

**Electricity Act 1989**  
**Section 11A(1)(a)**

**MODIFICATION OF THE ELECTRICITY DISTRIBUTION LICENCES GRANTED UNDER SECTION 6(1)(c) OF THE ELECTRICITY ACT 1989**

Whereas –

1. The following companies all hold electricity distribution licences (“the Licences”) granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 (“the Act”) to distribute electricity for the purpose of enabling a supply to be given, for the term and subject to the conditions contained in the Licences:
  - a. Eastern Power Networks Plc (Company No. 2366906);
  - b. London Power Networks Plc (Company No. 3929195);
  - c. South Eastern Power Networks Plc (Company No. 3043097);
  - d. Electricity North West Limited (Company No. 2366949);
  - e. Northern Powergrid (Northeast) Limited (Company No. 2906593);
  - f. Northern Powergrid (Yorkshire) Plc (Company No. 4112320);
  - g. Scottish Hydro Electric Power Distribution Plc (Company No. SC213460);
  - h. Southern Electric Power Distribution Plc (Company No. 4094290);
  - i. SP Distribution Limited (Company No. SC189125);
  - j. SP Manweb Plc (Company No. 2366937);
  - k. Western Power Distribution (South Wales) Plc (Company No. 2366985);
  - l. Western Power Distribution (South West) Plc (Company No. 2366894);
  - m. Western Power Distribution (East Midlands) Plc (Company No. 2366923); and
  - n. Western Power Distribution (West Midlands) Plc (Company No. 3600574),

(together the “Licensees”).
2. In accordance with section 11A(2) of the Act, the Gas and Electricity Markets Authority (“the Authority”) gave notice on 16 November 2012 (“the Notice”) that it proposed to make modifications to Special Condition CRC 7 (Adjustment of licensee’s revenues to reflect distribution losses performance) of the Licensees’ Licences requiring any representations on the modifications to be made on or before 14 December 2012.
3. In accordance with section 11A(4)(b) of the Act, the Authority gave notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modifications.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received five responses, none of which suggested any changes to the proposed modifications. All non-confidential responses have been placed on the Ofgem website.
5. The Authority has carefully considered all representations received in relation to the proposed modifications.
6. The Authority’s reason for making the modifications is to give effect to the Authority’s decision not to activate the losses incentive mechanism in the fifth electricity distribution price control period (DPCR5), in respect of which detailed reasons are set out in the document ‘Decision not to activate the Losses Incentive Mechanism in the Fifth Distribution Price Control’ (Ref 149/12), in particular in Chapter 3.<sup>1</sup>
7. The effect of the modifications will be to remove any clauses pertaining specifically to the DPCR5 losses incentive mechanism. The modification retains and, where necessary, revises the mechanism for calculating the distribution losses incentive term based on the

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<sup>1</sup><http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=755&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>

residual distribution losses incentive arising in the previous DPCR4 charge restriction period (known as the 'PPL' term).

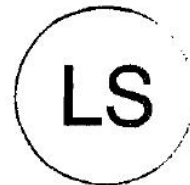
8. Where an application for permission to appeal the Authority's decision is made to the Competition Commission under section 11C of the Act, Rule 5.7 of the Competition Commission's Energy Licence Modification Appeal Rules requires the appellant to send notice setting out the matters required in Rule 5.2. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification direction. The meaning of 'relevant licence holder' is set out in section 11A of the Act.

**Now therefore**

In accordance with the powers contained in section 11A(1)(a) of the Act, the Authority hereby modifies the Licensees' Licences in the manner specified in the attached Schedule 1. This decision will take effect on and from 1 March 2013.

This document also constitutes notice of the reasons for the decision to modify the Licensees' Licences as required by section 49A of the Act.

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



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**Hannah Nixon**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**3 January 2013**

## Schedule 1 – Proposed modification with respect to directing the PPL term

### CRC 7. Adjustment of licensee's revenues to reflect distribution losses performance

#### Introduction

- 7.1 The purpose of this condition is to establish the mechanism for calculating the amount of the term IL (the distribution losses incentive term) that applies in CRC 5 (Restriction of Distribution Charges: non-generation incentive revenue adjustment).
- 7.2 The effect of the application of the distribution losses incentive term in CRC 5 is to adjust the calculation of the licensee's Combined Allowed Distribution Network Revenue under CRC 3 (Restriction of Distribution Charges: Use of System Charges) (whether upwards or downwards) in order to reflect the licensee's final performance under the Distribution Losses Incentive Scheme in the previous charge restriction period (1 April 2005 to 31 March 2010).
- ~~7.3 The mechanism mentioned in paragraph 7.1 includes distribution losses targets and incentive amounts, to be determined by the Authority within Regulatory Year 2011/12 by reference to methodologies set out in Chapter 4 of the Authority's decision document published on 7 December 2009 under reference number 148/09, that will have effect in relation to the licensee for a period of five Regulatory Years commencing on 1 April 2010.~~

