



Electricity Distributors and  
Interested Parties

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*Promoting choice and  
value for all customers*

Our Ref: 65/08  
Telephone: 020 7901 7000  
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16 May 2008

Dear Colleague,

### **Application by EDF Energy (IDNO) Ltd for an electricity distribution licence**

#### Background

1. Ofgem has received an application from EDF Energy (IDNO) Ltd ['the applicant'] for an electricity distribution licence. The applicant is an affiliate of three existing distribution network operators ['DNO']: EDF Energy Networks (LPN) plc ['LPN'], EDF Energy Networks (SPN) plc ['SPN'] and EDF Energy Networks (EPN) plc ['EPN'] [together, 'EDFE DNOs']. All four companies form part of EDF Energy's 'Networks Branch'.
2. The EDFE DNOs are distribution services providers; that is to say they have defined geographical distribution services areas ['DSA'] in which they are the incumbent network operators and are subject to particular price control regimes (although their licences also allow them to own and operate embedded electricity distribution networks elsewhere in Great Britain).
3. The EDFE DNOs are amongst the 14 distribution licence holders which, in 2001, evolved from the public electricity supply companies. Since then, four more companies have been granted modified distribution licences. These licenses do not refer to geographical distribution services areas and include 'relative price control' mechanisms in respect of use of system charges for domestic end users. These licensees, who are not affiliated or related to incumbent network operators, are referred to as independent distribution network operators ['IDNO']. If a modified licence is granted to the applicant it will not refer to a geographical distribution services area and so, by that measure, it will be an 'IDNO licence'.
4. EDF Energy have informed Ofgem that their application for an IDNO licence is driven by contractual requirements relating to two major development projects in the southeast of England: the 2012 Olympic Park/Stratford City development and the Ebbsfleet Valley development. These developments are in the LPN and SPN distribution services areas respectively. The contractual arrangements are complex but, in both cases, call for the provision of electricity infrastructure by an IDNO licensee. Ofgem has received letters from the developers in both cases confirming this position.

### Previous consultation

5. In 2006 Ofgem consulted on a prospective application which related to similar circumstances. A number of responses were received which raised concerns regarding possible adverse effects on competition in electricity distribution. However, some responses were supportive, arguing that it allowed extra contractual flexibility for major developers. The consultation documents and responses can be viewed under reference numbers 71/06 and 156/06 on the following page of the Ofgem website:

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/IDNOs/Pages/IDNOs.aspx>

6. After considering all the responses, and mindful of its objective to protect the interests of consumers, wherever appropriate by promoting competition, Ofgem considered that the concerns associated with granting an IDNO licence to an affiliate of a DNO might possibly be addressed by capturing the activities of the affiliate IDNO within the terms of the DNO's price control to ensure, as far as possible, the same result for customers as if the DNO undertook the activity itself. In the event, however, the licence application was not proceeded with at that time.
7. A precedent exists in gas distribution for the granting of an independent distribution licence to an incumbent network operator. Fulcrum Pipelines Ltd (an affiliate of National Grid Gas plc) was granted an independent gas transporter (IGT) licence in early 2007. The decision to grant the licence was taken with cognizance of the relatively well established level of IGT activity when compared to the level of IDNO activity in electricity distribution and the licence included a modified Section C (transportation services obligations).

### Process for application

8. In considering the current application Ofgem has again referred to its principal objective to protect the interests of consumers, wherever appropriate by promoting competition. If the views of the two developers and existing contractual arrangements were to be discounted, it might be feasible for EDFE to provide electricity infrastructure services through its existing DNO licensees. From a regulatory perspective this might present a lower risk scenario, raising the question of whether the present application ought to be rejected.
9. However, Ofgem is of the opinion that the interests of consumers could be protected by modifying the licence which would be granted to the applicant and that the modifications would adequately guard against the possibility of anti-competitive effects. We are also satisfied that the applicant would be in a position to comply with all the conditions of a modified licence. In those circumstances Ofgem does not consider that there are grounds to reject the application. Ofgem's gas and electricity licence applications guidance document (reference number 200/07a) provides further information on the criteria for licence applications.

### Licence modifications

10. The granting of an IDNO licence could require modifications to the standard distribution licence to remove references to a distribution services area, and to introduce relative price control and other regulatory requirements.
11. If Ofgem grants an IDNO licence to the applicant it is proposed to make modifications to the conditions of the licence to implement the homogenous DNO/IDNO price control treatment referred to in paragraph 5 above (in respect of the LPN/SPN DSAs) and to address concerns regarding the extent of activity of the new licensee. The proposed price control treatment would also necessitate changes to the special conditions of the LPN and SPN licenses, which cover their respective charge restrictions.

12. The proposed licence modifications are summarised below and draft modification notices are annexed to this letter<sup>1</sup>. References in the draft notices to licence conditions are consistent with the style and format of the proposed standard conditions of the electricity distribution licence, currently subject to a separate formal consultation.
13. In particular, the drafting of the proposed amended standard conditions in this case are based on proposed standard conditions 32, 33 and 34, as detailed in Appendix 3 of Ofgem's publication "Electricity Distribution Licence Review: Proposals" (Ref 259/07).
14. Details of this process can be found on the following page of the Ofgem website:

<http://www.ofgem.gov.uk/NETWORKS/ELECDIST/POLICY/Pages/Policy.aspx>

#### Summary of proposed modifications

15. The proposed modifications to the conditions of the licence are summarised below. They are designed to place the same relative price control, credit rating and indebtedness requirements on the applicant as other IDNOs. In addition, however, they are also intended to:
  - a. prohibit cross-subsidy between the applicant's distribution business and any other business
  - b. restrict the applicant's distribution business activity to the developments referred to in paragraph 4, but provide for the Authority to give consent, if appropriate, to distribution activity on other developments.
  - c. provide for the reporting of costs, revenues and other information to allow for the price control treatment referred to in paragraph 6 above.
16. Standard licence condition 15 (Standards for the provision of non-contestable connection services) would remain 'switched on' in the applicant's licence, notwithstanding that the existing four IDNO licensees are presently exempted from its requirements. This will help to ensure that independent connection providers are not disadvantaged in competing for the contestable parts of end-user connection jobs where applicable.
17. The proposed modifications to the special conditions of the distribution licences held by LPN and SPN provide for the applicant's activities to be accounted for within their respective price controls.

