

## **DIRECTION UNDER PARAGRAPH 10 OF SPECIAL CONDITION G OF THE DISTRIBUTION LICENCE**

Whereas:

1. Central Networks West Plc (“the Licensee”) is the holder of a licence (“the Licence”) treated as granted under section 6(1)(c) of the Electricity Act 1989 (“the Act”) to distribute electricity for the purpose of giving a supply to any premises or enabling a supply to be so given in its authorised area for the term and upon the conditions specified in the Licence.
2. The Gas and Electricity Markets Authority (“the Authority”) has carried out a consultation exercise in accordance with paragraph 10A of Special Condition G (“the Condition”) of the Licence.
3. The Authority has considered all representations and objections made by the Licensee and has had regard to all relevant information and circumstances.
4. Pursuant to paragraph 10 of the Condition:
  - (a) the Licensee considers that its performance for calculating  $Q_t$  has been materially and adversely affected by an exceptional event (severe gales - 27 October to 01 November 2002) referred to in Annex 2 to the notice given under paragraph 10A of the Condition (the “reasons document”);
  - (b) the Licensee notified the Authority of the event within 14 days of the date upon which the Licensee considered such effect has ceased;
  - (c) after the end of the relevant year (2002/03) in which the event occurred, the consortium of Mott-MacDonald and British Power International (“together known as the examiner”) had reported to the Authority in respect of the event and its effect;
  - (d) the Licensee provided such other information as the Authority required; and
  - (e) the Authority is satisfied that the event of 27 October to 1 November 2002 is an exceptional event having regard to the criteria contained or referred to in the conclusions document<sup>1</sup>.

Now, for the reasons specified in the notice issued pursuant to paragraph 10A of the Condition, in the Reasons document for the Authority’s direction under section 49A (1)(c) of the Act, the Authority directs under paragraph 10 of the Condition that for the purpose of calculating  $Q_t$  in respect of the relevant year in which the event occurred, the constituent data relevant to the event shall be adjusted as follows:

- (1) In respect of the event of 27 October to 01 November 2002,  $CIIS_t$  for the year commencing 1 April 2002 shall be adjusted from 115.23 to 103.34 and  $CMLIS_t$  for the year commencing 1 April 2002 shall be adjusted from 204.15 to 137.94.

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<sup>1</sup> “the conclusions document” means the document issued by the Authority entitled “Information and Incentives project Incentive Schemes Final Proposals December 2001 78/01”, paragraph 2.60, page 25

## Overall Distribution Standards of Performance

In respect of the event of 27 October to 01 November 2002, the number of customers affected for the purpose of Service 5 of the Overall Distribution Standards of Performance shall be adjusted by the Licensee in accordance with the direction under paragraph 10 of the Condition.

## **NOTICE OF REASONS FOR DECISION UNDER SECTION 49A(1)(c) OF THE ELECTRICITY ACT**

**The Gas and Electricity Markets Authority (“the Authority”) hereby gives notice pursuant to section 49A(1)(c) of the Electricity Act 1989 (“the Act”) as follows:**

1. The Authority has decided to give a direction under paragraph 10 of Special Condition G (“the Condition”) of the distribution licence (“the Licence”) treated as granted under section 6(1)(c) of the Electricity Act 1989 (“the Act”) to Central Networks West Plc (“the Licensee”).
2. The Authority has carried out a consultation exercise in accordance with paragraph 10A of the Condition.
3. In summary, the effect of the direction is to revise the values of the specified information in column A of Table A below so as to be those set out in Column B of Table A below.

**Table A: Effect of the direction on the Licensee<sup>1</sup>**

Column A	Column B
CIIS <sub>t</sub> for the year commencing 1 April 2002	103.34
CMLIS <sub>t</sub> for the year commencing 1 April 2002	137.94

4. The reasons why the Authority has decided to give this direction are set out in the annex to this notice. In reaching its decision to issue a direction under paragraph 10 of the Condition the Authority has taken account of all representations and objections it has received to the consultation under paragraph 10A of the Condition.
5. A copy of the direction and other documents referred to in this notice are available (free of charge) from the Ofgem library (telephone 020 7901 1600).

