To the Company Secretary:



Scottish Hydro Electric Power Distribution plc Company Number: SC213460

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SCOTTISH HYDRO ELECTRIC POWER DISTRIBUTION PLC UNDER THE SPECIAL CONDITIONS OF ITS ELECTRICITY DISTRIBUTION LICENCE IN RESPECT OF THE ANNUAL ITERATION PROCESS FOR THE ED1 PRICE CONTROL FINANCIAL MODEL (PCFM)

WHEREAS

- 1. Scottish Hydro Electric Power Distribution plc ('the licensee') is the holder of an electricity distribution licence ('the licence') granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act').
- 2. For the purposes of these directions:
- (a) the expression 'Regulatory Year t' has the same meaning as is given to it in CRC 1B (Interpretation of Part 4) of the licence and references to Regulatory Year t-1 are to be construed accordingly; and
- (b) Regulatory Year 1 is the Regulatory Year that commences on 1 April 2022 and ends on 31 March 2023 ('Regulatory Year 2022/23').
- 3. CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model) requires the Gas and Electricity Markets Authority ('the Authority') to:
- (a) carry out the Annual Iteration Process for the ED1 Price Control Financial Model; and
- (b) direct the value of the term MOD for Regulatory Year t for the purposes of the formula specified in Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue); by 30 November in Regulatory Year t-1.
- 4. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values for the licensee for the purpose of the Annual Iteration Process for the ED1 Price Control Financial Model that forms part of CRC 4A (Governance of ED1 Price Control Financial Instruments) of the licence:
- CRC 3A (Legacy price control adjustments) in respect of LTPG, LTPS, LTPD, LTPC, OLREV, OLRAV and RIREV values;
- CRC 3B (Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments) in respect of ALC, ANLR, ANLO, AFE, ARP, ACO and TRE values;
- CRC 3C (Specified financial adjustments) in respect of EDE, TTE, TGIE and CDE values;
- CRC 3D (The Innovation Roll-out mechanism) in respect of IRM values;
- CRC 3E (Smart Meter Roll-out Costs) in respect of SMAE values;
- CRC 3F (Arrangements for the recovery of uncertain costs) in respect of UCHVP, UCEPS, UCSSW, UCRE, UCSFE, UCCPC, UCSC, UCSEFEC, UCSEBC, UCSESPC and UCLB values;
- CRC 3G (Revising the allowed level of Load Related Expenditure) in respect of LRRC values;
- CRC 3H (Allowed expenditure on improving services to Worst Served Customers) in respect of WSCC values;
- CRC 3J (Allowed expenditure on Visual Amenity Projects) in respect of VAA values; and
- CRC 3N (Arrangements to exclude Green Recovery Scheme Project Costs from the Totex Incentive Mechanism) in respect of GRS values.
- 5. Each of the Special Conditions referred to in paragraph 4:
- (a) sets out the basis on which any revisions to relevant PCFM Variable Values are to be determined; and
- (b) where applicable, specifies the price control financial methodology in accordance with which revisions to the relevant PCFM Variable Value(s) are to be determined and the chapter of the ED1 Price Control Financial Handbook containing that methodology.
- 6. The reason for this direction is to revise the PCFM Variable Values as used in the Annual Iteration Process for the ED1 Price Control Financial Model (as each of those terms is defined in CRC 1B). The Annual Iteration Process is used to calculate the value of the term MOD for the purposes of the formula specified in CRC 2A (Restriction of Allowed Distribution Network Revenue).
- 7. In accordance with requirements set out in the Special Conditions referred to in paragraph 4, on 5 November 2021 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November 2021 in Regulatory Year t-1 and specified that any representations concerning the proposed values should be made within fourteen days of receiving the notice.

8. The Authority received no representations.

NOW the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, HEREBY DIRECTS that:

(a) the PCFM Variable Values referred to in paragraph 4 are to be revised as shown in Schedule 1 to these directions; and (b) the term MOD for the licensee for Regulatory Year 2022/23 is to take the value £7.3m.

Schedule 2 to these directions shows the complete PCFM Variable Values Table including the values revised under these directions (in bold font) and the values that have not been revised under these directions.

This constitutes notice of the reasons for the Authority's decision pursuant to section 49A of the Act.

Steve McMahon

Deputy Director, Networks Duly authorised on behalf of the Gas and Electricity Markets Authority 30 November 2021

SCHEDULE 1 TO THE AUTHORITY'S DIRECTIONS - REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except CDE shown to 2 d.p.)

