated to the extent possible in accordance with paragraph 2.2(d) of this Annex;
  - (d) the actual costs incurred in respect of each category of expenditure for which the Authority determined an allowance with regard to Additional Approved Costs and change of law costs;

- (e) the actual opex costs incurred in respect of network planning scoping and feasibility studies;
- (f) the actual cost incurred in respect of pension deficit repair costs; and
- (g) such other items as shall be specified in directions issued by the Authority from time to time for the purposes of this Annex.

4.8 The Licensee shall, for each Relevant Year  $t$  commencing 1 October, use its best endeavours to submit to the Authority by no later than 31 March preceding the start of that Relevant Year  $t$  a statement setting out:

- (a) the amount of Additional Approved Costs:
  - (i) that the Licensee considers to have previously been allowed by the Authority for that Relevant Year  $t$ ;
  - (ii) in respect of which the Licensee is, (or expects to be) requesting a determination in accordance with paragraph 6 of this Annex or is (or expects to be) making a claim in accordance with paragraph 8 of this Annex, for that Relevant Year  $t$ ; and
- (b) its calculations in respect of the applicable  $K_t$ , together with its individual components, for the Relevant Year  $t-2$ ,

and requesting approval from the Authority for such costs to be factored into the Licensee's SSS/TUoS Charges for that Relevant Year  $t$  (which approval may be given with such adjustments to the Licensee's proposed  $D_t$  and  $K_t$  as reasonably determined by the Authority to be appropriate in the circumstances).

## **5 Duration of SSS/TUoS Charge Restriction Condition**

5.1 The restrictions on SSS/TUoS Charges outlined in paragraph 2 of this Annex do not apply to tariff years from 1 October 202~~7~~<sup>5</sup> onwards. However, if no modifications to apply any different restrictions with effect from that date are made then, until any such modifications are made, the licensee shall not increase (in nominal terms) any of the tariffs or charges contributing to its Actual Regulated Revenue above the levels applicable on 1 October 202~~6~~<sup>4</sup>, except where:

- (a) the increase is approved by the Authority and the approval is given in advance of the tariff year in which the increase is to apply;
- (b) the increase is required to ensure that the Licensee is able to collect the Collection Agency Income Requirement required by it to discharge its duties under the Moyle Interconnector Collection Agency Agreement in accordance with Condition 37 of this Licence;

- (c) the increase is required to enable the Licensee to collect the TUoS revenue that the Authority has determined is payable to the Transmission Owner Business for the provision of transmission services; or
- (d) the increase is required to enable the Licensee to collect System Support Services, Ancillary Services, Other System Charges and TUoS revenue in respect of generation, as determined by the SEM Committee.

#### Disapplication

- 5.2 This Annex shall apply so long as the Licence continues in force but shall cease to have effect (in whole or in part, as the case may be) if the Licensee delivers to the Authority a request (a "Disapplication Request") made in accordance with paragraph 5.4 and:
- (a) the Authority agrees in writing to the request; or
  - (b) the application of this Annex (or any part of it) is terminated by a notice (a "Disapplication Notice") given by the Licensee in accordance with paragraph 5.5 and not withdrawn.
- 5.3 Save where the Authority otherwise agrees, no disapplication following delivery of a Disapplication Request pursuant to paragraph 5.4 shall have effect earlier than the date (the "Disapplication Date") which is the later of:
- (a) the date occurring 18 months after delivery of the Disapplication Request; and
  - (b) 30 September 202~~7~~<sup>5</sup>.
- 5.4 A Disapplication Request pursuant to this paragraph 5.4 shall:
- (a) be in writing addressed to the Authority;
  - (b) specify this Annex or any part of it to which the request relates (excluding in either case this paragraph 5); and
  - (c) state the date from which the Licensee wishes the Authority to agree that this Annex or the specified part of it shall cease to have effect.
- 5.5 A Disapplication Notice pursuant to this paragraph 5.5:
- (a) may be given in the circumstances described in either paragraph 5.6 or paragraph 5.7;
  - (b) may be withdrawn by the Licensee at any time prior to the Disapplication Date; and
  - (c) where it is given, shall:
    - (i) be in writing addressed to the Authority;

- (ii) specify this Annex, or any part of it (which shall comprise only such part as was specified in the Disapplication Request) to which the notice relates; and
- (iii) state the date from which the Licensee wishes the notice to take effect, which shall not be earlier than the Disapplication Date.

