

**To: Western Power Distribution (West Midlands) plc (WMID)
Western Power Distribution (East Midlands) plc (EMID)
Western Power Distribution (South Wales) plc (SWALES)
Western Power Distribution (South West) plc (SWEST)**

NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (the Authority) hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (the Act) as follows:

1. The Authority proposes to modify electricity distribution licences held by each of the above licensees ("the licensees") and granted or treated as granted under section 6(1)(c) of the Act by:

- a) amending certain existing special conditions
- b) inserting proposed new special conditions
- c) deleting certain special conditions
- d) restructuring and renumbering the remaining special conditions to improve the clarity and ease of use of the special conditions with no changes to the licence obligations or underlying policy objectives.

A summary is set out in Schedule 1 to this notice.

2. The primary reason why the Authority proposes to make these licence modifications is to give effect to the Authority's final determination of the revenue restrictions to apply to the licensees during the RIIO-ED1 period as set out in the Strategy decision for the RIIO-ED1 electricity distribution price control – Overview (Reference number: 26/13)¹, which is referred to within this notice as "Strategy Decision".

3. The effect of the proposed modifications is first to implement the RIIO-ED1 revenue restrictions and secondly to update legislative references and improve clarity.

4. Subject to paragraph 5 of this notice, the proposed special conditions to the electricity distribution licence held by the licensees are attached at Schedule 2 to this notice.

5. The RIIO ED1 Price Control Financial Handbook and the ED1 Price Control Financial Model, both of which form part of proposed new special conditions, are attached to this notice, at Schedules 2B and 2C respectively.

6. Schedule 3 to this notice sets out the specific details on the reasons and effect of the proposed modifications. In addition, further details of those reasons, effects and background on these proposed changes are set out in the following documents:

- a) RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 1)²
- b) RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 2)³
- c) Decision to fast-track Western Power Distribution⁴

¹ <https://www.ofgem.gov.uk/publications-and-updates/strategy-decision-riio-ed1-overview>

² <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-charge-restriction-conditions-part-1>

³ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-charge-restriction-conditions-part-2>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/decision-fast-track-western-power-distribution>

d) Strategy Decision.

7. Schedule 4 to this notice contains a link to the section of our website on which we have published our responses to issues raised by stakeholders as part of the RIIO-ED1 informal consultation on fast-track licence drafting, in respect of special conditions.

8. Schedule 5 sets out revisions and clarifications of the numbers included in the Decision to fast-track Western Power Distribution (WPD), the document referred to in paragraph 6(c) of this notice.

9. A copy of the proposed modifications and other documents referred to in this notice are available on our website: www.ofgem.gov.uk.

10. Please send any comments about the proposed licence modifications on or before 29 April 2014 to thomas.mackenzie@ofgem.gov.uk or by post to: Tom Mackenzie, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE.

11. All responses will normally be published on our website. However, if respondents do not wish their response to be made public then they should clearly mark their response as "not for publication". Please send responses in an electronic format, if possible, so they can be placed easily on our website.

12. If the Authority decides to make the proposed modifications:

- a) CRC 4C (Price control update provisions for WPD) will take effect 56 days after the decision is published, and
- b) the other modifications will take effect from 1 April 2015.



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Hannah Nixon
Senior Partner, Smarter Grids and Governance (Distribution)
Duly authorised on behalf of the
Gas and Electricity Markets Authority

28 March 2014

Schedule 1: Summary of special conditions to be amended, added or removed

RIIO-ED1 Condition number and name		Current DPCR5 licence condition
Chapter 1: Interpretation of Part 4		
1A	Overview of Part 4	CRC 1
1B	Interpretation of Part 4	CRC 2
Chapter 2: Electricity Distribution Revenue Restriction		
2A	Restrictions of Allowed Distribution Network Revenue	CRC 3, 5 and 14
2B	Calculation of Allowed Pass-Through Items	CRC 4
2C	Broad Measure of Customer Service Adjustment	CRC 8
2D	Adjustment of licensee's revenues to reflect interruptions-related quality of service performance	CRC 8
2E	Incentive on Connections Engagement	New
2F	Time to Connect Incentive	New
2G	The Losses Discretionary Reward	New
2H	The Network Innovation Allowance	New
2I	Not Used	New
2J	Low Carbon Networks Fund	CRC 13
2K	Margins on licensee's Connection Activities	CRC 12
2L	Revenue adjustments in respect of performance failures	CRC 12
2M	Adjustment of licensee's revenues for the residual distribution losses incentive	CRC 7
Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction		
3B	Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments	New
3C	Specified financial adjustments	New
3D	The Innovation Roll-out Mechanism	New
3E	Smart Meter Roll-out Costs	New
3F	Arrangements for the recovery of uncertain costs	CRC 18
3G	Revising the allowed level of Load Related Expenditure	CRC 18
3H	Allowed expenditure on improving services to Worst Served Customers	New
3I	Not Used	New
3J	Allowed expenditure on Visual Amenity Projects	New
3K	Rail electrification adjustments	New