#### **Modified standard licence conditions (Applicant)**

- a. Modification of standard condition 4.9 (Prohibition of cross-subsidy) to make it applicable to the applicant, notwithstanding that the applicant would not be a Distribution Services Provider
- b. Omission of the whole of Section B (Additional standard conditions for electricity distributors who are distribution service providers)
- c. Addition of amended standard condition BA1 (Regulation of charging arrangements) which would impose a relative price control in respect of domestic end users
- d. Addition of amended standard condition BA2 (Credit rating of the licensee)

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<sup>1</sup> The notice under section 11 of the Electricity Act 1989 in respect of EDF Energy Networks (LPN) plc is shown; the modification notice for EDF Energy Networks (SPN) plc would be exactly similar.

- e. Addition of amended standard condition BA3 (Restriction of Indebtedness and transfers of funds)
- f. Addition of amended standard condition BA4 (Specific restriction of activity)
- g. Addition of amended standard condition BA5 (Accounting reference date and delivery of audited accounts) which would oblige the licensee to set an accounting reference date of 31 March (to coincide with the end of each regulatory year), deliver audited financial statements to the Authority by 31 July annually and publish those financial statements on its website or by other means.
- h. Addition of amended standard condition BA6 (Revenue reporting and associated information) which would oblige the licensee to provide revenue information to allow the Authority to capture the activities of the affiliate-IDNO within the terms of the relevant DNO's price control
- i. Addition of amended standard condition BA7 (Cost reporting and associated information) which would oblige the licensee to provide costs and other information to allow the Authority to capture the activities of the affiliate-IDNO within the terms of the relevant DNO's price control

#### **Modified special conditions (LPN and SPN)**

- a. Special condition B2 (Restriction of distribution charges: allowed pass-through items) – expansion of the purpose of the condition and addition of a term to allow relevant affiliate-IDNO demand use of system revenues to be deducted from the DNO's allowed revenues
- b. Special condition D1 (Restriction of distribution charges: generation use of system charges) - addition of a term to allow relevant affiliate-IDNO generation use of system revenues to be deducted from the DNO's allowed revenues
- c. Special condition D2 (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones) – addition of a term to allow relevant affiliate-IDNO capital expenditure and connection capacity to count towards the calculation of allowed generation use of system revenues

We would welcome responses to the proposals outlined in this letter which should be sent to the above address for the attention of Paul Darby, Distribution Policy Manager, or emailed to [connections@ofgem.gov.uk](mailto:connections@ofgem.gov.uk) by **18 June 2008**.

Yours faithfully,



**Rachel Fletcher**  
**Director, Distribution**

DRAFT LICENCE MODIFICATION NOTICES

**NOTICE UNDER SECTION 8A(3) OF THE ELECTRICITY ACT 1989**

**The Gas and Electricity Markets Authority ('the Authority') hereby gives notice pursuant to section 8A(3) of the Electricity Act 1989 ('the Act') as follows:**

1. An application for a distribution licence ('the Licence') under section 6(1)(c) of the Act has been received by the Authority from EDF Energy (IDNO) Ltd ('the Applicant').
2. If the Authority decides to grant the Licence to the Applicant then the Authority proposes to modify the standard conditions of that licence.
3. The proposed modifications would involve the omission of the whole of Section B of the Licence, the modification of paragraph 4.9 of standard condition 4 (prohibition of cross-subsidy) and the addition to the Licence of a new Section BA which would include amended standard conditions BA1 (Regulation of charging arrangements), BA2 (Credit rating of the licensee), BA3 (Restriction of Indebtedness and transfer of funds), BA4 (Specific restriction of activity) BA5 (Accounting reference date and delivery of audited accounts), BA6 (Revenue reporting and associated information) and BA7 (Cost reporting and associated information).
4. The effect of the modifications is to:
  - a. prohibit the Applicant from giving any cross-subsidy to, or receiving any cross subsidy from any other business of the Applicant or of any affiliate or related undertaking of the Applicant, notwithstanding that the Applicant will not be a Distribution Services Provider;
  - b. put in place arrangements for the regulation of charging by the Applicant, the credit rating of the Applicant and indebtedness of the Applicant;
  - c. put in place specific provisions to restrict the activity of the Applicant;
  - d. require the licensee to have an accounting reference date of 31 March, being the last day of the regulatory year, to deliver audited accounts to the Authority by 31 July each year and to arrange for publication of those accounts; and
  - e. put in place arrangements for the provision of information by the Applicant to the Authority to facilitate the review and implementation of charge restriction conditions applicable to those affiliates or related undertakings of the Applicant which are Distribution Services Providers and in whose Distributions Services Areas the Applicant undertakes distribution activity.

5. The reasons for the modifications are set out in the following documents:
- i. open letters dated 31 May 2002, 16 April 2003 and 24 September 2003 (regulation of new electricity distribution licence holders);
  - ii. decision document – July 2005, 176/05 (regulation of independent electricity distribution network operators);
  - iii. open letters dated 24 August 2006 and 9 April 2008 (regulatory treatment of new electricity distribution licensees who are affiliates of existing electricity distribution licensees with distribution services areas); and
  - iv. Open letter dated 16 May 2008 (Application by EDFE (IDNO) Ltd for an electricity distribution licence);

and in summary are:

- a. to prohibit cross-subsidy between the applicant's distribution business and any other business
  - b. to protect the interest of consumers by imposing a relative price control on distribution use of system charges for domestic customers
  - c. to protect the interests of consumers by providing for effective credit cover requirements and restrictions on indebtedness
  - d. to protect the interests of consumers by restricting the applicant's distribution activity to premises which have been notified to the Authority and in respect of which the Authority has given consent
  - e. to ensure that the Applicant promptly delivers audited accounts to the Authority each year which cover a period equivalent to the Regulatory Year
  - f. to provide for the reporting of revenue, costs and other information to the Authority so that they can be taken into account in reviewing and implementing the charge restriction conditions applicable to those affiliates or related undertakings of the Applicant which are Distribution Services Providers and in whose Distribution Services Areas the Applicant undertakes distribution activity.
6. A copy of each proposed modification is annexed to this notice. Further copies of the proposed modifications or the open letters referred to above can be obtained (free of charge) from the Ofgem library, 9 Millbank, London, SW1P 3GE or from the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
7. Any representations or objections to the proposed modifications should be made on or before [date to be entered] to the address above and marked for the attention of Paul Darby or emailed to [connections@ofgem.gov.uk](mailto:connections@ofgem.gov.uk). Responses which are confidential should be marked accordingly.