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10001		PCFM Variable Value			31 March	31 March				31 March	31 March			
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no nom nom <td>AFE</td> <td>Actual faults expenditure</td> <td>CRC 3B</td> <td>Prices</td> <td></td> <td></td> <td>Revision</td> <td>Revision</td> <td>Revision</td> <td>Revision</td> <td>Revision</td> <td>14.0</td> <td>Revision</td> <td>Revision</td>	AFE	Actual faults expenditure	CRC 3B	Prices			Revision	Revision	Revision	Revision	Revision	14.0	Revision	Revision
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10001		Allowed Expenditure - Specified Street Works		Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
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SCHEDULE 2 TO THE AUTHORITY'S DIRECTION - VARIABLE VALUE TABLE

		Regulatory Year Ending											
Variable Name	Special Condition	Price Base / Units	Term	31 March		31 March	31 March						
		Thee base / onits	Term	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Allowed percentage cost of corporate debt	CRC 3C	Annual Real %	CDE			2.55%	2.42%	2.29%				1.62%	1.44%
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			4.0	8.2	7.0	4.9		7.7	-	-
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			32.1	34.8	34.1	43.0		48.1	-	-
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			9.6	11.3	12.6	11.2	11.5	9.6	-	-
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			10.8	10.4	10.8	14.2	20.6	14.0	-	-
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			6.1	5.8	6.1	6.6	6.2	5.7	-	-
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			7.3	7.8	6.3	5.6	5.9	6.0	-	-
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			72.8	82.2	75.4	78.7	88.2	97.5	-	-
Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS			-	-	-	-	-	-	-	-
Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 prices	UCHVP			-	-	-	-	-	-	-	-
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			-	0.2	0.7	0.2	0.1	0.1	-	-
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			-	-	-	-	-		-	-
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			0.1	0.3	0.4	0.4	0.3	0.1	-	-
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			-	-	-	-	-		-	-
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			8.8	10.5	14.2	15.2	19.4	18.9	22.7	21.4
Allowed Expenditure - Rail Electrification (WPD)	CRC 3K	£m 12/13 prices	RE			-	-	-	-	-		-	-
Allowed Expenditure - Moorside Costs (ENWL)	CRC 3L	£m 12/13 prices	UCMC			-	-	-	-	-		-	-
Allowed Expenditure - Shetland Uncertain Energy (SSEH)	CRC 3F	£m 12/13 prices	UCSFE			20.8	21.1	21.3	22.0	-		-	-
Allowed Expenditure - Shetland Competitive Process (SSEH)	CRC 3F	£m 12/13 prices	UCCPC			0.6	1.3	1.0	-	-		-	-
Allowed Expenditure - Link Boxes	CRC 3F	£m 12/13 prices	UCLB			-	-	-	-	-		-	-
Allowed Expenditure - Subsea Cables (SSEH)	CRC 3F	£m 12/13 prices	UCSC			1.4	5.4	3.8	8.2	3.2	3.5	9.4	10.4
Allowed Expenditure - Uncertain Rail Electrification Costs	CRC 3F	£m 12/13 prices	UCRE			-						-	-
Allowed Expenditure - Innovation Roll-out Mechanism	CRC 3D	£m 12/13 prices	IRM			-	-	-	-	-		-	-
Allowed Expenditure - Shetland Extension Fixed Energy Costs (SSEH)	CRC 3F	£m 12/13 prices	UCSEFEC			-				22.9	18.4	17.4	16.8
Allowed Expenditure - Shetland Enduring Solution Process Costs (SSEH)	CRC 3F	£m 12/13 prices	UCSESPC			-				1.4	0.9	0.7	0.4
Allowed Expenditure - Shetland Extension Battery Costs (SSEH)	CRC 3F	£m 12/13 prices	UCSEBC			-	-	-	-	6.3	0.1	0.1	0.1
Allowed Expenditure - Green Recovery Scheme	CRC 3N	£m 12/13 prices	GRS			-						4.5	7.4
Pension Scheme Established Deficit revenue adjustment	CRC 3C	£m 12/13 prices	EDE			12.9	12.9	12.9	12.9	0.7		-	(2.7)
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			(4.3)							. ,
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	0.9	(4.5)	. ,							
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV		. ,	1.1							
Tax liability revenue allowance adjustments - gearing / debt interest costs	CRC 3C	£m Nominal	TGIE			-	-	-	-			-	-
Tax liability revenue allowance adjustments - tax trigger events	CRC 3C	£m 12/13 prices	TTE			-	-	-		-		-	(0.8)
Legacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	(2.1)	4.3								. ,
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	1.9	13.6								
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	2.0	(11.4)								
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	1.8	(12.7)								
	0.10 0.1	2	20		()								