RIIO-ED1 Condition number and name		Current DPCR5 licence condition
Chapter 4: Price Control Financial Instruments		
4A	Governance of ED1 Price Control Financial Instruments	New
4B	Annual Iteration Process for the ED1 Price Control Financial Model	New
4C	Price Control update provisions for WPD	New
Chapter 5: Other Revenue Restriction Related Conditions		
5A	The Network Innovation Competition	New
5B	Restriction of charges for the provision of Legacy Metering Equipment	CRC 6
5C	Directly Remunerated Services	CRC 15
5D	Assessment of Network Asset Secondary Deliverables	New
5E	Charging outside the Distribution Services Area	CRC 16
5F	Treatment of income from recovery in respect of Relevant Theft of Electricity	New
5G	Net to gross adjustment for Load Related Expenditure	New
5H	Not used	New
5I	Not used	New
5J	No used	New
5K	Disapplication	CRC 19
Conditions we propose to remove from the current licence		
NA	Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges	CRC 9 - Removal
NA	Adjustment of licensee's revenues to reflect innovation funding performance	CRC 10 - Removal
NA	Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation	CRC 11- Removal
NA	Assistance for high-cost distribution areas	CRC 17 - Removal

Schedule 2A: Proposed special conditions to the electricity distribution licences held by the four licensees owned by WPD

A copy of the proposed modifications to the special conditions can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-four-licensees-owned-western-power-distribution-plc-wpd>

Schedule 2B: ED1 Price Control Financial Handbook

A copy of the ED1 Price Control Financial Handbook can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-four-licensees-owned-western-power-distribution-plc-wpd>

Schedule 2C: ED1 Price Control Financial Model

A copy of the ED1 Price Control Financial Model can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-four-licensees-owned-western-power-distribution-plc-wpd>

Schedule 3: Reasons and effect of proposed modifications to the special conditions of the electricity distribution licences held by the four licensees owned by WPD

Chapter 1

CRC 1A. Overview of Part 4

Type of change: Amendment to current CRC

Current number: CRC 1

Current name: Overview of Part 4

1.1. This is a proposal to modify CRC 1 of the current licence, which provides an overview of the CRCs Part 4 of the licence. The reasons for the proposed changes are:

- to ensure that CRC 1A accurately describes the revised scope and structure of Part 4 of the RIIO-ED1 licence
- to remove from CRC 1A provisions which would duplicate other provisions contained in Part 4. This is to avoid the possibility of inconsistencies and confusion.

1.2. The effects of the modifications are to:

- renumber the condition as CRC 1A
- set out the scope of Part 4
- add a new part to the condition, which describes the structure of Part 4
- add a new part to the condition to set out the acronyms used throughout the CRCs to refer to the licensed electricity distributors
- amend the definition of Charge Restriction Condition, so that they are now defined by reference to their location in Part 4
- no longer include a description of how the CRCs may be modified.

CRC 1B. Interpretation of Part 4

Type of change: Amendment to exiting CRC

Current number: CRC 2

Current name: Definitions for the Charge Restriction Conditions

1.3. This is a proposal to modify CRC 2 of the current licence, which sets out defined terms and their definitions for the Charge Restriction Conditions. The reasons for the proposed new condition, including differences with the current condition, are:

- to incorporate all overarching provisions relating to the interpretation of Part 4 within one condition for ease of reference
- to introduce new terms and their definitions needed for the proposed modifications referred to below
- to remove redundant defined terms and their definitions no longer required because of the proposed modifications referred to below
- to amend some current defined terms and their definitions
- to correct references to outdated legislation and cross-references to other licence conditions consequent to the proposed modifications referred to below.

1.4. The effects of the modifications are:

- to renumber the condition to CRC 1B and to amend its title
- to update the defined terms and their definitions.

Chapter 2

CRC 2A. Restriction of Allowed Distribution Network Revenue

Type of change: New condition, which replaces three current conditions

Current conditions: CRC 3, 5 and 14

Current names: Restriction of Distribution Charges: Use of System Charges, Restriction of Distribution Charges: non-generation incentive revenue adjustment, and Distribution Charges: supplementary restrictions

1.5. The reason for this proposed condition is to ensure that licensees' charges are consistent with allowed expenditure.

1.6. The effect of this condition is to allow distribution network revenue that licensees can recover from customers in each year of the price control period. This condition totals variables populated by other CRCs. It also sets out the calculation of the price index adjustment factor used throughout the licence and the correction factor (K) for the treatment of over or under recovered revenue.

1.7. This condition replaces the current conditions CRC 3, CRC 5 and CRC 14. CRC 3 set out the restriction of distribution charges (use of system charges); CRC 5 set out the restriction of distribution charges (non-generation incentive revenue adjustment) and CRC 14 set out the calculation of the correction factor (K). For RIIO-ED1 we consider that it is efficient to combine these conditions into a single condition, and that we can do this without making significant changes to the intent of the current conditions.

1.8. This condition also gives effect to the new annual iteration process of the Price Control Financial Model (PCFM). This process creates a term known as MODt, which is included in the calculation of allowed distribution network revenue.

1.9. This condition gives effect to aspects of our October 2012 decision to mitigate network charging volatility and its effects by modifying the way the correction factor (K) operates.⁵ It will now operate with a two-year lag and the band in which no penalty applies has been doubled (to take account of the fact that changes to charges are no longer applicable on dates other than 1 April). This condition also allows for a further penalty to be applied for persistent over or under recovery.

1.10. Given the symmetrical nature of the penalties attaching to over and under recovery of revenues through the correction factor (K), it is proposed that the licensee should no longer be required to use its reasonable endeavours not to exceed its allowed revenue but instead be required to use its best endeavours to set charges so as to recover its allowed revenue. The proposed drafting gives effect to this.

