

To:

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

Direction issued by the Gas and Electricity Markets Authority to EMID, EPN, SPD and SPMW under paragraph 14.3 of special condition CRC 14 (Distribution Charges: supplementary restrictions) of their electricity distribution licence

Whereas

1. Each of the companies to whom this document is addressed (the 'Licensee') is the holder of an electricity distribution licence ('the Licence') 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 our¹ recent decision on closing out the DPCR4 losses incentive mechanism (published 21 March 2014)², we indicated that we would consider applications from Distribution Network Operators (DNOs) in relation to any adverse impact or penalty as a result of the effect of the restatement of losses data or the anticipation of the residual losses incentive (PPL values) on allowed revenue under/over recovery positions.³ This is to prevent DNOs 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)⁴ and the decision on closing out the DPCR4 losses incentive mechanism.

3. The Licensees submitted an application to us requesting relief from the penalty interest rate adjustment (PR_t) value of zero under CRC 14, due to the effect of the restatement of losses data, or the anticipation of PPL values, leading to actual revenues collected being less than 97 per cent of allowed revenue in the affected Regulatory Year(s).⁵

4. In order for us to be able to direct a different value of PR_t for the Licensees between zero and 3, we modified CRC 14 and the changes came into effect on 24 October 2014.⁶ On 17 September 2014, we published a consultation setting out our minded to position in relation to the applications made by the Licensees.⁷ We received 2 responses to the consultation, both of which were supportive of our minded to position.⁸ Therefore,

¹ The terms "Ofgem", "the Authority", "we" and "us" are used interchangeably in this document.

² <https://www.ofgem.gov.uk/ofgem-publications/86757/decisiononclosingoutdpcr4lossesmechanism-mar-14.pdf>

³ Paragraph 2.183

⁴ <https://www.ofgem.gov.uk/ofgem-publications/45566/1adecisionlossesdpcr5161112.pdf>

⁵ The affected Regulatory Year is the Regulatory Year that the actual under/over recovery took place.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/decision-changes-licence-condition-crc-14-relation-dpcr4-losses-incentive-mechanism>

⁷ <https://www.ofgem.gov.uk/publications-and-updates/consultation-applications-western-power-distribution-sp-energy-networks-and-uk-power-networks-relief-penalty-interest-consequence-under-recovery-relating-close-out-dpcr4-losses-incentive-mechanism>

⁸ The responses have been published here - <https://www.ofgem.gov.uk/publications-and-updates/consultation-applications-western-power-distribution-sp-energy-networks-and-uk-power-networks-relief-penalty-interest-consequence-under-recovery-relating-close-out-dpcr4-losses-incentive-mechanism>

in line with our consultation, we have decided to provide the Licensees with relief from the penalty interest rate adjustment by setting PR_t to different values under the provisions of CRC 14. The reasons being that:

- in relation to the PPL values, the Licensees' decision to under/over recover allowed revenue was justified; and
- without the PPL value(s) they would have incurred a different PR_t value.

Now the Authority, pursuant to paragraph 14.3 of CRC 14, and for the reasons set out above, **hereby directs that** the value of PR_t for the Licensee will be set as follows:

- For EMID, "0.66134" instead of "0" for the Regulatory Year commencing 1 April 2014;
- For EPN, "1.5" instead of "0" for the Regulatory Year commencing 1 April 2014;
- For SPD, "1.5" instead of "0" for the Regulatory Year commencing 1 April 2012; and
- For SPMW, "1.5" instead of "0" for the Regulatory Years commencing 1 April 2012 and 1 April 2013.

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

Dated 31 October 2014

Dora Guzeleva - Head of Networks Policy: Local Grids

Duly authorised on behalf of the Authority