#### Part A: Calculation of the losses incentive adjustment (IL)

- 7.34 For the purposes of Part B of CRC 5, which adjusts the calculation of the licensee's Combined Allowed Distribution Network Demand Revenue under CRC 3, the IL adjustment in Regulatory Year t is derived in accordance with the following formula (in this condition, the Principal Formula):

$$IL_t = PPL_t \text{ ~~[UIlt + PCOLt - COLt]~~ have been removed from the original equation}$$

where:

$IL_t$  is the distribution losses incentive adjustment term, and has the value of zero for each of the Regulatory Years beginning on 1 April 2010 and 1 April 2011.

~~$UIlt$  is an amount calculated in accordance with Part B below.~~

~~$PCOLt$  is an amount calculated in accordance with Part C below.~~

~~$COLt$  is an amount calculated in accordance with Part C below.~~

$PPL_t$  is an amount calculated in accordance with Part ~~D~~B below.

## Part B: Calculation of losses incentive prior to annual smoothing (UIL)

7.5 — For the purposes of the Principal Formula:

UIL<sub>t</sub> — is the amount of distribution losses incentive before the annual smoothing is applied and is calculated as follows:

$$\text{UIL}_t = \text{LR} \times \text{PIAL}_{t-2} \times \left( \text{AL}_{t-2} - \text{L}_{t-2} \right) \times \left[ \left( 1 + \frac{\text{I}_t}{100} \right) \times \left( 1 + \frac{\text{I}_{t-1}}{100} \right) \right]$$

where:

LR — is the distribution losses incentive rate, and has the value of £60 per MWh for units physically distributed on or after 1 April 2010.

PIAL<sub>t</sub> — is the price index adjustment relating to distribution losses, and is determined as set out in Part E below.

L<sub>t</sub> — is the Adjusted Distribution Losses in Regulatory Year t, as calculated in accordance with the methodological basis set out in Part F below.

AL<sub>t</sub> — means an amount representing the benchmark level of distribution losses in the Regulatory Year t calculated, subject to the provisions of Part G below, in accordance with the following formula:

$$\text{AL}_t = \text{ALP} \times \text{UD}_t$$

—

— where:

ALP — is the allowed loss percentage as set by a direction given by the Authority (see Part G below).

UD<sub>t</sub> — is the Units Distributed, expressed in MWh, in Regulatory Year t as calculated according to Part F below.

I<sub>t</sub> — means the Average Specified Rate, as defined in CRC 2 (Definitions for the Charge Restriction Conditions), in Regulatory Year t.

## Part C: Calculation of amount of losses carried over between years

7.6 — For the purposes of the Principal Formula:

COL<sub>t</sub> — is the amount of distribution losses incentive in excess of the annual upper or lower threshold to be carried over from Regulatory Year t to Regulatory Year t+1 and is zero for each of the two Regulatory Years beginning on 1 April 2010 and 1 April 2011, and thereafter is to be calculated from one of the following formulas:

(a) — If  $\text{UIL}_t + \text{PCOL}_t \geq 0$  then

$$\text{COL}_t = \left( \text{UIL}_t + \text{PCOL}_t \right) \min \left( \text{PIAL}_{t-2} \times \text{UT}, \left( \text{UIL}_t + \text{PCOL}_t \right) \right)$$

or

~~(b) If  $UIL_t + PCOL_t < 0$  then~~

$$~~COL_t = \left(UIL_t + PCOL_t\right) \max \left(PIAL_{t-2} \times LT, \left(UIL_t + PCOL_t\right)\right)~~$$

~~where:~~

~~UT is the annual upper threshold and has the value set out in Appendix 1.~~

~~LT is the annual lower threshold and has the value set out in Appendix 1.~~

~~PIAL<sub>t</sub> is the price index adjustment relating to distribution losses, and is determined as set out in Part E below.~~