⁵ Decision in relation to measures to mitigate network charging volatility arising from the price control settlement (October 2012): <https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf>

1.11. This condition also gives effect to our decision to change the way the price indexation adjustment factor is calculated.⁶ The effect of applying this decision is the creation of a new price indexation adjustment factor called RPIf and a true up to account for the difference between forecast and actual inflation, known as TRUt.

CRC 2B. Calculation of Allowed Pass-Through Items

Type of change: Amendment

Current number: CRC 4

Current name: Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items

1.12. This is a proposal to amend CRC 4, by replacing it with a new CRC 2B. CRC 4 provides a mechanism for the licensee to pass through certain specified costs to customers. The proposed modification retains much of the current condition but includes changes in the following areas, for the following reasons and with the following effects:

- several pass-through terms have been added and removed from the principal formula set out in the current condition to reflect the policy set out in our Strategy Decision
- changes have been made to reflect the Authority's decision on measures to mitigate charging volatility by introducing a two-year lag to the adjustments.⁷

CRC 2C. Broad Measure of Customer Service Adjustment

Type of change: Amendment

Current number: CRC 8

Current name: Adjustment of the licensee's revenues to reflect quality of service performance

1.13. This is a proposal to amend CRC 8, which calculates the revenue-adjusting term that reflects the licensee's performance against the Broad Measure of Customer Service.

1.14. The proposed modifications rename and renumber the current condition and replace the current wording with a new condition which:

- amends the structure
- removes the overall component of the Customer Satisfaction Survey
- updates the target/maximum reward/maximum penalty for the Customer Satisfaction Survey
- introduces the proportion of unsuccessful calls into the DNO's performance under the interruptions element of the Customer Satisfaction Survey
- updates the weightings of the complaints metric
- updates the target/maximum penalty score for the complaints metric.

⁶ Decision on the RPI indexation method to apply to allowed revenues in the forthcoming RIIO price controls (T1 and GD1) and the TPCR4 rollover (July 2011): <https://www.ofgem.gov.uk/ofgem-publications/53813/rpi-issue-decision-letter.pdf>

⁷ Decision in relation to measures to mitigate network charging volatility arising from the price control settlement (October 2012): <https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf>

1.15. The revised condition also establishes the Stakeholder Engagement Incentive Guidance, which provides information on the governance arrangements of the stakeholder engagement incentive. This is an associated document to the licence.

1.16. The effect of these proposed modifications is to enable the licensee to recover revenue streams that are consistent with our Strategy Decision.

CRC 2D. Adjustment of licensee's revenues to reflect interruptions-related quality of service performance

Type of change: Amendment

Current number: CRC 8 (excluding Part D)

Current name: Adjustment of licensee's revenues to reflect quality of service performance

1.17. The proposed modifications rename and renumber the current condition and replace the current wording with a new condition. The new condition retains much of the current content, but includes the following changes (for the following reasons and with the following effects):

- separation of the planned and unplanned elements of the targets for the number of customer interruptions so as to provide clarity to stakeholders on the licensees' performance
- updating targets for number and duration of customer interruptions, so as to reflect industry performance since targets were set in DPCR5
- updating the threshold values for both types of exceptional events to reflect more recent data
- amending the revenue exposure terms and the incentive rates to reflect the Strategy Decision.

CRC 2E. Incentive on Connections Engagement

Type of change: New condition

1.18. The reason for introducing this new condition is to calculate the revenue-adjusting term that reflects the licensee's performance as part of the Incentive on Connections Engagement, which was set out as part of the Strategy Decision.

1.19. The effect of this new condition is to enable the licensee to incur penalties where it fails to meet the criteria in relation to its connections activities set out in the Incentive on Connection Engagement Guidance. The Incentive on Connection Engagement Guidance is an associated document to the licence.

CRC 2F. Time to Connect Incentive

Type of change: New condition

1.20. The reason for introducing this new condition is to calculate the revenue-adjusting term that reflects the licensee's performance against our new Time to Connect Incentive, which was set out as part of the Strategy Decision.

1.21. The effect of this new condition is to enable the licensee to recover revenue streams for the RIIO-ED1 Time to Connect Incentive.

CRC 2G. The Losses Discretionary Reward

Type of change: New condition

1.22. The reason for introducing this new condition is to provide the revenue-adjusting term that reflects any additional revenue the Authority may, at its discretion, award the licensee under the Losses Discretionary Reward, which was set out as part of the Strategy Decision.

1.23. The effect of this new condition is to enable the licensee to collect revenue rewards awarded under the Losses Discretionary Reward. This condition also introduces the Losses Discretionary Reward Guidance Document, which will set out the criteria that needs to be met by the licensee to be eligible for any reward.

CRC 2H. The Network Innovation Allowance

Type of change: New condition

1.24. In the Strategy Decision we outlined the proposed introduction of an innovation stimulus. One component of the innovation stimulus is a Network Innovation Allowance (NIA). The NIA is a set allowance of funding for the licensees to spend on smaller-scale innovative projects with potential financial benefits to consumers. The purpose of this condition is to establish the NIA arrangements.

1.25. The effect of this condition is to establish arrangements, known as the Network Innovation Allowance. This condition sets out:

- that the detailed regulation, governance and administration of the NIA will be set out in the NIA governance document, and that this document should be complied with as if it formed part of the licensee's licence (the NIA governance document is an associated document to the licence)
- the percentage of each licensee's base revenue it can spend on innovative projects that conform to the NIA governance document, this being provided on a "use it or lose it" basis
- the scope of the NIA governance document
- the change control processes for the NIA governance document
- that only NIA expenditure that conforms to the requirements of the NIA governance document will be considered eligible.

