

To the Company Secretary:

London Power Networks plc
Company Number: 03929195

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO LONDON POWER NETWORKS PLC UNDER THE SPECIAL CONDITIONS OF ITS ELECTRICITY DISTRIBUTION LICENCE IN RESPECT OF THE ANNUAL ITERATION PROCESS FOR THE ED1 PRICE CONTROL FINANCIAL MODEL (PCFM)

WHEREAS

1. London Power Networks plc ('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. For the purposes of these directions:
 - (a) the expression 'Regulatory Year t' has the same meaning as is given to it in CRC2A (Restriction of Allowed Distribution Network Revenue) of the licence and references to Regulatory Year t-1 are to be construed accordingly; and
 - (b) Regulatory Year t for the purposes of these directions is the Regulatory Year that commences on 1 April 2017 and ends on 31 March 2018 ('Regulatory Year 2017/18').
3. Charge Restriction Condition CRC4B (Annual Iteration Process for the ED1 Price Control Financial Model) requires the Gas and Electricity Markets Authority ('the Authority') to:
 - (a) carry out the Annual Iteration Process for the ED1 Price Control Financial Model; and
 - (b) direct the value of the term MOD for Regulatory Year t for the purposes of the formula specified in Part C of CRC 2A (Restriction of Allowed Distribution Network Revenue) ;
by 30 November in Regulatory Year t-1.
4. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values for the licensee for the purpose of the Annual Iteration Process for the ED1 Price Control Financial Model that forms part of CRC4B (Annual Iteration Process for the ED1 Price Control Financial Model) of the licence:
 - CRC 3A (Legacy price control adjustments) in respect of LTPG, LTPS, LTPD, LTTPC, OLREV, OLRAV and RIREV values;
 - CRC 3B (Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments) in respect of ALC, ANLR, ANLO, AFE, ARP, ACO and TRE values;
 - CRC 3C (Specified financial adjustments) in respect of EDE, TTE, TGIE and CDE values;
 - CRC 3D (Innovation Roll-out mechanism) in respect of IRM values;
 - CRC 3E (Smart Meter Roll-out Costs) in respect of SMAE values;
 - CRC 3F (Arrangements for the recovery of uncertain costs) in respect of UCHVP, UCEPS, UCSSW, UCRE and UCLB values;
 - CRC 3G (Revising the allowed level of Load Related Expenditure) in respect of LRRC values;
 - CRC 3H (Allowed expenditure on improving services to Worst Served Customers) in respect of WSCC values; and
 - CRC 3J (Allowed expenditure on Visual Amenity Projects) in respect of VAA values.
5. Each of the Special Conditions referred to in paragraph 4:
 - (a) sets out the basis on which any revisions to relevant PCFM Variable Values are to be determined; and
 - (b) where applicable, specifies the price control financial methodology in accordance with which revisions to the relevant PCFM Variable Value(s) are to be determined and the chapter of the ED1 Price Control Financial Handbook containing that methodology.
6. The reason for this direction is to revise the PCFM Variable Values as used in the Annual Iteration Process for the ED1 Price Control Financial Model (as each of those terms is defined in CRC1B). The Annual Iteration Process is used to calculate the value of the term MOD for the purposes of the formula specified in CRC2A (Restriction of Allowed Distribution Network Revenue).
7. In accordance with requirements set out in the Special Conditions referred to in paragraph 4, on 8 November 2016 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November 2016 in Regulatory Year t-1 and specified that any representations concerning the proposed values should be made within fourteen days of receiving the notice.
8. The Authority received no representations.

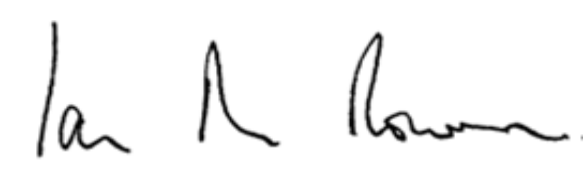
NOW the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, **HEREBY DIRECTS that:**

- (a) the PCFM Variable Values referred to in paragraph 4 are to be revised as shown in Schedule 1 to these directions; and
- (b) the term MOD for the licensee for Regulatory Year 2017/18 is to take the value -£15.9m.

