To the Company Secretary:

Northern Powergrid (Yorkshire) plc Company Number: 04112320

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO NORTHERN POWERGRID (YORKSHIRE) 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. Northern Powergrid (Yorkshire) 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, LTPC, 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 -£2.8m.

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

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

	NPgY				-	1		Regulatory	Year Ending				
	PCFM Variable Value	Special	Price Base /	31 March	Legacy 31 March	31 March	31 March	31 March	RIIO 31 March	31 March	31 March	31 March	31 March
CDE	Allowed percentage cost of corporate debt	Condition CRC 3C	Units Annual Real	2014	2015	2016 No	2017 No	2018 2.29%	2019 2.29%	2020 2.29%	2021 2.29%	2022 2.29%	2023
	Actual load-related capex expenditure	CRC 3B	% £m 12/13			Revision 34.1	Revision No	No	No	No	No	No	No
ANLR	Actual non-load related capex expenditure - asset	CRC 3B	Prices £m 12/13			70.2	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
	replacement Actual non-load related capex - other	CRC 3B	Prices £m 12/13			8.3	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
			Prices £m 12/13				Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
	Actual faults expenditure	CRC 3B	Prices £m 12/13			42.2	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
	Actual tree cutting	CRC 3B	Prices £m 12/13			6.7	Revision	Revision	Revision	Revision	Revision	Revision	Revision
ARP	Actual 100% 'revenue pool' expenditure	CRC 3B	Prices £m 12/13			8.8	Revision	Revision	Revision	Revision	Revision	Revision	Revision
ACO	Actual controllable opex expenditure	CRC 3B	Prices			63.5	Revision	Revision	Revision	Revision	Revision	Revision	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			0.4	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			No Revision	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	fm 12/13 Prices			No	No Revision	No	No	No	No Revision	No	No
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	CRC 3D	£m 12/13			No	No	No Revision	No	No	No	No	No
EDE	Mechanism Pension Scheme Established Deficit revenue	CRC 3C	Prices £m 12/13			No	No	No	No	No	No	No	No
OLREV	adjustment Other legacy adjustments' price control allowed	CRC 3A	Prices £m 12/13			Revision 2.6	Revision	Revision	Revision	Revision	Revision	Revision	Revision
OLRAV	revenue adjustment Other legacy adjustments' price control RAV	CRC 3A	Prices £m 12/13	No	No		J						
	additions adjustment RAV Rolling Incentive legacy adjustments' price	CRC 3A	Prices £m 12/13	Revision	Revision	-3.3]						
TGIE	control allowed revenue adjustment Tax liability revenue allowance adjustments -	CRC 3C	Prices £m			-3.3 No	No	No	No	No	No	No	No
	gearing / debt interest costs Tax liability revenue allowance adjustments - tax		Nominal £m 12/13			Revision No	Revision No	Revision	Revision No	Revision No	Revision No	Revision No	Revision No
	trigger events	CRC 3C	Prices £m	No	No	Revision	Revision	-0.3	Revision	Revision	Revision	Revision	Revision
	Legacy general tax pool adjustment	CRC 3A	Nominal £m	Revision No	Revision No								
	Legacy special tax pool adjustment Deferred Revenue Expenditure pre-RIIO movement	CRC 3A	Nominal £m	Revision	Revision								
LTPD	adjustment	CRC 3A	Nominal £m	Revision									
LTPC	DRE: Gross capex adjustment	CRC 3A	Nominal	Revision	Revision								
	NPgY	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 calcula		£m 12/13			0.1]						
	Pension True-Up	Chapter 15	Prices £m 12/13			-0.1							
	PPF Levy	Chapter 15	Prices £m 12/13			0.0							
ТСВ	Tax Clawback	Chapter 15	Prices £m 12/13			0.0							
	Tax True-Up	Chapter 15	Prices £m 12/13			0.8							
	Distributed Generation for DPCR5	Chapter 15	Prices £m 12/13			1.5							
BDC	Bad Debts	Chapter 15	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							
нус	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	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 calcula		£m 12/13										
RAV	RAV Additions Incremental Legacy Adjustments used to calcula	Chapter 15 ate RIREV	Prices	-0.8	9.2								
RRI	RRI Revenue Adjustment	Chapter 16	£m 12/13 Prices			-3.1							
RRI RLM	RRI RLM Adjustment	Chapter 16	fm 12/13 Prices			0.0							
RRI WFR	RRI WFR Adjustment	Chapter 16	£m 12/13			-0.3							
			Prices										

