

# **WATER SERVICES REGULATION AUTHORITY**

## **WATER INDUSTRY ACT 1991, SECTION 17IA (AS HAS EFFECT UNDER THE WATER INDUSTRY (SPECIFIED INFRASTRUCTURE PROJECTS) (ENGLISH UNDERTAKERS) REGULATIONS 2013)**

### **Modification of the Project Licence of Bazalgette Tunnel Limited**

**Made on 7 March 2022**

**Coming into effect on 8 March 2022**

The Water Services Regulation Authority, in exercise of the power conferred on it by section 17IA of the Water Industry Act 1991 ("the 1991 Act") (as has effect under paragraph 5 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013 ("the SIP Regulations")), after giving notice as required by section 17IA(3) of the 1991 Act, (as has effect under the SIP Regulations), hereby makes the modifications described in Schedule 1 attached hereto to the Project Licence of Bazalgette Tunnel Limited as an infrastructure provider ("the Infrastructure Provider"), the Infrastructure Provider having consented to these modifications.

**Signed for and on behalf of the Water Services Regulation Authority**



**Keith Mason  
Senior Director**

# Schedule 1

1. **Appendix 1** is deleted in its entirety and replaced with the following new Appendix 1:

## Appendix 1 Calculation of Allowed Revenue

### 1 Definitions

Unless the context indicates otherwise, terms used only in this Appendix 1, or in Appendix 1 and Appendix 2, have the meanings given below. All other defined terms have the meanings given to them in Appendix 4.

#### 1.1 “2014/15 RPI Adjustment Factor” means:

- (a) for the purposes of calculating Forecast Allowable Project Spend for Charging Year  $Y_{t+1}$ , estimated Allowable Project Spend for the said Charging Year shall be deflated from a price base in Charging Year  $Y_{t+1}$  to the Base RPI Index year (2014/15), using an adjustment factor derived from multiplying the factors set out in (i), (ii), (iii) and (iv) below;
- (b) for the purposes of calculating Forecast Allowable Project Spend for Charging Year  $Y_t$ , estimated Allowable Project Spend for the said Charging Year shall be deflated from a price base in Charging Year  $Y_t$  to the Base RPI Index year (2014/15), using an adjustment factor derived from multiplying the factors set out in (ii), (iii) and (iv) below;
- (c) for the purposes of calculating Estimated Allowable Project Spend for 1 April  $Y_{t-1}$  to the last day of the September Accounting Period  $Y_{t-1}$  and Forecast Allowable Project Spend for the first day of the October Accounting Period  $Y_{t-1}$  to 31 March  $Y_{t-1}$ , estimated Allowable Project Spend for the said period shall be deflated from a price base in the period from 1 April  $Y_{t-1}$  to the last day of the September Accounting Period  $Y_{t-1}$  or from the first day of the October Accounting Period  $Y_{t-1}$  to 31 March  $Y_{t-1}$ , respectively, to the Base RPI Index year (2014/15), using an adjustment factor derived from multiplying the factors set out in (iii) and (iv) below;
- (d) in the event that the Annual Actual Project Spend is required to be determined prior to publication by the Office for National Statistics of the data necessary to calculate the Applicable Change in Cost RPI for the relevant Charging Year only for the purposes of calculating Annual Actual Project Spend for Charging Year  $Y_{t-1}$  the relevant Allowable Project Spend incurred by the Infrastructure Provider in connection with the Project in that Charging Year shall be deflated from a price base in Charging Year  $Y_{t-1}$  to the Base RPI Index year (2014/15) using an adjustment factor derived from multiplying the factors set out in (iii) and (iv) below.

The factors referred to above are as follows:

- (i)  $1 + (3/4 \times \text{Forecast RPI Adjustment Factor for the calendar year in which Charging Year } Y_{t+1} \text{ commences}) + (1/4 \times \text{Forecast RPI Adjustment Factor for the calendar year in which Charging Year } Y_{t+1} \text{ ends});$
- (ii)  $1 + (3/4 \times \text{Forecast RPI Adjustment Factor for the calendar year in which Charging Year } Y_t \text{ commences}) + (1/4 \times \text{Forecast RPI Adjustment Factor for the calendar year in which Charging Year } Y_t \text{ ends});$
- (iii)  $1 + (\text{the percentage movement in the RPI (All Items) index as published by Office for National Statistics for the period April to September in the calendar year in which Charging Year } Y_{t-1} \text{ commenced}) + (1/4 \times \text{Forecast RPI Adjustment Factor for the calendar year in which Charging Year } Y_{t-1} \text{ commenced}) + (1/4 \times \text{Forecast RPI Adjustment Factor for the calendar year in which Charging Year } Y_{t-1} \text{ ends});$  and
- (iv) where Charging Year  $Y_{t-2}$  is after the Base RPI Index year (2014/15), the division of the average RPI (All Items) index as published by Office for National Statistics for Charging Year  $Y_{t-2}$  by the Base RPI Index.

- 1.2 “**AAPS Cap**” has the meaning given in paragraph A 11.3.1 of this Appendix 1.
- 1.3 “**Accounting Period**” means consecutive accounting periods determined by the Infrastructure Provider from time to time provided that the first accounting period in any Charging Year must commence on 1 April, the last accounting period in any Charging Year must end on 31 March and any other accounting period (of which there must be one ending in September) must end in the last 10 days of the relevant month.
- 1.4 “**Actual Cumulative Project Spend**” means the aggregate of Annual Actual Project Spend incurred by the Infrastructure Provider in connection with the Project in each Charging Year.
- 1.5 “**Additional Allowable Project Spend**” means expenditure above the Threshold Outturn incurred or to be incurred by the Infrastructure Provider in connection with the Project prior to 1 April following the Post Construction Review (in the case of the Ex-Ante Approach, up to the AAPS Cap), but (unless otherwise determined by the Authority as part of the Ex-Post Approach, if applicable) excluding any Excluded Project Spend.
- 1.6 “**Administrative Penalty End Date**” means the date which is 18 months following the Planned System Acceptance Date.
- 1.7 “**Allowable Project Spend**” means expenditure (other than any Excluded Project Spend) incurred or to be incurred by the Infrastructure Provider in connection with the Project prior to 1 April following the Post Construction Review up to the point at which the Actual Cumulative Project Spend is equal to the Threshold Outturn.
- 1.8 “**Annual Actual Project Spend**” means, in respect of a Charging Year, the Allowable Project Spend incurred by the Infrastructure Provider in connection with the Project in that Charging Year, as verified by the Independent Technical Assessor in accordance with this Project Licence and the Liaison Agreement, stated in 2014/15 prices by way of deflation for such Charging Year based on the Applicable Change in Cost RPI for that Charging Year (provided that where Annual Actual Project Spend is required to be determined prior to publication by the Office for National Statistics of the data necessary

to calculate the Applicable Change in Cost RPI for the relevant Charging Year, it shall be stated in 2014/15 prices initially by way of deflation for such Charging Year based on 2014/15 RPI Adjustment Factor); provided that, for the purposes of calculating a Predicted Overrun and for the purposes of determining the point at which the Actual Cumulative Project Spend is equal to the Threshold Outturn when calculating Allowable Project Spend, the deflation shall instead be based on the Applicable Change in Cost Indices for the Charging Year in question.

1.9 “**Annual Base Case Forecast**” means, in respect of any Charging Year and subject to the adjustments made pursuant to paragraph A 5 and/or A 9 (as applicable) of this Appendix 1, the amount stated in 2014/15 prices set out in Annex A to this Appendix 1 in respect of the Charging Year in question, as indexed based on the Applicable Change in Cost Indices and then deflated based on the Applicable Change in Cost RPI, such indexation and deflation to be carried out in respect of each Charging Year falling within the period from (and including) Licence Award until (and including) the Charging Year in question.

1.10 “**Applicable Change in Cost RPI**” for any Charging Year means an adjustment calculated as follows:

$$\text{Applicable Change in Cost RPI} = \frac{\text{RPI}_t}{\text{RPI}_{\text{base}}}$$

where:

RPI<sub>t</sub> is the average RPI in the Charging Year in question as published by the Office for National Statistics; and

RPI<sub>base</sub> is the Base RPI Index.

1.11 “**Applicable Change in Construction Index**” in respect of any Construction Index for any Charging Year means an adjustment calculated as follows:

$$\text{Applicable Change in Construction Index} = \frac{\text{CI}_t}{\text{CI}_{\text{base}}}$$

where:

CI<sub>t</sub> is the average of the relevant Construction Index in the Charging Year in question; and

CI<sub>base</sub> is the Base CI Index for the relevant Construction Index.

1.12 “**Applicable Change in Cost Indices**” for any Charging Year means an adjustment to the relevant proportion of the Annual Actual Project Spend, the Annual Base Case

Forecasts or the Estimated Allowable Project Spend (as applicable) calculated as follows:<sup>1</sup>

- (a) 21% linked to the Applicable Change in Construction Index in respect of the index for PAFI 1990 Series Civil Engineering Indices 90/1 Labour & Supervision;
- (b) 10.5% linked to the Applicable Change in Construction Index in respect of the index for PAFI 1990 Series Civil Engineering Indices 90/2 Plant and Road Vehicles;
- (c) 3.5% linked to the Applicable Change in Construction Index in respect of the index for PAFI 1990 Series Civil Engineering Indices 90/3 Aggregates;
- (d) 6.3% linked to the Applicable Change in Construction Index in respect of the index for PAFI 1990 Series Civil Engineering Indices 90/13 Steel Reinforcement;
- (e) 5.6% linked to the Applicable Change in Construction Index in respect of the index for PAFI 1990 Series Civil Engineering Indices 90/15 Sheet Piling;
- (f) 5.6% linked to the Applicable Change in Construction Index in respect of the index for PAFI Series 3 Building Indices 3/09 Pre cast all in cost;
- (g) 3.5% linked to the Applicable Change in Construction Index in respect of the index for PAFI Series 3 Specialist Engineering Formulae Indices 3/E1 Electrical Labour;
- (h) 30% linked to the Applicable Change in Cost RPI;
- (i) 14% non-adjustable.

1.13 “**Applicable Change in Revenue RPI**” for any Charging Year means an adjustment calculated as follows:

$$\text{Applicable Change in Revenue RPI} = \frac{\text{RPI}_t}{\text{RPI}_{\text{base}}}$$

where:

RPI<sub>t</sub> is the RPI for November in the preceding Charging Year Y<sub>t-1</sub> published by the Office for National Statistics in December of Charging Year Y<sub>t-1</sub>; and

RPI<sub>base</sub> is the Base RPI Index.

1.14 “**Associated Company Approved Loans**” means any loans (whether for cash or cash equivalents) made to the Infrastructure Provider in compliance with Condition K on arms’ length terms:

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<sup>1</sup> Explanatory note: The percentage value against each index represents the pre-agreed proportion of costs that will be subject to that index. These figures take into account the indexation that the IP faces on its construction contracts and other costs. For construction costs, the values are based on the proportions for each index included within the Construction Contracts, while RPI is used as the index for other remaining costs. A portion of costs is not be subject to indexation at all.

- (a) by the IP Finco; or
  - (b) by an Associated Company ranking as a secured creditor and pari passu with other senior lenders under any common terms agreement and security trust and intercreditor deed, or equivalent, entered into between, among others, the senior lenders, the Associated Company and the Infrastructure Provider and approved by the Authority.
- 1.15 “**Base CI Index**” in respect of a Construction Index means the year average of that Construction Index for the period April 2014 to March 2015 as published in June 2015.
- 1.16 “**Base RPI Index**” is the year average RPI for the period April 2014 to March 2015 as published by the Office for National Statistics in June 2015.
- 1.17 “**Business Plan**” means the business plan submitted by the Infrastructure Provider to the Authority setting out the works and services it is required to perform during the Post Construction Review or the relevant Periodic Review period (as applicable).
- 1.18 “**BWACC**” is 2.497%, being the weighted average cost of capital bid by the Infrastructure Provider (stated in 2014/15 prices) for the period up to and including 31 March 2030.
- 1.19 “**Catchment**” means an area drained either naturally or artificially to a sewage treatment works or a pumping station or other points of interest.
- 1.20 “**Catchment Model**” means a computerised hydraulic model that incorporates a complete Catchment.
- 1.21 “**Commercial Insurances**” means those insurances set out in Schedule 6 (*Commercial Insurances*) to the Interface Agreement and Schedule 12 (*Operation and Maintenance Insurances*) to the Operation and Maintenance Agreement which are to be obtained by the Infrastructure Provider.
- 1.22 “**Construction Indices**” means each of the following indices:
- (a) the index for PAFI 1990 Series Civil Engineering Indices 90/1 Labour & Supervision;
  - (b) the index for PAFI 1990 Series Civil Engineering Indices 90/2 Plant and Road Vehicles;
  - (c) the index for PAFI 1990 Series Civil Engineering Indices 90/3 Aggregates;
  - (d) the index for PAFI 1990 Series Civil Engineering Indices 90/13 Steel Reinforcement;
  - (e) the index for PAFI 1990 Series Civil Engineering Indices 90/15 Sheet Piling;
  - (f) the index for PAFI Series 3 Building Indices 3/09 Pre cast all in cost;
  - (g) the index for PAFI Series 3 Specialist Engineering Formulae Indices 3/E1 Electrical Labour,

and "**Construction Index**" means any of the above.