**Rachel Fletcher**  
**Director, Distribution**  
**Duly Authorised on behalf of the Gas and Electricity Markets Authority**  
**XX XXX 2008**

## **SECTION A**

### Condition 1. Definitions for the standard conditions

Definitions in alphabetical order

|                   |  |
|-------------------|--|
| Permitted Purpose | means the purpose of any or all of the following:  |
|                   | (a) the licensee's Distribution Business;  |
|                   | (b) any De Minimis Business of the licensee within the limits imposed by paragraphs 8 to 10 of standard condition 29 (Restriction of activity and financial ring-fencing of the Distribution Business);  |
|                   | (c) any business or activity of the licensee to which the Authority has given its consent under paragraph 4 of standard condition 29; and  |
|                   | (d) where appropriate, without prejudice to the generality of sub-paragraphs (a) to (c), any payment or transaction lawfully made or undertaken by the licensee in accordance with paragraph 3 of standard condition BA3 (Restriction of Indebtedness and transfers of funds). |

### Condition 4. No abuse of the licensee's special position

#### **Prohibition of cross-subsidy**

4.9 ~~If the licensee is a Distribution Services provider, it~~ The licensee must ensure in carrying on its activities that the Distribution Business does not give any cross-subsidy to, or receive any cross-subsidy from, any other business of :

- (a) the licensee; or
- (b) any Affiliate or Related Undertaking of the licensee

## **SECTION BA. SPECIFIC**

### **Condition BA1. Regulation of charging arrangements**

#### **Introduction**

1. The licensee must make, and continue to make, charges available, in accordance with the requirements of this condition, for the provision of Use of System to any Authorised supplier of electricity that uses or wishes to use the licensee's Distribution System to supply electricity to Domestic Customers.

#### **Setting and restriction of charges**

2. The licensee's Use of System Charges in relation to Domestic Customers may vary according to the Distribution Services Area of the Electricity Distributor within which Domestic Premises are connected to the licensee's Distribution System.
3. The licensee must set those Use of System Charges so that, except with the Authority's consent, the standing charge, unit rate, and any other component of the charges does not exceed the Use of System Charges to equivalent Domestic Customers ("the equivalent charges").
4. For the purposes of paragraph 3, equivalent charges are the Use of System Charges made by the Electricity Distributor which has a Distribution Services Direction that specifies the Distribution Services Area in which the Domestic Premises connected to the licensee's Distribution System are located.
5. The Authority may give the licensee a direction that specifies which of the Use of System Charges made by the Distribution Services Provider for the Distribution Services Area mentioned in paragraph 4 are relevant for the purposes of determining the equivalent charges.

#### **Procedure for disapplying this condition**

6. The charging arrangements set out above will remain in force until such time and in such circumstances as are described in paragraphs 7 to 13.
7. The licensee may ask the Authority to consent to the disapplication of this condition (in whole or in part) by giving it a disapplication request made in accordance with paragraph 8.

8. A disapplication request must:
  - (a) be in Writing addressed to the Authority;
  - (b) specify the paragraph or paragraphs of this condition to which the request relates; and
  - (c) state the date proposed by the licensee (which must not be earlier than the date specified in paragraph 9) on and after which the specified paragraph or paragraphs would no longer have effect (“the disapplication date”).
9. Except with the Authority’s consent, no disapplication of this condition following its receipt of a disapplication request under paragraph 7 may have effect until whichever is the later of:
  - (a) a date not less than 18 months after delivery of the disapplication request; and
  - (b) 31 March 2011.
10. The licensee may withdraw a disapplication request at any time.

**Licensee’s right to disapply this condition**

11. If the licensee has given the Authority a disapplication request under paragraph 7, it may subsequently give the Authority a Notice that terminates the application of this condition or the part or parts of it specified in the request:
  - (a) in the circumstances described in paragraph 12, with effect from either the disapplication date or such earlier date to which the Authority has given its consent under paragraph 9; or
  - (b) in the circumstances described in paragraph 13, with effect from the disapplication date, so long as the licensee gives Notice within 30 days after the publication of the report mentioned in that paragraph.
12. The circumstances described in this paragraph are these:
  - (a) the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of this condition as specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date; and
  - (b) the licensee has not withdrawn its request.

13. The circumstances described in this paragraph are these:
- (a) the Competition Commission has made a report on a reference made by the Authority relating to the modification of this condition as specified in the licensee's disapplication request; and
  - (b) the Commission's report does not find that the ending of the charging arrangements in this condition, in whole or in part, would operate or might be expected to operate against the public interest.

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## **Condition BA2. Credit rating of the licensee**

### **Licensee's obligation**

1. The licensee must take all appropriate steps within its power to ensure that at all times it maintains an Investment Grade Issuer Credit Rating (which is to be interpreted in accordance with the provisions of paragraphs 2 to 4) or such arrangements as the Authority considers appropriate and has approved.

### **Meaning of Issuer Credit Rating**

2. For the purposes of paragraph 1, an Issuer Credit Rating is any of the following:
  - (a) an issuer rating by Standard & Poor's Ratings Group or any of its subsidiaries;
  - (b) an issuer rating by Moody's Investors Services Inc or any of its subsidiaries;
  - (c) an issuer senior unsecured debt rating by Fitch Ratings Ltd or any of its subsidiaries; or
  - (d) a rating which, in the Authority's opinion given by Notice to the licensee, is equivalent to any of those specified in sub-paragraph (a), (b) or (c) and is issued by:
    - (i) any of the credit rating agencies referred to in those sub-paragraphs, or
    - (ii) any other reputable credit rating agency which, in the Authority's opinion given by Notice to the licensee, has comparable standing in both the United Kingdom and the United States of America.

### **Meaning of Investment Grade**

3. An Investment Grade, in relation to any Issuer Credit Rating within the meaning of paragraph 2, is any of the following:
  - (a) an issuer rating of not less than BBB- by Standard & Poor's Ratings Group or any of its subsidiaries; or
  - (b) an issuer rating of not less than Baa3 by Moody's Investors Service Inc or any of its subsidiaries; or
  - (c) an issuer senior unsecured debt rating of not less than BBB- by Fitch Ratings Ltd or any of its subsidiaries; or

- (d) a rating which, in the Authority's opinion given by Notice to the licensee, is equivalent to any of those specified in sub-paragraph (a), (b) or (c ) and is issued by:
- (i) any of the credit rating agencies referred to in those sub-paragraphs, or
  - (ii) any other reputable credit rating agency which, in the Authority's opinion given by Notice to the licensee, has comparable standing in both the United Kingdom and the United States of America.

