## SECTION 1A – PRELIMINARY

**1. DEFINITIONS AND INTERPRETATION**

|  |  |
| --- | --- |
| Price Control Financial Handbook | has the meaning given to that term in the charge restriction conditions in the Distribution Licences. |

## SCHEDULE 16 – COMMON DISTRIBUTION CHARGING METHODOLOGY

**STEP 2: ALLOCATE COSTS**

**Annuitisation of network model asset values**

|  |  |
| --- | --- |
| **Table 3: Annuity rate of return and annuity period** | |
| **Parameter** | **Value** |
| **Annuity rate of return** | 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 = (Gearing Assumption x Pre-Tax Cost of Debt) + (1- Gearing Assumption)\*(Post Tax Cost of Equity/(1-Corporation Tax Rate)) where:  Gearing Assumption is set to the ‘notional Gearing’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;  Pre-Tax Cost of Debt is set to the ‘Allowed return on debt’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;  Post Tax Cost of Equity is set to equal the ‘Allowed return on equity’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website; and  Corporation Tax Rate is set to equal the ”Corporation tax rate” value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website.  The CC value is calculated as a percentage, and rounded to two decimal places. |

## SCHEDULE 17 – EHV CHARGING METHODOLOGY (FCP MODEL)

**2. FORWARD COST PRICING ANALYSIS**

**Calculation of FCP load incremental charges**

2.16 The FCP load incremental charging function is in integral form with exponential load growth and continuous discounting applied. The following charging function is used to derive the Network Group FCP load incremental charge (£/kVA/annum) for EDCM Customers:

…

where:

Gearing Assumption is set to the ‘notional Gearing’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Pre-Tax Cost of Debt is set to the ‘Allowed return on debt’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Post Tax Cost of Equity is set to equal the ‘Allowed return on equity’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website; and

Corporation Tax Rate is set to equal the ”Corporation tax rate” value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website.

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

**ANNEX 2 - DERIVATION OF FCP CHARGING FORMULAE**

…

where:

j is index of Branch asset whose reinforcement is required in the planning period;

i is the discount rate, which is;

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 = (Gearing Assumption x Pre-Tax Cost of Debt) + (1- Gearing Assumption)\*(Post Tax Cost of Equity/(1-Corporation Tax Rate))

where:

Gearing Assumption is set to the ‘notional Gearing’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Pre-Tax Cost of Debt is set to the ‘Allowed return on debt’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Post Tax Cost of Equity is set to equal the ‘Allowed return on equity’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website; and

Corporation Tax Rate is set to equal the ”Corporation tax rate” value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website.

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

**9. CALCULATION OF NETWORK GROUP INCREMENTAL CHARGES**

9.2 The following charging function is used to derive the Network Group incremental

charge (£/kVA/annum) for demand (load):

…

where:

FCPload = FCP load incremental charge (£/kVA/annum)

j = index of Branch whose reinforcement is required in the planning period

i = discount rate, which is

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 = (Gearing Assumption x Pre-Tax Cost of Debt) + (1- Gearing Assumption)\*(Post Tax Cost of Equity/(1-Corporation Tax Rate))

where:

Gearing Assumption is set to the ‘notional Gearing’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Pre-Tax Cost of Debt is set to the ‘Allowed return on debt’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Post Tax Cost of Equity is set to equal the ‘Allowed return on equity’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website; and

Corporation Tax Rate is set to equal the ”Corporation tax rate” value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website.

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

## SCHEDULE 18 – EHV CHARGING METHODOLOGY (LRIC MODEL)

**2. LONG RUN INCREMENTAL COST PRICING ANALYSIS**

2.9 The Branch incremental cost, denoted 𝛥𝐶𝑖 , is calculated using the following formulae:

…

***DiscountRate*** is 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 = (Gearing Assumption x Pre-Tax Cost of Debt) + (1- Gearing Assumption) \* (Post Tax Cost of Equity / (1-Corporation Tax Rate))

where:

Gearing Assumption is set to the ‘notional Gearing’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Pre-Tax Cost of Debt is set to the ‘Allowed return on debt’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Post Tax Cost of Equity is set to equal the ‘Allowed return on equity’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website; and

Corporation Tax Rate is set to equal the ”Corporation tax rate” value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website.

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

**Attachment 1 - Calculation of Branch Incremental Cost**

***DiscountRate*** is 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 = (Gearing Assumption x Pre-Tax Cost of Debt) + (1- Gearing Assumption) \* (Post Tax Cost of Equity / (1-Corporation Tax Rate))

where:

Gearing Assumption is set to the ‘notional Gearing’ for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Pre-Tax Cost of Debt is set to the ‘Allowed return on debt’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website;

Post Tax Cost of Equity is set to equal the ‘Allowed return on equity’ value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website; and

Corporation Tax Rate is set to equal the ”Corporation tax rate” value for the regulatory year for which tariffs are being set in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting on the DNO Party’s website.

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