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

- (a) this Annex, or any part of it to which the request relates; or
- (b) this paragraph 5, so as to remove the right of the Licensee to give to the Authority a Disapplication Notice in respect of the relevant Disapplication Request.

5.7 The circumstances described in this paragraph are that:

- (a) by no later than the beginning of the period of six months which will end with the Disapplication Date, the Authority has in response to the Disapplication Request published a decision of a type referred to in paragraph 5.6;
- (b) the Licensee has exercised its right to appeal to the CMA against that decision in accordance with Article 14B of the Order;
- (c) the CMA has, in respect of the provisions to which the Disapplication Request relates:
  - (i) quashed the decision of the Authority under Article 14E(2)(a) of the Order; and
  - (ii) neither remitted the matter back to the Authority under Article 14E(2)(b) of the Order nor substituted its own decision for that of the Authority under Article 14E(2)(c) of the Order; and
  - (iii) no more than 30 days has elapsed since the date on which the CMA quashed the decision of the Authority.

## **6 Change of Law**

6.1 The Authority may, including following a request made to it by the Licensee asking it to do so, determine that there has been, or is likely to be, a Relevant Change of Law which has had, or is likely to have, a material effect on the financial position and performance of the Transmission System Operation Business.

6.2 Where the Authority makes a determination pursuant to paragraph 6.1, it may, for the purposes of ensuring that the financial position and performance of the Licensee is likely, so far as reasonably practicable, to be the same as if the Relevant Change of Law had not taken place, give effect to that determination by also determining, and notifying the Licensee of, an amount (whether a positive or negative figure) that is an allowed amount for change of law, for the purposes of

calculating  $D_t$  in accordance with paragraph 2.2(g) of this Annex, for each Relevant Year  $t$  specified in the Authority's notification.

- 6.3 In determining the matters provided for in paragraphs 6.1 and 6.2, the Authority shall have regard, where relevant, to:
- (a) its intentions in relation to the development and implementation of the “requisite arrangements”, as provided for in condition 60 of the NIE Energy Supply Licence;
  - (b) the period over which the Licensee shall incur costs by reason of the Relevant Change of Law;
  - (c) the incremental costs (including financing costs) which the Licensee has been or will be required to incur as a consequence of the Relevant Change of Law; and
  - (d) any other circumstances relevant to the case.
- 6.4 Where the Licensee requests the Authority to make a determination pursuant to paragraph 6.1, the request shall:
- (a) unless the Authority otherwise consents, be made no later than the first day in the April immediately preceding the first Relevant Year in respect of which the Licensee would (if the Authority were to make a determination pursuant to paragraph 6.1) want the Authority to determine an allowed amount for change of law under paragraph 6.2; and
  - (b) be accompanied by all relevant details (including a breakdown of internal and external incremental costs incurred) of the Relevant Change of Law and such other information as the Authority may request and require to be provided by the Licensee for the purposes of its consideration of the request.

## **7 Unit Coverage**

- 7.1 The component of Maximum Regulated Revenue relating to System Support Services (or certain parts of that component) can potentially be recovered from the Quantity Entering the Total System in the authorised transmission area.
- 7.2 The final decision regarding which Units in particular the component of Maximum Regulated Revenue relating to System Support Services (or certain parts of that component) will be recovered from in Relevant Year  $t$  (“unit coverage”) rests with the Authority.
- 7.3 In each Relevant Year  $t$  on the decision of the Authority regarding unit coverage of the System Support Services charge, the Licensee will then draw up for the Relevant Year  $t$  the schedule of System Support Services charges in accordance with Condition 30 in a manner which is consistent with the decision of the Authority regarding unit coverage. If the Licensee draws up for Relevant Year  $t$  the schedule of System Support Services charges in accordance with Condition 30 in a manner which is not consistent with the decision of the Authority regarding unit coverage then the Authority's approval under Condition 30 paragraph 7 for the form of this schedule will not be granted.

