

**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)**

**Electricity Act 1989
Section 11A(1)(a)**

Modification of the special conditions of the electricity distribution licences held by the above named licensees granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 pursuant to section 11A of the Electricity Act 1989

Whereas –

1. Each of the companies to whom this document is addressed (each 'the Licensee') is the holder of an electricity distribution licence ('the Licence') granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act').
2. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 11 March 2015 ('the Notice') that it proposed to make modifications to Special Conditions CRC 2A (Restriction of Allowed Distribution Network Revenue) and CRC 2M (Adjustment of licensee's revenues for the residual distribution losses incentive) of the Licences.² The Notice required any representations to the modifications to be made on or before 13 April 2015.
3. In accordance with section 11A(4)(b) of the Act, the Authority gave notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received three responses, all non-confidential, which have been placed on the Ofgem website. All of the responses are supportive of our proposed modifications to CRC 2A and CRC 2M with no suggested changes.
5. The reason why the Authority is making the modifications to CRC 2A and CRC 2M is to ensure that the Licensees' allowed revenue is adjusted to close out the DPCR4 growth term³, consistent with our 21 March 2014 decision ('the Decision') on the restatement of data associated with the losses incentive mechanism.⁴ Table 6 of the Decision sets out our 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.⁵ The modifications to CRC 2A and CRC 2M are consistent with the Decision.

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

² <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-changes-licence-conditions-crc-2a-and-crc-2m-relation-dpcr4-growth-term>

³The 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<https://www.ofgem.gov.uk/publications-and-updates/decision-restatement-2009-10-data-and-closing-out-dpcr4-losses-incentive-mechanism>

⁵Time 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.

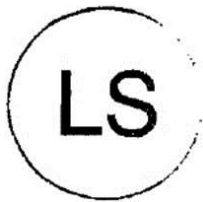
6. The effect of the modifications to CRC 2A and CRC 2M is to create a growth term to adjust the Licensees' allowed revenue in Regulatory Year 2016/17 and to ensure that the value of the growth term is in the appropriate price base with the correct time value of money adjustment applied.
7. Where an application for permission to appeal the Authority's decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules⁶ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification notice. The meaning of 'relevant licence holder' is set out in section 11A(10) of the Act.

Now therefore

In accordance with the powers contained in section 11A(1)(a) of the Act and for the reasons set out above, the Authority hereby modifies the Licences of the Licensees in the manner specified in attached Schedule 1. This decision will take effect on and from 9 July 2015.

This document constitutes notice of the reasons for the decision to modify the electricity distribution licences held by each of the Licensees as required by section 49A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**



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Andrew Burgess
Associate Partner, Transmission and Distribution Policy
Duly authorised on behalf of the
Gas and Electricity Markets Authority

14 May 2015

⁶The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the Competition and Markets Authority (CMA).

Schedule 1: Modifications to special conditions CRC 2A and CRC 2M of the electricity distribution licences held by the Licensees

A copy of the modifications for the Licensees can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/decision-changes-licence-conditions-crc-2a-and-crc-2m-relation-dpcr4-growth-term>

We have produced a consolidated text for ease of reference. Where provisions are different between Licensees, we have indicated in square brackets in the consolidated text the Licensees to which they apply. Where a CRC sets out a table only those values indicated for the Licensee form part of that Licensee's licence.

Schedule 2: Relevant licence holders⁷

Relevant licence holder	Registered address⁸
Eastern Power Networks Plc	Newington House 237 Southwark Bridge Road London SE1 6NP United Kingdom
Electricity North West Limited	304 Bridgewater Place Birchwood Park Warrington WA3 6XG United Kingdom
London Power Networks Plc	Newington House 237 Southwark Bridge Road London SE1 6NP United Kingdom
Northern Powergrid (Northeast) Limited	Lloyds Court 78 Grey Street Newcastle Upon Tyne NE1 6AF United Kingdom
Northern Powergrid (Yorkshire) Plc	Lloyds Court 78 Grey Street Newcastle Upon Tyne NE1 6AF United Kingdom
South Eastern Power Networks Plc	Newington House 237 Southwark Bridge Road London SE1 6NP United Kingdom
SP Distribution Limited	1 Atlantic Quay Robertson Street Glasgow G2 8SP United Kingdom
SP Manweb Plc	3 Prenton Way Prenton CH43 3ET United Kingdom

⁷ Electricity licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/all-electricity-licensees-registered-addresses>

⁸ The maintained list of Relevant Licence Holders' registered addresses can be also found on Ofgem's website: <https://www.ofgem.gov.uk/publications-and-updates/all-electricity-licensees-registered-addresses>