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## **Condition BA3. Restriction of Indebtedness and transfers of funds**

### **General prohibition**

1. In addition to complying with the requirements of standard condition 26 (Disposal of Relevant Assets), the licensee must not, without the consent of the Authority following the licensee's disclosure of all material facts, enter into any transaction or commitment of a type described or referred to in this condition that does not comply with the restrictions applicable to it under this condition.

### **Part A: Restricted Category 1**

2. The licensee must not create or continue or permit to remain in effect any mortgage, charge, pledge, lien or other form of security or encumbrance, or undertake any Indebtedness to any other person, or enter into any guarantee or any obligation, except in accordance with all of the following requirements:
  - (a) the transaction in question must be on an arm's length basis;
  - (b) it must be on normal commercial terms;
  - (c) it must be for a Permitted Purpose; and
  - (d) if it is within the ambit of standard condition 26 (Disposal of Relevant Assets), it must comply with the requirements of that condition.

### **Part B: Restricted Category 2**

3. The licensee must not transfer, lease, license, or lend any sum or sums, asset, right, or benefit to any Affiliate or Related Undertaking of the licensee except by way of any of the following transactions:
  - (a) a dividend or other distribution out of distributable reserves; or
  - (b) a repayment of capital; or
  - (c) a payment properly due for any goods, services, or assets provided on an arm's length basis and on normal commercial terms; or
  - (d) a transfer, lease, licence, or loan of any sum or sums, asset, right, or benefit that is on an arm's length basis, on normal commercial terms, and is made in compliance with the payment condition described in paragraph 4; or
  - (e) a repayment of, or payment of interest on, a loan that is not prohibited by paragraph 2; or

- (f) payments for group corporation tax relief or for the surrender of Advance Corporation Tax calculated on a basis not exceeding the value of the benefit received; or
  - (g) an acquisition of shares or other investments that is in conformity with paragraphs 2 and 3 of standard condition 29 (Restriction of activity and financial ring-fencing of the Distribution Business) and is made on an arm's length basis and on normal commercial terms.
4. The payment condition referred to in paragraph 3(d) is that the consideration due in respect of the transaction in question must be paid in full when the transaction is entered into unless either:
- (a) the counter-party to the transaction has and maintains until payment is made in full an Investment Grade Issuer Credit Rating; or
  - (b) the obligations of the counter-party to the transaction are fully and unconditionally guaranteed throughout the period during which any part of the consideration remains outstanding by a guarantor which has and maintains an Investment Grade Issuer Credit Rating.
5. The provisions of this Part B are subject to the provisions of Part C below.

**Part C: Circumstances that trigger the provisions of Part D**

6. The following paragraphs of this Part C set out each of the circumstances in which the licensee must not, except with the Authority's consent, enter into or complete any transaction of a type described or referred to in Part B except in accordance with the provisions of Part D below.
7. The circumstance described by this paragraph is that the licensee does not hold an Investment Grade Issuer Credit Rating.
8. The circumstance described by this paragraph is that the licensee holds more than one Issuer Credit Rating and one or more of the ratings so held is not Investment Grade.
9. The circumstance described by this paragraph is that the licensee holds an Issuer Credit Rating that is BBB– by Standard & Poor's Ratings Group or Fitch Ratings Ltd, or is Baa3 by Moody's Investors Service Inc, or is such higher Issuer Credit Rating as may be

specified by any of those credit rating agencies from time to time as the lowest Investment Grade credit rating, or is an equivalent rating from another agency that has been notified to the licensee by the Authority as of comparable standing for the purposes of standard condition BA2 (Credit rating of the licensee), and:

- (a) the rating in question is under review for possible downgrade; or
- (b) the licensee is on Credit Watch or Rating Watch with a negative designation; or, where neither sub-paragraph (a) nor (b) applies:
- (c) the licensee's rating outlook, as specified by any credit rating agency referred to in this paragraph 9 which at the relevant time has assigned the lower or lowest Investment Grade Issuer Credit Rating held by the licensee, has been changed from stable or positive to negative.

#### **Part D: Restricted Category 3**

10. Where any of the circumstances described or referred to under Part C applies, the licensee may not, without the consent of the Authority following the licensee's disclosure of all material facts, transfer, lease, license, or lend any sum or sums, asset, right, or benefit to any Affiliate or Related Undertaking of the licensee except by way of any of the following transactions:
- (a) a payment properly due for any goods, services, or assets in relation to commitments entered into before the date on which the relevant circumstance under Part C arose, and which are provided on an arm's length basis and on normal commercial terms; or
  - (b) a transfer, lease, licence, or loan of any sum or sums, asset, right, or benefit on an arm's length basis, on normal commercial terms, and where the value of the consideration due in respect of the transaction in question is payable wholly in cash and is paid in full when the transaction is entered into; or
  - (c) a repayment of, or payment of interest on, a loan that is not prohibited by paragraph 2 and which was contracted before the date on which the relevant circumstance under Part C arose, provided that such payment is not made earlier than the original due date for payment in accordance with its terms; or

- (d) payments for group corporation tax relief or for the surrender of Advance Corporation Tax calculated on a basis not exceeding the value of the benefit received, so long as the payments are not made before the date on which the amounts of tax thereby relieved would otherwise have been due.

#### **Part E: Restricted Category 4**

- 11. Subject to paragraph 12, the licensee must not:
  - (a) enter into any agreement or incur any commitment that incorporates a Cross-Default Obligation; or
  - (b) continue or permit to remain in effect any agreement or commitment that incorporates a Cross-Default Obligation subsisting at the date on which this condition takes effect in this licence.
- 12. The licensee may permit any Cross-Default Obligation in existence at the date mentioned in paragraph 11(b) to remain in effect for a period of not more than 12 months from that date, so long as:
  - (a) the Cross-Default Obligation is referable solely to an instrument that relates to the provision of a loan or other financial facilities granted before that date; and
  - (b) the terms on which those facilities have been made available as at that date are not varied or made more onerous.
- 13. Nothing in paragraph 11 or 12 prevents the licensee from giving any guarantee that is permitted by and compliant with the requirements of Part A.

#### **Part F: Variation of provision**

- 14. Where the licensee has obtained the Authority's consent to the use of alternative arrangements under paragraph 1 of BA2 (Credit rating of the licensee):
  - (a) the provisions of Part C will not apply to the licensee; but
  - (b) if those alternative arrangements are not maintained in accordance with any conditions imposed by the Authority when it gave its consent, the licensee must then not, without the Authority's consent, enter into or complete any transaction of a type described or referred to in paragraph 3 except in accordance with the provisions of Part D.