## **8 Additional Approved Costs**

8.1 The Licensee may, subject to paragraphs 8.2 and 8.3, make a claim to the Authority, in accordance with the Requirements and Guidance on Uncertainty Mechanisms, that the following costs and revenues of the Licensee (whether a positive or negative amount) shall be treated as Additional Approved Costs in Relevant Year t:

- (a) any reasonable and efficient costs incurred (or likely to be incurred) by the Transmission System Operator Business (in Relevant Year t) in complying with the requirements imposed on the Licensee under legislation and other legal requirements through which Directive 2009/72/EC is implemented, whether before or after the coming into effect of this Annex, and to the extent not recovered under any other provision of this Licence or under the Northern Ireland Market Operator Licence or under the Transmission Owner Licence;
- (b) any reasonable and efficient costs incurred (or likely to be incurred) by the Transmission System Operator Business (in Relevant Year t) in complying with the requirements imposed on the Licensee:
  - (i) under the arrangements for the Single Electricity Market (being the project described in the Memorandum of Understanding dated 23 August 2004 and made between the Authority and the Commission for Energy Regulation); and
  - (ii) under the arrangements implementing the Integrated Single Electricity Market (I-SEM) (a joint project developed jointly between the Authority and the Commission for Energy Regulation for the all island electricity market to be compliant with the EU Target Model of the European Commission to facilitate a pan-European electricity market),

in each case whether before or after the coming into effect of this Annex and to the extent not recovered under any other provision of this Licence or under the Northern Ireland Market Operator Licence or under the Transmission Owner Licence;

- (c) any reasonable and efficient costs incurred (or likely to be incurred) in Relevant Year t associated with any future divestment of the Transmission System Operator Business;
- (d) the pension costs (in Relevant Year t) of the Transmission System Operator Business to the extent not recovered under any other provision of this Licence;
- (e) amounts that become Uncollected SSS/TUoS Revenue in Relevant Year t less any amount or part of an amount treated as Uncollected SSS/TUoS Revenue in respect of a preceding Relevant Year that has been paid to the Licensee in Relevant Year t;
- (f) any reasonable and efficient costs incurred (or likely to be incurred) in Relevant Year t to finance the working capital requirements of SEMO and to the extent not recovered under any provision of this Licence or under the Northern Ireland Market Operator Licence. The financing costs are to be charged at Average Specified Rate plus 2%;

- (g) any reasonable and efficient costs incurred (or likely to be incurred) in Relevant Year t in relation to payments made, or required to be made, by the Licensee under and in accordance with the ENTSO-E Inter TSO Compensation Agreement;
- (h) any other reasonable and efficient costs incurred (or likely to be incurred) by the Transmission System Operator Business which:
  - (i) are not taken into account in the setting of  $A_t$ ,  $B_t$ ,  $PR_t$ ,  $SF_t$ ,  $BNB_t$ ,  $N_t$  or  $PCR_t$ ; and
  - (ii) the Authority determines, upon an application to it by the Licensee, shall be included for the purposes of this paragraph.

8.2 In making any claim pursuant to paragraph 8.1, the Licensee shall ensure that:

- (a) it takes account of, and gives regard to, the Price Control Decision Paper;
- (b) it makes that claim in accordance with the Requirements and Guidance on Uncertainty Mechanisms; and
- (c) the costs or revenues in respect of which the claim is made are not included:
  - (i) in more than one category listed in sub-paragraphs (a) to (h) of paragraph 8.1; and
  - (ii) in more than one claim made pursuant to paragraph 8.1.

8.3 Any claim made by the Licensee pursuant to paragraph 8.1 shall:

- (a) be submitted by the Licensee, using its best endeavours, by no later than the first day in April immediately preceding the Relevant Year in respect of which the Licensee wishes the claim to take effect;
- (b) differentiate between internal and external costs and revenues;
- (c) relate only to those costs not recovered (or recoverable) under any other provision of this Licence or under the Northern Ireland Market Operator Licence or under the Transmission Owner Licence; and
- (d) contain or be accompanied by all relevant details of the costs claimed and such other information as the Authority shall require in order to determine whether such costs can be recovered by the Licensee; and
- (e) contain reasoned proposals from the Licensee on which part (or parts) of the calculation of Maximum Core Revenue at paragraph 2.2 of this Annex should be used to provide remuneration in respect of the costs relating to the claim.

8.4 Any claim for costs made by the Licensee pursuant to paragraph 8.1 received by the Authority after this paragraph 8.4 takes effect, shall be subject to the application of a de minimis threshold,



by the Authority, of £40,000 (in nominal terms) in each Relevant Year for each category of costs referred to in paragraphs 8.1(a) to (h) or such other categories of costs as determined by the Authority. For claims made by the Licensee in relation to IT, Telecoms or other capital projects, if the capex claim is above the de minimis threshold and if the opex costs directly associated with the delivery of a capex project in year t or in future years falls below the de minimis threshold, the Authority may choose not to apply the de minimis threshold to these opex costs.

