

DCP 230 Legal Text

Rate of Return Enduring Solution

Add new definitions in Clause 1.1 as follows:

Annual Iteration Process	has the meaning given to that term in the charge restriction conditions in the Distribution Licences.
ED1 Price Control Financial Handbook	has the meaning given to that term in the charge restriction conditions in the Distribution Licences.

Amend Table 3 in paragraph 57 of Schedule 16 as follows:

Annuity rate of return ~~5.6%~~

Set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO Party 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 referred to in the ED1 Price Control Financial Handbook;

Pre-Tax Cost of Debt is set to the 'cost of corporate debt' value specified in or calculated in accordance with the most recent Annual Iteration Process applicable when setting distribution Use of System Charges;

Post Tax Cost of Equity is set to the 'cost of equity' value referred to in the ED1 Price Control Financial Handbook; and

Corporation Tax Rate is the rate of corporation tax which is, when setting distribution Use of System Charges, expected to be applicable in respect of the regulatory year (as defined in the Distribution Licence) in which those Charges will take effect.

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

Amend paragraph 2.16 of Schedule 17 as follows:

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

Party 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 referred to in the ED1 Price Control Financial Handbook;

Pre-Tax Cost of Debt is set to the 'cost of corporate debt' value specified in or calculated in accordance with the most recent Annual Iteration Process applicable when setting distribution Use of System Charges;

Post Tax Cost of Equity is set to the 'cost of equity' value referred to in the ED1 Price Control Financial Handbook; and

Corporation Tax Rate is the rate of corporation tax which is, when setting distribution Use of System Charges, expected to be applicable in respect of the Regulatory Year in which those Charges will take effect.

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

Amend paragraph 9.2 of Annex 1 of Schedule 17 as follows:

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

Party 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 referred to in the ED1 Price Control Financial Handbook;

Pre-Tax Cost of Debt is set to the 'cost of corporate debt' value specified in or calculated in accordance with the most recent Annual Iteration Process applicable when setting distribution Use of System Charges;

Post Tax Cost of Equity is set to the 'cost of equity' value referred to in the ED1 Price Control Financial Handbook; and

Corporation Tax Rate is the rate of corporation tax which is, when setting distribution Use of System Charges, expected to be applicable in respect of the Regulatory Year in which those Charges will take effect.

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

Amend Annex 2 of Schedule 17 as follows:

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 Party 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 referred to in the ED1 Price Control Financial Handbook;

Pre-Tax Cost of Debt is set to the 'cost of corporate debt' value specified in or calculated in accordance with the most recent Annual Iteration Process applicable when setting distribution Use of System Charges;

Post Tax Cost of Equity is set to the 'cost of equity' value referred to in the ED1 Price Control Financial Handbook; and

Corporation Tax Rate is the rate of corporation tax which is, when setting distribution Use of System Charges, expected to be applicable in respect of the Regulatory Year in which those Charges will take effect.

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

Amend paragraph 2.9 of Schedule 18 as follows:

DiscountRate is ~~5.6%~~.

set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO Party 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 referred to in the ED1 Price Control Financial Handbook;

Pre-Tax Cost of Debt is set to the 'cost of corporate debt' value specified in or calculated in accordance with the most recent Annual Iteration Process applicable when setting distribution Use of System Charges;

Post Tax Cost of Equity is set to the 'cost of equity' value referred to in the ED1 Price Control Financial Handbook; and

Corporation Tax Rate is the rate of corporation tax which is, when setting distribution Use of System Charges, expected to be applicable in respect of the Regulatory Year in which those Charges will take effect.

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

Amend paragraph 1 of Attachment 1 of Schedule 18 as follows:

DiscountRate is ~~5.6%~~.

set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO Party 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 referred to in the ED1 Price Control Financial Handbook;

Pre-Tax Cost of Debt is set to the 'cost of corporate debt' value specified in or calculated in accordance with the most recent Annual Iteration Process applicable when setting distribution Use of System Charges;

Post Tax Cost of Equity is set to the 'cost of equity' value referred to in the ED1 Price Control Financial Handbook; and

Corporation Tax Rate is the rate of corporation tax which is, when setting distribution Use of System Charges, expected to be applicable in respect of the Regulatory Year in which those Charges will take effect.

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

Wragge Lawrence Graham & Co LLP

8 September 2015