

**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)**

**Direction 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 Direction 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. In accordance with Part B of Charge Restriction Condition (CRC) 4A (Governance of ED1 Price Control Financial Instruments) of the Electricity Distribution Licence, the Gas and Electricity Markets Authority (the 'Authority')<sup>1</sup>, gave notice on 22 March 2016 ('the Notice') to consult on changes to the ED1 Price Control Financial Model ('the Model') and the proposed date by which these modifications should take effect. The Notice required any representations to be made on or before 19 April 2016.
3. We received no representations to the Notice.
4. 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.
5. In accordance with CRC 4A.9, the Authority has modified the Model in the manner indicated in table 1 in this Direction, 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 Direction**

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, the modifications of the ED1 Price Control Financial

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

Instruments are not likely to have a significant impact on any of the persons mentioned in CRC 4A.4. In particular, the intended modifications will not have any material impact on the licensees' financial revenue.

7. In accordance with our powers under Part B of CRC 4A, we hereby incorporate these modifications to the Model. This Direction brings these modifications into effect as of the date of publication, 22 April 2016.
8. This document constitutes a direction issued by the Authority under Part B of CRC 4A.



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