~~PCOL<sub>t</sub> is the amount of distribution losses incentive in excess of the annual upper or lower threshold carried over from Regulatory Year t-1 updated by the Average Specified Rate, and is calculated in accordance with the following formula:~~

$$~~PCOL_t = COL_{t-1} \times \left[1 + \frac{I_t}{100}\right]~~$$

#### **Part D: Residual distribution losses incentive (PPL)**

7.74 For the purposes of the Principal Formula:

PPL<sub>t</sub> is the amount of the residual distribution losses incentive arising in the previous charge restriction period (1 April 2005 to 31 March 2010), set in accordance with the provisions of paragraphs 7.5 to 7.78, that is to be recovered by the licensee.

7.85 The value of PPL<sub>t</sub> in each of the two Regulatory Years beginning on 1 April 2010 and 1 April 2011 is set at zero.

7.8A6 In subsequent Regulatory Years, the value of PPL<sub>t</sub> shall be calculated by reference to the methodology set out in Chapter 4 of the Authority's decision document published on 3 January 2013 ~~7 December 2009~~ under reference number ~~148/09~~ 01/13.

7.8B7 The amount of PPL<sub>t</sub> assigned for recovery in respect of subsequent Regulatory Years will be set in a direction given by the Authority no later than 1 April 2013 following consultation with the licensee and all other Distribution Services Providers. That direction will set out the period over which the value of PPL<sub>t</sub> is to be recovered, and such period shall not commence before the Regulatory year beginning 1 April 2012 and shall not extend beyond the end of the Regulatory Year beginning 1 April 2016.

#### **Part E: Determination of the price index adjustment (PIAL)**

7.9 ~~For the purposes of the formula set out in Parts B and C above:~~

~~PIAL<sub>t</sub> is the price index adjustment, which, in the Regulatory Year beginning on 1 April 2010, has the value of 1, and in each subsequent Regulatory Year is derived from the following formula:~~

~~$$PIAL_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIAL_{t-1}$$~~

~~where:~~

~~RPI<sub>t</sub> is as defined in Part A of CRC 2, and is determined in accordance with the method set out there.~~

### ~~Part F: Basis of calculation of Adjusted Distribution Losses (L)~~

~~7.10 For the purpose of the calculation of the formula set out in Part B above, the amount of L is calculated as the sum of:~~

~~(a) the difference (in MWh) between System Entry Volumes and Units Distributed, as measured and reported under the Distribution Losses Reporting RIGs issued by the Authority under standard condition 44B (Distribution Losses Reporting Regime); and~~

~~(b) an amount (in MWh) representing the DG Losses Adjustment (DGA<sub>t</sub>) of Units entering the system at Entry Points (other than Entry Points which are connected to an onshore Transmission System) where the loss adjustment factor applied for settlement purposes is less than 0.997, as calculated by the following formula:~~

~~$$DGA_t = \sum (LAF_{it} - 0.997) \times DGV_{it}$$~~

~~7.11 In the formula for the DGA term above:~~

~~DGV<sub>it</sub> is the total number of units, in respect of the Regulatory Year t, entering the licensee's Distribution System at Entry Point i, and~~

~~$$LAF_{it} = \min (LAG_{it}, 0.997)$$~~

~~where:~~

~~LAG<sub>it</sub> is the value, in the Regulatory Year t, of the annual loss adjustment factor applicable to Entry Point i, and is derived by applying the loss adjustment factors used in the relevant settlement procedure of the Balancing and Settlement Code in respect of Entry Point i to the units for that Entry Point for each half hour of the Regulatory Year t, and then dividing the sum of those loss adjusted units by DGV<sub>it</sub>.~~

### ~~Part G: Setting the allowed loss percentage (ALP)~~

~~7.12 The value of ALP, calculated by reference to the methodology set out in Chapter 4 of the Authority's decision document published on 7 December 2009 under reference number 148/09, will be set out in a direction given by the Authority not later than 30 November 2012 (1 April 2013) that will apply (subject to paragraph 7.13) for as long as this condition continues in force.~~

~~7.13 — The Authority may, at the licensee’s request, or with the licensee’s consent (which must not be unreasonably withheld), direct the licensee to change the value of ALP, to which paragraph 7.12 refers, to a different value specified by the Authority, provided that the following conditions have been met:~~

~~7.14 — The conditions referred to in paragraph 7.13 are that the Authority must:~~

