

The Company Secretary
EDF Energy Networks (LPN) plc
(Company Number 03929195)
40 Grosvenor Place
Victoria
London
SW1X 7EN

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 EDF ENERGY NETWORKS (LPN) PLC, 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 EDF ENERGY NETWORKS (LPN) PLC

WHEREAS

1. EDF Energy Networks (LPN) plc ("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 August 2008 on its website that it proposed to modify the Licence by:
 - a. amending the definitions of the terms D_{it} and C_t in paragraph 4 of Special Condition B1 (Restriction of distribution charges: demand use of system charges)
 - b. adding wording to paragraph 1 of Special Condition B2 (Restriction of distribution charges: allowed pass-through items)
 - c. adding a term to paragraph 2 of Special Condition D1 (Restriction of distribution charges: generation use of system charges)
 - d. adding a term to paragraph 2 of Special Condition D2 (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones)

to capture, for the purposes of the charge restriction conditions contained in the Licence, the relevant activities of EDF Energy (IDNO) Ltd 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 9 September 2008.

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 9 September 2008 or at all, a direction from the Secretary of State not to make any modification.
4. The reasons for the decision to modify the Licence are set out in Ofgem's open letters dated 16 May 2008 (Application by EDF Energy (IDNO) Ltd for an electricity distribution licence) and 6 August 2008 (Application by EDF Energy (IDNO) Ltd for an electricity distribution licence – Formal proposal of licence modifications).
5. In summary, the effect of the modifications is to include, for price control purposes, the distribution activities of EDF Energy (IDNO) Ltd in the terms of the Licensee's charge restriction conditions, insofar as those activities take place within the Licensee's Distribution Services Area. In its letter dated 6 August 2008, referred to above, the Authority stated that it was minded to grant an electricity distribution licence to EDF Energy (IDNO) Ltd subject to proposed modifications set out in a notice under section 8A(3) of the Electricity Act 1989, dated 6 August 2008.
6. In response to its letter and notices dated 6 August 2008 the Authority received three formal objections to the granting of a distribution licence to EDF Energy (IDNO) Ltd and, by implication, to the associated changes to the charge restriction conditions applicable to the Licensee. Those not marked as confidential have been placed on the Authority's website.
7. The Authority carefully considered the views and opinions contained in those responses and in two other letters referred to the Authority which expressed concerns regarding the granting of a distribution licence to EDF Energy (IDNO) Ltd. On 26 November 2008 the Authority published an open letter (EDF Energy (IDNO) Ltd Decision on Licence Application) in which it stated that its decision was to grant a modified distribution licence to EDF Energy (IDNO) Ltd and to modify the Licensee's Licence. On 10 September 2008 the Licensee consented in writing to the modification of the Licence.
8. The documents referred to in this document as having been published or placed on the Authority's website are available (free of charge) from the Ofgem library, 9 Millbank, London SW1P 3GE (020 7901 7003) or the Ofgem website (www.ofgem.gov.uk).

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

- a. amending the definitions of the terms D_{it} and C_t in paragraph 4 of Special Condition B1 (Restriction of distribution charges: demand use of system charges)
- b. adding wording to paragraph 1 of Special Condition B2 (Restriction of distribution charges: allowed pass-through items)

- c. adding a term to paragraph 2 of Special Condition D1 (Restriction of distribution charges: generation use of system charges)
- d. adding a term to paragraph 2 of Special Condition D2 (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones)

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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Rachel Fletcher – Director, Distribution

Duly Authorised on behalf of the Authority



22 January 2009

Annex 1 to Modification of the Distribution Licence Granted or Treated as Granted Under Section 6(1)(c) of the Electricity Act 1989 to EDF Energy Networks (LPN) plc

Special Conditions B1 (extract), B2 (extract), D1 and D2 showing proposed modification (additions) in bold type:

SPECIAL CONDITION B1 – Restriction of distribution charges: demand use of system charges

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

Restriction on setting demand use of system charges

2. The licensee, in setting its demand use of system charges, shall take all appropriate steps within its power to ensure that, in the relevant year t, combined distribution network revenue does not exceed combined allowed distribution network revenue.

Formula for allowed demand revenue (AD_t)

3. Allowed demand revenue shall be calculated in accordance with the following formula:

$$AD_t = BR_t + PT_t + IP_t - KD_t$$

where:

AD_t means allowed demand revenue in the relevant year t.

BR_t means the amount of base demand revenue in the relevant year t calculated in accordance with the formula set out in paragraph 4.

PT_t means the revenue adjustment, whether of a positive or negative value, made in the relevant year t in respect of allowed pass-through items as derived in accordance with special condition B2 (Restriction of distribution charges: allowed pass-through items).