The indices referred to above are those entitled "Price Adjustment Formulae Indices (Building) Series 3", "Price Adjustment Formulae Indices (Civil Engineering) 1990 Series" and "Price Adjustment Formulae Indices (Specialist Engineering) Series 3", all as published by the Building Cost Information Service (BCIS).

- 1.23 "**Coronavirus**" has the meaning given in section 1 of the Coronavirus Act 2020.
- 1.24 "**Covid Expenditure**" means Allowable Project Spend to the extent it is expressly approved in writing by the Authority in its discretion as having been incurred or forecast to be incurred as a result of Coronavirus and would not have been or be incurred but for Coronavirus.
- 1.25 "**Covid Expenditure IP Share**" means, in respect of Covid Expenditure incurred or forecast to be incurred by the Infrastructure Provider:
- (a) in the case of Covid Expenditure approved by the Authority prior to 7 March 2022, the proportion of such Covid Expenditure to be borne by the Infrastructure Provider as specified in the table contained in Annex B to this Appendix; and
  - (b) In the case of Covid Expenditure approved by the Authority on or subsequent to 7 March 2022, the proportion of such Covid Expenditure to be borne by the Infrastructure Provider as determined by the Authority in accordance with paragraph A 14.
- 1.26 "**Debt**" means any indebtedness (without double counting and excluding any financing costs, fees and expenses to the extent capitalised) in relation to or arising under or in connection with:
- (a) monies borrowed and debit balances at banks or other financial institutions;
  - (b) monies borrowed pursuant to the Market Disruption Facility Agreement; and
  - (c) any note, purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument.
- 1.27 "**Distributions**" means any payments (other than payments made to such persons pursuant to arrangements entered into for the provision of management and other services incurred in connection with the Project and which are entered into on *bona fide* arm's length terms in the ordinary and usual course of trading), including any payment of dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any person who has an interest, directly or indirectly, in the Infrastructure Provider or any Subsidiary or a Holding Company of such person or any other Subsidiary of that Holding Company.
- 1.28 "**Estimated Allowable Project Spend**" means Allowable Project Spend estimated to have been incurred by the Infrastructure Provider in accordance with the Liaison Agreement, but (save to the extent required in respect of a Predicted Overrun) not yet verified by the Independent Technical Assessor in accordance with this Project Licence and the Liaison Agreement, stated in 2014/15 prices by way of deflation based on the

2014/15 RPI Adjustment Factor; provided that, for the purposes of calculating a Predicted Overrun, the deflation shall instead be based on the Applicable Change in Cost Indices for the Charging Year in question.

- 1.29 “**Ex-Ante Approach**” is the approach to determining Additional Allowable Project Spend described in paragraph A 11.3 of this Appendix 1.
- 1.30 “**Ex-Post Approach**” is the approach to determining Additional Allowable Project Spend described in paragraph A 11.4 of this Appendix 1.
- 1.31 “**Excluded Project Spend**” means the following expenditure incurred or to be incurred by the Infrastructure Provider in connection with the Project prior to 1 April following the Post Construction Review:
- (a) financing costs, fees and expenses, including any fees payable under the Government Support Package (other than the Supplemental Compensation Agreement, provided that additional premium payable under the Supplemental Compensation Agreement entered into between the Infrastructure Provider and the Secretary of State as a consequence of a Failure Event shall constitute Excluded Project Spend) and/or in relation to lender advisers;
  - (b) operating costs, including the Opex Building Block (save for operating costs which are accounted for as a capital expenditure either in accordance with generally accepted accounting principles and policies adopted in the water industry or are recognised by the Authority as such, in which case such costs shall be included in the Allowable Project Spend or the Additional Allowable Project Spend, as applicable);
  - (c) tax (other than (i) any Lease Chargeable Gain, to the extent not disallowed pursuant to paragraph A 13.2 of this Appendix 1 and elected by the Authority to be treated as Allowable Project Spend in accordance with paragraph A 13.1.2(ii) of this Appendix 1, and (ii) non-recoverable tax or levies (if any) imposed by HM Revenue & Customs or any other competent authority incurred in respect of the Allowable Project Spend or the Additional Allowable Project Spend, as applicable<sup>2</sup>);
  - (d) Distributions;
  - (e) any expenditure funded by Insurance Proceeds;
  - (f) any expenditure incurred due to the fraud, Wilful Misconduct or Gross Negligence of the Infrastructure Provider (or its agents or contractors), except to the extent incurred towards a contractor of the Infrastructure Provider due to the fraud, Wilful Misconduct or Gross Negligence of another contractor of the Infrastructure Provider and not recoverable against such other contractor;

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<sup>2</sup> Explanatory note: for example, landfill tax and stamp duty on the Property Documents will be a legitimate project cost that is non-recoverable and therefore will not be excluded project spend.



- (g) costs which are not justified by the Infrastructure Provider's accounts and records;
- (h) costs which should not have been paid by the Infrastructure Provider to its contractors or suppliers in accordance with their contracts, provided however that payments made by the Infrastructure Provider pursuant to compromise or settlement agreements that have previously been approved in writing by the Authority or if the aggregate value of such payments is less than £1,000,000 approved unanimously by the Liaison Committee pursuant to clause 5.5 of the Liaison Agreement shall not be treated as Excluded Project Spend; and
- (i) fines payable under law or regulation and financial remedies payable under contract in respect of such fines (including any payments under any indemnity given by the Infrastructure Provider to TWUL in respect of fines levied on TWUL by the Environment Agency due to acts or omissions of the Infrastructure Provider);
- (j) expenditure incurred by the Infrastructure Provider as a consequence of an event within the scope of the cover provided by the Supplemental Compensation Agreement, but which is not reimbursed due to the application of additional deductibles under the Supplemental Compensation Agreement following a Failure Event;
- (k) any expenditure in respect of which the Infrastructure Provider has exercised a right of set-off or withholding (unless and until such set-off or withholding is successfully challenged in accordance with the relevant dispute resolution process), including (without limitation) under the Main Works Contracts and/or the Alliance Agreement and/or the System Integrator Contract; and
- (l) any expenditure funded by payments received by the Infrastructure Provider under the Alliance Agreement.

1.32 **"Failure Event"** has the meaning given in the Discontinuation Agreement.

1.33 **"Financing Cost Adjustment Index Yield"** is as defined in paragraph A 6.3 of this Appendix 1.

1.34 **"First Charging Year"** or **"Charging Year Y<sub>1</sub>"** or **"Y<sub>1</sub>"** means the Charging Year commencing on Licence Award and ending on the immediately following 31 March.

1.35 **"Forecast Allowable Project Spend"** means Allowable Project Spend estimated on a forward looking basis to be incurred by the Infrastructure Provider in accordance with the Liaison Agreement, but (save to the extent required in respect of a Predicted Overrun) not yet verified by the Independent Technical Assessor in accordance with this Project Licence and the Liaison Agreement, stated in 2014/15 prices by way of deflation based on the 2014/15 RPI Adjustment Factor; provided that, for the purposes of calculating a Predicted Overrun, the deflation shall instead be based on the Forecast Cost Adjustment Factor for the Charging Year in question.

1.36 **"Forecast Cost Adjustment Factor"** for any Charging Year means the forecast for the Applicable Change in Cost Indices for that Charging Year, as proposed by the

Infrastructure Provider and either agreed by the Liaison Committee or, in the absence of agreement, determined by the Independent Technical Assessor, in each case, pursuant to the Liaison Agreement; provided that the Applicable Change in Cost RPI element of the Applicable Change in Cost Indices forecast will be based on the 2014/15 RPI Adjustment Factor for the Charging Year in question.

- 1.37 “**Forecast RPI Adjustment Factor**” means the average independent new forecasts for RPI as stated in Table M3 of the document entitled “Forecasts for the UK economy: a comparison of independent forecasts” (or such replacement document setting out the average independent forecast for RPI) published from time to time by HM Treasury.
- 1.38 “**IAR Overrun Application**” has the meaning given to it in paragraph A 11.1.3 of this Appendix 1.
- 1.39 “**Income Tax**” is as defined in paragraph A 1.4 of this Appendix 1.
- 1.40 “**Insurance Proceeds**” means any amount payable by insurers or reinsurers in respect of the Commercial Insurances and/or by the Secretary of State in respect of the Supplemental Compensation Agreement, including proceeds of claims, return premiums and ex gratia payments.
- 1.41 “**Lease Chargeable Gain**” means the corporation tax payable in respect of any chargeable gain arising as a result of the application of section 25A Taxation of Chargeable Gains Act 1992 on the commencement of the lease (as referred to in paragraph (b) of the definition of “Property Documents”) being treated as a market value disposal of any relevant asset save to the extent any such tax arises or is increased as a result of a Change in Tax Law.
- 1.42 “**Market Cost of Debt Adjustment Factor**” is as defined in paragraph A 6.7 of this Appendix 1.
- 1.43 “**Mitigation Plan**” has the meaning given to it in the Liaison Agreement.
- 1.44 “**Net Debt**” means, in relation to any Charging Year falling within the period from (and including) the First Charging Year until (and including) the Charging Year ending on 31 March 2030, the aggregate of the Infrastructure Provider's Debt outstanding as at the end of such Charging Year (in then current prices) together with all indexation accrued on such liabilities that are indexed up until the end of such Charging Year, but excluding:
- (a) any loans (whether for cash or cash equivalents) made by any Associated Company other than Associated Company Approved Loans; and
  - (b) any uncrystallised mark to market amounts relating to any ISDA Master Agreement (and the credit support annex thereto) and any Treasury Transactions thereunder, entered into from time to time by the Infrastructure Provider;

*less* all amounts (whether in cash or cash equivalents including any loans to any Associated Company) standing to any account of the Infrastructure Provider (including any capex reserve account held by the Infrastructure Provider, any other similar reserve accounts and any cash cover or swap collateral accounts).

- 1.45 “**Notional Debt to RCV Ratio**” is the debt to regulatory capital value ratio, being 62.5% of the regulatory capital value.
- 1.46 “**Operation Revenue**” means the Allowed Revenue described in Part B (*Operation Revenue*) of this Appendix 1.
- 1.47 “**Original Base Case Forecast**” means, at any time, the sum of the Annual Base Case Forecasts at that time.
- 1.48 “**Planned System Acceptance Date**” means the date on which Acceptance is scheduled to be achieved, being 28 February 2027.
- 1.49 “**Post Construction Review Applicable Change in Revenue RPI**” for any Charging Year means an adjustment calculated as follows:

$$\text{Applicable Change in Revenue RPI} = \frac{\text{RPI}_t}{\text{RPI}_{\text{pcrbase}}}$$

where:

$\text{RPI}_t$  is the RPI for November in the preceding Charging Year  $Y_{t-1}$  published by the Office for National Statistics in December of Charging Year  $Y_{t-1}$ ; and

$\text{RPI}_{\text{pcrbase}}$  is the base RPI as determined by the Authority as part of the Post Construction Review.