CRC 2I. Not used

Type of change: New condition

1.26. The reason for introducing this condition is to provide the licensee with clarity that that this condition is not used in Part IV (ie special conditions) of its licence.

1.27. The introduction of this condition has no effect on licensees to whom this notice is addressed.

CRC 2J. Low Carbon Networks Fund

Type of change: Amendment

Current number: CRC 13

Current name: Low Carbon Networks Fund

1.28. In the Strategy Decision we outlined the introduction of an innovation stimulus and the proposed removal of the Low Carbon Networks (LCN) Fund.

1.29. The LCN Fund consists of a First Tier and a Second Tier. As outlined in the Strategy Decision, the First Tier of the LCN Fund will be replaced by the NIA. The Second Tier will be replaced by the electricity Network Innovation Competition (NIC). The final Second Tier competition in the LCN Fund will take place in 2014 with funding being transferred to successful licensees in 2015.

1.30. In addition, a number of Second Tier projects awarded funding during DPCR5 will continue into RIIO-ED1. We may also award some discretionary reward funding beyond April 2015 for exceptional projects, which were awarded funding during DPCR5. There will be no First Tier projects continuing into RIIO-ED1, as these will need to be registered under the NIA.

1.31. The proposed modifications rename and renumber the current condition and replace the current wording with a new condition. The new condition retains much of the current condition, but includes the following changes which enable the Authority, within the context of RIIO-ED1 to:

- continue monitoring ongoing Second Tier projects
- retain the ability to halt projects and disallow expenditure
- disallow any expenditure under the First Tier which may have been misspent during DPCR5.

1.32. The effect of the modified condition is to continue the arrangements for the Second Tier of the LCN Fund and maintain the eligibility requirements for the First Tier of the LCN Fund (while there will be no First Tier projects this will continue to allow us to claw back funding if we discover it has been ineligible). This includes:

- the First Tier funding mechanism, which outlines the requirements for First Tier projects
- the Second Tier and Discretionary Funding Mechanism, which outlines the circumstances under which the licensee will receive funding and the circumstances under which the licensee must return money
- maintaining that the regulation, governance and administration of the LCN Fund will be detailed in the LCN Fund governance document
- maintaining that the licensee must comply with the LCN Fund governance document as if it formed part of the licence
- maintaining the procedures for issuing and revising the LCN Fund governance document.

1.33. The LCN Fund governance document is an associated document to the licence.

CRC 2K. Margins on licensee's Connection Activities

Type of change: Amendment

Current number: CRC 12

Current name: Licensee's Connection Activities: Margins and the development of competition

1.34. The reason for modifying the current condition is to update the licence condition following the outcome of the DPCR5 Competition Test process.

1.35. The proposed modifications rename and renumber the current condition and replace the current wording with a new condition. The new condition retains much of the current condition, but includes the following changes:

- removal of the mechanism for licensees to apply for margin regulation to be lifted in relevant market segments that pass a legal requirements test and competition test
- removal of Appendix 2 of the licence condition that requires licensees to provide an independent audit report verifying that systems and processes are in place to comply with connections regulations and distributed generation connection standards.

1.36. The revised condition also adds a mechanism for the Authority to direct the level of margin that the licensee may charge for connection activities in market segments where the Authority has not determined that effective competition has been established.

1.37. The title has been updated as a consequence of the proposed changes.

1.38. The effect of this condition is to enable the licensee to recover an unregulated margin on contestable connection activities in Relevant Market Segments that had passed the legal requirements and competition tests by 31 December 2013. The amendment enables the Authority to determine the level of margin that the licensee may recover on contestable connection activities in relevant market segments that had not passed the legal requirements and competition tests by 31 December 2013.

CRC 2L. Revenue adjustments in respect of performance failures

Type of change: Amendment

Current number: CRC 12 – Appendix 3.

Current name: Licensee's Connection Activities: Margins and the development of competition. Appendix 3 – Revenue adjustments in respect of performance failures.

1.39. The proposed modifications replaces CRC 12 – Appendix 3 with a new condition, CRC 2L. The reason for the modification is to introduce a separate licence condition for revenue adjustments in respect of connection performance failures. Our proposed changes also simplify the current licence condition structure.

1.40. In the modified condition we have:

- updated the licence condition and the revenue exposure to reflect that RIIO-ED1 is an eight-year-long price control
- simplified the formula.

1.41. The effect of this condition is to continue current arrangements that place an overall cap on licensees' liabilities under the connection Guaranteed Standards of Performance scheme, with payments beyond this level being funded through distribution use-of-system charges.

CRC 2M. Adjustment of licensee's revenues for the residual distribution losses incentive

Type of change: Amendment

Current number: CRC 7

Current name: Adjustment of licensee's revenues to reflect distribution losses performance

1.42. We are proposing to modify this condition by changing its name and numbering and making the following further changes for the following reasons. The residual losses incentive from the DPCR4 price control period (the PPL term) was originally due to be recovered during DPCR5 through licence condition CRC 7. Because of the volatility of data used to measure losses in 2009-10, we are still in the process of closing out the losses mechanism for DPCR4 and have yet to direct the PPL term. On 25 April 2013 we issued a letter stating that the earliest year for which we will be directing recovery of the PPL term is likely to be 2015-16, the first year of RIIO-ED1. That letter also made clear that we will direct the period for recovery taking account of the date on which the direction is made.⁸

1.43. Therefore we propose to include a licence condition in the RIIO-ED1 licence to update the current CRC 7 condition. This will allow recovery of the PPL term during RIIO-ED1, giving effect to the policy intent that we have already communicated on this issue.