Schedule 2 to these directions shows the complete PCFM Variable Values Table (as that term is defined in CRC1B) including the values revised under these directions (in bold font) and the values that have not been revised under these directions.

This constitutes notice of the reasons for the Authority's decision pursuant to section 49A of the Act.

Ian Rowson



Associate Partner, RIIIO Finance

Duly authorised on behalf of the Gas and Electricity Markets Authority
30/11/2016

SCHEDULE 1 TO THE AUTHORITY'S DIRECTION - REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except CDE shown to 2 d.p.)

| LPN | | | | Regulatory Year Ending | | | | | | | | | | |
|---------------------|--|--------|-------------------|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | | | DPCR5 Legacy | | RIIO-ED1 | | | | | | | | |
| PCFM Variable Value | | | Special Condition | Price Base / Units | 31 March 2014 | 31 March 2015 | 31 March 2016 | 31 March 2017 | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 | 31 March 2022 | 31 March 2023 |
| CDE | Allowed percentage cost of corporate debt | CRC 3C | Annual Real % | | | No Revision | No Revision | 2.29% | 2.29% | 2.29% | 2.29% | 2.29% | 2.29% | |
| ALC | Actual load-related capex expenditure | CRC 3B | £m 12/13 Prices | | | 23.5 | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| ANLR | Actual non-load related capex expenditure - asset replacement | CRC 3B | £m 12/13 Prices | | | 32.6 | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| ANLO | Actual non-load related capex - other | CRC 3B | £m 12/13 Prices | | | 14.0 | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| AFE | Actual faults expenditure | CRC 3B | £m 12/13 Prices | | | 28.6 | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| TRE | Actual tree cutting | CRC 3B | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| ARP | Actual 100% 'revenue pool' expenditure | CRC 3B | £m 12/13 Prices | | | 10.0 | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| ACO | Actual controllable opex expenditure | CRC 3B | £m 12/13 Prices | | | 69.5 | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| UCEPS | Allowed Expenditure - Enhanced Physical Site Security | CRC 3F | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| UCHVP | Allowed Expenditure - High Value Projects | CRC 3F | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| VAA | Allowed Expenditure - Visual Amenity Projects | CRC 3J | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| WSCC | Allowed Expenditure - Worst Served Customer Projects | CRC 3H | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| SMAE | Allowed Expenditure - Smart Meter Roll-out costs | CRC 3E | £m 12/13 Prices | | | 0.8 | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| UCSSW | Allowed Expenditure - Specified Street Works | CRC 3F | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| LRRC | Allowed Expenditure - Load Related | CRC 3G | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| UCLB | Allowed Expenditure - Link Boxes | CRC 3F | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| UCRE | Allowed Expenditure - Uncertain Rail Electrification Costs | CRC 3F | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| IRM | Allowed Expenditure - Innovation Roll-out Mechanism | CRC 3D | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| EDE | Pension Scheme Established Deficit revenue adjustment | CRC 3C | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| OLREV | Other legacy adjustments' price control allowed revenue adjustment | CRC 3A | £m 12/13 Prices | | | | | 11.0 | | | | | | |
| OLRAV | Other legacy adjustments' price control RAV additions adjustment | CRC 3A | £m 12/13 Prices | No Revision | No Revision | | | | | | | | | |
| RIREV | RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment | CRC 3A | £m 12/13 Prices | | | 14.1 | | | | | | | | |
| TGIE | Tax liability revenue allowance adjustments - gearing / debt interest costs | CRC 3C | £m Nominal | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| TTE | Tax liability revenue allowance adjustments - tax trigger events | CRC 3C | £m 12/13 Prices | | | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | |
| LTPG | Legacy general tax pool adjustment | CRC 3A | £m Nominal | No Revision | No Revision | | | | | | | | | |
| LTPS | Legacy special tax pool adjustment | CRC 3A | £m Nominal | No Revision | No Revision | | | | | | | | | |
| LTPD | Deferred Revenue Expenditure pre-RIIO movement adjustment | CRC 3A | £m Nominal | No Revision | No Revision | | | | | | | | | |
| LTPC | DRE: Gross capex adjustment | CRC 3A | £m Nominal | No Revision | No Revision | | | | | | | | | |

