

To:

SP Manweb plc (SPMW)

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

Whereas

1. The company 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 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 values (PPL) 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. Under CRC 14 we are able to set an alternative penalty interest rate adjustment (PR_t) value by direction. In October 2014 we directed alternative PR_t values for the Licensee for the affected Regulatory Years⁵ 2011/12 and 2012/13, due to the effect of the anticipation of PPL values.⁶

4. The Licensee submitted a further application to us on 10 December 2014 requesting relief from the PR_t value of zero under CRC 14, due to the effect of the anticipation of PPL values leading to actual revenues collected being less than 97 per cent of allowed revenue in the affected Regulatory Year 2013/14, requesting that we direct a PR_t value of 1.5.⁷

5. On 3 January 2015 we published a consultation setting out our minded to position in relation to the Licensee's application.⁸ We received one response to the consultation which was supportive of our minded to position.⁹ Therefore, in line with our consultation,

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/direction-under-special-condition-crc-14-electricity-distribution-licence-change-penalty-interest-rate>

⁷ <https://www.ofgem.gov.uk/ofgem-publications/92352/spmwapplication.pdf>

⁸ <https://www.ofgem.gov.uk/publications-and-updates/consultation-application-scottish-power-manweb-plc-relief-penalty-interest-relating-close-out-dpcr4-losses-incentive-mechanism>

⁹ The response has been published here - <https://www.ofgem.gov.uk/ofgem-publications/93290/spenergynetworksresponse.pdf>

we have decided to provide the Licensee with relief from the penalty interest rate adjustment by setting PR_t to a different value under the provisions of CRC 14, for the following reasons:

- in relation to the PPL values, the Licensee's decision to under/over recover allowed revenue was justified; and
- without the PPL value(s) the Licensee 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 to "1.5" instead of "0" for the Regulatory Year commencing 1 April 2014.

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

Dated 16 February 2015

Dora Guzeleva - Head of Networks Policy: Local Grids

Duly authorised on behalf of the Authority