- 1.50 “**Post Construction Review RCV**” is as defined in paragraph B 2.2 of of this Appendix 1.
- 1.51 “**Predicted Overrun**” means:
- (a) the amount (if any) by which the aggregate of:
    - (i) the Actual Cumulative Project Spend at any point in time;
    - (ii) the Estimated Allowable Project Spend at that point in time;
    - (iii) the Forecast Allowable Project Spend from that point in time; and
    - (iv) any other expenditure (other than any Excluded Project Spend) not captured in paragraphs (i)-(iii) estimated on a forward looking basis to be incurred by the Infrastructure Provider in connection with the Project from that point in time up to 1 April following the Post Construction Review (stated in 2014/15 prices by way of deflation based on the Forecast Cost Adjustment Factor for the Charging Year when such expenditure is forecasted to be incurred),

is estimated to exceed the Threshold Outturn; or
  - (b) (where the Authority has approved an AAPS Cap under this Project Licence) the amount (if any) by which the aggregate of:
    - (i) the Actual Cumulative Project Spend at any point in time;
    - (ii) the Estimated Allowable Project Spend at that point in time (if any);

- (iii) the Forecast Allowable Project Spend from that point in time (if any);
- (iv) the Additional Allowable Project Spend incurred by the Infrastructure Provider at that point in time (stated in 2014/15 prices by way of deflation for the Charging Year when incurred based on the Applicable Change in Cost Indices for that Charging Year);
- (v) the Additional Allowable Project Spend estimated on a forward looking basis to be incurred by the Infrastructure Provider from that point in time (stated in 2014/15 prices by way of deflation based on the Forecast Cost Adjustment Factor for the Charging Year when such Additional Allowable Project Spend is forecasted to be incurred); and
- (vi) any other expenditure (other than any Excluded Project Spend) not captured in paragraphs (i)-(v) estimated on a forward looking basis to be incurred by the Infrastructure Provider in connection with the Project from that point in time up to 1 April following the Post Construction Review (stated in 2014/15 prices by way of deflation based on the Forecast Cost Adjustment Factor for the Charging Year when such expenditure is forecasted to be incurred),

is estimated to exceed the aggregate of the Threshold Outturn and the AAPS Cap (and any other AAPS Cap approved from time to time).

1.52 **“Project Fixed Requirements”** means:

- (a) the characteristics of the Sewer Network, including:
  - (i) physical location and configuration of the Sewer Network, including sizes, arrangements, materials and operating capacities as indicated in the Works Information and Site Information provided on the disk containing the Catchment Model (referred to at paragraph (d) below); and
  - (ii) scope and specification of the Lee Tunnel provided on the disk entitled “Lee Tunnel – 6LYG – AI (Contract Documents and Drawings)”, “Lee Tunnel – 6LYG – AI Changes to Works Information and Compensation Events – Part 1” and “Lee Tunnel – 6LYG – AI Changes to Works Information and Compensation Events – Part 2”;
- (b) the sewage characteristics and design flows into the London Tideway Tunnels as set out in the hydraulic specifications for the Project included in the Works Information at ‘WI.GEN.7706 Design Specifications – Hydraulics’ and in respect of the Incumbent Undertaker’s standalone sites included in the Works Information at ‘2710.GEN Employer’s design specification – Hydraulics’ provided on the disk marked (i) “C405 West” dated 20 July 2015, (ii) “C415 East” dated 20 July 2015, and (iii) “C410 Central” dated 20 July 2015;
- (c) the categorisation of the CSOs to be actively managed and influenced by the London Tideway Tunnels as set out in the Operating Techniques;
- (d) the Catchment Model on the disk entitled “Catchment Model” dated 22 July 2015;

(e) the requirement for a minimum storage volume in the London Tideway Tunnels of 1.5 million cubic meters, including a minimum volume in the Thames Tideway Tunnel Project of 1.24 million cubic metres in accordance with the SIP Regulations;

(f) the diameter and gradient requirements of the Main Tunnel, and Greenwich and Frogmore connection tunnels as follows:

	Maximum Gradient	Minimum Gradient
6.5m internal diameter main tunnel between Acton Storm Tanks and Carnwath Road Riverside	1:650	1:750
7.2m internal diameter main tunnel between Carnwath Road Riverside and Abbey Mills pumping station	1:750	1:850
5m internal diameter Greenwich connection tunnel	1:500	1:550
2.6m internal diameter Frogmore connection tunnel	1:500	1:550

(g) the requirement for the Main Tunnel and Greenwich and Frogmore long connection tunnels to be 'self-cleansing' in relation to sewage solids transport and deposition;

(h) the requirements of the Environmental Permits and the Operating Techniques; and

(i) the terms of the DCO,

as amended pursuant to clause 11.5 (*Changes to the Project Fixed Requirements*) of the Interface Agreement.

1.53 **"Provisional Post Construction Review RCV"** is as defined in paragraph B 2.1 of this Appendix 1.

1.54 **"Second Charging Year"** or **"Charging Year Y<sub>2</sub>"** or **"Y<sub>2</sub>"** means the Charging Year commencing on 1 April immediately following the end of the First Charging Year.

1.55 **"Third Charging Year"** or **"Charging Year Y<sub>3</sub>"** or **"Y<sub>3</sub>"** means the Charging Year commencing on 1 April immediately following the end of the Second Charging Year.

1.56 **"Threshold Outturn"** means £4,087,726,822 (stated in 2014/15 prices) (or such other amount as shall be agreed by the Authority, the Secretary of State, the Infrastructure Provider and the Incumbent Undertaker from time to time).

1.57 **"Treasury Transaction"** means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, interest rate or currency or future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap, index linked swap, currency swap or combined similar agreement.

- 1.58 “**Water Services Regulation Authority Stated RCV (2014/15 Prices)**” is as defined in paragraph A 2.1 of this Appendix 1.
- 1.59 “**Water Services Regulation Authority Adjusted RCV (Current Prices)**” is as defined in paragraph A 2.2 of this Appendix 1.
- 1.60 “**Wilful Misconduct or Gross Negligence**” means any act or failure to act by a party or their respective personnel that was an intentional breach of the TTT Documents or was intended to cause, or was in reckless disregard or wanton indifference to, the harmful consequences that a party or their respective personnel knew, or ought to have known, such act or failure to act was likely to have for the other party or any third party, but shall not include an error of judgement or mistake made by personnel of a party in the exercise in good faith of any function, authority or discretion conferred on such personnel.

### Part A: Construction Revenue

A	1	<b>Allowed Revenue</b>	<p><b>1.1</b> The Allowed Revenue from Licence Award to (and including) 31 March immediately following the Post Construction Review will be calculated in accordance with this Part A of Appendix 1.</p> <p><b>1.2</b> Subject to paragraph A 1.6, the Allowed Revenue for any Charging Year <math>Y_t</math>, will be calculated by 1 November and finalised by no later than 24 December of Charging Year <math>Y_{t-1}</math>.</p> <p><b>1.3</b> The Infrastructure Provider’s calculation of Allowed Revenue will be included in the Infrastructure Provider’s Revenue Statement issued to the Authority in accordance with Condition B 5.</p> <p><b>1.4</b> The Allowed Revenue payable to the Infrastructure Provider shall be calculated in accordance with the following formula:  <math display="block">(RoC + Li + Op + FCA + Tax) +/- RA +/- BBRA + ARoC + ALi</math> where:  <b><i>RoC or Return on Capital Building Block</i></b> means the return on capital calculated in accordance with paragraph A 3;  <b><i>Li or Liquidity Building Block</i></b> means the liquidity allowance calculated in accordance with paragraph A 4;  <b><i>Op or Opex Building Block</i></b> means the operating expenditure allowance calculated in accordance with paragraph A 5;  <b><i>FCA or Financing Cost Adjustment Building Block</i></b> means the financing cost adjustment calculated in accordance with paragraph A 6;  <b><i>Tax or Tax Building Block</i></b> means the sum of:</p>
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			<p>(i) in the period from Licence Award until (and including) the date stated in the Handover Certificate as the date of Handover, zero, unless there is a Change in Tax Law that results in the Infrastructure Provider being required to pay an amount in respect of corporation tax or other income based tax imposed by HM Revenue &amp; Customs or any other competent authority ("<b>Income Tax</b>") in the relevant Charging Year;</p> <p>(ii) in the period from the date stated in the Handover Certificate as the date of Handover until (and including) 31 March following the Post Construction Review, Income Tax payable in a Charging Year falling within that period; and</p> <p>(iii) any Lease Chargeable Gain, to the extent elected by the Authority to be treated as part of the Tax Building Block in accordance with paragraph A 13.1.2(ii) and payable on or before 31 March following the Post Construction Review,</p> <p>provided that any tax payable by the Infrastructure Provider pursuant to sub paragraphs (i), (ii) and (iii) above, means such tax payable net of any Income Tax losses and any Income Tax credits or refunds to which the Infrastructure Provider has or may become entitled and references to Income Tax credits shall be treated as including a reference to any payment received or which may be payable to the Infrastructure Provider for the surrender of Income Tax losses to an Associated Company by way of Group Relief;</p> <p><b>RA</b> means the revenue adjustment for under/over recovered Allowed Revenue calculated in accordance with paragraph A 7;</p> <p><b>BBRA</b> means the building block reconciliation adjustment calculated in accordance with paragraph A 8;</p> <p><b>ARoC</b> or <b>Additional Return on Capital Building Block</b> means the return on capital permitted in respect of Additional Allowable Project Spend (if any) (as adjusted by the incentive regime applicable thereto), determined in accordance with paragraph A 11 following an IAR Overrun Application;</p> <p><b>ALi</b> or <b>Additional Liquidity Building Block</b> means the liquidity allowance permitted in respect of Additional Allowable Project Spend (if any),</p>
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			<p>determined in accordance with paragraph A 11 following an IAR Overrun Application.</p> <p><b>1.5</b> In the event that Licence Award occurred by 15 September 2015, the Allowed Revenue for the First Charging Year will be calculated by the Infrastructure Provider by 1 November and finalised by no later than 24 December, immediately prior to the commencement of the Second Charging Year, and will be payable in the Second Charging Year together with the Allowed Revenue for the Second Charging Year; provided that, where the Allowed Revenue for the First Charging Year and the Second Charging Year have not been calculated by 1 November and finalised by 24 December immediately prior to the commencement of the Second Charging Year, then the Allowed Revenue for the First Charging Year and the Second Charging Year will be calculated by 1 November and finalised by 24 December, immediately prior to the commencement of the Third Charging Year and will be payable in the Third Charging Year together with the Allowed Revenue for the Third Charging Year.</p> <p><b>1.6</b> The Allowed Revenue for the First Charging Year and (where the Allowed Revenue for the Second Charging Year is payable in the Third Charging Year in accordance with this paragraph A 1.6) the Allowed Revenue for the Second Charging Year will be subject to a net present value adjustment as follows:</p> $AR Yt \times (1 + BWACC)^{(0.5 + \frac{PD}{2})}$ <p>where:</p> <p><b>AR Yt</b> means the Allowed Revenue for the First Charging Year or the Second Charging Year (as applicable);</p> <p><b>PD</b> means:</p> <ul style="list-style-type: none"> <li>(i) in respect of the First Charging Year, the proportion of the First Charging Year, calculated by reference to the number of days from Licence Award until the end of the First Charging Year (if the Allowed Revenue for the First Charging Year is payable in the Second Charging Year) or the Second Charging Year (if the Allowed Revenue for the First Charging Year is payable in the Third Charging Year); or</li> <li>(ii) in respect of the Second Charging Year, the proportion of the Second Charging Year,</li> </ul>
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			calculated by reference to the number of days during the Second Charging Year.
	<b>2</b>	<b>The Water Services Regulation Authority Stated RCV</b>	<p><b>2.1</b> From and including the Second Charging Year, the Authority shall no later than 1 September of each Charging Year state the regulatory capital value as at 31 March of the immediately preceding Charging Year in 2014/15 prices which shall be the Actual Cumulative Project Spend for the period up to 31 March of the immediately preceding Charging Year (the “<b>Water Services Regulation Authority Stated RCV (2014/15 Prices)</b>”).</p> <p><b>2.2</b> From and including the Third Charging Year, the Authority shall, in addition, state the Water Services Regulation Authority Stated RCV (2014/15 Prices) as at 31 March in Charging Year <math>Y_{t-2}</math> in then current prices. This will be calculated as the Water Services Regulation Authority Stated RCV (2014/15 Prices) as indexed to the year-end RPI as published by the Office for National Statistics for <math>Y_{t-2}</math> (the “<b>Water Services Regulation Authority Adjusted RCV (Current Prices)</b>”).</p>
	<b>3</b>	<b>Return on Capital</b>	<p><b>3.1</b> The Return on Capital Building Block shall be calculated in accordance with this paragraph A 3.</p> <p><b>3.2</b> The Return on Capital Building Block in the First Charging Year will be calculated as follows:  <b><i>(YARCV <math>Y_1</math> x BWACC) x Applicable Change in Revenue RPI for the First Charging Year</i></b>  where:  <b>YARCV <math>Y_1</math></b> is 50% of the Forecast Allowable Project Spend for the First Charging Year as forecast by the Infrastructure Provider, as adjusted in accordance with the 2014/15 RPI Adjustment Factor.</p> <p><b>3.3</b> The Return on Capital Building Block in the Second Charging Year will be calculated as follows:  <b><i>(YARCV <math>Y_2</math> x BWACC) x Applicable Change in Revenue RPI for the Second Charging Year</i></b>  where:  <b>YARCV <math>Y_2</math></b> is the Year Average RCV for the Second Charging Year in 2014/15 prices calculated in accordance with paragraph A 3.4.</p> <p><b>3.4</b> The Year Average RCV for the Second Charging Year is calculated as follows:  <u><b><i>(OPRCV <math>Y_2</math> + CPRCV <math>Y_2</math>)</i></b></u>  <b>2</b>  where:</p>

