

**To: Electricity North West Ltd (ENWL)
Northern Powergrid (Northeast) Ltd (NPgN)
Northern Powergrid (Yorkshire) plc (NPgY)
London Power Networks plc (LPN)
South Eastern Power Networks plc (SPN)
Eastern Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)
Scottish Hydro Electric Power Distribution plc (SSEH)
Southern Electric Power Distribution plc (SSES)**

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 licences held by each of the above licensees ("the licensees") 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. The summary also sets out which modifications are proposed to apply to which licensees.

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 above named licensees during the RIIO-ED1 period as set out in the RIIO-ED1 final determinations for the slow-track electricity distribution companies¹.
3. The effect of the proposed modifications is to implement the RIIO-ED1 revenue restrictions.
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 effects of the proposed modifications. In addition, further details of those reasons, effects and the background on these proposed changes are set out in the following documents:
 - a) RIIO-ED1 final determinations for the slow-track electricity distribution companies²
 - b) RIIO-ED1: Informal consultation on slow-track licence drafting – Charge Restriction Conditions³

¹ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-final-determinations-slow-track-electricity-distribution-companies>

² <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-final-determinations-slow-track-electricity-distribution-companies>

- c) RIIO-ED1: Second Informal consultation on licence drafting – Standard Licence Conditions⁴
 - d) Strategy Decision.
7. Schedule 4 to this notice contains a link to the section of our website where we have published our responses to issues raised by stakeholders as part of the RIIO-ED1 informal consultation on slow-track licence drafting, in respect of special conditions.
 8. A copy of the proposed modifications and other documents referred to in this Notice have been published alongside this Notice and are available on Ofgem's website (www.ofgem.gov.uk).
 9. If you have any representations about the proposed licence modifications, please make them on or before 19 January 2015 to: Clothilde Cantegreil, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to Clothilde.Cantegreil@ofgem.gov.uk.
 10. All responses will be published on Ofgem's website. If you do not want your response to be made public, please clearly mark your response as not for publication. We prefer to receive responses electronically so they can be published easily on the Ofgem website.
 11. If the Authority decides to make the proposed modifications they will take effect on 1 April 2015.

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**Maxine Frerk, Interim Senior Partner, Smarter Grids and Governance
(Distribution) Duly authorised on behalf of the
Gas and Electricity Markets Authority**

17 December 2014

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

⁴ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-second-informal-consultation-licence-drafting-%E2%80%93-standard-licence-conditions>

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

RIIO-ED1 Condition number and name		Page number in Schedule 2A	Current DPCR5 licence condition	Associated document?	Relevant Licensee
	Chapter 1: Interpretation of Part 4				
1A	Overview of Part 4	5	CRC 1	No	All slow-track
1B	Interpretation of Part 4	7	CRC 2	No	All slow-track
	Chapter 2: Electricity Distribution Revenue Restriction				
2A	Restrictions of Allowed Distribution Network Revenue	17	CRC 3, 5 and 14	No	All slow-track, although different Parts E and F apply to different licensees as indicated in Schedule 2A
2B	Calculation of Allowed Pass-through Items	31	CRC 4	No	ENWL, NPgN, NPgY, LPN, SPN, EPN, SPD, SPMW, SSES
		44			SSEH
2C	Broad measure of customer service	59	CRC 8	Yes	All slow-track
2D	Adjustment of licensee’s revenues to reflect interruptions related quality of service performance	85	CRC 8	No	All slow-track
2E	Incentive on Connections Engagement	111	New	Yes	All slow-track
2F	Time to Connect Incentive	115	New	No	All slow-track
2G	The Losses Discretionary Reward	129	New	Yes	All slow-track
2H	The Network Innovation Allowance	133	New	Yes	All slow-track
2I	Not Used	139	New	No	All slow-track
2J	Low Carbon Networks Fund	140	CRC 13	Yes	All slow-track
2K	Margins on Licensee’s Connection Activities	147	CRC 12	No	All slow-track
2L	Revenue adjustments in respect of performance failures	154	CRC 12	No	All slow-track
2M	Adjustment of licensee’s revenues for the residual distribution losses incentive	157	CRC 7	No	All slow-track
2N	Assistance for high-cost distribution areas for SSEH	159	CRC 17	No	SSEH