Chapter 3

CRC 3B. Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments

Type of change: New condition

1.44. The reason for introducing this new condition is to provide for the determination and direction of revised PCFM Variable Values relating to the licensee's actual levels of Totex expenditure. Under the Annual Iteration Process for the Price Control Financial Model, the licensee's actual level of Totex expenditure is compared to its allowed Totex expenditure levels. Through application of the Totex Incentive Strength rate for the licensee and the Totex Capitalisation Rate, an appropriate adjustment to allowed revenue is calculated to reflect any overspend or underspend under the sharing factor mechanism.

1.45. The effect of introducing this condition is to enable an adjustment to be made to the licensee's allowed revenue to reflect any over or under spend when compared to corresponding allowed Totex expenditure levels.

⁸ <https://www.ofgem.gov.uk/publications-and-updates/timing-recovery-close-out-values-losses-incentive-mechanism-fourth-distribution-price-control-review-dpcr4>

CRC 3C. Specified financial adjustments

Type of change: New condition

1.46. The purpose of this new condition is to provide for the determination and direction of revised PCFM Variables Values that will be used in the Annual Iteration Process for the ED1 Price Control Financial Model to make appropriate adjustments to:

- revenue allowances relating to Pension Scheme Established Deficit costs
- revenue allowances in respect of tax trigger events
- revenue allowances relating to the licensees' gearing levels and corporate debt interest costs
- the licensees' allowed percentage cost of corporate debt.

1.47. The effect of this condition is to provide for adjustments to be made to licensee's allowed revenue in respect of these factors.

CRC 3D. The Innovation Roll-out Mechanism

Type of change: New condition

1.48. The purpose of this condition is to establish the Innovation Roll-out Mechanism. This implements our proposal set out in the Strategy Decision that licensees would be able to apply for funding for the roll-out of proven innovative solutions with low carbon and/or environmental customer benefits where the licensee cannot fund the roll-out under the current price control settlement.

1.49. The effect of this condition is to allow licensees to give notice to the Authority to seek an adjustment to their allowed revenue to fund the costs of rolling out a proven innovation. This condition explains:

- the criteria licensees must address when giving notice to the Authority under this condition
- the minimum value for which the licensee is permitted to make a notice for a relevant adjustment (an adjustment to licensee's allowed revenue which allows it to roll out an innovation)
- when the licensee may give notice
- the process the Authority must follow when reaching its decision regarding a notice
- how any relevant adjustments are incorporated into the licensees' allowed revenue.

CRC 3E. Smart Meter Roll-out Costs

Type of change: New condition.

1.50. The reason for introducing this condition is to provide for a mechanism for recovering the efficient costs of smart meter roll-out costs.

1.51. The effect of the condition is to establish a volume driver mechanism which:

- sets the opening values of the licensee's allowed expenditure
- establishes the basis upon which that base level of smart meter roll-out costs can be varied to take account of the actual volume of smart meter installations when the licensees have been required to intervene
- provides a mechanism for feeding this adjustment into the Price Control Financial Model
- sets out the reporting requirements for this mechanism.

CRC 3F. Arrangements for the recovery of uncertain costs

Type of change: Amendment

Current number: CRC 18

Current name: Arrangements for the recovery of uncertain costs

1.52. This condition enables the licensee to apply for allowances to be amended in specified circumstances and at specified application windows. The proposed modifications replaces CRC 18 with a new condition, CRC 3F which retains much of the previous condition but includes the following changes for the following reasons and with the following effects:

- removing the reopeners for blackstart and rising lateral main system costs, as these are now sufficiently provided for under ex ante funding
- streetworks placeholder
- amending the threshold for High Value Projects in line with our Strategy Decision
- amending the definition of Specific Security Expenditure Items in line so as to remove the reference to blackstart
- where the Authority considers that the information provided by the licensee is lacking, a mechanism within a prescribed period to enable the Authority to "stop the clock" on the period within which it must assess a reopener request until the deficiency is remedied
- removing Part E which is proposed to be dealt with in a discrete condition.

1.53. The condition also includes a mechanism to revise the treatment of such allowances through the annual iteration process where changes are made to allowances as a result of the operation of this condition.

CRC 3G. Revising the allowed level of Load Related Expenditure

Type of change: Amendment

Current number: CRC 18 (Part E)

Current name: Arrangements for the recovery of uncertain costs

1.54. Part E of CRC 18 enables the licensee to apply for allowances for following categories of efficiently incurred load-related costs to be amended in certain circumstances and at specified application windows:

- general reinforcement
- connections
- fault-level reinforcement
- transmission connection points.

1.55. We proposed to modify Part E of CRC 18 so that it aligns with our Strategy Decision by:

- uncoupling it from CRC 18 into a discrete condition
- broadening the scope of cost areas that are eligible to be reopened during the price control period in line with the Strategy Decision
- clarifying the applicable application windows, and
- where the Authority considers that the information provided by the licensee is inadequate, a mechanism within a prescribed period to enable the Authority to “stop the clock” on the period within which it must assess a reopener request until the deficiency is remedied.