			<p><b>OPRCV Y<sub>2</sub></b> is the Opening Projected RCV for the Second Charging Year which is calculated as the sum of:</p> <ul style="list-style-type: none"> <li>(i) the Annual Actual Project Spend and the Estimated Allowable Project Spend in the 6 months ending on the last day of the September Accounting Period of the First Charging Year (Y<sub>1</sub>); plus</li> <li>(ii) the Forecast Allowable Project Spend for the 6 months commencing on the first day of the October Accounting Period and ending on 31 March of the First Charging Year (Y<sub>1</sub>); and</li> </ul> <p><b>CPRCV Y<sub>2</sub></b> is the sum of OPRCV Y<sub>2</sub> and the Forecast Allowable Project Spend for the Second Charging Year, each (other than the Annual Actual Project Spend) after adjustment in accordance with the 2014/15 RPI Adjustment Factor.</p> <p><b>3.5</b> The Return on Capital Building Block for the Third Charging Year and each Charging Year thereafter Y<sub>t</sub> will be calculated as follows:</p> <p><b><i>(YARCV Y<sub>t</sub> x BWACC) x Applicable Change in Revenue RPI for Charging Year Y<sub>t</sub></i></b></p> <p>where:</p> <p><b>YARCV Y<sub>t</sub></b> is the Year Average RCV in 2014/15 prices for the relevant Charging Year Y<sub>t</sub> calculated in accordance with paragraph A 3.6.</p> <p><b>3.6</b> The Year Average RCV for the relevant Charging Year Y<sub>t</sub> is calculated as follows:</p> <p><b><u>(OPRCV Y<sub>t</sub> + CPRCV Y<sub>t</sub>)</u></b></p> <p style="text-align: center;"><b>2</b></p> <p>where:</p> <p><b>OPRCV Y<sub>t</sub></b> is the Opening Projected RCV for the relevant Charging Year Y<sub>t</sub> calculated as the sum of:</p> <ul style="list-style-type: none"> <li>(i) the Water Services Regulation Authority Stated RCV (2014/15 Prices) for Y<sub>t-2</sub>;</li> <li>(ii) the Annual Actual Project Spend<sup>3</sup> and the Estimated Allowable Project Spend for 1 April Y<sub>t-1</sub> to the last day of the September Accounting Period Y<sub>t-1</sub>; and</li> <li>(iii) Forecast Allowable Project Spend the first day of the October Accounting Period Y<sub>t-1</sub> to 31 March Y<sub>t-1</sub>; and</li> </ul>
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<sup>3</sup> As above.

			<p><b>CPRCV <math>Y_t</math></b> is the Closing Projected RCV for Charging Year <math>Y_t</math> stated in 2014/15 prices calculated as the sum of:</p> <ul style="list-style-type: none"> <li>(i) Opening Projected RCV for <math>Y_t</math>; and</li> <li>(ii) Forecast Allowable Project Spend for <math>Y_t</math></li> <li>(iii) ,</li> </ul> <p>each (other than the Water Services Regulation Authority Stated RCV (2014/15 Prices) and the Annual Actual Project Spend) after adjustment in accordance with the 2014/15 RPI Adjustment Factor.</p>
4	Liquidity		<p><b>4.1</b> The Liquidity Building Block shall be calculated in accordance with this paragraph A 4.</p> <p><b>4.2</b> The Liquidity Building Block in the First Charging Year will be calculated as follows:</p> <p><b><math>Li = (BWACC \times (FYARCV Y_2 - YARCV Y_1)) \times</math></b>  <b><i>Applicable Change in Revenue RPI for the First Charging Year</i></b></p> <p>where:</p> <p><b>YARCV <math>Y_1</math></b> is the Year Average RCV in 2014/15 prices for the First Charging Year calculated in accordance with paragraph A 3.2;</p> <p><b>FYARCV <math>Y_2</math></b> is the Year Average RCV in 2014/15 prices for the Second Charging Year calculated as follows:</p> <p><b><math display="block">\frac{(OPRCV Y_2 + CPRCV Y_2)}{2}</math></b></p> <p>where:</p> <p><b>OPRCV <math>Y_2</math></b> is the Forecast Allowable Project Spend for the First Charging Year; and</p> <p><b>CPRCV <math>Y_2</math></b> is the sum of OPRCV <math>Y_2</math> and the Forecast Allowable Project Spend for the Second Charging Year,</p> <p>each after adjustment in accordance with the 2014/15 RPI Adjustment Factor.</p> <p><b>4.3</b> The Liquidity Building Block in the Second Charging Year will be calculated as follows:</p> <p><b><math>Li = (BWACC \times (FYARCV Y_3 - YARCV Y_2)) \times</math></b>  <b><i>Applicable Change in Revenue RPI for the Second Charging Year</i></b></p> <p>where:</p> <p><b>FYARCV <math>Y_3</math></b> is the Forecast Year Average RCV in 2014/15 prices for the Third Charging Year calculated as follows:</p> <p><b><math display="block">\frac{(OPRCV Y_3 + CPRCV Y_3)}{2}</math></b></p>

			<p style="text-align: center;"><b>2</b></p> <p>where:</p> <p><b>OPRCV Y<sub>3</sub></b> is an amount equal to CPRCV Y<sub>2</sub> calculated in accordance with paragraph A 4.2; and</p> <p><b>CPRCV Y<sub>3</sub></b> is the sum of OPRCV Y<sub>3</sub> and the Forecast Allowable Project Spend for the Third Charging Year,</p> <p>each after adjustment in accordance with the 2014/15 RPI Adjustment Factor.</p> <p><b>YARCV Y<sub>2</sub></b> is the Year Average RCV for the Second Charging Year calculated in accordance with paragraph A 3.4.</p> <p><b>4.4</b> The Liquidity Building Block for the Third Charging Year and for each Charging Year thereafter Y<sub>t</sub> will be calculated as follows:</p> <p><b><i>Li = (BWACC x (FYARCV<sub>t+1</sub> – YARCV Y<sub>t</sub>)) x Applicable Change in Revenue RPI for Charging Year Y<sub>t</sub></i></b></p> <p>where:</p> <p><b>FYARCV<sub>t+1</sub></b> is the Forecast Year Average RCV for Y<sub>t+1</sub> (calculated in accordance with paragraph A 4.5); and</p> <p><b>YARCV Y<sub>t</sub></b> is the Year Average RCV for the relevant Charging Year Y<sub>t</sub> calculated in accordance with paragraph A 3.6.</p> <p><b>4.5</b> The Forecast Year Average RCV in 2014/15 prices for Charging Year Y<sub>t+1</sub> will be calculated as follows:</p> <p><b><u>(OPRCV Y<sub>t+1</sub> + CPRCV Y<sub>t+1</sub>)</u></b></p> <p style="text-align: center;"><b>2</b></p> <p>where:</p> <p><b>OPRCV Y<sub>t+1</sub></b> is the Opening Project RCV for Y<sub>t+1</sub> which is equal to the Closing Projected RCV for Y<sub>t</sub> as calculated in A 3.6; and</p> <p><b>CPRCV Y<sub>t+1</sub></b> is calculated as the sum of:</p> <ul style="list-style-type: none"> <li>(i) Opening Projected RCV for Y<sub>t+1</sub>; and</li> <li>(ii) Forecast Allowable Project Spend for Y<sub>t+1</sub></li> </ul> <p>each after adjustment in accordance with the 2014/15 RPI Adjustment Factor.</p>
	<b>5</b>	<b>Opex</b>	<p><b>5.1</b> The Opex Building Block shall be calculated in accordance with this paragraph A 5.</p> <p><b>5.2</b> In respect of each Charging Year (or partial Charging Year) from (and including) Licence Award and prior to 1 April immediately following the Post Construction Review, the Opex Building Block shall be zero, unless after Licence Award there is a</p>

			<p>change in generally accepted accounting principles and policies adopted in the water industry and/or a determination by the Authority, which results in any operating costs incurred (or to be incurred) by the Infrastructure Provider in any Charging Year no longer being accounted for as capital expenditure in that Charging Year, in which case:</p> <p><b>5.2.1</b> to the extent that the determination relates to operating costs already incurred by the Infrastructure Provider in the Charging Year when the change or determination came into effect, those costs will be included in the Opex Building Block for the Charging Year immediately following the Charging Year when those operating costs were incurred;</p> <p><b>5.2.2</b> to the extent that the determination relates to operating costs to be incurred by the Infrastructure Provider, those operating costs estimated on a forward looking basis to be incurred by the Infrastructure Provider prior to 1 April immediately following the Post Construction Review will be included in the Opex Building Block for the Charging Year when they are due to be incurred;</p> <p><b>5.2.3</b> the Annual Base Case Forecasts for the Charging Year(s) affected by the determination and falling during the period on or prior to the Planned System Acceptance Date shall be subject to a decrease as determined by the Authority to take account of the decreased capital expenditure of the Infrastructure Provider in the Charging Year(s) in question; and</p> <p><b>5.2.4</b> the operating costs incurred (or to be incurred) by the Infrastructure Provider shall, to the extent that they are no longer capable of being accounted for as capital expenditure, constitute Excluded Project Spend.</p>
6	<b>Financing Cost Adjustment</b>		<p><b>6.1</b> The Financing Cost Adjustment Building Block shall be calculated in accordance with this paragraph A 6.</p> <p><b>6.2</b> An annual revenue adjustment will apply to provide protection against movements in the market cost of debt against the base reference point set out in paragraph A 6.5 (the “<b>Financing Cost Adjustment</b>”). The Financing Cost Adjustment will apply to movements in the market cost of debt until (and including) 31 March 2021.</p> <p><b>6.3</b> The applicable index yield will be the iBoxx BBB UK non-financials with 10+ year maturity deflated by reference to the spot implied inflation rate for 10 year maturity published by the Bank of England for</p>