IP_t means the total amount of incentive revenue, whether of a positive or negative value, calculated for the relevant year t in accordance with special condition B3 (Restriction of distribution charges: total incentive revenue adjustment).

KD_t means the correction factor, whether of a positive or negative value, calculated for the relevant year t in accordance with the formula set out in paragraph 5.

Formula for base demand revenue (BR_t)

4. For the purposes of paragraph 3, BR_t is derived from the following formula:

$$BR_t = (PU \times GR_t + PE) \times PIAD_t - MG_t$$

where:

PU means the amount set against that term in the part of Annex A that applies to the licensee, and represents the revenue allowance determined by the Authority in relation to the distribution of electricity to LV and HV premises at the time that the allowance was established.

PE means the amount set against that term in the part of Annex A that applies to the licensee, and represents the revenue allowance determined by the Authority in relation to the distribution of electricity to EHV premises at the time that the allowance was established.

GR_t is the growth term, and in the relevant year commencing 1 April 2005 has the value of 1 and then in the relevant year commencing 1 April 2006 and each subsequent relevant year is derived from the following formula:

$$GR_t = 0.5 \times \left[\frac{\sum P_{0i} \times D_{it}}{\sum P_{0i} \times D_{it-1}} + \frac{C_t}{C_{t-1}} \right] \times GR_{t-1}$$

where:

\sum means the summation across all distribution unit categories i as described in the definition of the term P_{0i} .

P_{0i} means, in respect of each distribution unit category i set out against the licensee's name in Annex B, the corresponding value of P_0 that applies in respect of that category.

D_{it} means the total number of units distributed in the relevant year t to premises directly connected to the distribution system of the licensee **or directly connected to the distribution system of any affiliate or related undertaking of the licensee which holds an electricity distribution licence but which is not a distribution services provider (hereinafter referred to in the special conditions of this licence as an 'affiliate IDNO')**, within ~~its~~ **the licensee's** distribution services area which fall within the relevant distribution unit category i. **For the purposes of this definition, to avoid the double counting of units, the distribution system of any affiliate IDNO shall not be considered premises.**

C_t means the number of energised or de-energised exit points on the licensee's distribution system **or on the distribution system of any affiliate IDNO, within the licensee's distribution services area**, in the relevant year t, for which there is a valid metering point administration number, as calculated on 30 September of that year.

$PIAD_t$ is the price index adjuster, which in the relevant year commencing 1 April 2005 has the value of 1 and in each subsequent relevant year is derived from the following formula:

$$PIAD_t = \left(1 + \frac{RPI_t - X}{100} \right) \times PIAD_{t-1}$$

where:

RPI_t means the percentage change (whether positive or negative) between the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months July to December (inclusive) in the relevant year t-2 and the arithmetic average of the Retail Price Index numbers published or determined with respect to the same months in relevant year t-1.

X shall, in relation to the relevant year commencing 1 April 2006 and every subsequent relevant year, take the value of zero, except in respect of EDF Energy Networks (SPN) plc where, in the relevant year commencing 1 April 2006 and every subsequent relevant year, it shall take the value of -2.

MG_t is the merger adjustment, and is derived from the following formula:

$$MG_t = MR_t \times PIAM_t$$

where:

MR_t means the amount set against that term for each relevant year in the part of Annex C that applies to the licensee.

$PIAM_t$ in the year commencing 1 April 2001 equals 1 and in all subsequent years is derived from the following formula:

$$PIAM_t = \left[1 + \frac{RPI_t}{100} \right] \times PIAM_{t-1}$$

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.

UNC_t 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_t means an amount in the relevant year *t* representing the revenue from demand use of system charges received by any affiliate IDNO, but limited to the portion of that revenue which relates to the use of relevant assets belonging to that affiliate IDNO which are situated within the geographical boundaries of the licensee's distribution services area.

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_t 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.

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 ~~46 (Incentive Schemes and Associated Information for Distributed Generation, Innovation Funding and Registered Power Zones~~ **Incentive schemes for innovation funding and Distributed Generation**).
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;
“shared connection capex	means that part of the total capex for DG that is to be

for DG”	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);
“total capex for DG”	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;
“total incentivised DG capacity”	means the sum, for all relevant DG for the licensee’s distribution system, of the incentivised DG capacity; and
“use of system capex for DG”	means that amount of total capex for DG that is not remunerated through connection charges payable to the licensee,

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~~) **46 (Incentive schemes for innovation funding and Distributed Generation)** in relation to the incentive schemes established under that condition.