

The Company Secretary:

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

Yorkshire Electricity Distribution plc
(Company Number 04112320)
Lloyds Court
78 Grey Street
Newcastle upon Tyne
NE1 6AF

Electricity North West Ltd
(Company Number 02366949)
304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG

Eastern Power Networks plc
(Company Number 02366906)
Newington House
237 Southwark Bridge Road
London
SE1 6NP

SECTION 11 OF THE ELECTRICITY ACT 1989

**MODIFICATION OF THE DISTRIBUTION LICENCES GRANTED OR TREATED AS
GRANTED UNDER SECTION 6(1)(c) OF THE ELECTRICITY ACT 1989
TO THE LICENSEES**

WHEREAS

1. The companies to whom this document is addressed (“the Licensees”) each holds a distribution licence (together “the Licences”) 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 14 December 2010 on its website that it proposed to modify the Licence by inserting into paragraph 2 of Special Condition CRC 14 (Distribution Charges: supplementary restrictions) an additional sub-paragraph to provide for the value for the interest rate adjustment applied by the Licensees in the Regulatory Years beginning on 1 April 2010 and 1 April 2011 to over and under recoveries of revenue (‘the PRt term’) to be set in a direction to be given by the Authority in the year concerned, as set out in bold and struck-through text in Annex 1 to that notice; and specified that representations or objections to the proposed modification must be made on or before 21 January 2010.
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 21 January 2010 or at all, a direction from the Secretary of State not to make any modification.
4. The Licensees consented in writing to the modification on the following dates:
Northern Electric Distribution and Yorkshire Electricity Distribution on 26 January 2011;
Electricity North West on 26 January 2011;
Eastern Power Networks on 19 January 2011.
5. No representations or objections to the modification were received by the Authority by 21 January 2010 or at all.
6. The reasons for the decision to modify the Licence are set out in the Authority’s consultation letter dated 20 July 2010 (reference 87/10) and in its decision letter dated 14 December 2010, which are available on the Ofgem website (www.ofgem.gov.uk); and in summary, the modification will prevent each of the Licensees being unfairly penalised for over recoveries of revenue resulting from

reduced performance under its losses incentive scheme in the years concerned where the Licensee's reported performance level has been affected by settlement data adjustments outside their control.

7. The effect of the modification will be to stipulate that the PRt term in the Regulatory Years beginning on 1 April 2010 and 1 April 2011 is to be set in a direction given by the Authority provided that the value shall either be zero, 1.5 or 3.

NOW in accordance with the powers contained in section 11 of the Act and with the consent of the Licensees, the Authority **HEREBY MODIFIES** the Licences by inserting into paragraph 2 of Special Condition CRC 14 (Distribution Charges: supplementary restrictions) an additional sub-paragraph to provide for the value for the interest rate adjustment applied by the Licensees in the Regulatory Years beginning on 1 April 2010 and 1 April 2011 to over and under recoveries of revenue ('the PRt term') to be set in a direction to be given by the Authority in the year concerned, as set out in bold and struck-through text in Annex 1 hereto.

This document constitutes notice of reasons for the Authority's decision pursuant to section 49A of the Act.

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



.....
Rachel Fletcher – Partner, Distribution



Authorised on behalf of the Authority

Annex 1 to Modification of the Distribution Licences Granted or Treated as Granted Under Section 6(1)(c) of the Electricity Act 1989 to the Licensees

Part A of Special Condition CRC 14 (Distribution Charges: supplementary restrictions) showing modification in bold type (insertions) and struck-through type (deletions):

Part A: Interest adjustment for over and under recoveries of revenue

14.2 For the purposes of Part D of CRC 3 (Restriction of Distribution Charges: Use of System Charges), the value of the interest rate adjustment PR_t is to be treated as follows:

(a) **in the Regulatory Years beginning on 1 April 2010 and 1 April 2011, PR_t will be set in a direction given by the Authority in the Regulatory Year concerned provided that the value directed shall either be zero, 1.5 or 3; and**

(b) **in other Regulatory Years:**

~~(a)~~ (i) if, in respect of Regulatory Year t-1, Regulated Combined Distribution Network Revenue exceeds 103 per cent of Combined Allowed Distribution Network Revenue, PR_t must have the value of 3;

~~(b)~~ (ii) if, in respect of Regulatory Year t-1, Regulated Combined Distribution Network Revenue is less than 97 per cent of Combined Allowed Distribution Network Revenue, PR_t must have the value of zero;

——— and in all other cases:

~~(c)~~ (iii) PR_t must have the value of 1.5.