

**To: Electricity North West Limited (ENWL)  
Northern Powergrid (Northeast) Limited (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)**

## **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 amending Special Conditions CRC 2A (Restriction of Allowed Distribution Network Revenue) and CRC 2M (Adjustment of licensee's revenues for the residual distribution losses incentive).
2. The reason why the Authority proposes to make these licence modifications is to ensure that the Licensees' allowed revenue is adjusted to close out the DPCR4 growth term, consistent with our 21 March 2014 decision ('the Decision') on the restatement of data associated with the losses incentive mechanism.<sup>1</sup>
3. The growth term, which operated under DPCR4, was an incentive mechanism that rewarded DNOs for increasing electricity units distributed. This incentive was distinct from the losses incentive mechanism but used common data. The restatement of data set out in the Decision has, therefore, led to a recalculation of the growth term which needs to come into effect via an adjustment to the Licensees' allowed revenue.
4. Table 6 of the Decision sets out our<sup>2</sup> final assessment of what the growth term should be for each of the Licensees in 2009/10 prices. The Decision also notes that any delay between the year to which restated data relates and the adjustment taking effect should be subject to a time value of money adjustment.<sup>3</sup>
5. We consider that the proposed changes to CRC 2A and CRC 2M are consistent with the decision on the growth term, in particular paragraphs 3.28 and 3.29 of the Decision, which relate to the required time value of money adjustment. We have taken the growth term final assessment figures in table 6 of the Decision and uplifted them to:
  - the appropriate price base using the Retail Prices Index (RPI); and
  - include the appropriate adjustments for the weighted average cost of capital (WACC).

Detailed information on the adjustment is set out in Schedule 1, published alongside this Notice.

6. The effect of the proposed modifications to CRC 2A and CRC 2M is to create a growth term to adjust the Licensees' allowed revenue in Regulatory Year 2016/17 and to ensure

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-restatement-2009-10-data-and-closing-out-dpcr4-losses-incentive-mechanism>

<sup>2</sup> The terms "Ofgem", "the Authority", "our", "we" and "us" are used interchangeably in this document.

<sup>3</sup> Time value of money adjustment means a multiplier used when the award or application of a financial value, attributable to a particular year, is deferred until a later year, even where the deferral is routine and in accordance with a price control mechanism.

that the value of the growth term is in the appropriate price base with the correct time value of money adjustment applied.

7. A copy of the proposed modifications 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](http://www.ofgem.gov.uk)):
  - Schedule 1 sets out how we have adjusted the growth term figures for RPI and the WACC to be consistent with our decision; and
  - Schedule 2 sets out the proposed changes to CRC 2A and CRC 2M for the Licensees.
8. Any representations about the proposed licence modifications should be made on or before 13 April 2015 to: Tom Mackenzie, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [thomas.mackenzie@ofgem.gov.uk](mailto:thomas.mackenzie@ofgem.gov.uk).
9. 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.
10. 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**

**11 March 2015**