			<p>the same date (the “<b>Financing Cost Adjustment Index Yield</b>”). This deflation will be calculated as follows:</p> <p><b><i>(1 + iBoxx BBB UK non-financials with 10+ year maturity) / (1 + spot implied inflation rates for 10 year maturity published by the Bank of England) - 1</i></b></p> <p><b>6.4</b> The Financing Cost Adjustment for each and any Charging Year Y<sub>t</sub> until (and including) 31 March 2023 (“<b>Adjustment Period</b>”) will be calculated based on the base reference point (“<b>BRP</b>”) and the annual reference point in the relevant Charging Year Y<sub>t</sub> (“<b>ARP</b>”) as set out in paragraphs A 6.5 and A 6.6 respectively.</p> <p><b>6.5</b> The BRP throughout the Adjustment Period will be the historic 12 months’ trailing average of the Financing Cost Adjustment Index Yield as at 31 March 2015.</p> <p><b>6.6</b> The ARP in any Charging Year Y<sub>t</sub> during the Adjustment Period will be the historic 12 months’ trailing average of the Financing Cost Adjustment Index Yield as at 31 March of Charging Year Y<sub>t-2</sub> (“<b>ARP Reference Date</b>”).</p> <p><b>6.7</b> To the extent that in respect of any Charging Year Y<sub>t</sub> there is a difference, if any, between the BRP and the ARP for that Charging Year Y<sub>t</sub>, the market cost of debt adjustment factor to be used in calculating the Financing Cost Adjustment for that Charging Year Y<sub>t</sub> (the “<b>Market Cost of Debt Adjustment Factor</b>”) shall be calculated as follows:</p> <ul style="list-style-type: none"> <li>(i) if the difference is equal to or less than 50bps, the Market Cost of Debt Adjustment Factor shall be zero; or</li> <li>(ii) if the difference is greater than 50bps but not exceeding 100bps, the Market Cost of Debt Adjustment Factor will be equal to 50% of the amount by which such difference exceeds 50bps; or</li> <li>(iii) if the difference is greater than 100bps, the Market Cost of Debt Adjustment Factor will be equal to the amount by which such difference exceeds 75bps.</li> </ul> <p>The Market Cost of Debt Adjustment Factor shall be expressed as a positive figure where the ARP exceeds the BRP, and as a negative figure where the BRP exceeds the ARP.</p>
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			<p><b>6.8</b> Subject to paragraph A 6.9, the Financing Cost Adjustment for each constituent Charging Year <math>Y_t</math> (the calculation of which may give rise to a positive or negative figure) will be calculated as follows:</p> <p><b><i>Financing Cost Adjustment for Charging Year <math>Y_t</math></i></b>  <b><i>= (Net Debt in Charging Year <math>Y_{t-2}</math> – Net Debt in Charging Year <math>Y_{t-3}</math>) x Market Cost of Debt Adjustment Factor for Charging Year <math>Y_t</math> x <math>(1+BWACC)^2</math> x Applicable Change in Revenue RPI for Charging Year <math>Y_t</math> / Applicable Change in Revenue RPI for Charging Year <math>Y_{t-2}</math></i></b></p> <p>For the avoidance of doubt:</p> <ul style="list-style-type: none"> <li>(i) if the Financing Cost Adjustment in respect of a Charging Year is a negative figure, then its absolute value shall be subtracted from the Allowed Revenue calculation for that Charging Year; and</li> <li>(ii) In respect of Charging Year 2023/24 and each subsequent Charging Year, the Financing Cost Adjustment shall be zero.</li> </ul> <p><b>6.9</b> If the ratio between (i) the Net Debt in any Charging Year <math>Y_t</math> and (ii) the Water Services Regulation Authority Adjusted RCV (Current Prices) in that Charging Year <math>Y_t</math> exceeds the Notional Debt to RCV Ratio, then the Net Debt in that Charging Year <math>Y_t</math> will be deemed equal to the Notional Debt to RCV Ratio <i>multiplied</i> by the Water Services Regulation Authority Adjusted RCV (Current Prices) in that Charging Year <math>Y_t</math>. For these purposes, any reference to “Charging Year <math>Y_t</math>” means a reference to Charging Year <math>Y_{t-2}</math> or Charging Year <math>Y_{t-3}</math> (as applicable).</p> <p><b>6.10</b> In respect of each Charging Year <math>Y_t</math>, the Financing Cost Adjustment Building Block for each such Charging Year <math>Y_t</math> will be the sum of the Financing Cost Adjustment for Charging Year <math>Y_t</math> and the Financing Cost Adjustments for all previous Charging Years to reflect the build-up of the market cost of debt protection over time. For the avoidance of doubt, the Financing Cost Adjustment Building Block for Charging Year 2023/24 and each subsequent Charging Year shall be equal to the Financing Cost Adjustment Building Block for Charging Year 2022/23.</p> <p><b>6.11</b> The Infrastructure Provider shall ensure that its regulatory accounts prepared under Condition F (Regulatory Accounts) report on the Net Debt of the</p>
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			Infrastructure Provider and the basis of the calculation of the Financing Cost Adjustment and its component parts.
7	<b>Under/Over Recovered Revenue Adjustment</b>	<p><b>7.1</b> The Allowed Revenue in the Third Charging Year and in each Charging Year thereafter shall be subject to a Revenue Adjustment (<b>RA</b>) to take into account any under or over recovery of Allowed Revenue during previous Charging Years in accordance with this paragraph A 7.</p> <p><b>7.2</b> The Revenue Adjustment (the calculation of which may give rise to a positive or negative figure) in respect of each Charging Year specified in paragraph A 7.1 shall be calculated by reference to the actual amount in absolute terms of under/over recovered revenue (having taken into account any adjustments under the provisions of the Revenue Agreement) experienced by the Infrastructure Provider in respect of the Charging Year falling two years prior to the relevant Charging Year as follows:</p> <p><b><i>RA Y<sub>t</sub> = Allowed Revenue for Charging Year<sub>t-2</sub> – (the amount in respect of the IP Charge recovered by the Infrastructure Provider in respect of Charging Year<sub>t-2</sub> + the amount in respect of the IP Charge recovered by the Infrastructure Provider in respect of any Charging Year falling prior to Charging Year<sub>t-2</sub> that has not been included in any previous RA calculation)</i></b></p> <p>The Revenue Adjustment shall be subject to a net present value adjustment calculated by utilising the BWACC.</p> <p><b>7.3</b> For the purposes of calculating the Revenue Adjustment, the IP Charge recovered by the Infrastructure Provider in respect of any Charging Year shall be deemed to include any interest (other than default interest which may accrue under the Revenue Agreement) on the Deemed IP Charge recovered by the Infrastructure Provider in respect of any Charging Year.</p> <p><b>7.4</b> If the Revenue Adjustment in respect of a Charging Year is a positive figure, then it shall be added to the Allowed Revenue calculation for that Charging Year, and if the Revenue Adjustment in respect of a Charging Year is a negative figure, then its absolute value shall be subtracted from the Allowed Revenue calculation for that Charging Year.</p>	
8	<b>Reconciliation Adjustment</b>	<b>8.1</b> A reconciliation adjustment will be applied to each of the Return on Capital Building Block, the Liquidity	



			<p>Building Block, the Opex Building Block, the Financing Cost Adjustment Building Block, the Tax Building Block, the Additional Return on Capital Building Block and the Additional Liquidity Building Block and shall be calculated by 1 November and finalised by no later than 24 December of each Charging Year for previous Charging Years and will be applied from 1 April of the following Charging Year <math>Y_{t+1}</math>.</p> <p><b>8.2</b> The reconciliation adjustment will be calculated on a net present value neutral basis utilising the BWACC (in the case of the Return on Capital Building Block, the Liquidity Building Block, the Opex Building Block, the Financing Cost Adjustment Building Block and the Tax Building Block) or the applicable real weighted average cost of capital (in the case of the Additional Return on Capital Building Block and the Additional Liquidity Building Block) as the discount factor and will, to the extent possible, substitute actual values for previously estimated or forecast values and re-estimates or updated forecasts for previous estimated or forecast values for a re-run of the relevant calculations (save in respect of the under/over recovered Revenue Adjustment (RA) in respect of the Return on Capital Building Block, the Liquidity Building Block, the Opex Building Block, the Financing Cost Adjustment Building Block, the Tax Building Block, the Additional Return on Capital Building Block and the Additional Liquidity Building Block). Adjustment is made for the difference between ex-ante and ex-post assessments of the Return on Capital Building Block, the Liquidity Building Block, the Opex Building Block, the Financing Cost Adjustment Building Block, the Tax Building Block, the Additional Return on Capital Building Block and the Additional Liquidity Building Block.</p> <p><b>8.3</b> In making any estimates and forecasts in any Charging Year the Infrastructure Provider will state forecasts in accordance with the procedures prescribed in the Liaison Agreement and consistently with estimates and forecasts most recently verified by the Independent Technical Assessor in accordance with this Project Licence and the Liaison Agreement; provided that the aforesaid shall not apply to any forecasts or estimates made for the purpose of approving Covid Expenditure or determining the proportion of such</p>
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			<p>Covid Expenditure to be borne by the Infrastructure Provider in accordance with paragraph A14.2.</p> <p><b>8.4</b> If the reconciliation adjustment in respect of a Charging Year is a positive figure, then it shall be added to the Allowed Revenue calculation for that Charging Year, and if the reconciliation adjustment in respect of a Charging Year is a negative figure, then its absolute value shall be subtracted from the Allowed Revenue calculation for that Charging Year.</p>
9		<p><b>Adjustments to Base Case Forecasts</b></p>	<p><b>9.1</b> For the purposes of this paragraph A 9, a “<b>Base Case Adjustment Trigger Event</b>” means where any one or more of the following events has occurred or is to occur after Licence Award:</p> <p><b>9.1.1</b> a change in the Project Specification Notice;</p> <p><b>9.1.2</b> a Relevant Change in Law; or</p> <p><b>9.1.3</b> a change in the Project Fixed Requirements</p> <p>and any such event, individually, having taken into account any costs and savings resulting from it, is likely to result in the Allowable Project Spend to be incurred by the Infrastructure Provider in connection with the Project up to (and including) Acceptance increasing or decreasing (as the case may be) by more than £10 million, all figures for this purpose expressed in 2014/15 prices.</p> <p><b>9.2</b> If there is a Base Case Adjustment Trigger Event, which (together with all previous Base Case Adjustment Trigger Events and having taken into account any costs and savings resulting from that and all previous Base Case Adjustment Trigger Events) is likely to result in the expenditure to be incurred by the Infrastructure Provider in connection with the Project up to (and including) Acceptance increasing by more than 2% of the then current Original Base Case Forecast, the Infrastructure Provider may make an application to the Authority to approve changes to the Annual Base Case Forecast for the affected Charging Year(s) falling during the period on or prior to the Planned System Acceptance Date to take account of the likely increased expenditure (the “<b>Base Case Review Application</b>”). The Base Case Review Application must be supported by (i) the details of the relevant Base Case Adjustment Trigger Event and all previous Base Case Adjustment Trigger Events and (ii) the likely increased expenditure for each affected Charging Year compared to the Annual Base Case Forecast for the Charging Year(s) in question</p>

			<p>(having taken into account any costs and savings resulting from the relevant change).</p> <p><b>9.3</b> Following a Base Case Review Application, the Authority will determine whether to approve changes to the Annual Base Case Forecast for the affected Charging Year(s) and what those changes should be.</p> <p><b>9.4</b> If there is a Base Case Adjustment Trigger Event, which (together with all previous Base Case Adjustment Trigger Events) is likely to result in the expenditure to be incurred by the Infrastructure Provider in connection with the Project prior to the Post Construction Review decreasing by more than 2% of the then current Original Base Case Forecast, then the Authority may give notice (a “<b>Base Case Review Notice of Intention</b>”) to the Infrastructure Provider of its intention to make a determination to approve changes to the Annual Base Case Forecast for the affected Charging Year(s) falling during the period on or prior to the Planned System Acceptance Date to take account of the likely reduction in expenditure.</p> <p><b>9.5</b> In making the determination referred to in paragraph A 9.3 or A 9.4 (as applicable), the Authority will:</p> <p><b>9.5.1</b> determine what increased or decreased (as applicable) expenditure is appropriate and reasonable for the Infrastructure Provider in all the circumstances to incur taking into account the relevant Base Case Adjustment Trigger Event and all previous Base Case Adjustment Trigger Events;</p> <p><b>9.5.2</b> (if applicable) determine whether any of that increased expenditure could be avoided by prudent management action (and for this purpose what constitutes ‘prudent management action’ will be assessed by reference to the circumstances which are known, or ought reasonably to have been known, to the Infrastructure Provider at the time of the Base Case Review Application);</p> <p><b>9.5.3</b> determine what savings (if any) the Infrastructure Provider is reasonably likely to make in connection with the Project up to (and including) Acceptance as a result of the relevant Base Case Adjustment Trigger Event and all previous Base Case Adjustment Trigger Events; and</p> <p><b>9.5.4</b> have regard to the views of the Independent Technical Assessor.</p> <p><b>9.6</b> The Authority shall notify the Infrastructure Provider of its decision under paragraph A 9.3 or A 9.4 (as</p>
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			<p>applicable) (by giving a “<b>Base Case Review Notice</b>”) within 3 months of the date of the Base Case Review Application (where A 9.3 applies) or within 3 months of the date of giving the Base Case Review Notice of Intention (where A 9.4 applies).</p> <p><b>9.7</b> All calculations of increased or decreased expenditure and savings under this paragraph A 9 shall be expressed in 2014/15 prices by way of deflation for each relevant Charging Year based on the Applicable Change in Revenue RPI.</p>
	<b>10</b>	<b>Allowed Revenue following Administrative Penalty End Date</b>	<p><b>10.1</b> In the event that Acceptance is not likely to occur by the Administrative Penalty End Date, the Authority will determine a real weighted average cost of capital in respect of the period from (and including) the date immediately following the Administrative Penalty End Date until (and including) the earlier of (i) the date of Acceptance and (ii) 31 March 2030; provided that, where Acceptance has not occurred by the first anniversary of the Administrative Penalty End Date, the real weighted average cost of capital shall be revisited by the Authority and such revisited real weighted average cost of capital shall apply for the period following the first anniversary of the Administrative Penalty End Date until (and including) the earlier of (i) date of Acceptance and (ii) 31 March 2030.</p> <p><b>10.2</b> The real weighted average cost of capital, as determined by the Authority pursuant to paragraph A 10.1, will be applied when calculating the Delay Adjustment under paragraph B 6.3.</p> <p><b>10.3</b> Without prejudice to paragraphs A 10.1 and A 10.2, in the event that Acceptance has not occurred or is not likely to occur before 1 May 2029), the Authority will before the commencement of each Charging Year falling within the period from (and including) 1 April 2030 until (and including) 31 March following the Post Construction Review determine the real weighted average cost of capital that will apply in respect of each such Charging Year.</p> <p><b>10.4</b> The real weighted average cost of capital, as determined by the Authority pursuant to paragraph A 10.3, shall apply when calculating the Allowed Revenue (including any net present value adjustment) pursuant to this Part A for the relevant Charging Year to which it applies instead of applying the BWACC or the real weighted average cost of capital applicable to the Additional Allowable Project Spend.</p>