RIIO-ED1 Condition number and name		Page number in Schedule 2A	Current DPCR5 licence condition	Associated document?	Relevant Licensee
2O	Not Used	161	New	No	SSEH
2P	Shetland Energy Costs Pass-Through Items	162	CRC 4	No	SSEH
2Q	Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland	163	CRC 18A	No	SSEH
Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction					
3A	Legacy price control adjustments	168	New	No	All slow-track
3B	Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments	176	New	No	All slow-track
3C	Specified financial adjustments	181	New	No	All slow-track
3D	The Innovation Roll-out Mechanism	186	New	No	All slow-track
3E	Smart Meter Roll-out Costs	193	New	No	All slow-track
3F	Arrangements for the recovery of uncertain costs	201	CRC 18	No	ENWL, NPgN, NPgY, SPD, SPMW, SSES
		214			LPN, EPN, SPN
		227			SSEH
3G	Revising the allowed level of Load Related Expenditure	245	CRC 18	No	All slow-track
3H	Allowed expenditure on improving services to Worst Served Customers	253	New	No	All slow-track
3I	Not Used	260	New	No	All slow-track
3J	Allowed Expenditure on Visual Amenity Projects	261	New	No	All slow-track
3K	Not Used	266	New	No	All slow-track
3L	Arrangements for the recovery of Moorside costs	267	New	No	ENWL
Chapter 4: Price Control Financial Instruments					
4A	Governance of ED1 Price Control Financial Instruments	277	New	No	All slow-track
	ED1 Price Control Financial Handbook Chapters 1 to 7, 8 to 12A and 13 to 16	Set out in Schedule 2B	New	No	All slow-track
	Chapter 7, sections 1 to 5 and 10	Set out in Schedule 2B	New	No	All slow-track
	Chapter 7, section 6	Set out in	New	No	ENWL, NPgN,

RIIO-ED1 Condition number and name		Page number in Schedule 2A	Current DPCR5 licence condition	Associated document?	Relevant Licensee
		Schedule 2B			NPgY, SPD, SPMW, SSEH and SSES
	Chapter 7, section 6A	Set out in Schedule 2B	New	No	LPN, SPN and EPN
	Chapter 7, sections 7 to 9	Set out in Schedule 2B	New	No	SSEH only
	Section 12B	Set out in Schedule 2B	New	No	ENWL only
	ED1 Price Control Financial Model	Set out in Schedule 2C	New	No	All slow-track – For each licensee the ED1 Price Control Financial Model for that licensee is the model as it operates when the relevant licensee is selected on the user interface.
4B	Annual Iteration Process for the ED1 Price Control Financial Model	278	New	No	All slow-track
	Chapter 5: Other Revenue Restriction Related Conditions				
5A	The Networks Innovation Competition	286	New	Yes	All slow-track
5B	Restriction of charges for the provision of Legacy Metering Equipment	291	CRC 6	No	All slow-track
5C	Directly Remunerated Services	297	CRC 15	No	All slow-track
5D	Assessment of Network Asset Secondary Deliverables	303	New	No	All slow-track
5E	Charging outside the Distribution Services Area	310	CRC 16	No	All slow-track
5F	Services for managing Theft of Electricity from the Distribution System	311	New	No	All slow-track
5G	Net to gross adjustment for load related expenditure	313	New	No	All slow-track
5H	Not used	320	New	No	All slow-track
5I	Not used	321	New	No	All slow-track
5J	No used	322	New	No	All slow-track
5K	Disapplication	323	CRC 19	No	All slow-track

RIIO-ED1 Condition number and name		Page number in Schedule 2A	Current DPCR5 licence condition	Associated document?	Relevant Licensee
9	Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges	326	Removal	No	All slow-track
10	Adjustment of licensee's revenues to reflect innovation funding performance	326	Removal	No	All slow-track
11	Adjustment of licensee's revenues to reflect performance in relation to Distribution Generation	326	Removal	No	All slow-track
17	Assistance for high-cost distribution areas	326	Removal	No	ENWL, NPgN, NPgY, LPN, SPN, EPN, SPD, SPMW, SSES

Schedule 2A: Proposed special conditions to the electricity distribution licences held by:

Electricity North West Ltd (ENWL)
Northern Powergrid (Northeast) Ltd (NPgN)
Northern Powergrid (Yorkshire) plc (NPgY)
London Power Networks plc (LPN)
South Eastern Power Networks plc (SPN)
Eastern Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)
Scottish Hydro Electric Power Distribution plc (SSEH)
Southern Electric Power Distribution plc (SSES)

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

<https://authors.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-slow-track-licensees>

Schedule 2B: ED1 Price Control Financial Handbook

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

<https://authors.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-slow-track-licensees>

Schedule 2C: ED1 Price Control Financial Model

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

<https://authors.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-slow-track-licensees>

Schedule 2D: Network Assets Workbook

A copy of the Network Assets Workbook can be found on our website at:

<https://authors.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-slow-track-licensees>

Schedule 3: Reasons and effect of proposed modifications to the special conditions of the electricity distribution licences held by the slow-track licensees

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

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 RIIIO-ED1 licence
- to remove from CRC 1A provisions which would duplicate other provisions in Part 4. This is to avoid the possibility of inconsistencies and confusion.

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 detail 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

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.

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

This new condition calculates the allowed distribution network revenue the licensee 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.

This condition replaces the current conditions CRC 3, CRC5 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 think 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.

This condition also gives effect to:

- the new annual iteration process of the price control financial model. This process creates a term known as MODt which is included in the calculation of allowed distribution network revenue.
- aspects of our October 2012 decision to mitigate network charging volatility, and its effects, by modifying the way the correction factor (K) operates. We propose that it operates with:
 - a two-year lag. DNOs will transition from the current one-year lag; this transition will vary by licensee, based on a bespoke process to close out any DPCR5 under- or over-recoveries including any effects of the government's December 2013 measures to reduce energy bills
 - an increased band in which no penalty applies (to take account of the fact that changes to charges are no longer applicable on dates other than 1 April)
 - a process for direction, by the Authority, of an alternative penalty interest rate (PRt)
 - a further penalty to be applied for persistent over- or under-recovery.
 - our decision to change the way the price indexation adjustment factor is calculated. The effect of applying this decision is to create a new price indexation adjustment factor called RPIFt and a true-up to account for the difference between forecast and actual inflation, known as TRUt.

Each licensee will have their own provisions under CRC 2A. The provisions that apply to each licensee are clearly indicated Schedule 2B of this notice.

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

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 these reasons and effects:

- several pass-through terms have been added and removed from the principal formula set out in the current condition to reflect the policy 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 adjustments⁵

The provisions of this condition will be the same across all licensees, subject to the following:

- ENWL's licence will have its own definition of Pass-through Transmission Connection Point Charges so as to exclude charges that are subject to reimbursement through Charges to NGET in consequence of the Moorside Connection Project; and
- SSEH's condition will include a change in the acronym MPA to SEC (Shetland Variable Energy Costs).

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

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.

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.

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.

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

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>

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

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 and Final Determinations.

CRC 2E. Incentive on Connections Engagement

Type of change: New condition

This new condition sets out the calculation of the revenue-adjusting term that reflects the licensee's performance under the Incentive on Connections Engagement, as set out as part of the Strategy Decision.

It provides for penalties where the licensee 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

This new condition sets out the calculation of the revenue-adjusting term that reflects the licensee's performance against our new Time to Connect Incentive, as set out as part of the Strategy Decision.

It enables 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

This new condition provides a revenue-adjusting term that reflects any additional revenue the Authority may, at its discretion, award the licensee under the Losses Discretionary Reward, as set out as part of the Strategy Decision.

It enables 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

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.

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

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.

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

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

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.

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.

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.

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.

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

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

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.

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.

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

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.

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.

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.

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

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 DPCR4.⁶

Therefore we propose to include this 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 and set by way of direction. The condition is also updated to reflect the fact that such direction has now been issued.

CRC 2N. Assistance for high-cost distribution areas for SSEH

Type of change: Amendment

Current number: CRC 17

Current name: Assistance for high-cost distribution areas

This condition outlines the obligations of the licensee in relation to annual payments received for the purpose of providing assistance with the high costs of distribution electricity in specific areas. We have made changes to ensure it fits within the structure of the RIIO-ED1 licence.