CRC 3H. Allowed expenditure on improving services to Worst Served Customers

Type of change: New condition

1.56. The reason for this condition is to facilitate improvements in services to more frequently interrupted customers.

1.57. The effect of this condition is to allocate capped funding to each licensee for the RIIO-ED1 period, through a formula which provides a value for the Price Control Financial Model and to improve services to worst served customers on its network. The condition also requires the licensee to ensure that the amount of expenditure on improving services to any one worst served customer does not in total exceed a cap per customer.

CRC 3I. Not used

Type of change: New condition

1.58. The reason for introducing this condition is to provide the licensee with clarity that this condition is not used in Part IV (ie special conditions) of its licence.

1.59. The introduction of this condition has no effect on licensees to whom this notice is addressed.

CRC 3J. Allowed expenditure on Visual Amenity Projects

Type of change: New condition

1.60. The reason for this proposed new condition is to provide a capped allowance to the licensee for the replacement of overhead electricity cables with undergrounding in designated areas, where such a scheme is supported by relevant stakeholders, in accordance with our Strategy Decision.

1.61. The effect of this condition is to enable additions to be made to MOD by direction of the Authority through the operation of a PCFM Variable Value under the circumstances referred to above.

CRC 3K. Rail electrification adjustments

Type of change: New condition – WPD licensees only

1.62. The reason for introducing this new condition is to allow the Authority, by way of direction, to amend WPD's settlement in the situation where a third party is funding the costs associated with rail electrification that WPD has been funded for. We stated in WPD's Draft Determination that we would introduce this condition to remove funding given before costs are incurred (known as ex ante funding) provided to WPD for diversions associated with Network Rail's electrification programme, should these costs be funded by another party.

1.63. The effect of this proposed condition is to enable a reduction to be made to MOD by direction of the Authority through operation of a PCFM Variable Value under the circumstances referred to above.

Chapter 4

CRC 4A. Governance of ED1 Price Control Financial Instruments

Type of change: New condition

1.64. The reason for introducing this new condition is to incorporate the ED1 Price Control Financial Handbook and the ED1 Price Control Financial Model (PCFM) into the licence and establish the change control framework for both of them. Both the ED1 Price Control Financial Model and the ED1 Price Control Financial Handbook form part of CRC 4A and may only be modified by the Authority in accordance with the provisions set out in this condition.

1.65. Given both the ED1 Price Control Financial Model and the ED1 Price Control Financial Handbook are part of the licence and are specific to each licensee, WPD have them both implemented with the RIIO-ED1 licence as part of the fast-track licence statutory consultation and modification notice. For slow-track companies, they will be implemented as part of the slow-track licence statutory consultation and modification notice.

1.66. The effect of introducing this condition is to establish and provide governance for the ED1 Price Control Financial Handbook and the ED1 Price Control Financial Model, both essential for the Annual Iteration Process that will update the licensee's base revenues during the price control period.

1.67. The latest version of WPD's PCFM has been published as part of its draft determinations.⁹

CRC 4B. Annual Iteration Process for the ED1 Price Control Financial Model

Type of change: New condition

1.68. The purpose and effect of this new condition is to:

- set out the steps to be taken for the annual iteration process of the ED1 Price Control Financial Model
- set out the procedure for directing the value of the terms MODt to the licensee.

CRC 4C. Price control update provisions for WPD

Type of change: New condition – WPD licensees only

1.69. The reason for introducing this new condition is to allow the Authority, by way of direction, to:

- bring stipulated values, as set out in the ED1 Final Determination, up to date
- make such adjustments, if any, to components of the licensee's ED1 Final Determination as it considers appropriate so as to ensure that, in its opinion and taken in the round, the licensee does not suffer material financial detriment from having that determination set at fast-track rather than slow-track
- reprofile, where appropriate, the opening base revenue allowances for the licensee in light of the updates and adjustments referred to in paragraphs 4C.2(a) and 4C.2(b)
- make such modifications to Part 4 of the licence and the ED1 Price Control Financial Instruments as are necessary to implement the updates and adjustments
- make the common content of the ED1 Price Control Financial Instruments exactly the same as that for every other electricity distributor.

1.70. The effect of introducing this condition is to provide for appropriate updates and adjustments to be made to aspects of the price control arrangements for the licensee so that the policies and commitments set out in the Authority's Strategy Decision for the RIIO-ED1 price control in respect of fast-track licensees can be implemented.

1.71. This condition will come into effect for WPD licensees in summer 2014 and is in effect until 1 April 2015.

⁹ RIIO-ED1 Draft Determinations for Western Power Distribution Ltd: <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-fast-tracked-distribution-network-operators---western-power-distribution>

Chapter 5

CRC 5A. The Network Innovation Competition

Type of change: New condition

1.72. The reason for introducing this condition is to reflect the Network Innovation Competition (NIC) policy proposal outlined in the Strategy Decision. Under the NIC the licensee can bid for funding through a competitive process for innovative projects which have low carbon and/or environmental benefits.

1.73. The effect of the proposed condition is to enable the licensee to fund eligible NIC projects. This includes:

- establishing the NIC funding and the funding return mechanism, which outline the circumstances under which the licensee will receive funding and the circumstances under which the licensee must return money
- establishing that the regulation, governance and administration of the NIC will be detailed in the NIC governance document, the document associated to the licence
- establishing that the licensee must comply with the NIC governance document as if it formed part of the licence
- establishing the procedures for issuing and revising the NIC governance document.

