

The Company Secretary
Northern Electric Distribution Ltd
(Company Number 02906593)
Lloyds Court
78 Grey Street
Newcastle upon Tyne
NE1 6AF

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 Northern Electric Distribution Ltd ('the licensee') by inserting into paragraph 3 of Special Condition C2 (Calculation of charge restriction adjustments arising from performance in respect of quality of service) an additional formula to determine the value of the quality of service adjustment term (IQ_t) for the relevant year commencing 1 April 2007, such that the existing formula in paragraph 3 shall still be used to determine the value of IQ_t in the relevant year commencing 1 April 2008 and in each subsequent relevant year, as set out in bold text in Annex 1 to this notice.
2. The reasons why the Authority proposes to make the modification and its effect are set out in the 6 June 2007 statement (the 'statement') by the Authority, following its investigation into compliance by the licensee (and Yorkshire Electricity Distribution plc) with standard condition 49 (Quality of Service Incentive Scheme and Associated Information) of the licence (the 'statement'), 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) and in summary, the Authority proposes to make the modification in order to:
 - a. ensure that customers are no worse off than had the licence breaches referred to in the statement not occurred; and
 - b. reduce the licensee's allowed demand revenue as agreed with the licensee.
3. The effect of the modification will be to reduce the amount of quality of service incentive (other than any adjustments in respect of performance for supply restoration and before application of the existing interest rate factor) for the relevant year commencing 1 April 2007 from £1.8m (which the licensee would otherwise have achieved for that relevant year) to £0.9m. This is the result of a reduction of £0.9m, being the adjustment referred to in paragraph 8 (and note ² thereto) of the statement.

4. Any representations or objections to the proposed licence modifications must be made in writing on or before 10 July 2007 and should be addressed to Paul Darby, Regulatory Reporting Manager, Electricity Distribution, Ofgem, 9 Millbank, London SW1P 3GE (020 7901 7072) or paul.darby@ofgem.gov.uk.



Martin Crouch

Director – Electricity Distribution

Authorised on behalf of the Gas and Electricity Markets Authority

6 June 2007

Annex 1 to Notice under section 11 of the Electricity Act 1989

Paragraph 3 of Special Condition C2 showing proposed modification (insertion) in bold type:

...

3. For the purposes of paragraph 2 of special condition B3 (Restriction of distribution charges: total incentive revenue adjustment) in the relevant year commencing on 1 April 2006, IQ_t shall be the amount derived from the following formula:

$$IQ_t = qf_t + qg_t$$

In the relevant year commencing on 1 April 2007 **only and in each subsequent relevant year t**, IQ_t shall be the amount derived from the following formula:

$$IQ_t = \text{£}0.9\text{m} \times \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \right] + qf_t + qg_t$$

In the relevant year commencing on 1 April 2008 and in each subsequent relevant year t, IQ_t shall be the amount derived from the following formula:

$$IQ_t = [qa_{t-2} + qb_{t-2} + qc_{t-2} + qd_{t-2} + qe_{t-2}] \times \left[\left(1 + \frac{I_t}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right) \right] + qf_t + qg_t$$

where:

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

...