



Electricity Distributors and other interested parties

Promoting choice and value for all gas and electricity customers

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Date: 26 March 2013

Direction issued under Section 11A of the Electricity Act 1989 pursuant to modifications to Special Condition CRC 7 of the Electricity Distribution Licence

On 14 February 2013 we published a notice outlining our proposed modifications to Special Condition CRC 7 of the Electricity Distribution Licence.¹ The proposed modifications were shown as made to the text of the licence condition which came into effect on 1 March 2013. The modifications give the Authority flexibility on determining the timing of the direction of the PPL term, and also the timing for recovery of this term, to be determined in light of the date on which the PPL term is directed.

In accordance with Section 11A(2) of the Electricity Act 1989, the notice of 14 February 2013 set out the reasons for the proposed modifications and specified that any representations should be made within 28 days (that is, on or before 15 March 2013).

Representations and our decision

We received three responses from the electricity distribution licensees, one of which suggested alternate changes to CRC 7. The other two responses agreed with the necessity of the proposed changes. Having carefully considered these representations, we have decided to make the proposed modifications without any further changes.

While recognising the background to the proposed modifications, one licensee suggested that there should still be a firm timetable for resolution. This licensee expressed concern that an already extended process should not be extended indefinitely. It proposed changing the date in the licence by which the Authority should consult upon and direct the PPL term from 1 April 2013 to 1 July 2013.

We are committed to do everything practicable to expedite the determination of the PPL term. However, further issues have arisen as a result of responses to our November 2012 'Consultation on restatement of 2009-10 data and closing out of the Distribution Price Control Review 4 (DPCR4) losses incentive mechanism',² which will require additional time to address. These issues include concerns raised on the credibility of the underlying data used and the application of suitable statistical tests. Addressing these issues may result in further consultation processes which would affect the date by which we will finalise the PPL term. We consider that it is appropriate that the licence provides the necessary flexibility for the issues that have been raised to be appropriately addressed. We note that if a

¹ The notice can be found at: <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/Statcon%20-%20Changes%20to%20CRC7%20Feb13.pdf>

² <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=762&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>

further consultation is undertaken, directing the PPL term by 1 July 2013 may not be achievable.

We have therefore decided to implement the proposed modification to remove a fixed date from CRC7, and to allow flexibility in the timing of the recovery of the PPL term.

Direction

Please find attached a direction issued under Section 11A (1)(a) of the Electricity Act 1989 making the modifications to Special Licence Condition CRC 7. The effective date for the modifications to CRC 7 is 22 May 2013.

For more information regarding this Direction, please contact Tim Aldridge (Tim.Aldridge@ofgem.gov.uk).

Yours faithfully

Hannah Nixon
[Produced electronically]

Senior Partner
Smarter Grids and Governance (Distribution)