

**To:**

- 1. The Company Secretary  
Central Networks East Plc (Company No. 2366923)  
Central Networks West Plc (Company No. 3600574)  
Westwood Way  
Westwood Business Park  
Coventry  
CV4 8LG**
- 2. The Company Secretary  
Eastern Power Networks Plc (Company No. 2366906)  
London Power Networks Plc (Company No. 3929195)  
South Eastern Power Networks Plc (Company No. 3043097)  
40 Grosvenor Place  
Victoria  
London  
SW1X 7EN**
- 3. The Company Secretary  
Electricity North West Limited (Company No. 2366949)  
304 Bridgewater Place  
Birchwood Park  
Warrington  
WA3 6XG**
- 4. The Company Secretary  
Northern Electric Distribution Limited (Company No. 2906593)  
Yorkshire Electricity Distribution Plc (Company No. 4112320)  
Lloyds Court  
78 Grey Street  
Newcastle-Upon-Tyne  
NE1 6AF**
- 5. The Company Secretary  
Scottish Hydro Electric Power Distribution Plc (Company No. SC213460)  
Inveralmond House  
200 Dunkeld Road  
Perth  
PH1 3AQ**
- 6. The Company Secretary  
Southern Electric Power Distribution Plc (Company No. 4094290)  
55 Vastern Road  
Reading  
Berkshire  
RG1 8BU**

- 7. The Company Secretary  
SP Distribution Limited (Company No. SC189125)  
1 Atlantic Quay  
Robertson Street  
Glasgow  
G2 8SP**
  
- 8. The Company Secretary  
SP Manweb Plc (Company No. 2366937)  
3 Prenton Way  
Prenton  
CH43 3ET**
  
- 9. The Company Secretary  
Western Power Distribution (South Wales) Plc (Company No. 2366985)  
Western Power Distribution (South West) Plc (Company No. 2366894)  
Avonbank  
Feeder Road  
Bristol  
Avon  
BS2 0TB**

## **Electricity Act 1989**

### **Section 11**

#### **NOTICE UNDER SECTION 11(3) OF THE ELECTRICITY ACT 1989**

The Gas and Electricity Markets Authority (the 'Authority') hereby gives notice pursuant section 11(3) of the Electricity Act 1989 (the 'Act') as follows:

1. The Authority proposes to modify the individual electricity distribution licences held by:
  - a. Central Networks East Plc (Company No. 2366923);
  - b. Central Networks West Plc (Company No. 3600574);
  - c. Eastern Power Networks Plc (Company No. 2366906);
  - d. London Power Networks Plc (Company No. 3929195);
  - e. South Eastern Power Networks Plc (Company No. 3043097);
  - f. Electricity North West Limited (Company No. 2366949);
  - g. Northern Electric Distribution Limited (Company No. 2906593);
  - h. Yorkshire Electricity Distribution Plc (Company No. 4112320)
  - i. Scottish Hydro Electric Power Distribution Plc (Company No. SC213460);
  - j. Southern Electric Power Distribution Plc (Company No. 4094290);
  - k. SP Distribution Limited (Company No. SC189125);
  - l. SP Manweb Plc (Company No. 2366937);
  - m. Western Power Distribution (South Wales) Plc (Company No. 2366894); and
  - n. Western Power Distribution (South West) Plc (Company No. 2366985),

(together the "Licensees")

granted or treated as granted under section 6(1)(c) of the Act (the "Licences") by inserting two new terms into Part B (Performance on the number of Customer interruptions) and Part C (Performance on the duration of Customer interruptions) of Charge Restriction Condition (Adjustment of the licensee's revenues to reflect quality of service performance) ("CRC 8") in the manner set out in the Schedule to this Notice.

2. The effect of inserting the two new terms into Part B and Part C will allow the Authority to exempt certain activities carried out as part of a project funded by the Low Carbon Networks (LCN) Fund from the Quality of Service Incentive Scheme by applying a zero weight for them in the calculation of the  $IQ_t$  term in Part A (Formulas for deriving the total quality of service incentive amount) of CRC 8.
3. The reason why the Authority proposes this modification is to ensure that Licensees are not inappropriately penalised for carrying out certain activities in LCN funded innovation projects.
4. A copy of the proposed modifications and other documents referred to in this Notice are available (free of charge) from the Ofgem library (telephone 020 7901 1600) or on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

5. Any representations or objections to the proposed licence modifications may be made on or before 1 December 2010 to: James Hope, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to James.Hope@ofgem.gov.uk.
6. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers responses in an electronic form so they can be placed easily on the Ofgem.