**Dated the 5 July 2004**

**Martin Crouch**

**Director, Electricity Distribution**

**Duly authorised by the Authority**

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<sup>1</sup> See paragraph 6 of Special Condition G

**Annex  
to  
Section 49A Electricity Act Notice of Reasons for  
Directions Under Distribution Licence Special Licence  
Condition G – Central Networks West Plc**

**1. Introduction**

- 1.1 This document sets out the reasons for the Authority's decision to issue a direction under the Condition of the Licence.<sup>2</sup>

**2. Exceptional Events**

*Adjustments*

- 2.1 CN (West) notified the Authority that it considered the severe weather on Sunday 27 October 2002 (Exceptional Event 1) to be an exceptional event (for the purposes of paragraph 10 of the Condition) and to have had a material and adverse impact on its interruption performance.
- 2.2 The audited impact of the exceptional event on CN (West) 2002/3 performance is set out in Table 2.1 below:

**Table 2.1: Impact of 27 October 2002 storms**

	CI	CIIS	CML	CMLIS
Event 1: 27 October 2002	11.89	11.89	94.42	94.42

Note (1) CI and CML are un-weighted customer interruptions and customer minutes and CIIS and CMLIS are weighted customer interruptions and customer minutes lost as used in the incentive scheme.

- 2.2 The examiner<sup>3</sup> (Mott-MacDonald BPI) found that the event was exceptional, with more than 55 incidents at higher voltages being recorded in a 24 hour period, and had a material and adverse impact on interruption performance having caused more than 3.28 CIs.
- 2.3 The Authority has considered the recommendation of the examiner and other relevant information and circumstances (such as the DTI Storms report<sup>4</sup>, the DTI resilience report<sup>5</sup> and the Asset Risk Management survey<sup>6</sup>) and is satisfied that

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<sup>2</sup> A more detailed explanation of the adjustments and the reasons behind them is set out in the Reasons document for the Authority's direction on the public register.

<sup>3</sup> The Examiner is a person or persons nominated by the Authority to examine systems, processes and procedures referred to in paragraph 2 of Condition 49 and their operation. In this case the examiner is Mott-MacDonald BPI.

<sup>4</sup> Department of Trade and Industry - October 2002 Power System Emergency Post Event Investigation – 16 December 2002

<sup>5</sup> The Department of Trade and Industry resilience report may be viewed on the Department of Trade and Industry web site [www.dti.gov.uk/energy/domestic\\_markets/security\\_of\\_supply/bpifinalreport/shtml](http://www.dti.gov.uk/energy/domestic_markets/security_of_supply/bpifinalreport/shtml)

the event was exceptional. Under paragraph 10 of the Condition the Authority may therefore, in accordance with the provisions of that paragraph, make adjustments to CN (West)'s data in respect of that event.

- 2.4 In considering the appropriate level of the adjustments for the event, the Authority has taken into account the audited impact of the event, the examiner's views on the extent to which CN (West) had taken appropriate mitigating actions, its own analysis, the company's submissions and other relevant evidence.
- 2.5 On this basis the Authority has directed that that the following number and duration of interruptions should be excluded from CN (West)'s 2002/3 performance to take into account the impact of this event.

**Table 2.1: Adjustments for 27 October 2002 storm**

	CI	CIIS	CML	CMLIS
Event 1: 27 October 2002	11.89	11.89	66.21	66.21

Note (1) CI and CML are un-weighted customer interruptions and customer minutes and CIIS and CMLIS are weighted customer interruptions and customer minutes lost as used in the incentive scheme.

- 2.6 In light of these adjustments CN (West)'s final CIIS and CMLIS performance for 2002/03 are 103.34 and 137.94 CML respectively.

#### *Double Jeopardy*

- 2.7 CN (West) has argued that payments under the standards of performance for the October 2002 storms and penalties under the IIP incentive scheme for the same event constitute double jeopardy.
- 2.8 While the Authority considers that CN (West) should have been aware of the scope for penalties under both mechanisms, it acknowledges the fact that CN (West) agreed to go significantly beyond its strict legal obligations in making ex-gratia payments to a wider group of customers following the standards of performance determinations.
- 2.9 The Authority has considered this issue in the context of the current price control review and has proposed that, from 1 April 2005, there should be a full exemption for storms<sup>7</sup> under the IIP quality of service incentive for the number and duration of interruptions and that DNOs' incentive to restore customers' supplies promptly following severe weather should be strengthened by refining the interim arrangements. This should remove any question of double jeopardy. In the light of this approach the Authority has decided that it would be appropriate to net off against the 2002/3 CML penalty arising from the October

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<sup>6</sup> Ofgem Asset Risk Management Survey – Composite Industry Report – December 2002

<sup>7</sup> The threshold for severe weather exceptional events will be determined as part of the distribution price control review.

2002 storms ex-gratia payments made to the wider group of customers following the determinations in September 2003.