## Part G: Interpretation

15. In this condition:

**Cross-Default Obligation** means a term of any agreement or arrangement under which the licensee's liability to pay or repay any debt or other sum arises or is increased or accelerated, or is capable of arising or increasing or of being accelerated, because of a default (however it may be described or defined) by any person other than the licensee, unless:

- (a) that liability can arise only as the result of a default by a Subsidiary of the licensee;
- (b) the licensee holds a majority of the voting shares in that Subsidiary and has the right to appoint or remove a majority of its board of directors; and
- (c) that Subsidiary carries on business only for a purpose within sub-paragraph (a) or (b) of the definition of Permitted Purpose set out in standard condition 1 (Definitions for the standard conditions).

**Investment Grade** has the meaning given in standard condition BA2 (Credit rating of the Licensee).

**Issuer Credit Rating** has the meaning given in standard condition BA2 (Credit rating of the Licensee).

#### **Condition BA4. Specific restriction of activity**

1. The licensee must not procure or adopt, or distribute electricity through, any assets which would be Relevant Assets except where the information listed in paragraph 2 in relation to those assets has been provided to the Authority and the Authority has given its consent (which may not be unreasonably withheld).
2. The information referred to in paragraph 1 is:
  - (a) the name (if any) of the premises on which, or in connection with which, the assets will be installed or, if there is no name, a description of the premises in sufficient detail for its identification; and
  - (b) a map depicting the land area on which the assets will be installed on a scale of 1 : 50,000 or larger; and
  - (c) the name of any person (including a corporate person) who is or has been party to any contract for the construction or provision of, or the distribution of electricity through, those assets unless that person is an Electricity Supplier.
3. Nothing in this condition prevents the licensee from procuring or adopting, or distributing electricity through, additional Relevant Assets forming part of the same premises for which a consent under this condition has already been given unless such assets fall outside the scope of the information provided under paragraph 2 in relation to that consent.

## **Condition BA5. Accounting Reference Date and Delivery of Audited Accounts**

1. The licensee must by 31 December 2008 arrange for its accounting reference date to be changed to 31 March and must not thereafter change that date without the Authority's consent.
2. The licensee must, by 31 July 2009 and annually thereafter, deliver to the Authority audited accounts which have been prepared under sections 226 and 226A or, where appropriate, section 226B of the Companies Act 1985 and which comply with all relevant accounting and reporting standards currently in force that have been issued or adopted by the Accounting Standards Board or, if the accounts have been prepared under section 226B of the Companies Act 1985, by the International Accounting Standards Board.
3. In addition to the requirements contained in paragraph 2, the licensee must ensure that the audited accounts prepared for delivery to the Authority include segmented data for all reported amounts in those accounts, for the purposes of which each segment is to be treated as the Distribution Services Area of any Affiliate or Related Undertaking of the licensee that is a Distribution Services Provider.
4. Except and so far as the Authority otherwise consents, the licensee must publish a copy of its audited accounts by 31 July after the end of the Regulatory Year to which the accounts relate on its website (if it has one) or in any other manner which the licensee believes will ensure adequate publicity for the accounts.

## **Condition BA6. Reporting of revenue information and associated information**

1. This condition requires the licensee to collect and provide the Authority with revenue information and associated information on a common basis with those of its Affiliates or Related Undertakings that are Distribution Services Providers in such manner as will enable the Authority to monitor compliance by those Affiliates or Related Undertakings with the Charge Restriction Conditions of their licences.
2. Unless and so far as the Authority otherwise consents, the licensee must have and maintain appropriate systems, processes, and procedures to enable it:
  - (a) to measure and record the revenue information and associated information specified in the Schedule of Revenue Information (“the Schedule”) set out at Appendix 1, which is part of this condition; and
  - (b) to provide that information to the Authority in respect of such periods and within such timeframes as are specified in that Schedule.
3. In fulfilling its obligations under paragraph 2, the licensee must, wherever appropriate, act in accordance with the most recent version of the Authority’s Revenue Reporting RIGs, as defined in standard condition 33 of the Electricity Distribution licence held by a Distribution Services Provider.
4. Whenever revenue information is provided using Template A of the Revenue Reporting RIGs in accordance with the requirements of the Schedule, the licensee must ensure that this submission of information is accompanied by a report addressed to the Authority from an Appropriate Auditor that states whether in his opinion:
  - (a) the information provided has been properly prepared; and
  - (b) the amounts presented are in accordance with the licensee’s records maintained by virtue of paragraph 2.
5. The licensee must ensure that the report from the Appropriate Auditor under paragraph 4 is accompanied by a letter from that auditor to the Authority that details the procedures that he has followed in reaching his opinion.
6. For the purposes of paragraph 4, the licensee must at its own expense enter into a contract of appointment with the Appropriate Auditor which includes a term that

requires the audit to be conducted in accordance with all such relevant auditing standards in force on the last day of the year to which the audit relates as would be appropriate.

7. The licensee must co-operate fully (and must ensure, so far as it can, that any Affiliate or Related Undertaking of the licensee co-operates fully) with the Appropriate Auditor so as to enable him to complete and report to the Authority on any audit carried out in accordance with paragraph 4.
8. The licensee must take all appropriate steps within its power to ensure that information provided to the Authority for the purposes of this condition in relation to any given Regulatory Year using Template A of the Revenue Reporting RIGs is not restated after the date on which that information has been so provided except where restatement is necessary in the opinion of the Appropriate Auditor.
9. For the purposes of this condition, **Appropriate Auditor** means, for as long as the licensee is a company within the meaning of section 735 of the Companies Act 1985, a person duly appointed as auditor under Chapter V of Part X1 of that Act.

## **Appendix 1: Schedule of Revenue Information**

- A1. As provided for at paragraph 2, this Schedule details the revenue information and associated information that the licensee must measure and record under this condition, the periods in respect of which the licensee must collect it, and the timeframes within which the licensee must give it to the Authority.

### **Meaning of revenue information and associated information**

- A2. For the purposes of this condition, revenue and associated information means such items referred to in the Revenue Reporting RIGs as the Authority considers are necessary to monitor, to an appropriate degree of accuracy, compliance by any Affiliate or Related Undertaking of the licensee that is a Distribution Services Provider with the Charge Restriction Conditions of its licence, and will include the items specified below:
- (a) a breakdown of revenue from demand Use of System Charges and associated information;
  - (b) a breakdown of revenue from generation Use of System Charges and associated information;
  - (c) a breakdown of revenue from other charges;
  - (d) numbers of units distributed and losses.