			<p><b>10.5</b> In determining the real weighted average cost of capital pursuant to paragraphs A 10.1 and A 10.3, the Authority shall have regard to the economic guidance issued by the Authority from time to time in respect of this Project Licence.</p>
	<p><b>11</b></p>	<p><b>Increasing the Allowable Project Spend above the Threshold Outturn</b></p>	<p><b>11.1</b> If:</p> <p><b>11.1.1</b> a Predicted Overrun has been identified (and, where identified by the Infrastructure Provider, that Predicted Overrun has either been verified by the Independent Technical Assessor and not disputed under the Liaison Agreement or determined through the dispute resolution procedure under the Liaison Agreement);</p> <p><b>11.1.2</b> a Mitigation Plan has been presented in accordance with clause 7 (<i>Identifying a Predicted Overrun</i>) of the Liaison Agreement; and</p> <p><b>11.1.3</b> either (i) the Infrastructure Provider has been unable to implement that Mitigation Plan so as to avoid the Predicted Overrun occurring, or (ii) it becomes apparent that notwithstanding the implementation of that Mitigation Plan, there will still be a Predicted Overrun;</p> <p>then the Infrastructure Provider may make an application to the Authority to approve Additional Allowable Project Spend in order to enable the Infrastructure Provider to finance the Predicted Overrun (an “<b>IAR Overrun Application</b>”). The IAR Overrun Application must:</p> <ul style="list-style-type: none"> <li>(i) be supported by the details of the Predicted Overrun and the reasons for it occurring; and</li> <li>(ii) specify whether the Infrastructure Provider wishes the Ex-Post Approach to apply to the determination of the Additional Allowable Project Spend, failing which the Infrastructure Provider will be deemed to have accepted that the Ex-Ante Approach will apply to the determination of the Additional Allowable Project Spend.</li> </ul> <p><b>11.2</b> Following an IAR Overrun Application, the Authority must determine whether costs are likely to exceed the Threshold Outturn and, if so, make a determination in respect of the Additional Allowable Project Spend using the Ex-Ante Approach or, if the Infrastructure Provider has elected the Ex-Post Approach and the Authority agrees to using such approach, the Ex-Post Approach. If the Authority is</p>

			<p>not agreeable to using the Ex-Post Approach, the Ex-Ante Approach will be applied.</p> <p><b>11.3</b> Where the Ex-Ante Approach is used:</p> <p><b>11.3.1</b> the Authority will determine (i) a cap on the Additional Allowable Project Spend expressed in 2014/15 prices (the “<b>AAPS Cap</b>”), (ii) the annual profile of the Additional Allowable Project Spend, (iii) (subject to paragraph A 10.4) the real weighted average cost of capital that will apply to the Additional Allowable Project Spend, and (iv) the incentive regime that will apply to the Additional Allowable Project Spend;</p> <p><b>11.3.2</b> the Additional Return on Capital Building Block and the Additional Liquidity Building Block for each Charging Year in which Additional Allowable Project Spend is forecast to be incurred by the Infrastructure Provider shall be calculated on the basis as set out in paragraphs A 3.5 and A 4.4 respectively with necessary changes so that:</p> <ul style="list-style-type: none"> <li>(i) it only takes into account the Additional Allowable Project Spend incurred, estimated to have been incurred and estimated on a forward looking basis to be incurred by the Infrastructure Provider in the same manner as the Allowable Project Spend is calculated as incurred, estimated to have been incurred and estimated on a forward looking basis to be incurred by the Infrastructure Provider; and</li> <li>(ii) all references to BWACC are replaced with references to the real weighted average cost of capital applicable to the Additional Allowable Project Spend; and</li> </ul> <p><b>11.3.3</b> the Additional Allowable Project Spend incurred by the Infrastructure Provider (as adjusted by any incentives applicable thereto) will be included in the Provisional Post Construction Review RCV and the Post Construction Review RCV.</p> <p><b>11.4</b> Where the Ex-Post Approach is used:</p> <p><b>11.4.1</b> the Authority will determine:</p> <ul style="list-style-type: none"> <li>(i) (subject to paragraph A 10.4) the real weighted average cost of capital that will apply to the Additional Allowable Project Spend; and</li> <li>(ii) at the Post Construction Review, what amount of such Additional Allowable Project Spend incurred by the Infrastructure Provider will be allowed, adjusted or disallowed in the Post Construction</li> </ul>
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			<p>Review RCV in accordance with the policies and guidelines of the Authority in place at the time;</p> <p><b>11.4.2</b> the Additional Return on Capital Building Block and the Additional Liquidity Building Block for each Charging Year in which Additional Allowable Project Spend is forecast to be incurred by the Infrastructure Provider shall be calculated on the basis as set out in paragraphs A 3.5 and A 4.4 respectively with necessary changes so that:</p> <ul style="list-style-type: none"> <li>(i) it only takes into account the Additional Allowable Project Spend incurred, estimated to have been incurred and estimated on a forward looking basis to be incurred by the Infrastructure Provider in the same manner as the Allowable Project Spend is calculated as incurred, estimated to have been incurred and estimated on a forward looking basis to be incurred by the Infrastructure Provider; and</li> <li>(ii) all references to BWACC are replaced with references to the real weighted average cost of capital applicable to the Additional Allowable Project Spend; and</li> </ul> <p><b>11.4.3</b> for the purposes of calculating the Additional Return on Capital Building Block and the Additional Liquidity Building Block for a Charging Year, the Authority shall no later than 1 September of each Charging Year state the additional regulatory capital value as at 31 March of the immediately preceding Charging Year in 2014/15 prices which shall be the aggregate of the Additional Allowable Project Spend incurred by the Infrastructure Provider for the period up to 31 March of the immediately preceding Charging Year, as verified by the Independent Technical Assessor in accordance with this Project Licence and the Liaison Agreement, stated in 2014/15 prices by way of deflation for the Charging Year in question based on the Applicable Change in Cost RPI for that Charging Year.</p> <p><b>11.5</b> In making the determination in paragraph A 11.3.1 or A 11.4.1, the Authority will (as applicable):</p> <p><b>11.5.1</b> determine what Additional Allowable Project Spend is appropriate and reasonable for the Infrastructure Provider in all the circumstances (taking into account the policies and guidelines of the Authority in place at the time) to incur;</p> <p><b>11.5.2</b> determine what AAPS Cap is appropriate and reasonable for the Infrastructure Provider in all the</p>
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			<p>circumstances (taking into account the policies and guidelines of the Authority in place at the time);</p> <p><b>11.5.3</b> determine whether any of the Additional Allowable Project Spend which is the subject of the then current IAR Overrun Application could be or could have been avoided by prudent management action (and for this purpose what constitutes ‘prudent management action’ will be assessed by reference to the circumstances which are known, or ought reasonably to have been known, to the Infrastructure Provider at the time of any IAR Overrun Application);</p> <p><b>11.5.4</b> have regard to the views of the Independent Technical Assessor;</p> <p><b>11.5.5</b> not carry out an ex-post review of the Allowable Project Spend incurred by the Infrastructure Provider prior to the IAR Overrun Application to assess whether it was economic and efficient, but may take into account the economy and efficiency of additional costs to be incurred by the Infrastructure Provider and the extent to which such costs may be or may have been avoided by prudent management action; and</p> <p><b>11.5.6</b> not take into account the existence of the Contingent Equity Support Agreement.</p> <p><b>11.6</b> The Authority shall notify the Infrastructure Provider of its decision under paragraph A 11.2 (by giving a “<b>IAR Overrun Notice</b>”) within 3 months of the date of the IAR Overrun Application.</p> <p><b>11.7</b> If the Authority has approved an AAPS Cap and a Predicted Overrun has been identified which will result in the aggregate of the Threshold Outturn and the AAPS Cap (and any other AAPS Cap approved from time to time) being exceeded, the provisions of this paragraph A 11 shall apply <i>mutatis mutandis</i>.</p> <p><b>11.8</b> For the purposes of an IAR Overrun Application, all amounts will be expressed in 2014/15 prices, unless otherwise determined by the Authority.</p>
12		<b>References to the Competition and Markets Authority</b>	<p><b>12.1</b> Where:</p> <p><b>12.1.1</b> following a Base Case Review Application or an IAR Overrun Application, the Authority has not given a Base Case Review Notice or an IAR Overrun Notice to the Infrastructure Provider within the timeframe specified in paragraph A 9.6 or A 11.6 (as applicable); or</p>



			<p><b>12.1.2</b> the Infrastructure Provider disputes any determination made by the Authority under paragraph A 10 or A 11 (as applicable), the Infrastructure Provider may, by notice to the Authority require the Authority to refer the matter to the Competition and Markets Authority for determination by it.</p>
	<b>13</b>	<b>Lease Chargeable Gains</b>	<p><b>13.1</b> If and to the extent that any Lease Chargeable Gain arises, the Infrastructure Provider shall:</p> <p><b>13.1.1</b> consult with the Authority in advance in relation to any valuation associated with the Lease Chargeable Gain and any agreement with HM Revenue &amp; Customs or any other competent authority in relation to the quantum of the Lease Chargeable Gain;</p> <p><b>13.1.2</b> as soon as reasonably practicable after it has agreed the quantum and due date for payment of the Lease Chargeable Gain with HM Revenue &amp; Customs or any other competent authority:</p> <ul style="list-style-type: none"> <li>(i) notify the Authority of the details of the quantum and due date for payment of the Lease Chargeable Gain; and</li> <li>(ii) request the Authority to elect whether any Lease Chargeable Gain will be recoverable by the Infrastructure Provider through the Tax Building Block or through Allowable Project Spend.</li> </ul> <p><b>13.2</b> The Authority shall make its election within 3 months of receipt of the Infrastructure Provider's request pursuant to paragraph A 13.1.2(ii) and may disallow any amount of the Lease Chargeable Gain that arises solely as a consequence of (i) the Infrastructure Provider's capital structure and/or (ii) any Income Tax losses and any Income Tax credits or refunds to which the Infrastructure Provider has or may become entitled and reference to Income Tax credits shall be treated as including a reference to any payment received or which may be payable to the Infrastructure Provider for the surrender of Income Tax losses to an Associated Company by way of Group Relief.</p> <p><b>13.3</b> Notwithstanding any other provision of this Project Licence, any amount included in the Infrastructure Provider's Allowed Revenue and Allowed Project Spend in respect of a Lease Chargeable Gain in accordance with paragraph A 13.2 shall be disregarded for the purposes of calculating the Incentive/Penalty Factor in accordance with paragraph B 4.3.</p>

	<b>14</b>	<b>Covid Expenditure IP Share</b>	<p><b>14.1</b> Notwithstanding Annex B to this Appendix, if on or subsequent to 7 March 2022 the Authority approves as Covid Expenditure any Allowable Project Spend which has been incurred in the period 1 March 2020 to 30 June 2021, the Authority shall also determine the proportion of such Covid Expenditure to be borne by the Infrastructure Provider, such proportion not to be less than 15 percent and not to exceed 40 percent.</p> <p><b>14.2</b> If the Authority approves as Covid Expenditure any Allowable Project Spend which has been or is forecast to be incurred by the Infrastructure Provider after 30 June 2021, the Authority shall also determine the proportion of such Covid Expenditure to be borne by the Infrastructure Provider, such proportion not to be less than 15 percent and not to exceed 40 percent</p>
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## Part B: Operation Revenue

