

Schedule D
Compensation

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D.1: Compensation

- 1.1 No later than 1 July in each Contract Year, the Operator shall submit to the Authority, in respect of the next following Contract Year, the following:
- (a) a detailed breakdown of the estimated capital expenditure that will be incurred by the Operator in providing the PSO during such Contract Year;
 - (b) a detailed breakdown of the estimated operating expenditure that will be incurred by the Operator in providing the PSO during such Contract Year;
 - (c) a detailed breakdown of any interest, expenses or other third party financing costs estimated to be incurred by the Operator in funding the expenditure referred to in paragraphs (a) and (b) during such Contract Year;
 - (d) a detailed breakdown of the estimated positive financial effects generated within the network operated under the PSO during such Contract Year;
 - (e) having regard to the fares then in force, a detailed breakdown of the Fare revenue that the Operator estimates will be collected by the Operator in providing the PSO during such Contract Year;
 - (f) the submission of the Operator regarding the reasonable profit to be taken into account in calculating the Net Financial Effect for such Contract Year;
 - (g) the submission of the Operator regarding changes it proposes to:
 - (i) the Services; and/or
 - (ii) the Fares,and a detailed breakdown of the reasons for, and effect of, such proposed changes to the Services and/or Fares; and
 - (h) such other details as the Authority may determine.
- 1.2 The Operator shall liaise and cooperate with the Authority in relation to the submission referred to in Clause D.1.1 and shall provide such additional information as the Authority may require.
- 1.3 Without prejudice to the generality of Clause D.1.2, where it is practicable for the Operator to do so, the Authority may require the Operator to provide details of benchmark pricing information, together with supporting documentation, in relation to:
- (a) the expenditure and costs referred in Clause D.1.1(a), (b) and (c);

- (b) the Fare revenue referred to in Clause D.1.1(e); and
- (c) the reasonable profit referred to in Clause D.1.1(f).

1.4 The Authority shall evaluate the submission made by the Operator in accordance with Clause D.1.1, and taking into account all relevant issues, determine the Net Financial Effect for the Contract Year to which such submission relates in accordance with the following:

$$\text{NFE} = \text{PSOC} - \text{PFE} - \text{FR} + \text{RP}$$

Where:

- NFE** is the Net Financial Effect for such Contract Year;
- PSOC** is the estimated costs that will be incurred by the Operator in performing the PSO during such Contract Year;
- PFE** is the estimated positive financial effects generated within the network operated under the PSO during such Contract Year;
- FR** is the estimated Fare revenue that will be collected by the Operator in performing the PSO during such Contract Year; and
- RP** is the reasonable profit approved by the Authority in respect of such Contract Year, being a rate of return on capital that takes account of the risk incurred by the Operator in performing the PSO.

1.5 Where there is any material change to any of the details submitted by the Operator to the Authority under Clause D.1.1 in respect of a Contract Year, the Operator shall provide an updated submission to the Authority to reflect such material change.

1.6 The Authority shall evaluate any updated submission made by the Operator under Clause D.1.5, and taking into account all relevant issues, determine the revised Net Financial Effect for the Contract Year to which such submission relates in accordance with the formula set out at Clause D.1.4 and, having regard to the outcome of such determination, the Authority may increase or decrease, as the case may be, the amount of compensation payable to the Operator for such Contract Year and, in the event of a decrease, require repayment of compensation to the Authority.

D.2: Consultation

2.1 Following each submission made by the Operator in accordance with Clause D.1.1(g), a consultation process will commence between the Operator and the Authority on 1 October in each Contract Year. The purpose of the consultation will be to discuss the Services and ancillary services to be delivered in the following Contract Year under the PSO. The Authority shall determine whether any changes are required to the Services and/or ancillary services no later than 30 November in each Contract Year.

2.2 Where the Operator provides an updated submission to the Authority in accordance with Clause D.1.5:

- (a) a consultation process will commence between the Operator and the Authority, within such timeframe as the Authority may determine, in relation to Services and/or ancillary services to be provided under the PSO; and
- (b) the Authority shall determine whether any changes are required to the Services and/or ancillary services.

D.3: Terms

Compensation will be paid in thirteen instalments equally spread over the calendar year. Compensation will be paid no later than ten Working Days after the end of any period.

D.4: Tax

Costs and revenues for the purposes of calculating the Net Financial Effect shall be calculated in accordance with any applicable tax and accounting rules.