### **Collection periods and reporting timeframes**

- A3. Information specified under this Schedule must be collected in respect of the period comprising each Regulatory Year.
- A4. Revenue and associated information collected in accordance with this Schedule must be provided to the Authority as follows:
- (a) in the case of finalised information and totals relating to the whole of each Regulatory Year: by no later than 31 July in the next Regulatory Year, making use of Template A in the Revenue Reporting RIGs for the purpose of such reporting; and
  - (b) in the case of forecast information relating to each Regulatory Year: by no later than 31 October of the relevant Regulatory Year in respect of the licensee's

estimates made after 31 July of that year, making use of Template B in the Revenue Reporting RIGs for the purpose of such reporting.

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## **Condition BA7. Cost reporting information and associated information**

1. This condition requires the licensee to collect and provide the Authority with cost reporting information and associated information, on a common basis with each of the licensee's Affiliates or Related Undertakings that is a Distribution Services Provider, in such manner as will enable the Authority to review or modify the Charge Restriction Conditions in the licence held by each such Distribution Service Provider.
2. Except and so far as the Authority otherwise consents, the licensee must prepare cost reporting information and associated information in respect of each Regulatory Year:
  - (a) derived from appropriate accounting and other records and on a basis consistent with that used by those of its Affiliates or Related Undertakings that are Distribution Services Providers; and
  - (b) wherever appropriate, in accordance with the most recent version of the Authority's Cost Reporting RIGs, as defined in standard condition 33 of the Electricity Distribution licence held by a Distribution Services Provider.
3. The cost reporting information and associated information referred to in paragraphs 1 and 2 must be provided both in an aggregated form and in a form that is disaggregated by reference to the Distribution Services Area of each of the licensee's Affiliates or Related Undertakings that is a Distribution Services Provider.
4. Except and so far as the Authority otherwise consents, the licensee must deliver cost reporting information and associated information prepared in accordance with paragraphs 1 to 3 to the Authority as soon as is reasonably practicable, and in any event not later than 31 July after the end of the Regulatory Year to which such information relates.
5. The Authority may review, or arrange for a person nominated by the Authority ("a Reviewer") to review, any matters in the cost reporting information and associated information in respect of which the Authority requires clarification.
6. Subject to paragraph 8, the licensee must give the Authority or (as the case may be) the Reviewer all such assistance as it or he may reasonably require for the purposes of any review carried out under paragraph 5.

7. The licensee's obligation to assist the Authority or a Reviewer under paragraph 6 includes an obligation to ensure, so far as it can, that the following persons also assist the Authority or a Reviewer:
  - (a) any Affiliate or Related Undertaking of the licensee;
  - (b) any person by whom the licensee procures the performance of any obligation imposed by or under this condition; and
  - (c) any auditor of such person, or of the licensee, or of any Affiliate or Related Undertaking of the licensee.
8. The licensee is not required to perform its obligations in relation to a Reviewer and his functions unless the Reviewer has entered into an agreement with the licensee to maintain confidentiality on reasonable terms.
9. The Cost Reporting RIGs may specify which (if any) of the cost reporting information and associated information provided to the Authority under this condition is to be subject to publication by the Authority (having particular regard to section 105 of the Utilities Act 2000).
10. Where any modification of the Cost Reporting RIGs relates to the introduction of a requirement to provide:
  - (a) a new category of information; or
  - (b) an existing category of information to a greater level of detail,and such information has not previously been collected by the licensee, it will be acceptable for the licensee to provide estimates to the Authority in respect of the relevant category of information, for the Regulatory Year in which the modification is made and for any preceding Regulatory Year, derived from such other information available to the licensee as may be appropriate.

To:

1. The Company Secretary  
EDF Energy Networks (LPN) plc  
(Company Number 03929195)  
40 Grosvenor Place  
Victoria  
London  
SW1X 7EN
2. All Interested Parties

## **Notice under section 11 of the Electricity Act 1989**

The Gas and Electricity Markets Authority ('the Authority') hereby gives notice pursuant to section 11 of the Electricity Act 1989 ('the Act') as follows:

1. The Authority proposes to modify the distribution licence ('the licence') treated as granted under section 6(1)(c) of the Act to EDF Energy Networks (LPN) plc ('the licensee') by:
  - a. adding wording to paragraph 1 of Special Condition B2 (Restriction of distribution charges: allowed pass-through items) so that the purpose of the condition includes providing for an adjustment to the charge restriction conditions to reflect revenues received by an affiliate IDNO and adding to paragraph 2 an additional term to provide for an adjustment to the charge restriction conditions to reflect applicable revenues received by an affiliate IDNO;
  - b. adding to paragraph 2 of Special Condition D1 (restriction of distribution charges: generation use of system charges) an additional term to provide for an adjustment to the charge restrictions relating to generation use of system charges to reflect applicable revenues received by an affiliate IDNO; and
  - c. adding to paragraph 2 of Special Condition D2 (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones) an additional term to provide for an adjustment to allowed network generation revenue relating to the applicable incentivised capacity of relevant DG that is connected to the distribution system of an affiliate IDNO

as set out in bold text in Annex 1 to this notice.

2. The effect of the modifications is to capture, for the purposes of the charge restriction conditions contained in the Licence, the relevant activities of EDF Energy (IDNO) Ltd.
3. The reasons for the modifications are set out in Ofgem's open letter dated 16 May 2008 (Application by EDFE (IDNO) Ltd for an electricity distribution licence) which is available (free of charge) from the Ofgem library, 9 Millbank, London SW1P 3GE (020 7901 7003) or the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)) and in summary, the Authority proposes to make the modifications in order to include, for price control purposes, the relevant activities of EDF Energy (IDNO) Ltd in the terms of the licensee's charge restriction conditions, to ensure, as far as possible, the same result for customers as if the Licensee undertook the activity itself.
3. Any representations or objections to the proposed licence modifications must be made in writing on or before XX XXX 2008 and should be addressed to Paul Darby, Distribution Policy Manager, Electricity Distribution, Ofgem, 9 Millbank, London SW1P 3GE (020 7901 7072) or emailed to [connections@ofgem.gov.uk](mailto:connections@ofgem.gov.uk). Responses which are confidential should be marked accordingly.

