

**DCP 230 'RATE OF RETURN ENDURING SOLUTION'  
PROPOSED LEGAL DRAFTING**

Schedule 16, Paragraph 57, Table 3:

Annuity rate of return:

5.6% Set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO calculated using the following formula:

$CC = (\text{gearing assumption} \times \text{pre-tax cost of debt}) + (1 - \text{gearing assumption}) \times (\text{post tax cost of equity} / (1 - \text{Corporation Tax Rate}))$

where

Gearing Assumption is set to the 'Notional Gearing' value defined in the Company's Distribution Licence;

Pre-tax cost of debt is set to the 'Cost of Debt' value defined in the Company's Distribution Licence;

Post tax cost of equity is set to the 'Cost of Equity' value defined in the Company's Distribution Licence; and

Corporation Tax Rate is the rate of corporation tax to be in force on 1 April of the Regulatory Year in which charges will take effect.

The CC value is calculated as a percentage, and rounded to two decimal places.

Schedule 17, Paragraph 2.16:

i = discount rate, which is 5.6% set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO calculated using the following formula:

$CC = (\text{gearing assumption} \times \text{pre-tax cost of debt}) + (1 - \text{gearing assumption}) \times (\text{post tax cost of equity} / (1 - \text{Corporation Tax Rate}))$

where

Gearing Assumption is set to the 'Notional Gearing' value defined in the Company's Distribution Licence;

Pre-tax cost of debt is set to the 'Cost of Debt' value defined in the Company's Distribution Licence;

Post tax cost of equity is set to the 'Cost of Equity' value defined in the Company's Distribution Licence; and

Corporation Tax Rate is the rate of corporation tax to be in force on 1 April of the Regulatory Year in which charges will take effect.

The CC value is calculated as a percentage, and rounded to two decimal places.

Schedule 17, Paragraph 9.2:

i = discount rate, which is 5.6% set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO calculated using the following formula:

$$CC = (\text{gearing assumption} \times \text{pre-tax cost of debt}) + (1 - \text{gearing assumption}) \times (\text{post tax cost of equity} / (1 - \text{Corporation Tax Rate}))$$

where

Gearing Assumption is set to the 'Notional Gearing' value defined in the Company's Distribution Licence;

Pre-tax cost of debt is set to the 'Cost of Debt' value defined in the Company's Distribution Licence;

Post tax cost of equity is set to the 'Cost of Equity' value defined in the Company's Distribution Licence; and

Corporation Tax Rate is the rate of corporation tax to be in force on 1 April of the Regulatory Year in which charges will take effect.

The CC value is calculated as a percentage, and rounded to two decimal places.

Schedule 17, Annex 2:

i is the discount rate, which is 5.6% set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO calculated using the following formula:

$$CC = (\text{gearing assumption} \times \text{pre-tax cost of debt}) + (1 - \text{gearing assumption}) \times (\text{post tax cost of equity} / (1 - \text{Corporation Tax Rate}))$$

where

Gearing Assumption is set to the 'Notional Gearing' value defined in the Company's Distribution Licence;

Pre-tax cost of debt is set to the 'Cost of Debt' value defined in the Company's Distribution Licence;

Post tax cost of equity is set to the 'Cost of Equity' value defined in the Company's Distribution Licence; and

Corporation Tax Rate is the rate of corporation tax to be in force on 1 April of the Regulatory Year in which charges will take effect.

The CC value is calculated as a percentage, and rounded to two decimal places.

Schedule 18, Paragraph 2.9:

Discount rate is 5.6% set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO calculated using the following formula:

$$CC = (\text{gearing assumption} \times \text{pre-tax cost of debt}) + (1 - \text{gearing assumption}) \times (\text{post tax cost of equity} / (1 - \text{Corporation Tax Rate}))$$

where

Gearing Assumption is set to the 'Notional Gearing' value defined in the Company's Distribution Licence;

Pre-tax cost of debt is set to the 'Cost of Debt' value defined in the Company's Distribution Licence;

Post tax cost of equity is set to the 'Cost of Equity' value defined in the Company's Distribution Licence; and

Corporation Tax Rate is the rate of corporation tax to be in force on 1 April of the Regulatory Year in which charges will take effect.

The CC value is calculated as a percentage, and rounded to two decimal places.

Schedule 18, Attachment 1, Paragraph 1:

Discount rate is 5.6% set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO calculated using the following formula:

$CC = (\text{gearing assumption} \times \text{pre-tax cost of debt}) + (1 - \text{gearing assumption}) \times (\text{post tax cost of equity} / (1 - \text{Corporation Tax Rate}))$

where

Gearing Assumption is set to the 'Notional Gearing' value defined in the Company's Distribution Licence;

Pre-tax cost of debt is set to the 'Cost of Debt' value defined in the Company's Distribution Licence;

Post tax cost of equity is set to the 'Cost of Equity' value defined in the Company's Distribution Licence; and

Corporation Tax Rate is the rate of corporation tax to be in force on 1 April of the Regulatory Year in which charges will take effect.

The CC value is calculated as a percentage, and rounded to two decimal places.