| LPN | | | Financial Handbook | Price Base | 31 March 2014 | 31 March 2015 | 31 March 2016 | 31 March 2017 | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 | 31 March 2022 | 31 March 2023 |
|--|--|------------|--------------------|------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Incremental Legacy Adjustments used to calculate OLREV | | | | | | | | | | | | | | |
| PTU | Pension True-Up | Chapter 15 | £m 12/13 Prices | 0.5 | | | | | | | | | | |
| PPF | PPF Levy | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| TCB | Tax Clawback | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| Tax | Tax True-Up | Chapter 15 | £m 12/13 Prices | 10.7 | | | | | | | | | | |
| DG5 | Distributed Generation for DPCR5 | Chapter 15 | £m 12/13 Prices | 0.1 | | | | | | | | | | |
| BDC | Bad Debts | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| TMA | Traffic Management Act | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| UWS | Undergrounding & Worst Served Customers Improvements | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| LRR | Load Related Reopener | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| HVC | High Volume Low Cost Connections | Chapter 15 | £m 12/13 Prices | -0.4 | | | | | | | | | | |
| HVP | High Value Projects | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| EPS | Enhanced Physical Site Security | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| RLM | Rising & Lateral Mains | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| SHET | Shetland | Chapter 15 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| Incremental Legacy Adjustments used to calculate OLRAV | | | | | | | | | | | | | | |
| RAV | RAV Additions | Chapter 15 | £m 12/13 Prices | 0.9 | -45.7 | | | | | | | | | |
| Incremental Legacy Adjustments used to calculate RIREV | | | | | | | | | | | | | | |
| RRI | RRI Revenue Adjustment | Chapter 16 | £m 12/13 Prices | 14.7 | | | | | | | | | | |
| RRI RLM | RRI RLM Adjustment | Chapter 16 | £m 12/13 Prices | 0.0 | | | | | | | | | | |
| RRI WFR | RRI WFR Adjustment | Chapter 16 | £m 12/13 Prices | -0.6 | | | | | | | | | | |