**Rachel Fletcher**  
Director, Distribution  
Authorised on behalf of the Gas and Electricity Markets Authority  
XX XXX 2008

Special Conditions B2, D1 and D2 showing proposed modification (additions) in bold type:

SPECIAL CONDITION B2 – Restriction of distribution charges: allowed pass-through items

1. The purpose of this condition is to provide for adjustments to the charge restriction conditions to reflect certain costs that can be passed through to demand customers of the licensee through allowed demand revenue **and to provide for an adjustment to the charge restriction conditions to reflect revenues received by an affiliate IDNO as specified in paragraph 2.**

Formula for allowed pass-through items ( $PT_t$ )

2. For the purposes of paragraph 3 of special condition B1 (Restriction of distribution charges: demand use of system charges),  $PT_t$  is derived from the following formula:

$$PT_t = LF_t + RB_t - HB_t + MPT_t + UNC_t - IDNO_t$$

where:

$LF_t$  means an amount (whether positive or negative), as derived from the formula set out in paragraph 3, representing a licence fee adjustment.

$RB_t$  means an amount (whether positive or negative), as derived from the formula set out in paragraph 4, representing a business rates adjustment.

$HB_t$  means the amount received by the licensee, arising from any direction given by the Secretary of State in accordance with section 184 of the Energy Act 2004 in relation to assistance for high-cost distributors.

$MPT_t$  means an amount (whether positive or negative), as derived from the formula set out in paragraph 5, representing an adjustment for other pass-through items.

UN<sub>Ct</sub> means an amount in the relevant year *t* representing a relevant adjustment to the charge restriction conditions arising from the application of special condition A3 (Arrangements for the recovery of uncertain costs).

**IDNO<sub>t</sub> means an amount in the relevant year *t* representing the revenue from demand use of system charges received by any affiliate or related undertaking of the licensee which holds an electricity distribution licence but which is not a distribution services provider (referred to in the Special Conditions of this licence as an ‘affiliate IDNO’), but limited to the portion of that revenue which relates to use of relevant assets belonging to that affiliate IDNO which are situated within the geographical boundaries of the licensee’s distribution services area. For the purposes of determining the amount to be applied, the words ‘demand use of system charges’ and ‘relevant assets’ have the same meaning and scope as used elsewhere in this licence.**

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SPECIAL CONDITION D1 – Restriction of distribution charges: generation use of system charges

1. The purposes of this condition are to establish the charge restrictions that determine the level of allowed network generation revenue that may be recovered from generation use of system charges by the licensee and to set out the obligation of the licensee in respect of those restrictions.

Formula for allowed network generation revenue ( $AG_t$ )

2. The licensee, in setting its generation use of system charges, shall take all appropriate steps within its power to ensure that, in the relevant year t, network generation revenue does not exceed allowed network generation revenue calculated in accordance with the following formula:

$$AG_t = IG_t + RPZ_t - KG_t - IDNOG_t$$

where:

$AG_t$  means allowed network generation revenue in the relevant year t.

$IG_t$  is the incentive revenue for distributed generation, and in the relevant year t is derived from the formula in paragraph 2 of special condition D2 (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones).

$RPZ_t$  is the incentive revenue for registered power zones, and in the relevant year t is derived from the formula in paragraph 9 of special condition D2 (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones).

$KG_t$  means the correction factor in relevant year t, whether of a positive or negative value, calculated in accordance with the formula given in paragraph 3.

**IDNOG<sub>t</sub> means an amount in the relevant year t representing the revenue from generation use of system charges received by any affiliate IDNO, but limited to the portion of that revenue which relates to use of relevant assets belonging to that affiliate IDNO which are situated within the geographical**

**boundaries of the licensee's distribution services area. For the purposes of determining the amount to be applied, the words 'generation use of system charges' and 'relevant assets' have the same meaning and scope as used elsewhere in this licence.**

Formula for the correction factor ( $KG_t$ )

3. For the purpose of paragraph 2,  $KG_t$  is derived from the following formula:

$$KG_t = (RG_{t-1} - AG_{t-1}) \times \left[ 1 + \frac{(I_t + PR_t)}{100} \right]$$

where:

$RG_{t-1}$  means the network generation revenue in the year preceding the relevant year t, except in the relevant year commencing 1 April 2005 where  $RG_{t-1}$  shall take the value of zero.

$AG_{t-1}$  means allowed network generation revenue in the year preceding the relevant year t, except in the relevant year commencing 1 April 2005 where  $AG_{t-1}$  shall take the value of zero.

$I_t$  means the average specified rate (as defined under those words in special condition A1 (Definitions and interpretation)) in the relevant year t.

$PR_t$  means the rate of interest that is applicable in accordance with paragraph 2 of special condition E1 (Charge restriction conditions: supplementary restrictions).

SPECIAL CONDITION D2 – Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones

1. The purposes of this condition are to provide for adjustments to allowed network generation revenue so as to reflect the performance of the licensee in relation to the incentive schemes for distributed generation and registered power zones established pursuant to standard condition 51 (Incentive Schemes and Associated Information for Distributed Generation, Innovation Funding and Registered Power Zones).
2. For the purposes of paragraph 2 of special condition D1 (Restriction of distribution charges: generation use of system charges),  $IG_t$  is the amount derived from the following formula:

$$IG_t = GI_t + GP_t + GO_t + IDNOA_t$$

3. **For the purposes of paragraph 2,  $IDNOA_t$  means an amount determined by recalculating values for  $GI_t$ ,  $GP_t$  and  $GO_t$  in accordance with the formulas in paragraphs 4 to 9 below but in each case, substituting for each capacity or capex value, the equivalent value for any affiliate IDNO, but limited to the portions of those values which relate to capacity or capex relating to relevant assets situated within the geographical boundaries of the licensee's distribution services area.**
4. For the purposes of paragraph 2,  $GI_t$  means the total incentive payment in the relevant year  $t$ , as derived from the following formula:

$$GI_t = PIAG_t \times gir \times gc_t$$

where:

$PIAG_t$  is the price index adjuster relating to DG, and is as set out in paragraph 7.

$gir$  is the incentive rate for the scheme, which takes the value of £1500 per MW of incentivised DG capacity, except in relation to Scottish Hydro-Electric Power Distribution Limited where it shall take the value of £2000 per MW.

$gc_t$  is the total incentivised capacity of relevant DG that is directly or indirectly connected to the licensee's distribution system as at 31 March of the relevant year  $t$ , expressed in MW.

5. For the purposes of paragraph 2,  $GP_t$  means an amount representing the pass-through revenue in respect of the connection of distributed generation in the relevant year  $t$ , and is calculated in accordance with the following formula:

$$GP_t = PIAG_t \times \sum_{j=\max(y,t-P)}^{t-1} \left[ \frac{1}{PIAG_j} \times \left( \frac{r}{1 - \frac{1}{(1+r)^P}} \right) \times (gp_j - gt_j) \right]$$

where:

$PIAG$  is the price index adjuster relating to DG, and is as set out in paragraph 7.

