

To:

Western Power Distribution (East Midlands) plc (EMID)
Eastern Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)

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 the electricity distribution licence held by each of the above licensees ('the licensees') granted or treated as granted under section 6(1)(c) of the Act by amending Special Condition CRC 14 (Distribution Charges: supplementary restrictions).
2. The reason why the Authority proposes to make this licence modification is to prevent the licensees being unfairly penalised for the under/over recovery of revenue related to the Authority's decisions not to activate the Distribution Losses Incentive Mechanism (published 16 November 2012)¹ and closing out the DPCR4 losses incentive mechanism (published 21 March 2014)².
3. In our decision on closing out the DPCR4 losses incentive mechanism we stated, in paragraph 2.183, "We stand by our previous statement that any adverse impact or penalty arising as a result of the effect of the restatement of data or the anticipation of PPL values on a DNO's under/over recovery position, will be dealt with on a case-by-case basis". Given this decision, the proposed licence modification provides us with a mechanism to deal with any adverse impact before the licensees set their charges for 2015/16.
4. The effect of the proposed modification is to provide for the value for the penalty interest rate adjustment ('the PR_t term') applied to the licensees in any Regulatory Year to the over and under recoveries of revenue, to be set in a direction given by the Authority.
5. Before issuing any direction under the proposed modified CRC 14, we will first consult on any representations from the licensees for relief from the PR_t term.
6. A copy of the proposed modification for each of the licensees and other documents referred to in this Notice have been published alongside this Notice and are available on the Ofgem website (www.ofgem.gov.uk):
 - Schedule 1 sets out the proposed changes to CRC 14 for the licensees, except EPN; and
 - Schedule 2 sets out the proposed changes to CRC 14 for EPN.
7. Any representations with respect to the proposed licence modification must be made on or before 21 August 2014 to: Tom Mackenzie, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to thomas.mackenzie@ofgem.gov.uk.

¹ Document A: Decision not to activate the Losses Incentive Mechanism in the Fifth Distribution Price Control (ref 149/12) - <https://www.ofgem.gov.uk/ofgem-publications/45566/1adecisionlossesdpcr5161112.pdf>

² Decision on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism - <https://www.ofgem.gov.uk/publications-and-updates/decision-restatement-2009-10-data-and-closing-out-dpcr4-losses-incentive-mechanism>

8. All responses will normally be published on Ofgem's website. 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 to receive responses in an electronic form so they can be placed easily on the Ofgem website.
9. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Dora Guzeleva
Head of Networks Policy: Local Grids
Duly authorised on behalf of the
Gas and Electricity Markets Authority

24 July 2014