~~— (a) — have had due regard to the purposes of this condition; and~~

~~— (b) — be satisfied, following consultation with the licensee, that there has been a material change (whether an improvement or deterioration) in the quality of the information used to derive the System Entry Volumes or Units Distributed.~~

~~7.15 — A change to the value of ALP in accordance with paragraph 7.13 may be directed by the Authority at any time but may not take effect before the beginning of the next Regulatory Year following the date of the direction.~~

**~~Part H: Continuity of the basis of calculation~~**

~~7.16 — The licensee must, unless otherwise agreed by the Authority, calculate distribution losses in accordance with the Statement of Compliance approved by the Authority under standard condition 44B.~~

~~7.17 — Appendix 1 follows immediately below.~~

**~~APPENDIX 1~~**

**~~Values for the annual upper and lower thresholds by licensee~~**

**~~(see paragraph 7.6 of this condition)~~**

<del>Licensee</del>	<del>UT</del>	<del>LT</del>
<del>Central Networks West plc</del>	<del>5.2</del>	<del>-5.2</del>
<del>Central Networks East plc</del>	<del>5.1</del>	<del>-5.1</del>
<del>Electricity North West Ltd</del>	<del>4.5</del>	<del>-4.5</del>
<del>Northern Electric Distribution Ltd</del>	<del>3.1</del>	<del>-3.1</del>
<del>Yorkshire Electricity Distribution plc</del>	<del>4.0</del>	<del>-4.0</del>
<del>Western Power Distribution (South West) plc</del>	<del>2.3</del>	<del>-2.3</del>
<del>Western Power Distribution (South West) plc</del>	<del>3.4</del>	<del>-3.4</del>
<del>EDF Energy Networks (LPN) plc</del>	<del>4.4</del>	<del>-4.4</del>
<del>EDF Energy Networks (SPN) plc</del>	<del>4.0</del>	<del>-4.0</del>
<del>EDF Energy Networks (EPN) plc</del>	<del>6.3</del>	<del>-6.3</del>
<del>SP Distribution Ltd</del>	<del>4.5</del>	<del>-4.5</del>

<del>SP Manweb ple</del>	<del>4.2</del>	<del>-4.2</del>
<del>Scottish Hydro Electric Power Distribution plc</del>	<del>2.9</del>	<del>-2.9</del>
<del>Southern Electric Power Distribution</del>	<del>6.0</del>	<del>-6.0</del>



## Schedule 2 – List of Relevant Licensees

<b>Licensee</b>	<b>Registered company number</b>	<b>Registered Address</b>
Eastern Power Networks plc	2366906	Newington House, 237 Southwark Bridge Road, London, SE1 6NP, Great Britain
Electricity North West Limited	2366949	304 Bridgewater Place, Birchwood Park, Warrington, WA3 6XG, Great Britain
London Power Networks plc	3929195	Newington House, 237 Southwark Bridge Road, London, SE1 6NP, Great Britain
Northern Powergrid (Northeast) Limited	2906593	Lloyds Court, 78 Grey Street, Newcastle Upon Tyne, NE1 6AF, Great Britain
Northern Powergrid (Yorkshire) Plc	4112320	Lloyds Court, 78 Grey Street, Newcastle Upon Tyne, NE1 6AF, Great Britain
Scottish Hydro Electric Power Distribution Plc	SC213460	Inveralmond House, 200 Dunkeld Road, Perth, Perthshire, PH1 3AQ, Great Britain
South Eastern Power Networks plc	3043097	Newington House, 237 Southwark Bridge Road, London, SE1 6NP, Great Britain
Southern Electric Power Distribution Plc	4094290	55 Vastern Road, Reading, RG1 8BU, Great Britain
SP Distribution Limited	SC189125	1 Atlantic Quay, Robertson Street, Glasgow, G2 8SP, Great Britain
SP Manweb Plc	2366937	3 Prenton Way, Prenton, CH43 3ET, Great Britain
Western Power Distribution (East Midlands) Plc	2366923	Avonbank, Feeder Road, Bristol, BS2 0TB, Great Britain
Western Power Distribution (South Wales) Plc	2366985	Avonbank, Feeder Road, Bristol, BS2 0TB, Great Britain
Western Power Distribution (South West) Plc	2366894	Avonbank, Feeder Road, Bristol, BS2 0TB, Great Britain
Western Power Distribution (West Midlands) Plc	3600574	Avonbank, Feeder Road, Bristol, BS2 0TB, Great Britain