

**To: Electricity North West Ltd
Northern Powergrid (Northeast) Ltd
Northern Powergrid (Yorkshire) plc
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
South Eastern Power Networks plc
Eastern Power Networks plc
SP Distribution plc
SP Manweb plc
Scottish Hydro Electric Power Distribution plc
Southern Electric Power Distribution plc**

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')¹, gave notice on 12 September 2017 ('the Notice') to make modifications to the ED1 Price Control Financial Model ('the Model'). The Notice required any representations to be made on or before 10 October 2017.
3. We received no representations in response to the Notice.
4. The Authority has decided to modify the Model in the manner indicated in Table 1 in this Direction, for the following reasons:
 - a) in respect of change number 1, for the licensees WMID, EMID, SWALES and SWEST the spread over price control years of the term 'Input used to Spread Additional Income' has been redefined to implement the decision made at Final Proposals. Prior to this correction, the Model was distributing the value of this term equal to the relative spread of the latest view of the Totex profile. However, the decision at Final Proposals was to spread it equal to the relative spread of the view of the Totex profile as at Final Proposals. This error in the Model was introduced to the Model for these (the Fast track) licensees when the Fast track and Slow track Price Control Financial Models were merged into a single model. The formulae have now been replaced with hardcoded values. For the other licensees (ie for Slow track licensees) the Model already reflects this policy and so no corrections have been required.
 - b) in respect of change number 2, to align labels between the Model and the ED1 Price Control Financial Handbook²).

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.

² <https://www.ofgem.gov.uk/publications-and-updates/latest-price-control-financial-handbooks-rnio-network-operator-licensees>

5. In accordance with our powers under Part B of CRC 4A, we hereby direct that the modifications in Table 1 of this Direction are made to the Model. These modifications are to have effect from 11 October 2017.
6. This document constitutes a notice of our reasons as required by section 49A of the Electricity Act 1989. The consolidated version of the Model is available on the Ofgem website³.



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Ian Rowson
Associate Partner, RIIO Finance & Investor Relations
Duly Authorised on behalf of the Gas and Electricity Markets Authority
11 October 2017

Table 1 – Location of modifications within the Model

#	Modification	Worksheet in Model	Cell References
1	Revision of WPD, 'Input used to Spread Additional Income'	WMID, EMID, SWALES, SWEST	AJ490:AQ490
2	Amended Totex label	TIM	D50, D63

³ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-financial-model-annual-iteration-process-november-2017>