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**Rachel Fletcher**  
**Partner, Distribution**  
**Duly authorised on behalf of the Gas and Electricity Markets Authority**

**3 November 2010**

## Schedule to section 11 Modification

### Part B: Performance on the number of Customer interruptions

8.22 This Part B applies for the purposes of the calculations established under:

- (a) Part A above in respect of each of Principal Formulas 2 and 3; and
- (b) Part C below in respect of the formula for the term QBt.

8.23 For the purposes of those formulas:

QA<sub>t</sub> means the adjustment to Combined Allowed Distribution Network Revenue in respect of the licensee's performance in Regulatory Year t in relation to the target for the number of Customers interrupted per 100 Customers in that year and is derived from the following formula:

$$QA_t = \max\left[\left((TA_t - CIIS_t) \times PIA_t \times IRA_t\right), -RLA_t \times PIA_t\right]$$

8.24 In the formula for the QA term above:

TAt (*the target interruptions term*) means the target for the number of Customers interrupted for the Regulatory Year t as specified for the licensee in table A1 in Appendix 1.

CIIS<sub>t</sub> (*the interruptions actual performance term*) means the performance in respect of the number of Customers interrupted in the Regulatory Year t and is derived from the formula:

$$CIIS_t = CIA_t + (A \times CIB_t) + (B \times CIC_t) + CID_t + (C \times CIE_t) + (D \times CIF_t)$$

where:

A has the value of 0.5.

B has the value of zero.

C has the value of zero.

**D** has the value of zero.

CIAt (*the unplanned interruptions term*) is the number of Customers interrupted per year arising from unplanned incidents **(except those arising under the Low Carbon Networks Fund interruptions term)** on the licensee's Distribution System in the Regulatory Year t and is derived from the relevant formula in the Appendix to the Quality of Service RIGs.

CIBt (*the pre-arranged interruptions term*) is the number of Customers interrupted per year arising from pre-arranged incidents (except those arising under the Low Carbon Networks Fund interruptions term) on the licensee's Distribution System in the Regulatory Year t and is derived from the relevant formula in the Appendix to the Quality of Service RIGs.

CICt (*the transmission interruptions term*) is the number of Customers interrupted per year arising from incidents on the systems of the Transmission Licensees in Regulatory Year t and is derived from the relevant formula in the Appendix to the Quality of Service RIGs.

CIDt (*the DG interruptions term*) is the number of Customers interrupted per year arising from incidents on the systems of Distributed Generators in Regulatory Year t and is derived from the relevant formula in the Appendix to the Quality of Service RIGs.

CIEt (*the residual interruptions term*) is the number of Customers interrupted per year arising from incidents on any other connected systems in the Regulatory Year t and is derived from the relevant formula in the Appendix to the Quality of Service RIGs.

CIFt (*the Low Carbon Networks Fund interruptions term*) is the number of Customers interrupted per year arising from incidents on the licensee's Distribution System in the Regulatory Year t associated with the carrying out of activities described in relation to the quality of service performance in a Project Direction issued to the Licensee under CRC 13 (Low Carbon Networks Fund).

PIAt means the price index adjuster in Regulatory Year t and is derived from the following formula:

$$PIA_t = \left( 1 + \frac{RPI_t}{100} \right) \times PIA_{t-1}$$

where:

PIAt has the value of 1 for the Regulatory Year beginning on 1 April 2007, and in each subsequent Regulatory Year has the value derived from the formula itself.

RPIt is as defined in Part A of CRC 2 (Definitions for the Charge Restriction Conditions) and is determined in accordance with the method set out there.

IRAt (*the incentive rate for interruptions term*) means the incentive rate for the number of Customers interrupted as specified for Regulatory Year t for the licensee in table A2 in Appendix 1, expressed in £ million in 2007/08 prices.

RLA<sub>t</sub> (*the revenue exposure to interruptions term*) means the maximum amount of revenue exposed to the number of Customers interrupted and has the value as specified for Regulatory Year t for the licensee in table A3 in Appendix 1, expressed in £ million in 2007/08 prices.

8.25 Adjustments to Combined Allowed Distribution Network Revenue arising from the application of this Part B are subject to the provisions (where applicable) of Parts J and K below.