B	1	<b>Allowed Revenue</b>	<p><b>1.1</b> The Allowed Revenue for any Charging Year commencing on 1 April following the Post Construction Review until (but excluding) the Charging Year commencing on 1 April following the First Periodic Review will (subject to any ongoing reconciliation adjustment in accordance with paragraph A 8) be calculated in accordance with paragraph B 1.2 - B 8 of this Part B of Appendix 1.</p> <p><b>1.2</b> Allowed Revenue will be calculated by 1 November and finalised by no later than 24 December of the previous Charging Year.</p> <p><b>1.3</b> The Allowed Revenue payable to the Infrastructure Provider for any Charging Year falling within the period stated in paragraph B 1.1 shall be calculated in accordance with the following formula:</p> <p style="text-align: center;"><b><math>(RoC + Op + FCA +/- RA + Tax) - DA +/- BBRA</math></b></p> <p>where:</p> <p><b>RoC</b> means the return on capital calculated in accordance with paragraph B 3;</p> <p><b>Op</b> means, in respect of a Charging Year, the operating expenditure allowance determined by the Authority for that Charging Year taking into account the operating expenditure forecast by the Infrastructure Provider in the Business Plan submitted to the Authority pursuant to paragraph 2.3 of Appendix 2 (<i>Non-Revenue Conditions</i>) to be incurred in that Charging Year;</p> <p><b>FCA</b> means the financing cost adjustment calculated in accordance with paragraph A 6;</p> <p><b>RA</b> for any Charging Year means the revenue adjustment for under/over recovered Allowed Revenue calculated in accordance with paragraph B 5;</p> <p><b>Tax</b> means (i) the assumption, if any, allowed by the Authority in respect of tax paid or received in the relevant Charging Year and (ii) any Lease Chargeable Gain Tax, to the extent elected by the Authority to be treated as part of the Tax Building Block in accordance with paragraph A 13.1.2(ii) and payable in a Charging Year falling within the period stated in paragraph B 1.1;</p>
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			<p><b>DA</b> is the aggregate of the Delay Adjustments calculated in accordance with paragraph B 6; and</p> <p><b>BBRA</b> is the reconciliation adjustment calculated in accordance with paragraph B 7.</p>
	<b>2</b>	<b>Provisional Post Construction Review RCV and Post Construction Review RCV</b>	<p><i>Provisional Post Construction Review RCV</i></p> <p><b>2.1</b> As part of the Post Construction Review, the Authority will determine the provisional regulatory capital value which shall (subject to the adjustments in accordance with paragraphs B 4 and B 6) be equal to:</p> <p><b>2.1.1</b> the Actual Cumulative Project Spend as at the Post Construction Review; plus</p> <p><b>2.1.2</b> the Estimated Allowable Project Spend as at the Post Construction Review; plus</p> <p><b>2.1.3</b> the Forecast Allowable Project Spend for the period following the Post Construction Review up to (and including) 31 March following the Post Construction Review; plus</p> <p><b>2.1.4</b> the Additional Allowable Project Spend incurred by the Infrastructure Provider as at the Post Construction Review, as verified by the Independent Technical Assessor (expressed in 2014/15 prices); plus</p> <p><b>2.1.5</b> the Additional Allowable Project Spend incurred by the Infrastructure Provider as at the Post Construction Review, but not yet verified by the Independent Technical Assessor (expressed in 2014/15 prices); plus</p> <p><b>2.1.6</b> the Additional Allowable Project Spend estimated by the Infrastructure Provider on a forward looking basis to be incurred by the Infrastructure Provider during the period following the Post Construction Review up to (and including) 31 March following the Post Construction Review (expressed in 2014/15 prices);;</p> <p>in the case of paragraphs B 2.1.4, B 2.1.5 and B 2.1.6, as adjusted by any incentives applicable thereto, and (in the case of the Ex-Post Approach) taking into account any disallowance or adjustment pursuant to paragraph A 11.4.1(ii) (such resulting amount to be expressed in 2014/15 prices)</p> <p>(the “<b>Provisional Post Construction Review RCV</b>”).</p> <p><i>Post Construction Review RCV</i></p>

			<p><b>2.2</b> Within three months of the amounts referred to in paragraphs B 2.2.1 and B 2.2.2 being verified by the Independent Technical Assessor, the Authority will re-calculate the regulatory capital value by substituting actual values for previously estimated or forecast values such that (subject to the adjustments in accordance with paragraphs B 4 and B 6) the regulatory capital value will be equal to:</p> <p><b>2.2.1</b> the Actual Cumulative Project Spend as at (and including) 31 March following the Post Construction Review; plus</p> <p><b>2.2.2</b> the Additional Allowable Project Spend incurred by the Infrastructure Provider as at (and including) 31 March following the Post Construction Review, as adjusted by any incentives applicable thereto, and (in the case of the Ex-Post Approach) taking into account any disallowance or adjustment pursuant to paragraph A 11.4.1(ii) (such resulting amount to be expressed in 2014/15 prices);</p> <p>(the “<b>Post Construction Review RCV</b>”).</p>
	<b>3</b>	<b>Return on Capital</b>	<p><b>3.1</b> The Return on Capital shall be calculated in accordance with this paragraph B 3.</p> <p><b>3.2</b> The Return on Capital in the first Charging Year following the Post Construction Review will be calculated as follows:</p> <p><b><i>Provisional Post Construction Review RCV x Applicable WACC x Post Construction Review Applicable Change in Revenue RPI</i></b></p> <p><b>3.3</b> The Return on Capital in the second and each subsequent Charging Year following the Post Construction Review until (but excluding) the Charging Year commencing on 1 April following the First Periodic Review will be calculated as follows:</p> <p><b><i>Post Construction Review RCV x Applicable WACC x Post Construction Review Applicable Change in Revenue RPI</i></b></p> <p><b>3.4</b> For the purposes of this paragraph B 3, “<b>Applicable WACC</b>” means:</p> <p><b>3.4.1</b> where Acceptance occurs prior to 1 May 2028, the BWACC; or</p> <p><b>3.4.2</b> where Acceptance occurs on or after 1 January 2029, the real weighted average cost of capital determined by the Authority in the Post Construction Review.</p>

			<p><b>3.5</b> For the avoidance of doubt, where Acceptance occurs on or after 1 May 2028 but prior to 1 January 2029, the Allowed Revenue for any Charging Year following 1 April 2030 will be determined at the First Periodic Review and at any subsequent Periodic Reviews pursuant to paragraph B 10.</p>
<p><b>4</b></p>	<p><b>Adjustments to RCV at the Post Construction Review</b></p>		<p><b>4.1</b> The Infrastructure Provider shall be subject to an adjustment to its Allowed Revenue to take account of (i) any overspend or underspend in each and any Charging Year up to (and including) the date of Acceptance relative to the Annual Base Case Forecast for the Charging Year in question and (ii) a net present value adjustment on any such overspend or underspend, calculated by utilising the BWACC; provided that Covid Expenditure shall be excluded from the calculation of this adjustment and shall instead be subject to the adjustment mechanism specified in paragraph B 4.4.</p> <p><b>4.2</b> The incentive penalty or reward shall be applied to the Provisional Post Construction Review RCV and to the Post Construction Review RCV.</p> <p><b>4.3</b> The Provisional Post Construction Review RCV and the Post Construction Review RCV shall be adjusted by the Incentive/Penalty Factor (<b>IPF</b>) calculated in the following manner:</p> $IPF = \sum_{y \in SP} IPFy - IAF$ <p>where:</p> <p><math>\sum_{y \in SP}</math> means the summation over all Charging Years <math>y</math> (including partial Charging Years <math>y</math>) falling within the Summation Period (<math>SP</math>) and in respect of which the Annual Actual Project Spend (excluding Annual Actual Project Spend comprising Covid Expenditure) was above or below the Annual Base Case Forecast for the Charging Year in question; for these purposes, “<b>Summation Period</b>” means the period from (and including) Licence Award until (and including) the later of (i) Acceptance and (ii) the Planned System Acceptance Date;</p> <p><b>IPFy</b> means, with respect to a Charging Year <math>y</math> (including partial Charging Years <math>y</math>) during the</p>

			<p>Summation Period in respect of which the Annual Actual Project Spend was above or below the Annual Base Case Forecast for the Charging Year in question, an amount calculated as follows:</p> $IPF_y = 0.40 \times (ABCF_y - AAcPS_y) \times (1 + BWACC)^{n-1}$ <p>where:</p> <p><b>n</b> means the number of Charging Years (or partial Charging Years) from (and including) the Charging Year y in question until (and including) the Charging Year when the Post Construction Review occurred; provided that where the Charging Year in question and the Charging Year when the Post Construction Review occurred are the same, <i>n</i> shall be deemed equal to 1 for that Charging Year y; and provided further that where the Charging Year when the Planned System Acceptance Date falls occurs after the Charging Year when the Post Construction Review occurred, <i>n</i> shall for each Charging Year from (and including) the Charging Year when the Post Construction Review occurred until (and including) the Charging Year when the Planned System Acceptance Date falls be deemed equal to 1;</p> <p><b>ABCF<sub>y</sub></b> means, with respect to a Charging Year y (including partial Charging Years y) during the Summation Period, the Annual Base Case Forecast for that Charging Year y (or partial Charging Years y);</p> <p><b>AAcPS<sub>y</sub></b> means, with respect to a Charging Year y (including partial Charging Years y) during the Summation Period, the Annual Actual Project Spend (excluding Annual Actual Project Spend comprising Covid Expenditure) for that Charging Year y (or partial Charging Years y); provided that where Acceptance occurs prior to the Planned System Acceptance Date, the Allowable Project Spend for the period from (and including) the day immediately following Acceptance until (and including) the Planned System Acceptance Date shall for present purposes be deemed equal to zero;</p> <p><b>IAF</b> means Incentive Adjustment Factor, being:</p>
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(i) where ACPS is greater than or equal to OBCF, zero; or

(ii) where OBCF is greater than ACPS:

$$IAF = 0.1 \times (OBCF - ACPS)$$

where:

**ACPS** means the Actual Cumulative Project Spend (excluding Actual Cumulative Project Spend comprising Covid Expenditure) as at the date of Acceptance;

**OBCF** means the Original Base Case Forecast.

**4.4** The Provisional Post Construction Review RCV and the Post Construction Review RCV shall also be adjusted by the Covid Incentive Factor (**CIF**) calculated in the following manner:

$$CIF = \sum_{y \in SP} CIF_y$$

where:

$\sum_{y \in SP}$  means the summation over all Charging Years  $y$  (including partial Charging Years  $y$ ) falling within the Summation Period (SP) and in respect of which the Infrastructure Provider incurred Covid Expenditure; for these purposes, "**Summation Period**" means the period from (and including) Charging Year 2019/20 until (and including) the later of (i) Acceptance and (ii) the Planned System Acceptance Date;

**CIF<sub>y</sub>** means, with respect to a Charging Year  $y$  (including partial Charging Years  $y$ ) during the Summation Period in respect of which the Infrastructure Provider incurred Covid Expenditure, an amount calculated as follows:

$$CIF_y = (ACE_y - CE_y) \times (1 + BWACC)^{n-1}$$

where:

**$n$**  means the number of Charging Years (or partial Charging Years) from (and including) the Charging Year  $y$  in question until (and including) the Charging Year when the Post Construction Review occurred; provided that where the Charging Year in question and the Charging Year when the Post Construction Review occurred are the same,  $n$  shall be deemed equal to 1 for that Charging Year  $y$ ; and provided further that where the Charging



			<p>Year when the Planned System Acceptance Date falls occurs after the Charging Year when the Post Construction Review occurred, n shall for each Charging Year from (and including) the Charging Year when the Post Construction Review occurred until (and including) the Charging Year when the Planned System Acceptance Date falls be deemed equal to 1;</p> <p><b>CEy</b> means, with respect to a Charging Year y (including partial Charging Years y) during the Summation Period, the Covid Expenditure incurred by the Infrastructure Provider in that Charging Year y (or partial Charging Years y) stated in 2014/15 prices by way of deflation based on the Applicable Change in Cost RPI for such Charging Year;</p> <p><b>ACEy</b> means, with respect to a Charging Year y (including partial Charging Years y) during the Summation Period, CEy (as defined above) adjusted by the deduction of the applicable Covid Expenditure IP Share.</p>
5	Under/Over Recovered Revenue Adjustment	5.1	<p>The Allowed Revenue in each Charging Year following the Post Construction Review until (but excluding) the Charging Year commencing on 1 April following the First Periodic Review shall be subject to a Revenue Adjustment (<b>RA</b>) to take into account any under or over recovery of Allowed Revenue during previous Charging Years in accordance with this paragraph B 5.</p> <p><b>5.2</b> The Revenue Adjustment (the calculation of which may give rise to a positive or negative figure) in respect of each Charging Year specified in paragraph B 5.1 shall be calculated by reference to the actual amount in absolute terms of under/over recovered revenue (having taken into account any adjustments under the provisions of the Revenue Agreement) experienced by the Infrastructure Provider in respect of the Charging Year falling two years prior to the relevant Charging Year (irrespective of whether such Charging Year occurred in the Construction Period or the Operational Period (as such terms are defined in paragraph 7 of Appendix 2)), which shall be calculated as follows:</p> <p><b><i>RA Y<sub>t</sub> = Allowed Revenue for Charging Year<sub>t-2</sub> – (the amount in respect of the IP Charge recovered by the Infrastructure Provider in</i></b></p>