$r$  is the allowed pre-tax cost of capital, expressed in real terms, which, for the purposes of this condition, shall take the value of 6.9%.

$y$  is the value of  $t$  for the relevant year commencing 1 April 2005.

$P$  means the number of complete relevant years over which use of system capex is remunerated, which for the purposes of this condition takes the value of 15.

$gp_j$  means the amount of total use of system capex that is subject to the pass-through arrangement of the incentive scheme in the relevant year  $j$  and is derived from the following formula:

$$gp_j = ptrg \times (gps_j + gpc_j) - gpc_j$$

where:

$ptrg$  is the pass-through rate and shall take the value of 0.8.

$gps_j$  is the amount, expressed in pounds sterling, of use of system capex for DG for relevant year  $j$ .

$gpc_j$  is the amount, expressed in pounds sterling, of shared connection capex for DG for relevant year  $j$ .

$gt_j$  is the amount of capex that is excluded from this calculation to reflect the transfer of capex from the DG incentive scheme in accordance with paragraph 9.

6. For the purposes of paragraph 2,  $GO_t$  is the adjustment to allowed network generation revenue in respect of the operational and maintenance costs of total capex for DG for relevant year  $t$ , and is derived from the following formula:

$$GO_t = PIAG_t \times gor \times gc_t,$$

where:

$PIAG_t$  is the price index adjuster relating to DG, and is as set out in paragraph 7.

$gc_t$  is as defined in paragraph 4.

$gor$  is the allowed operational and maintenance rate for all relevant DG, and has a value of £1000 per MW of incentivised DG capacity.

7. For the purposes of this condition,  $PIAG_t$  is the price index adjuster in relevant year  $t$  as derived from the following formula:

$$PIAG_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIAG_{t-1},$$

Where:

for the relevant year commencing 1 April 2005,  $PIAG = 1$ .

$RPI_t$  is as defined as in paragraph 4 of special condition B1 (Restriction of distribution charges: demand use of system charges).

8. For the purposes of this condition, the incentive rate for the scheme,  $gir$ , shall take the value set out in paragraph 4 for each and every relevant year up to and including the relevant year commencing 1 April 2024 insofar as it is applied to incentivised DG capacity relevant to the licensee's distribution system during the period from 1 April 2005 to 31 March 2010.
9. For the purpose of determining  $gt_j$  in paragraph 5, the licensee, with the consent of the Authority, may exclude capex in respect of those assets for which capex has been initially treated as use of system capex for DG but in respect of which:

- (a) the incentivised DG capacity utilising those assets has fallen because the owner or operator of a relevant DG, or any agent thereof, has terminated its agreements for generator use of system (or such parts of any other use of system agreements as may apply) and connection to an authorised distributor's distribution system, or has otherwise reduced the capacity required; and
- (b) those assets have a value that has not been fully depreciated through generation use of system charges for 15 complete relevant years in accordance with paragraph 5.

**10.** For the purposes of paragraph 2 of special condition D1 (Restriction of distribution charges: generation use of system charges),  $RPZ_t$  (the incentive revenue for registered power zones in the relevant year t) is derived from the formula:

$$RPZ_t = PIAG_t \times \min(RPZM, giz \times gcz_t)$$

where:

$PIAG_t$  is the price index adjuster relating to DG, and is as set out in paragraph 7.

$RPZM$  means the annual cap on RPZ revenue and takes the value of £500,000.

$giz$  means the incremental incentive rate for connecting a relevant DG within that area registered by the Authority as a registered power zone, and shall take a value of £3000 per MW of RPZ DG capacity.

$gcz_t$  is the amount of RPZ DG capacity, expressed in MW, connected to the licensee's distribution system in the relevant year t, as at 31 March of that year, within that area registered by the Authority as a registered power zone for the purposes of this condition.

11. For the purposes of this condition:

|                            |  |
|----------------------------|--|
| “capex”                    | means costs directly incurred by the licensee in relation to the installation or reinforcement of electrical lines or electrical plant forming part of the licensee's distribution system.   |
| “incentivised DG capacity” | <p>in relation to any relevant year, means the highest active electrical power that could be generated (or the relevant incremental change in this amount in cases involving the expansion of existing distributed generation) by a relevant DG for that year, according to:</p> <p>(a) the connection and use of system agreements in force on 31 March of that relevant year in relation to the relevant plant or apparatus; or</p> <p>(b) in any case of generation covered by Engineering Recommendation G83/1 (or any authorised successor thereof), the notification received by the licensee on or before 31 March of that year,</p> <p>in each case as connected at 31 March of the relevant year;</p> |
| “relevant DG”              | means distributed generation (except for distributed generation operating in parallel with the licensee’s distribution system for the purposes of standby) which has a connection start date on or after 1 April 2005 and is eligible for use of system charges (if any) in accordance with the licensee’s use of system charging methodology in place on or after 1 April 2005;   |
| “RPZ DG capacity”          | means the sum of incentivised DG capacity of all relevant DG with a connection point to that part of the licensee’s distribution system that forms a registered power zone;  |

|   |  |
|---|--|
| <p>“shared connection capex for DG”</p> | <p>means that part of the total capex for DG that is to be recovered from generation connection charges payable to the licensee, but exclusive of all costs relating to sole-use assets and, where appropriate, exclusive also of the incremental costs in excess of the high-cost project threshold (as set out in the licensee’s connection charging methodology statement in place on or after 1 April 2005);</p>   |
| <p>“total capex for DG”</p>             | <p>means the sum of all costs directly incurred by the licensee in relation to the installation or reinforcement of electrical lines or electrical plant necessary for the connection of relevant DG or any proposed or expected relevant DG for subsequent relevant years and, for the avoidance of doubt, includes the increase in the present value of costs resulting from the advancement in time, to within the relevant year, of the reinforcement of assets so as to facilitate the connection of the relevant DG;</p> |
| <p>“total incentivised DG capacity”</p> | <p>means the sum, for all relevant DG for the licensee’s distribution system, of the incentivised DG capacity;<br/>and</p>   |
| <p>“use of system capex for DG”</p>     | <p>means that amount of total capex for DG that is not remunerated through connection charges payable to the licensee,</p>   |

in each case above, all as more fully set out in the regulatory instructions and guidance for the time being in force under standard condition 51 (Incentive Schemes and Associated Information for Distributed Generation, Innovation Funding and Registered Power Zones) in relation to the incentive schemes established under that condition.