There are no significant changes to the intent of the existing condition. The effect of the modification is to renumber the condition to CRC 2N, update its cross-references and to amend its title to clarify which licensee it applies to.

This condition applies only to SSEH.

CRC 20. Not used

Type of change: New condition

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.

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

This condition applies only to SSEH.

CRC 2P. Shetland Energy Costs Pass-Through Items

Type of change: Amendment

Current number: CRC 4 Appendix 3

Current name: Calculation of Shetland balancing costs

The reason for updating this condition for SSEH is to reflect the Authority's decision on measures to mitigate charging volatility by introducing a two-year lag to the adjustments.

The effects of this change are to:

⁶ <https://www.ofgem.gov.uk/publications-and-updates/timing-recovery-close-out-values-losses-incentive-mechanism-fourth-distribution-price-control-review-dpcr4>

- Update the cost forecasts to reflect updated costs for the interim period
- Remove several pass-through terms from the formula set out in the current condition to reduce pass through where possible. We have also defined the Shetland fixed cost items which are subject to the totex incentive mechanism to ensure transparency of the recovery arrangements
- Made the appendix a stand-alone condition, numbered as CRC 2P, to include cost items for SSEH during the interim period before a new energy solution is in place.

CRC 2Q. Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland

Type of change: Amendment

Current number: CRC 18A

Current name: Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland

The reason for updating this condition is to reflect changes in the relevant condition's title.

The effect of this amendment is to renumber the condition as CRC 2Q and update some of the references to be consistent with other condition title changes.

Chapter 3

CRC 3A. Legacy price control adjustments

Type of change: New condition

The reason for introducing this new condition is update the licensee's revenue allowances, during RIIO-ED1, for the close-out of specific schemes that were introduced under the DPCR5 Final Proposals. The adjustments are needed because complete data on which to close out the DPCR5 schemes is not available when setting licensees' final determinations.

The effect of this condition, along with the associated Part 3 of the Handbook, is to provide a process through which licensees' allowed revenue can be adjusted through the annual iteration of the PCFM.

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

Type of change: New condition

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.

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.

CRC 3C. Specified financial adjustments

Type of change: New condition

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.

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

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.

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.

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

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

This condition includes sections which are common across all licensees, as well as additional sections which apply to specific licensees only. These are clearly set out in Schedule 2B of this notice.

For all licensees, this condition enables the licensee to apply for allowances to be amended in specified circumstances and at specified application windows. The proposed modifications replace 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 DPCR5 materiality thresholds 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
- removing the materiality threshold applying to Enhanced Physical Security

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.

In addition, for ENWL, NPgN, NPgY, SPD, SPMW, SEES and SSEH, the condition also introduces a new reopener for link boxes, as set out in our document RIIO-ED1 final determinations for the slow-track electricity distribution companies⁷.

As LPN, SPN, and EPN have an ex-ante allowance for the first two Regulatory Years of the RIIO-ED1 period they can only apply for additional funding for Regulatory Years from 2017/18 onwards. In addition, the condition allows the Authority to review and adjust this ex ante allowance.

Finally, for SSEH, the following changes to the condition have also been included, for the following reasons and with the following effects:

- adding Shetland Uncertain Energy Costs for SSEH to allow for any material adjustments in the interim period before a new energy solution is in place
- adding Shetland Competitive Process Costs for SSEH to allow for costs incurred throughout the competitive process in 2015/16 which we require SSEH to run

⁷ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-final-determinations-slow-track-electricity-distribution-companies>

including an additional reopener to take account of efficient costs incurred, or expected to be incurred, by SSEH to protect sub-sea cables in accordance with licensing requirements imposed by Marine Scotland which are currently uncertain.

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

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.

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,
- making clear that the reopener does not apply to expenditure which reasonably could be or could have been expected to be avoided as a result of demand-side response or other non-traditional solutions to load related issues, 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

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

The effect of this condition is to allocate capped funding to each licensee for the RIIIO-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

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.

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

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.

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. Not Used

Type of change: New condition

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.

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

CRC 3L. Arrangements for the recovery of Moorside Costs (ENWL only)

Type of change: New condition

The reason for introducing this condition is to provide arrangements for the recovery of efficiently incurred Moorside costs and to ensure that ENWL remains subject to appropriate Network Asset Secondary Deliverables in consequence of such project. This condition applies to ENWL only.