CRC 5B. Restriction of charges for the provision of Legacy Metering Equipment

Type of change: Amendment

Current number: CRC 6

Current name: Restriction of charges for the provision of Legacy Metering Equipment

1.74. The purpose of this condition is to establish the restrictions on charges for the provision of legacy metering equipment and to set out the obligations on the licensee. Consequential modifications are required to this condition to ensure that it is capable of continuing to operate as currently, notwithstanding changes elsewhere in the licence.

1.75. The effects of these proposed modifications are:

- to modify the definition of inflation (RPIit) so that it is included within this condition, rather than in another licence condition that will employ a different definition of inflation
- to change the condition number and referencing within this condition, to ensure that it remains operational over the RIIO-ED1 price control period.

CRC 5C. Directly Remunerated Services

Type of change: Amendment

Current number: CRC 15

Current name: Services treated as Excluded Services

1.76. The purpose of this condition is to set out the services provided by the licensee that are to be treated as directly remunerated services. It also specifies the basis on which charges can be levied for directly remunerated services. The proposed changes are:

- to change the name of the condition from Services treated as Excluded Services, which reflected the fact that revenue does not count towards allowed distribution network revenue, to directly remunerated services. This name is a better description because it refers to the main characteristic of the service – ie that it is paid for by the party commissioning the service rather than by use of system charge payers
- to make clear in Part A that any returned royalty income through the Network Innovation Competition is not revenue from a directly remunerated service
- to add two new Directly Remunerated Service categories:
 - DRS 7-smart meter roll-out rechargeable services that are provided under the provisions of the Service Level Agreement that is appended to the DCUSA and fall outside the definition of smart meter roll-out costs
 - DRS8-value added services: to incentivise DNOs to allow relevant assets to be used for data and communications infrastructure and for other commercial opportunities and to provide for interaction with the Totex Incentive Mechanism, so that net gains from providing such services are shared with electricity consumers.
- to renumber the miscellaneous category as DRS9.

1.77. The effects of the changes are:

- to ensure that the condition remains applicable for the RIIO-ED1 price control period and to improve its clarity, in particular:
 - to provide for smart meter roll-out rechargeable services to be provided on a cost-recovery basis
 - to introduce a mechanism by which the licensee and electricity consumers can share gains from the appropriate exploitation of network assets, for example under commercial arrangements for the installation of third-party data or communications equipment.

CRC 5D. Assessment of Network Asset Secondary Deliverables

Type of change: New condition.

1.78. This proposed condition establishes the licensee's Network Asset Secondary Deliverables for the price control period as set out in the Network Assets Workbook. The Network Assets Workbook forms part of the licence and will be subject to change only through a licence modification, or through a specific process for rebasing the workbook where the Common Network Asset Indices Methodology is amended. Since the Network

Assets Workbook for WPD is part of this licence condition it has been published as part of this notice.¹⁰

1.79. The condition also:

- sets out the basis on which the Authority intends to make its assessment of the licensee's delivery of the Network Asset Secondary Deliverables
- specifies the incentive that will be provided in respect of justified over-delivery, and penalty for under-delivery that is not justified, of the Network Asset Secondary Deliverables.

1.80. The effect of this condition is to require the licensee to provide a report to the Authority that is consistent with the Common Network Asset Indices Methodology. The report will allow the Authority to assess the licensee's performance in delivering the Network Asset Secondary Deliverables for the purpose of determining what, if any, adjustments should be made to the licensee's allowed revenue in the next price control period.

CRC 5E. Charging outside the Distribution Services Area

Type of change: Amendment

Current number: CRC 16

Current name: Charging outside the Distribution Services Area

1.81. We propose to amend the wording in Part A of the condition to avoid any possible ambiguity in the current licence condition around how the licensee must set out of area charges. The proposed amendments make clear that the licensee must set out of area charges such that the standing charge, unit rate and any other component of the charge taken together do not exceed the use of system charges to equivalent domestic customers.

1.82. We propose to remove and update the provisions in parts B and C of this condition relating to the disapplication of out of area charges. The provisions are being moved to CRC 5K (Disapplication).

1.83. The effect of these amendments is to clarify current policy.

CRC 5F. Treatment of income from recovery in respect of Relevant Theft of Electricity

Type of change: New condition

1.84. The reason for introducing this new condition is to ensure that consumers share some benefit in income arising from actions taken by licensees in respect of relevant theft of electricity.

¹⁰ Schedule 2D: Network Assets Workbook: <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-four-licensees-owned-western-power-distribution-plc-wpd>

1.85. The effect of this condition is to apply the efficiency incentive rate sharing factor to such income by applying an amount equal to it as a negative adjustment to totex-allowed revenue.

CRC 5G. Net to gross adjustment for Load Related Expenditure

Type of change: New condition

1.86. The reason for this condition is to provide a means for ensuring that the licensee is not able to recover twice for the provision of connections and reinforcement services to its network, through both distribution use of system (DUoS) charges and through connection charges.

1.87. The effect of this condition is to set out the baseline volumes of connections and baseline percentage of gross load-related expenditure that the licensee is expected to deliver during the price control period. The condition establishes a framework under which the Authority may make adjustments to the licensee's base revenue in the next price control period (RIIO-ED2), where any of the actual percentage of gross load-related expenditure funded through specific customer-funded reinforcement during the price control period exceeds the relevant net-to-gross threshold.

CRC 5H: Not used

Type of change: New condition

1.88. The reason for introducing this condition is to provide the licensee with clarity that this condition is not used in Part IV (ie special conditions) of the licence. This condition may be used by the slow-track companies.