			<p><b>respect of Charging Year<sub>t-2</sub> + the amount in respect of the IP Charge recovered by the Infrastructure Provider in respect of any Charging Year falling prior to Charging Year<sub>t-2</sub> that has not been included in any previous RA calculation whether under Part A or Part B of this Appendix 1)</b></p> <p>The RA shall be subject to a net present value adjustment calculated by utilising the Applicable WACC (as defined in paragraph B 3.4).</p> <p><b>5.3</b> If the Revenue Adjustment in respect of a Charging Year is a positive figure, then it shall be added to the Allowed Revenue calculation for that Charging Year, and if the Revenue Adjustment in respect of a Charging Year is a negative figure, then its absolute value shall be subtracted from the Allowed Revenue calculation for that Charging Year.</p>
	<p><b>6</b></p>	<p><b>Delay Adjustments</b></p>	<p><b>6.1</b> In the event that Acceptance is not achieved by the Planned System Acceptance Date, the Infrastructure Provider's Operation Revenue, the Provisional Post Construction Review RCV and the Post Construction Review RCV, each as determined by the Authority pursuant to this Part B of Appendix 1, will be subject to Delay Adjustment(s) calculated pursuant to this paragraph B 6.</p> <p><b>6.2</b> In the event that Acceptance occurs after the Planned System Acceptance Date, there shall be a Delay Adjustment in respect of the period from (and including) the day immediately following the Planned System Acceptance Date until (and including) the earlier of (i) the date of Acceptance and (ii) the Administrative Penalty End Date (the "<b>Minor Delay Period</b>"), which Delay Adjustment shall be calculated as follows:</p> $DA = \sum_{y \in MnDP} AP_y$ <p>where:</p> <p><math>\sum_{y \in MnDP}</math> means the summation over all Charging Years <math>y</math> (including partial Charging Years) falling within the Minor Delay Period (<math>MnDP</math>);</p> <p><b>AP<sub>y</sub></b> means, with respect to a Charging Year <math>y</math> (including partial Charging Year <math>y</math>) falling within</p>

			<p>the Minor Delay Period, an amount calculated as follows:</p> $AP_y = \text{Max}((BWACC - IWACC), 0.01) \times (RP_y \times YARCV_y) \times (1 + BWACC)^{n-1}$ <p>where:</p> <p><b>IWACC</b> means the post-tax cost of equity with a pre-tax cost of debt weighted average cost of capital for the relevant service, as determined and published by the Authority following a periodic review excluding any small company adjustments and applied generally at the time of the calculation in respect of the relevant service on an industry-wide basis;</p> <p><b>RP<sub>y</sub></b> is, in respect of a Charging Year <i>y</i> (including partial Charging Year <i>y</i>) falling within the Minor Delay Period, the percentage of the relevant Charging Year <i>y</i> falling within the Minor Delay Period, calculated by reference to the number of calendar days in that Charging Year <i>y</i> falling within the Minor Delay Period;</p> <p><b>YARCV<sub>y</sub></b> means, in respect of a Charging Year <i>y</i> (including partial Charging Year <i>y</i>) falling within the Minor Delay Period, the Year Average RCV in respect of the relevant Charging Year <i>y</i> calculated in accordance with paragraph A 3.6;</p> <p><b>n</b> means, in respect of a Charging Year <i>y</i> (including partial Charging Year <i>y</i>) falling within the Minor Delay Period, the number of Charging Years (including partial Charging Years) from (and including) the Charging Year in question until (and including) the Charging Year when the Post Construction Review occurred; provided that where the Charging Year in question and the Charging Year when the Post Construction Review occurred are the same, <i>n</i> shall be deemed equal to 1 for that Charging Year <i>y</i>.</p> <p><b>6.3</b> In the event that Acceptance occurs after the Administrative Penalty End Date there shall be a Delay Adjustment in respect of the period from (and including) the day immediately following the Administrative Penalty End Date until (and including) the earlier of (i) the date of Acceptance and (ii) 31 March 2030 (the “<b>Major Delay Period</b>”), which Delay Adjustment shall be calculated as follows:</p>
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$$DA = \sum_{y \in MjDP} APy$$

where:

$\sum_{y \in MjDP}$  means the summation over all Split Charging Years  $y$  falling within the Major Delay Period ( $MjDP$ );

**APy** means, with respect to a Split Charging Year  $y$  falling within the Major Delay Period, an amount calculated as follows:

$$APy = (BWACC - Major\ Delay\ WACC) \times (RPy \times YARCVy) \times (1 + BWACC)^{n-1}$$

where:

**Major Delay WACC** means, in respect of a Split Charging Year  $y$  falling within the Major Delay Period, the real weighted average cost of capital applicable to that Split Charging Year  $y$ , as determined by the Authority in accordance with paragraph A 10;

**RPy** is, in respect of a Split Charging Year  $y$  falling within the Major Delay Period, the percentage of the Charging Year within which the relevant Split Charging Year  $y$  falls, calculated by reference to the number of calendar days in that Charging Year within which the Split Charging Year  $y$  falls;

**YARCVy** means, in respect of a Split Charging Year  $y$  falling within the Major Delay Period, the Year Average RCV in respect of the Charging Year within which the Split Charging Year  $y$  falls calculated in accordance with paragraph A 3.6;

**n** means, in respect of a Split Charging Year  $y$  falling within the Major Delay Period, the number of Charging Years (including partial Charging Years) from (and including) the Charging Year within which the Split Charging Year in question falls until (and including) the Charging Year when the Post Construction Review occurred; provided that where the Charging Year within which the Split Charging Year in question falls and the Charging Year when the Post Costruction Review occurred are the same,  $n$  shall be deemed equal to 1 for that Split Charging Year  $y$ .

For the purposes of this paragraph B 6.3 only, "**Split Charging Year**" means:

			<p>(i) subject to (ii) below, that part of a Charging Year falling within the Major Delay Period; or</p> <p>(ii) where a Charging Year (including a partial Charging Year) falling within the Major Delay Period straddles over two periods with different Major Delay WACCs, each such period of that Charging Year.</p> <p><b>6.4</b> The Delay Adjustment(s) shall be applied as follows:</p> <p><b>6.4.1</b> 50% of the aggregate of the Delay Adjustments shall be deducted from each of the Provisional Post Construction Review RCV and the Post Construction Review RCV; and</p> <p><b>6.4.2</b> 50% of the aggregate of the Delay Adjustments shall be deducted from the Allowed Revenue in the first Charging Year following the Post Construction Review, provided that, where such amounts exceeds the Annual DA Cap, the sum deducted from the Allowed Revenue in that first Charging Year shall be limited to the Annual DA Cap and the remaining amount (as indexed each Charging Year based on the Applicable Change in Revenue RPI and subject to a net present value adjustment calculated by utilising the weighted average cost of capital applicable to the Allowed Revenue of the Infrastructure Provider during the immediately preceding Charging Year) shall be deducted from subsequent Charging Years on the same basis until 50% of the aggregate of the Delay Adjustments has been fully deducted from Allowed Revenues.</p> <p><b>6.5</b> For the purposes of this paragraph B 6, the “<b>Annual DA Cap</b>” means £15,000,000 (as indexed each Charging Year from the First Charging Year based on the Applicable Change in Revenue RPI) or such higher amount as elected by the Infrastructure Provider by notice to the Authority or such lower amount as agreed between the Infrastructure Provider and the Authority.</p> <p><b>6.6</b> If paragraph B 6.4.2 applies, the Authority may determine under paragraph 1.4 of Condition B (<i>Allowed Revenue</i>) that paragraph B 6.4 will continue to have effect after 1 April following the First Periodic Review until 50% of the</p>
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			aggregate of the Delay Adjustments has been fully deducted from Allowed Revenues.
	<b>7</b>	<b>Reconciliation adjustment for Provisional Post Construction Review RCV to Post Construction Review RCV</b>	<p><b>7.1</b> A reconciliation adjustment will be applied to the Return on Capital in the first Charging Year following the Post Construction Review and shall be calculated by 1 November and finalised by no later than 24 December of the first Charging Year following the Post Construction Review and will be applied from 1 April of the second Charging Year following the Post Construction Review.</p> <p><b>7.2</b> The reconciliation adjustment will be calculated on a net present value neutral basis utilising the weighted average cost of capital applicable to the Allowed Revenue during the first Charging Year following the Post Construction Review as the discount factor and will substitute the Post Construction Review RCV for the Provisional Post Construction Review RCV for a re-run of the Return on Capital calculation in respect of the first Charging Year following the Post Construction Review. Adjustment is made for the difference between the Return on Capital in the first Charging Year following the Post Construction Review calculated based on the Provisional Post Construction Review RCV and the Return on Capital in the first Charging Year following the Post Construction Review calculated based on the Post Construction Review RCV.</p>
	<b>8</b>	<b>Changes to Acceptance date</b>	<p><b>8.1</b> If the Infrastructure Provider has disputed the date specified in the Acceptance Certificate and, as a result, it has been determined (following the Dispute Resolution Procedure under the Interface Agreement) that Acceptance occurred on a different date (the “<b>Determined Acceptance Date</b>”), then the Determined Acceptance Date shall be used as the Acceptance date for the purposes of paragraphs B 4 and B 6.</p> <p><b>8.2</b> If the Dispute Resolution Procedure referred to in paragraph B 8.1 was resolved after the completion of the Post Construction Review, then there shall be a recalculation of the RCV adjustment and the Delay Adjustments under paragraphs B 4 and B 6 based on the Determined Acceptance Date and an adjustment shall be made and reflected in the</p>

			Allowed Revenue of the Infrastructure Provider at the earliest opportunity.
	<b>9</b>	<b>References to the Competition and Markets Authority</b>	Where the Infrastructure Provider disputes a determination made by the Authority at the Post Construction Review or pursuant to paragraph B 2.2, the Infrastructure Provider may, by notice to the Authority, require the Authority to refer the matter to the Competition and Markets Authority for determination by it.
	<b>10</b>	<b>Periodic Review</b>	<p><b>10.1</b> The Allowed Revenue for any Charging Year following the First Periodic Review will be determined at the First Periodic Review and at any subsequent Periodic Reviews and will be calculated by the Authority in accordance with Condition B (<i>Allowed Revenue</i>).</p> <p><b>10.2</b> When determining the Allowed Revenue at the First Periodic Review, the Authority will have regard to the economic guidance issued by the Authority from time to time in respect of this Project Licence.</p> <p><b>10.3</b> If the Post Construction Review occurs concurrently with the First Periodic Review, the Authority shall simultaneously carry out both the Post Construction Review and the First Periodic Review. In this case:</p> <p><b>10.3.1</b> the regulatory capital value for the first Charging Year following the First Periodic Review will be equal to the Provisional Post Construction Review RCV; and</p> <p><b>10.3.2</b> the regulatory capital value for the second and each subsequent Charging Year following the First Periodic Review will be equal to the Post Construction Review RCV, in each case, as determined by the Authority pursuant to paragraph B 2.</p> <p><b>10.4</b> Without prejudice to the adjustments set out in this Part B, no account shall be taken of any cost savings achieved or overruns suffered by the Infrastructure Provider prior to the Post Construction Review when determining the weighted average cost of capital that will apply to the Infrastructure Provider following the First Periodic Review or any subsequent Periodic Review or to the operating expenditure that will apply following the Post Construction Review or any subsequent Periodic Review.</p>

	<b>11</b>	<b>Run off</b>	The Infrastructure Provider may include in its Business Plan a proposal that regulatory capital value be amortised (or “run off”) at any time from 1 April following the First Periodic Review including the rate and the period over which such run off shall occur and to the extent that the Authority accepts such proposal, an allowance will be included in the Allowed Revenue for such run off.
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## Annex A

### Annual Base Case Forecast

<b>Period</b>	<b>Annual Base Case Forecast</b>
1 April 2015 – 31 March 2016	£237,800,000
1 April 2016 – 31 March 2017	£389,800,000
1 April 2017 – 31 March 2018	£518,900,000
1 April 2018 – 31 March 2019	£530,600,000
1 April 2019 – 31 March 2020	£497,200,000
1 April 2020 – 31 March 2021	£407,100,000
1 April 2021 – 31 March 2022	£266,300,000
1 April 2022 – 31 March 2023	£117,300,000
1 April 2023 – 31 March 2024	£83,350,000
1 April 2024 – 31 March 2025	£38,350,000
1 April 2025 – 31 March 2026	£29,650,000
1 April 2026 until (and including) the Planned System Acceptance Date	£28,055,248
Any period thereafter	£0

**Annex B**

**Covid Expenditure IP Share up to 30 June 2021**

<b>Period</b>	<b>Proportion of Covid Expenditure to be borne by the Infrastructure Provider</b>
1 March 2020 to 24 July 2020	15%
25 July 2020 to 30 June 2021	20%