The effect of this condition is to require ENWL to notify the Authority in the event of NGET applying for funding under strategic wider works in respect of connecting Moorside to the transmission system, including proposals in relation to modification of its Network Asset Workbook. It may also apply for additional efficient allowances in respect of such costs in excess of a materiality threshold. The Condition also requires the licensee to notify the Authority in the event of an Adjustment Event, and makes provision for appropriate amendments of allowed expenditure in respect of Moorside Costs and appropriate modifications to the Network Asset Workbook.

Chapter 4

CRC 4A. Governance of ED1 Price Control Financial Instruments

Type of change: New condition

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 be modified by the Authority in accordance with the provisions set out in this condition.

The ED1 Price Control Financial Handbook and the ED1 Price Control Financial Model are both essential for the Annual Iteration Process (AIP) that will update the licensee's base revenues during the price control period.

The AIP allows us to reflect the changes in revenues within the ED1 Period as a result of the operation of the mechanisms set out in the CRCs. It avoids the situation in previous price controls where elements were logged-up until the end of the price control period, meaning stakeholders did not have a view of the companies' actual performance.

The ED1 Price Control Financial Model (PCFM) is an MS Excel© model of the DNOs' base revenues. It is subject to a formal change control and avoids the need for complex algebra within the licence.

We will use the PCFM to calculate updated base revenue allowances in the AIP. The AIP applies to the DNOs' base demand revenue, which is the main component of their allowed revenue.

In the RIIO-ED1 review we set the opening base revenue allowances. These are stated in the licence. These opening allowances are then updated each year by a "MOD" term calculated in the AIP. In simplified terms, this is:

Base Demand Revenue for year t =

Opening Base Revenue Allowance for year t + MOD for year t

The ED1 Price Control Financial Handbook governs the AIP, the methodologies involved, how MOD is calculated and implemented. The latest version of the PCFM and handbook will be published on our website, as will the results of each AIP.

The ED1 Price Control Financial Model for each licensee operates in constant 2012-13 prices. The MOD value produced by each AIP will be in that price base. Indexation is applied in the formula for the licensee's Base Demand Revenue, which combines the Opening Base Revenue Allowance with the value of MOD.

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

Type of change: New condition

The purpose and effect of this new condition is to:

- set out the steps to be taken for the AIP of the ED1 Price Control Financial Model
- set out the procedure for directing the value of the terms MOD t to the licensee.

Chapter 5

CRC 5A. The Network Innovation Competition

Type of change: New condition

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.

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

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.

The effects of these proposed modifications are:

- to modify the definition of inflation (RPIx) 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

This condition sets 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;
- 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 reinforce that DRS 4- Top up and standby does not include any services remunerated through use of system charges;
- 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 so that these are recovered on a cost recovery basis; and
 - 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 incremental revenue from providing such services is subject to an appropriate incentive; and
- to renumber the miscellaneous category as DRS9.

CRC 5D. Assessment of Network Asset Secondary Deliverables

Type of change: New condition.

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 all licensees is part of this licence condition it has been published as part of this notice.

The reason for the introduction of this condition is to ensure the licensee remains incentivised to deliver efficient output throughout ED1.

The effect of the introduction of this condition is to require establish the licensee's Network Asset Secondary Deliverables and to provide for circumstances in which these must be modified, and to set out incentives in respect of such secondary deliverables.

CRC 5E. Charging outside the Distribution Services Area

Type of change: Amendment

Current number: CRC 16

Current name: Charging outside the Distribution Services Area

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.

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).

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

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.

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

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.

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

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.

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

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.

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

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.

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

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.

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

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

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.

The reason for the removal of this condition is that under the RII0-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.

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

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).

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

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 3.⁸

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

CRC 17. Assistance for high-cost distribution areas (all slow-track licensees other than SSEH)

Type of change: Complete removal from the licence

We propose to remove this condition from the licence for all slow-track licensees other than SSEH.

The effect of this change is to remove a redundant condition the licensee's licence.

⁸ 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

In September 2014, we published our informal consultations on the proposed changes to the special conditions.⁹ Our response to the issues raised by stakeholders responding to these consultations can be found on our website at:

<https://authors.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-electricity-distribution-licences-held-slow-track-licensees>

⁹ 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>