SCHEDULE 2 TO THE AUTHORITY'S DIRECTION - VARIABLE VALUE TABLE

| Variable Name | Special Condition | Price Base / Units | Term | Regulatory Year Ending | | | | | | | | | |
|--|-------------------|--------------------|-------|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | | | 31 March 2014 | 31 March 2015 | 31 March 2016 | 31 March 2017 | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 | 31 March 2022 | 31 March 2023 |
| Allowed percentage cost of corporate debt | CRC 3C | Annual Real % | CDE | | | 2.55% | 2.42% | 2.29% | 2.29% | 2.29% | 2.29% | 2.29% | 2.29% |
| Actual load-related capex expenditure | CRC 3B | £m 12/13 prices | ALC | | | 23.5 | - | - | - | - | - | - | - |
| Actual non-load related capex expenditure - asset replacement | CRC 3B | £m 12/13 prices | ANLR | | | 32.6 | - | - | - | - | - | - | - |
| Actual non-load related capex - other | CRC 3B | £m 12/13 prices | ANLO | | | 14.0 | - | - | - | - | - | - | - |
| Actual faults expenditure | CRC 3B | £m 12/13 prices | AFE | | | 28.6 | - | - | - | - | - | - | - |
| Actual tree cutting | CRC 3B | £m 12/13 prices | TRE | | | (0.0) | - | - | - | - | - | - | - |
| Actual 100% 'revenue pool' expenditure | CRC 3B | £m 12/13 prices | ARP | | | 10.0 | - | - | - | - | - | - | - |
| Actual controllable opex expenditure | CRC 3B | £m 12/13 prices | ACO | | | 69.5 | - | - | - | - | - | - | - |
| Allowed Expenditure - Enhanced Physical Site Security | CRC 3F | £m 12/13 prices | UCEPS | | | - | 0.5 | - | - | - | - | - | - |
| Allowed Expenditure - High Value Projects | CRC 3F | £m 12/13 prices | UCHVP | | | 11.0 | 9.6 | 14.8 | 16.3 | 14.7 | 8.0 | 7.6 | 5.8 |
| Allowed Expenditure - Visual Amenity Projects (TIM neutral) | CRC 3J | £m 12/13 prices | VAA | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Worst Served Customer Project (TIM neutral) | CRC 3H | £m 12/13 prices | WSCC | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Smart Meter Roll-out costs | CRC 3E | £m 12/13 prices | SMAE | | | 0.8 | 2.1 | 2.7 | 2.9 | 2.9 | 2.2 | - | - |
| Allowed Expenditure - Specified Street Works | CRC 3F | £m 12/13 prices | UCSSW | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Load Related | CRC 3G | £m 12/13 prices | LRRC | | | 45.7 | 42.5 | 46.0 | 41.9 | 48.0 | 46.8 | 41.0 | 40.2 |
| Allowed Expenditure - Rail Electrification (WPD) | CRC 3K | £m 12/13 prices | RE | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Moorside Costs (ENWL) | CRC 3L | £m 12/13 prices | UCMC | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Shetland Uncertain Energy (SSEH) | CRC 3F | £m 12/13 prices | UCSFE | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Shetland Competitive Process (SSEH) | CRC 3F | £m 12/13 prices | UCCPC | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Link Boxes | CRC 3F | £m 12/13 prices | UCLB | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Subsea Cables (SSEH) | CRC 3F | £m 12/13 prices | UCSC | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Uncertain Rail Electrification Costs | CRC 3F | £m 12/13 prices | UCRE | | | - | - | - | - | - | - | - | - |
| Allowed Expenditure - Innovation Roll-out Mechanism | CRC 3D | £m 12/13 prices | IRM | | | - | - | - | - | - | - | - | - |
| Pension Scheme Established Deficit revenue adjustment | CRC 3C | £m 12/13 prices | EDE | | | 39.8 | 39.8 | 39.8 | 39.8 | 39.8 | 39.8 | 39.8 | 39.8 |
| Other legacy adjustments' price control allowed revenue adjustment | CRC 3A | £m 12/13 prices | OLREV | | | 11.0 | | | | | | | |
| Other legacy adjustments' price control RAV additions adjustment | CRC 3A | £m 12/13 prices | OLRAV | 0.9 | (45.7) | | | | | | | | |
| RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment | CRC 3A | £m 12/13 prices | RIREV | | | 14.1 | | | | | | | |
| Tax liability revenue allowance adjustments - gearing / debt interest costs | CRC 3C | £m Nominal | TGIE | | | - | - | - | - | - | - | - | - |
| Tax liability revenue allowance adjustments - tax trigger events | CRC 3C | £m 12/13 prices | TTE | | | - | - | - | - | - | - | - | - |
| Legacy general tax pool adjustment | CRC 3A | £m Nominal | LTPG | 9.5 | 8.7 | | | | | | | | |
| Legacy special tax pool adjustment | CRC 3A | £m Nominal | LTPS | (18.2) | (64.5) | | | | | | | | |
| Deferred Revenue Expenditure pre-RIIO movement adjustment | CRC 3A | £m Nominal | LTPD | (4.2) | (6.3) | | | | | | | | |
| DRE: Gross capex adjustment | CRC 3A | £m Nominal | LTPC | (4.2) | (6.5) | | | | | | | | |