1.89. The introduction of this condition has no effect on licensees to whom this notice is addressed.

CRC 5I: Not used

Type of change: New condition

1.90. The reason for introducing this condition is to provide the licensee with clarity that this condition is not used in Part IV (ie special conditions) of its licence.

1.91. The introduction of this condition has no effect on licensees to whom this notice is addressed.

CRC 5J: Not used

Type of change: New condition

1.92. The reason for introducing this condition is to provide the licensee with clarity that this condition is not used in Part IV (ie special conditions) of its licence. This condition may be used by the slow-track companies.

1.93. The introduction of this condition has no effect on licensees to whom this notice is addressed.

CRC 5K. Disapplication

Type of change: Amendment

Current number: CRC 19

Current name: Duration of the Charge Restriction Conditions

1.94. The reason for the modification is to align the disapplication condition with the licence modification appeals process set out in the Act, which has replaced the former licence modification reference process.

1.95. The effect of our proposed amendments is to ensure that the condition remains up-to-date with the appeals process set out in the Act and also to improve the clarity of how the disapplication provisions are set out in the licence by bringing the provisions previously set out CRC 16 and CRC 19 into a single licence condition.

Complete removal of existing CRCS

1.96. We propose that the following current CRCs are completely removed from the licence.

CRC 9. Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges

Type of change: Complete removal from the licence

1.97. The purpose of this current condition is to provide an incentive on certain elements of transmission connection point charges that the DNOs could influence through talking to the transmission operator.

1.98. The reason for the removal of this condition is that under the RIIO-ED1 price control settlement, these charges are included as part of the companies' opening base revenue allowance, and incentivised through the Totex Incentive Mechanism. Therefore a separate incentive condition is no longer required for these costs.

1.99. The effect of this deletion is to remove a provision that is covered elsewhere in RIIO-ED1 price control settlement.

CRC 10. Adjustment of licensee's revenues to reflect innovation funding performance

Type of change: Complete removal from the licence

1.100. We proposed in the Strategy Decision that we would be establishing a Network Innovation Allowance (NIA) and that the innovation funding incentive would be incorporated into the NIA. The NIA is reflected in the proposed new condition CRC 2H (Network Innovation Allowance).

1.101. The effect of this proposal is to remove CRC 10 from the licence.

CRC 11. Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation

Type of change: Complete removal from the licence

1.102. We propose to remove this licence condition to reflect the decision to discontinue the Distributed Generation (DG) Incentive scheme. The justification for the decision to discontinue the DG Incentive is set out in the Strategy Decision for the RIIO-ED1 electricity distribution price control: outputs, incentives and innovation supplementary annex, chapter 3.¹¹

1.103. The effect of this proposal is to remove an out-of-date licence condition.

CRC 17. Assistance for high-cost distribution areas

Type of change: Complete removal from the licence

1.104. We propose to remove this condition as it is not applicable to WPD.

1.105. The effect of this change is to remove a redundant condition from WPD's licence.

¹¹ https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/riioed1decoutputsincentives_0.pdf

Schedule 4: Response to issues raised as part of RIIO-ED1: Informal consultations on fast-track licence drafting

On 10 and 31 January 2014, we published our informal consultations on the proposed changes to the special conditions.¹² Our response to the issues raised by stakeholders responding to these consultations can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-four-licensees-owned-western-power-distribution-plc-wpd>

¹² Part 1: <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-charge-restriction-conditions-part-1>

Part 2: <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-charge-restriction-conditions-part-2>

Schedule 5: Revisions and clarifications of the numbers set out in the decision to fast-track WPD

On 28 February 2014 we published our decision to fast-track WPD.¹³ We included key revenue allowances, incentive rates and costs that would be in WPD's licence in appendix 2 of the decision. However, in two cases the numbers we have now included in WPD's CRCs differ from those in our fast-track decision. We explain these differences below as well as our reasons for the changes.

In this schedule we have retained the table numbering that we used in appendix 2 to our decision to fast-track WPD to make cross referencing easier.

Uncertain costs

Smart Meter Roll-out Costs

Table 1.14 contains the allowed unit costs for smart meter invention. These are used in CRC 3E (Smart Meter Roll-out Costs). The previous numbers were not consistent with WPD's business plan, in particular the ex ante costs and the unit cost calculation for smart-meter roll-out.

Table 1.14: Allowed unit cost of smart meter interventions (£ per site, 2012/13 prices)

	Decision to fast-track WPD	Revised numbers in CRC 3E
WMID	228	225
EMID	229	225
SWALES	243	233
SWEST	239	228

Allowances for undergrounding and worst-served customers

In our decision to fast-track WPD, tables 1.20 and 1.23 were titled "annual" allowance for both worst served customers and for replacing overhead cables (undergrounding) in national parks and areas of outstanding natural beauty. However, the numbers in the tables were the total allowance over the price control period. These total allowances are included in CRC 3H (Allowed expenditure on improving services to Worst Served Customers) and CRC 3J (Allowed expenditure on Visual Amenity Projects)..

¹³ <https://www.ofgem.gov.uk/publications-and-updates/decision-fast-track-western-power-distribution>

Table 1.20: Annual Total allowance for worst served customers (£m, 2012/13 prices)

WMID	14.7
EMID	6.9
SWALES	2.6
SWEST	3.1

Table 1.23: Annual Total allowance for undergrounding in national parks and areas of outstanding natural beauty (£m, 2012/13 prices)

WMID	10.2
EMID	6.3
SWALES	5.3
SWEST	11.4