

**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 (SWEST)  
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)**

**Direction under Part B of Charge Restriction Condition (CRC) 4A (Governance of ED1 Price Control Financial Instruments)**

1. Each of the companies to whom this Direction is addressed (the licensees) holds an electricity distribution licence (licences) under section 6(1)(c) of the Electricity Act 1989 (the Act).
2. The Gas and Electricity Markets Authority (the Authority) gave Notice to the licensees addressed in this Direction on 13 June 2017<sup>1</sup> under Part B of CRC 4A of the licences (the Notice), that it proposed to make the following amendments to the RIIO-ED1 Price Control Financial Handbook (the Handbook):
  - replace a reference to 'the DPCR5 Allowed Unit Cost' in paragraph 1.2 (i)(d), 1.2 (ii)(d) and 1.3(ii) of Annex A2 of the Handbook with the words 'Ofgem DPCR5 Survey unit cost', as set out in Appendix A of this document.
3. The Notice required any representations to be made on or before 14 August 2017.
4. Prior to the close of the Notice period, we received one representation. The response is not confidential and is published on the Ofgem website.
5. Paragraph 4A.4 of CRC 4A requires us to assess whether any proposed modification to the Handbook is likely to have a significant impact on licensees and other stakeholders.
6. We consider that because our proposed amendments correct an error in the Handbook, they will not have a significant impact on any of the persons listed in paragraph 4A.4 of CRC 4A. This is in line with paragraph 4A.6 of CRC4A.

**Direction**

7. The Authority hereby directs under CRC 4A that the amendments described in paragraph 2 and Appendix A of this document be made.
8. The changes set out in this Direction will take effect from 15 September 2017.

**Kersti Berge, Partner RIIO Networks  
Duly authorised on behalf of the  
Gas and Electricity Markets Authority**

**15 September 2017**

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/dpcr5-close-out-consultation-proposed-adjustments>

## Appendix A: changes to paragraphs 1.2 (i)(d), 1.2 (ii)(d) and 1.3(ii) of Annex A2 of the Handbook

### “Stage 1 – Calculate Risk Points for HI Target Delta (in relation to Agreed Network Outputs and Adjusted Network Outputs)

- 1.2 The Authority will calculate the number of HI Risk Points that the licensee was expected to deliver by the end of the DPCR5 period in each HI Asset Category and overall, using either the DPCR5 Agreed Network Outputs or the Adjusted Network Outputs, as appropriate. The calculation involves the following steps:
- (i) Calculation of risk points for assets covered by the Health Indices in the fifth year of DPCR5 if there was no investment for Interventions:
    - (a) the Authority will obtain the number of assets in each HI band for each HI asset category representing the Health Index in the fifth year of DPCR5 where there is no investment for Interventions;
    - (b) for each HI asset category, the Authority will multiply the number of assets in each HI Band by the HI Band Weighting (as defined in Table 1);
    - ~~(iii)~~(c) the results from step (b); will then be summed by the Authority to determine the total for each HI Asset Category;
    - (d) the Authority will multiply the result from step (c) by the ~~DPCR5-Allowed Unit-Cost-Ofgem~~ **DPCR5 Survey unit cost (A)** for that HI Asset Category to determine the total HI Risk Points for that HI Asset Category;
    - (e) steps (b)-(d) are repeated for each HI Asset Category; and,
    - (f) the Authority will sum the results from step (d) across all HI Asset Categories to determine the total number of HI risk points in the fifth year of DPCR5 if there was no investment for Interventions.
  - (ii) Calculation of risk points for assets covered by the Health Indices in fifth year of DPCR5 with investment for Interventions:
    - (a) the Authority will obtain the number of assets in each HI band for each HI asset category representing the Health Index in the fifth year of DPCR5 where there was investment for Interventions;
    - (b) for each HI asset category, the Authority will multiply the number of assets in each HI Band by the HI Band Weighting (as defined in Table 1);
    - (c) the results from step (b); will then be summed by the Authority to determine the total for each HI Asset Category;
    - (d) the Authority will multiply the result from step (c) by the ~~DPCR5-Allowed Unit-Cost-Ofgem~~ **DPCR5 Survey unit cost (A)** for that HI Asset Category to determine the total HI Risk Points for that HI Asset Category;
    - (e) steps (b)-(d) are repeated for each HI Asset Category; and,
    - (f) the Authority will sum the results from step (d) across all HI Asset Categories to determine the total number of HI risk points in the fifth year of DPCR5 if there were no investment for Interventions.
  - (iii) Calculation of HI Risk Points Delta:
    - (a) the Authority will calculate the difference between the risk points calculated in (i) and subtract those calculated in step (ii).

### Stage 2 – Determine Delivered Network Outputs for HI Component of the NOMs

- 1.3 Using the licensee's Network Outputs Reporting Workbooks and the HI Tracking Sheets, the Authority will determine the HI Risk Points Reduction that was delivered through asset replacement and refurbishment Interventions during the DPCR5 period. The calculation involves the following steps:
- (i) for each HI Asset Category, the Authority will multiply the volume of assets in each HI band, representing the HI movements caused by asset replacement and refurbishment, by the HI band weightings in Table 1. The Authority will then sum the results to determine the total for each HI Asset Category;
  - (ii) the Authority will then multiply the result from step (i) by the ~~DPCR5 Allowed Unit Cost~~ ~~Ofgem DPCR5 Survey unit cost~~ (A) in paragraph 1.6 below for that HI Asset Category to generate the total HI Risk Points delivered in each category; and
  - (iii) the Authority will sum the results for all HI Asset Categories from step (ii) to determine the total HI Risk Points delivered by the licensee."