

**To: Electricity North West Ltd (ENWL)
Northern Powergrid (Northeast) Ltd (NPgN)
Northern Powergrid (Yorkshire) plc (NPgY)
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 (SWEAT)
London Power Networks plc (LPN)
South Eastern Power Networks plc (SPN)
Eastern Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)
Scottish Hydro Electric Power Distribution plc (SSEH)
Southern Electric Power Distribution plc (SSES)**

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) in respect of modification number 1 in Table 1, to allow for different Type B Tax Trigger event values to be entered for each of the licensees, whereas previously the value was generic;
 - b) in respect of modification number 4 in Table 1, to allow the Smart Meter true-up mechanism in 2022/23 to correctly flow into the calculations of Totex; and
 - c) in respect of all other modifications, to align labels between the Financial Model and the Financial Handbook.
6. The Authority considers, having regard to the views of the ED1 Price Control Financial Model Working Group, the proposed modifications of the ED1 Price Control Financial 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. The Authority proposes that these modifications will come into effect on 23 August 2016.

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.

Table 1 – Location of modifications within Schedule 1 to this Notice

| # | Modification | Worksheet in Model | Cell References |
|---|--|---|----------------------------|
| 1 | Separate Inputs for Type B Tax Trigger Events | Tax Trigger | AJ133:AQ133, C154:AQ169 |
| 2 | Dynamically Linking Cover Sheet Date | Cover | C4 |
| 3 | EDE Label | Input | E34 |
| 4 | Totex Subcategory Allocation for Smart Meter Rollout | ENWL, NPgN, NPgY, WMID, EMID, SWALES, SWEST, LPN, SPN, EPN, SPD, SPMW, SSEH, SSES | AP149:AQ150 |
| 5 | Depreciation Sheet Label | Cover | G29 |

8. Any representations on the proposed modifications may be made in writing on or before 16 August 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
19 July 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-make-modifications-to-the-ED1-PCFM-for-AIP-2016>