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

			_			Regulatory Year Ending									
Variable Name		Price Base / Units	Term	31 March		1 1		31 March					31 March		
	Special Condition	-		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
llowed 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%		
ctual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			34.1	-	-	-	-	-	-	-		
ctual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			70.2	-	-	-	-	-	-	-		
ctual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			8.3	-	-	-	-	-	-	-		
ctual faults expenditure	CRC 3B	£m 12/13 prices	AFE			42.2	-	-	-	-	-	-	-		
ctual tree cutting	CRC 3B	£m 12/13 prices	TRE			6.7	-	-	-	-	-	-	-		
ctual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			8.8	-	-	-	-	-	-	-		
ctual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			63.5	-	-	-	-	-	-	-		
llowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS			0.9	-	0.5	-	-	-	-	-		
llowed Expenditure - High Value Projects	CRC 3F	£m 12/13 prices	UCHVP			10.7	0.0	0.0	0.0	0.0	-	-	-		
llowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			0.4	-	-	-	-	-	-	-		
llowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			-	-	-	-	-	-	-	-		
llowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			1.1	1.9	2.8	3.2	3.2	2.4	-	-		
llowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			-	-	-	-	-	-	-	-		
llowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			8.0	10.4	10.7	14.5	19.0	15.5	12.1	14.3		
llowed Expenditure - Rail Electrification (WPD)	CRC 3K	£m 12/13 prices	RE			-	-	-	-	-	-	-	-		
llowed Expenditure - Moorside Costs (ENWL)	CRC 3L	£m 12/13 prices	UCMC			-	-	-	-	-	-	-	-		
llowed Expenditure - Shetland Uncertain Energy (SSEH)	CRC 3F	£m 12/13 prices	UCSFE			-	-	-	-	-	-	-	-		
llowed Expenditure - Shetland Competitive Process (SSEH)	CRC 3F	£m 12/13 prices	UCCPC			-	-	-	-	-	-	-	-		
llowed Expenditure - Link Boxes	CRC 3F	£m 12/13 prices	UCLB			-	-	-	-	-	-	-	-		
llowed Expenditure - Subsea Cables (SSEH)	CRC 3F	£m 12/13 prices	UCSC			-	-	-	-	-	-	-	-		
llowed Expenditure - Uncertain Rail Electrification Costs	CRC 3F	£m 12/13 prices	UCRE			-	-	-	-	-	-	-	-		
llowed Expenditure - Innovation Roll-out Mechanism	CRC 3D	£m 12/13 prices	IRM			-	-	-	-	-	-	-	-		
ension Scheme Established Deficit revenue adjustment	CRC 3C	£m 12/13 prices	EDE			6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9		
ther legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			2.6									
ther legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	(0.8)	9.2										
AV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV			(3.3)									
ax liability revenue allowance adjustments - gearing / debt interest costs	CRC 3C	£m Nominal	TGIE			-	-	-	-	-	-	-	-		
ax liability revenue allowance adjustments - tax trigger events	CRC 3C	£m 12/13 prices	TTE			-	-	(0.3)	-	-	-	-	-		
egacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	(10.7)	(1.2)										
egacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	(0.9)	(4.5)										
eferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	1.1	(11.3)										
PRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	3.6	(10.1)										