### Part C: Performance on the duration of Customer interruptions

8.26 This Part C applies for the purposes of the calculations established under Part A above in respect of each of Principal Formulas 2 and 3.

8.27 For the purposes of those formulas:

QB<sub>t</sub> means the adjustment to Combined Allowed Distribution Network Revenue in respect of the licensee's performance in Regulatory Year t in relation to the target for the duration of Customer interruptions in that year and is derived from the following formula:

$$QB_t = \max\left[\left((TB_t - CMLIS_t) \times PIA_t \times IRB_t\right), -RLB_t \times PIA_t\right]$$

provided that:

$$(QA_t + QB_t + QD_t + SWE_t) \geq -TRL_t \times PIA_t$$

and, where that is not the case, QB<sub>t</sub> is to be determined by the following formula:

$$QB_t = -TRL_t \times PIA_t - (QA_t + QD_t + SWE_t)$$

(and, for the purposes of this proviso, QA<sub>t</sub> and QD<sub>t</sub>, insofar as they feature in the Principal Formula for the relevant Regulatory Year, are as defined in Part B above and Part E below).

8.28 In the formula for the QB term above:

TB<sub>t</sub> (*the target minutes lost term*) means the target for the licensee for the duration of Customer interruptions for the Regulatory Year t as specified in table A4 in Appendix 1.

CMLIS<sub>t</sub> (*the minutes lost actual performance term*) means the performance in respect of the duration of Customer interruptions in Regulatory Year t and is derived from the formula:

$$CMLIS_t = CMLA_t + (E \times CMLB_t) + (F \times CMLC_t) + CMLD_t + (G \times CMLE_t) + (H \times CMLF_t)$$

where:

**DE** has the value of 0.5.

EF has the value of 0.10.

FG has the value of 0.10.

H has the value of zero.

- CMLAt *(the unplanned minutes lost term)* is the duration of interruptions from unplanned incidents (except those arising under the Low Carbon Networks Fund minutes lost term) on the licensee's Distribution System in the Regulatory Year t and is derived from the formula in the Appendix to the Quality of Service RIGs.
- CMLBt *(the pre-arranged minutes lost term)* is the duration of interruptions from pre-arranged incidents (except those arising under the Low Carbon Networks Fund minutes lost term) on the licensee's Distribution System in the Regulatory Year t and is derived from the formula in the Appendix to the Quality of Service RIGs.
- CMLCt *(the transmission minutes lost term)* is the duration of interruptions arising from incidents on the systems of the Transmission Licensees in the Regulatory Year t and is derived from the formula in the Appendix to the Quality of Service RIGs.
- CMLDt *(the DG minutes lost term)* is the duration of interruptions arising from incidents on the systems of Distributed Generators in the Regulatory Year t and is derived from the formula in the Appendix to the Quality of Service RIGs.
- CMLEt *(the residual minutes lost term)* is the duration of interruptions arising from incidents on any other connected systems in Regulatory Year t and is derived from the formula in the Appendix to the Quality of Service RIGs.
- CMLFt *(the Low Carbon Networks Fund minutes lost term)* is the duration of interruptions arising from incidents on the licensee's Distribution System in the Regulatory Year t associated with the carrying out of activities described in relation to the quality of service performance in a Project Direction issued to the Licensee under CRC 13 (Low Carbon Networks Fund).
- IRBt *(the incentive rate for minutes lost term)* means the incentive rate for the licensee for the duration of Customer interruptions as specified for Regulatory Year t in table A5 in Appendix 1, expressed in £ million in 2007/08 prices.
- PIAt *(the price index adjuster)* is defined and determined as set out in Part B above.
- TRLt *(the revenue exposure to quality penalties term)* means the maximum amount of revenue that is exposed to penalties under the relevant elements of IQt for the Regulatory Year t and has the value as specified for Regulatory Year t for the licensee in table A7 in Appendix 1, expressed in £ million in 2007/08 prices.

RLBt (*the revenue exposure to minutes lost term*) means the maximum amount of revenue that is exposed to the duration of Customer interruptions and has the value as specified for Regulatory Year t for the licensee in table A6 in Appendix 1, expressed in £ million in 2007/08 prices.

SWEt (*the severe weather total exposure term*) is defined as set out in Part G below.

8.29 Adjustments to Combined Allowed Distribution Network Revenue arising from the application of this Part C are subject to the provisions (where applicable) of Parts J and K below.