- 8.5 Where a claim for Additional Approved Costs has been made by Licensee pursuant to paragraph 8.1 and in accordance with paragraphs 8.2 and 8.3 of this Annex, the Authority shall determine whether, to what extent, and subject to what conditions (if any) to approve any Additional Approved Costs relating to that claim.
- 8.6 If the Authority approves any Additional Approved Costs relating to the claim under paragraph 8.5, the Authority shall determine which part (or parts) of the calculation of Maximum Core Revenue at paragraph 2.2 of this Annex shall be used to provide remuneration in respect of the Additional Approved Costs relating to the claim by determining that those Additional Approved Costs shall be remunerated in one or more of the following ways:
- (a) the Dt uncertainty mechanism.
  - (b) the Zt uncertainty mechanism;
  - (c) the Et uncertainty mechanism;
  - (d) the Vt uncertainty mechanism.
- 8.7 If the Authority determines that more than one of the ways listed in paragraph 8.6(a) to 8.6(d) above shall be used in respect of the claim, the Authority shall specify in its determination which part of the Additional Approved Costs relating to the claim shall be remunerated in each of those ways.

#### The Dt Uncertainty Mechanism

- 8.8 Where the Authority determines that any Additional Approved Costs relating to the claim shall be remunerated via the Dt uncertainty mechanism referred to at paragraph 8.6(a) above:
- (a) the Authority shall determine the scope of costs relating to the claim that shall be recoverable under the Dt uncertainty mechanism (e.g. by reference to specific projects or activities, by reference to cost categories such as operating expenses or capitalised expenditure, and/or by reference to periods of time);
  - (b) the maximum amount of costs within the scope of costs determined under sub-paragraph (a) above shall require to be approved by the Authority, and costs within that scope shall not become recoverable until such a maximum amount has been approved by the Authority, unless the Authority determines that no maximum should apply for those costs;

- (c) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above shall be recovered under and in accordance with the  $D_t$  term at paragraph 2.2(g) of this Annex;
- (d) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above shall form part of the Approved  $D_t$  Costs for the purposes of paragraph 2.2(i)(i)(B) of this Annex; and
- (e) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above shall not be recovered under any other part of the calculation of Maximum Core Revenue at paragraph 2.2 of this Annex.

#### The $Z_t$ Uncertainty Mechanism

8.9 Where the Authority determines that any Additional Approved Costs relating to the claim shall be remunerated via the  $Z_t$  uncertainty mechanism referred to at paragraph 8.6(b) above:

- (a) the Authority shall determine the scope of costs relating to the claim that shall be recoverable under the  $Z_t$  uncertainty mechanism (e.g. by reference to specific projects or activities; by reference to cost categories such as operating expenses or capitalised expenditure; and/or by reference to periods of time);
- (b) the maximum amount of costs within the scope of costs determined under sub-paragraph (a) above shall require to be approved by the Authority, and costs within that scope shall not become recoverable until such a maximum amount has been approved by the Authority, unless the Authority determines that no maximum should apply for those costs;
- (c) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above shall form part of Special Project Costs and be recovered under and in accordance with the  $Z_t$  term at paragraph 2.2(n) of this Annex;
- (d) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above shall not be recovered under any other part of the calculation of Maximum Core Revenue at paragraph 2.2 of this Annex; and
- (e) the Authority may at the same time:
  - (i) specify a number ( $n$ ) which represents a straight line depreciation period for the purposes of paragraph 2.7(b)(iii) of this Annex; and
  - (ii) specify an amount of costs already incurred by the Licensee in respect of the project which are to be included in the calculation of  $CRAB_{Z_t}$  in a Relevant Year  $t$  for the purposes of paragraph 2.8(b)(ii)(C)1a) of this Annex.

