

**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 B of Charge Restriction Condition 4A (Governance of ED1 Price Control Financial Instruments) of the Electricity Distribution Licence to make modifications to the ED1 Price Control Financial Model

1. Each of the companies to whom this Notice is addressed (each "the licensee") is the holder of an Electricity Distribution Licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989.
2. Charge Restriction Condition (CRC) 4A (Governance of ED1 Price Control Financial Instruments) of the Electricity Distribution Licence establishes the circumstances in which the Gas and Electricity Markets Authority (the 'Authority')¹, by way of direction, can make changes to the ED1 Price Control Financial Model ('the Model').
3. Part A of CRC 4A sets out the assessment process the Authority will follow in order to assess the likely impact of an intended modification and Part B of CRC 4A sets out the circumstances in which a modification may (or may not) be made.
4. In accordance with CRC 4A.9, the Authority hereby gives notice to the licensees that it proposes to modify the Model in the manner indicated in table 1 in this Notice.
5. The Authority considers that it is necessary to modify the ED1 Price Control Financial Model in the manner indicated in order to:
 - a) Correct a formula error in the calculation of year on year Weighted Average Cost of Capital used to spread legacy revenue;
 - b) Correct a formula error by hard coding the opening Weighted Average Cost of Capital in the incremental impact from the profiling of revenue; and
 - c) Insert the tax trigger deadbands that had previous been omitted.

Table 1 – Location of modifications within schedule 1 to this notice

Modification	Worksheet in Model	Cell References
Spreading of legacy revenue	WMID, EMID, SWALES, SWEST	AJ271:AQ271, AJ275:AQ275
Incremental profiling	WMID, EMID, SWALES, SWEST	AJ478:AQ478
Tax trigger deadbands	WMID, EMID, SWALES, SWEST	AJ468:AQ468

6. In the opinion of the Authority, with regard to the views of the ED1 Price Control Financial Model Working Group, that the proposed modifications of the ED1 Price Control Financial Instruments are not likely to have a significant impact on any of

¹ The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

the persons mentioned in CRC 4A.4. In particular, the intended modifications will not have any material impact on the licensees' financial revenue.

7. The Authority proposes that these modifications will come into effect on 22 April 2016.
8. Any representations on the proposed modifications may be made in writing on or before 19 April 2016 to Matthew Brown at Ofgem, 9 Millbank, London, SW1P 3GE, or by email to matthew.brown@ofgem.gov.uk
9. All representations 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. We prefer to receive responses in an electronic form so that they can be published easily on our website.



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Ian Rowson
Associate Partner, RIIO Finance & Investor Relations
Duly Authorised on behalf of the Gas and Electricity Markets Authority
22 March 2016

Schedule 1: Modifications to the ED1 Price Control Financial Model

The proposed ED1 Price Control Financial Model can be found on our website at:
<https://www.ofgem.gov.uk/publications-and-updates/notice-to-correct-minor-formula-errors-in-the-ED1-PCFM-for-fast-track-licensees>