

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

## **SECTION 11 OF THE ELECTRICITY ACT 1989**

MODIFICATION OF THE DISTRIBUTION LICENCE GRANTED OR TREATED AS  
GRANTED UNDER SECTION 6(1)(c) OF THE ELECTRICITY ACT 1989  
TO NORTHERN ELECTRIC DISTRIBUTION LTD, AND

## **SECTION 49A OF THE ELECTRICITY ACT 1989**

NOTICE OF REASONS FOR THE DECISION OF THE GAS AND ELECTRICITY MARKETS  
AUTHORITY TO MODIFY THE DISTRIBUTION LICENCE GRANTED OR TREATED AS  
GRANTED TO NORTHERN ELECTRIC DISTRIBUTION LTD

### **WHEREAS**

1. Northern Electric Distribution Ltd ("the Licensee"), is the holder of a distribution licence ("the Licence") granted or treated as granted by the Gas and Electricity Markets Authority ("the Authority") under section 6(1)(c) of the Electricity Act 1989 ("the Act");
2. In accordance with section 11 of the Act the Authority gave notice on 6 June 2007 on its website that it proposed to modify the Licence by altering paragraph 3 of Special Condition C2 (Calculation of charge restriction adjustments arising from performance in respect of quality of service) to include 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 will 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 that notice; and specified that representations or objections to the proposed modification must be made on or before 10 July 2007.
3. In accordance with section 11(4) of the Act the Authority sent a copy of the notice of its proposal to make the modification to the Secretary of State and did not receive by 10 July 2007 or at all, a direction from the Secretary of State not to make any modification.
4. On 2 July 2007 the Licensee consented in writing to the modification and no representations or objections to the modification were received by the Authority by 10 July 2007 or at all.

5. The reasons for the decision to modify the Licence are set out in the 6 June 2007 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 modification will:
  - 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.
6. 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 £1.8 million (which the Licensee would otherwise have achieved for that relevant year) to £0.9 million; this being the result of a reduction of £0.9 million as the adjustment referred to in paragraph 8 (and note 2 thereto) of the statement.

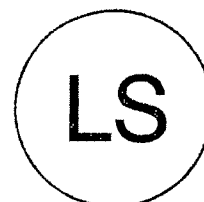
**NOW** in accordance with the powers contained in section 11 of the Act and with the consent of the Licensee, the Authority **HEREBY MODIFIES** the Licence by inserting into paragraph 3 of Special Condition C2 (Calculation of charge restriction adjustments arising from performance in respect of quality 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 as set out in bold text in Annex 1 hereto.

This document also constitutes notice of reasons under section 49A of the Act for the Authority's decision to modify the Licence.

The Official Seal of the Gas and Electricity Markets Authority hereto affixed is authenticated by the signature of



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Martin Crouch – Director, Electricity Distribution



Duly Authorised on behalf of the Authority

**Annex 1 to Modification of the Distribution Licence Granted or Treated as Granted Under Section 6(1)(c) of the Electricity Act 1989 to Northern Electric Distribution Ltd**

Paragraph 3 of Special Condition C2 showing alteration in bold type:

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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**,  $IQ_t$  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.

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