### The Et Uncertainty Mechanism

- 8.10 Where the Authority determines that some Additional Approved Costs relating to the claim shall be remunerated via the Et uncertainty mechanism referred to at paragraph 8.6(c) above:
- (a) the Authority shall determine the scope of costs relating to the claim that shall be recoverable under the Et uncertainty mechanism (e.g. by reference to specific projects or activities; by reference to cost categories such as operating expenses or capitalised expenditure; and/or by reference to periods of time);
  - (b) the Authority shall determine, for one or more Relevant Years, an amount which shall form part of the  $E_t$  term under paragraph 2.2(b) of this Annex, and which represents an ex ante allowance for the efficient costs relating to the scope of costs determined under sub-paragraph (a) above in that Relevant Year (expressed in April 2019 prices);
  - (c) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above shall form part of the costs which form part of the  $AO_t$  term at paragraph 2.2(d)(ii) of this Annex; and
  - (d) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above shall not be recovered under any part of the calculation of Maximum Core Revenue at paragraph 2.2 of this Annex other than the  $E_t$  term under paragraph 2.2(b) of this Annex and the  $AO_t$  term at paragraph 2.2(d)(ii) of this Annex.

### The Vt Uncertainty Mechanism

- 8.11 Where the Authority determines that some Additional Approved Costs relating to the claim shall be remunerated via the Vt uncertainty mechanism referred to at paragraph 8.6(d) above:
- (a) the Authority shall determine the scope of costs relating to the claim that shall be recoverable under the Vt uncertainty mechanism in respect of each  $RAB_R$  (e.g. by reference to specific projects or activities, by reference to cost categories such as operating expenses or capitalised expenditure, and/or by reference to periods of time);
  - (b) the Authority shall determine, for one or more Relevant Years, and for each  $RAB_R$  as applicable, an amount which shall form part of the  $V_{R_t}$  term under paragraph 2.3(d)(ii) of this Annex, and which represents an ex ante allowance for the efficient costs relating to the scope of costs determined under sub-paragraph (a) above in that Relevant Year (expressed in April 2019 prices);
  - (c) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above in respect of  $RAB_R$  above shall form part of the costs which form part of the  $AC_{R_t}$  term at paragraph 2.2(d)(iii) of this Annex;
  - (d) the costs incurred by the Licensee in respect of the scope of costs determined under sub-paragraph (a) above shall not be recovered under any part of the calculation of Maximum

Core Revenue at paragraph 2.2 of this Annex other than the V\_R<sub>t</sub> term under paragraph 2.3(d)(ii) of this Annex and the AC\_R<sub>t</sub> term at paragraph 2.3(d)(iii) of this Annex.

**9 Not Used**

**10 Approval of Transmission Network Pre-construction Projects and Costs**

10.1 The Licensee may make a claim to the Authority, in accordance with the Requirements and Guidance on Transmission Network Pre-construction Projects, for the approval of activities which:

- (a) have been or are to be carried out by the Licensee in respect of a project which is necessary for the purposes of developing the transmission system; and
- (b) were or are required to progress the project from the conceptual design stage to, but not including, the construction stage.

10.2 The Licensee may make a claim to the Authority, in accordance with the Requirements and Guidance on Transmission Network Pre-construction Projects, for the approval of an amount of costs incurred, or to be incurred, by it in undertaking a Transmission Network Pre-construction Project.

**11 Reporting**

11.1 The Licensee shall, provide to the Authority all information requested in association with this Annex, including all such information as may be specified in:

- (a) The Requirements and Guidance on the Evaluative Performance Framework;
- (b) the Requirements and Guidance on Conditional Cost Sharing;
- (c) the Requirements and Guidance on Uncertainty Mechanisms; and
- (d) the Requirements and Guidance on Transmission Network Pre-construction Projects,

in such format and by such time as may be reasonably directed by the Authority.

## Consolidation Notes

Modifications included in this consolidated version	Effective date
Modification to paragraph 5 of Condition 25 and addition of Condition 40.	30 November 2017
CIL Modifications to Annex 1.	14 December 2017
Modifications to Annex 1 implementing the CMA Order.	04 May 2018
Modifications to Annex 1 to effect the CMA Cost order, Condition 8 and an amendment to the K Term.	01 Aug 2018
Introduction of Condition 41: Regulatory Instructions and Guidance.	28 January 2019
Modifications to Annex 1 to introduce a new term into the licence (Z <sub>t</sub> ) to provide capital returns for Special Projects not included in the price control.	01 February 2019
Updating of Condition 18: Transmission Interface Arrangements.	15 February 2019
Material modifications to Annex 1 to implement the price control decisions for 2020-25.	17 January 2022
Introduction of Condition 42 Governance and Management of the Licensee	26 October 2022
<a href="#">Modifications to Annex 1 to implement a two-year extension to SRP20 price control decisions to cover the year beginning on 01 October 2025 and ending 30 September 2027.</a>	XX May 2025