

**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 PART C AND PART D OF SPECIAL CONDITION 4A PRICE CONTROL UPDATE PROVISIONS FOR WPD OF THE ELECTRICITY DISTRIBUTION LICENSES HELD BY THE FOUR LICENSEES OF WPD UNDER SECTION 6(1)(c) OF THE ELECTRICITY ACT 1989

WHEREAS,

1. Each of the companies to whom this Notice is addressed (each "the licensee") is the holder of an Electricity Distribution Licence issued under section 6(1)(c) of the Electricity Act 1989 ("the Act").
2. Special Condition 4C (Price control update provisions for WPD) allows 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; and
 - make the common content of the ED1 Price Control Financial Instruments exactly the same as that for every other electricity distributor.
3. The Authority considers that the ED1 Price Control Financial Instruments should be modified in order to:
 - a) update stipulated values; and
 - b) make the content of the ED1 Price Control Financial Model and ED1 Price Control Financial Handbook exactly similar.
4. In the Authority's reasonable opinion, taken in the round, WPD has not suffered material financial detriment from having its determination set at fast-track rather than slow-track. As a result we are not proposing any changes to the relevant licensees' ED1 Final Determination.

Update of Stipulated Values

5. The updates we propose to make are in the table below. All amounts are in 2012-13 prices and are total across RIIO-ED1. We do not propose to update tax pool balances at this time. Tax pool balances as at the end of 2014-15 will be updated in due course as a legacy adjustment through the RIIO-ED1 annual iteration process.

WPD DNO	Cost of debt updated forecast		RAV additions for 2013-14 (£m)		Pension deficit (£m)		Impact on opening base revenue (£m)	
	previous	updated	previous	updated	previous	updated	previous	updated
WMID	2.60%	2.55%	233.7	250.6	165.7	260.6	3,195.8	3,300.2
EMID			215.5	249.8	163.3	254.8	3,197.3	3,311.5
SWALES			87.7	99.1	172.9	203.4	1,645.5	1,682.9
SWEST			134.4	143.3	281.3	304.8	2,375.7	2,402.8

6. These adjustments will not affect the 2015-16 opening base revenue allowances, but will be applied from 2016-17 onwards. We will reprofile WPD's opening base revenue allowances in the light of these updates.
7. We propose to reflect these updates in the ED1 Price Control Financial Model, PFCM, and the ED1 Price Control Financial Handbook); and bring the detail of the common content of the ED1 Price Control Financial Instruments in line with that for the other DNOs.

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8. In accordance with paragraph 7(a) of Special Condition 4C the Authority hereby gives notice to the Licensee that it intends to modify the stipulated values in the manner specified above.
9. In accordance with paragraph 17(a) of Special Condition 4C the Authority hereby gives notice to the Licensee that it intends to update the ED1 Price Control Financial Model in the manner specified in Schedule 1, and the ED1 Price Control Financial Handbook in the manner specified in the copy of the handbook attached at Schedule 2, with changes shown as marked-up text.
10. The licensee may include with any representation made under paragraphs 7 of CRC 4C a proposal that its Opening Base Revenue Allowances should be reprofiled in the light of any proposed updates or adjustments set out in Notices given by the Authority under those paragraphs.
11. Any representations on the proposed modifications may be made on or before 17 February 2015 and should be addressed to: Clothilde Cantegreil, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to Clothilde.Cantegreil@ofgem.gov.uk.
12. 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.

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

3 February 2015

Schedule 1: ED1 Price Control Financial Model

A copy of the ED1 Price Control Financial Model for WPD's licensees can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/consultation-updates-under-crc-4c-price-control-update-provisions-wpd>

Schedule 2: ED1 Price Control Financial Handbook

A copy of the ED1 Price Control Financial Handbook for WPD's licensees can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/consultation-updates-under-crc-4c-price-control-update-provisions-wpd>