## To the Company Secretary:

South Eastern Power Networks plc Company Number: 03043097

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SOUTH EASTERN 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. South Eastern 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 CRC1B (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 2018 and ends on 31 March 2019 ('Regulatory Year 2018/19').
- 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, 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 15 November 2017 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November 2017 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 2018/19 is to take the value -£34.4m.

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.

Geoffrey Randall

**Associate Partner, RIIO Networks** 

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Duly authorised on behalf of the Gas and Electricity Markets Authority 30 November 2017

Conceined   Conc		CRC 3B  CRC 3B	Units  Annual Real %  £m 12/13 Prices  £m 12/13 Prices	31 March 2014	31 March	2016  No Revision  No Revision  30.2  18.9  30.7  No Revision  No Revision  No Revision  63.6  No Revision	2017 No Revision 12.8 41.2 14.4 36.5 5.4 9.2 69.6	No Revision	31 March 2019  2.19%  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision	31 March 2020  2.19%  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision	31 March 2021  2.19%  No Revision  No Revision  No Revision  No Revision  No Revision	31 March 2022  2.19%  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision	31 March 2023  2.19%  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision
Actual found refered capes expenditure		CRC 3C  CRC 3B  CRC 3B	Annual Real %  £m 12/13 Prices		2013	No Revision No Revision 30.2 18.9 30.7 No Revision No Revision No Revision 63.6 No Revision	No Revision 12.8 41.2 14.4 36.5 5.4 9.2 69.6	No Revision  No Revision	No Revision	2.19%  No Revision	No Revision	No Revision No Revision No Revision No Revision No Revision No Revision No	2.19%  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision
Attual coad-related capex expenditure		CRC 3B  CRC 3C  CRC 3C  CRC 3C  CRC 3C  CRC 3C  CRC 3C	fm 12/13 Prices	-		No Revision  30.2  18.9  30.7  No Revision  No Revision  63.6  No Revision	12.8 41.2 14.4 36.5 5.4 9.2 69.6	No Revision	Revision  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision	Revision  No Revision	Revision  No Revision  No Revision  No Revision  No Revision  No Revision  No Revision	Revision  No Revision  No Revision  No Revision  No Revision  No Revision	Revision  No Revision  No Revision  No Revision  No Revision  No Revision
Actual non-load related capex expenditure		CRC 3B  CRC 3F	fm 12/13 Prices	-		30.2  18.9  30.7  No Revision  No Revision  63.6  No Revision	14.4 36.5 5.4 9.2 69.6	No Revision No Revision No Revision No Revision No	No Revision No Revision No Revision No Revision No Revision No Revision	No Revision No Revision No Revision No Revision No Revision No Revision	No Revision No Revision No Revision No Revision No Revision Revision	No Revision No Revision No Revision No	No Revision No Revision No Revision No
Actual non-load related capex - other		CRC 3B  CRC 3B  CRC 3B  CRC 3B  CRC 3B  CRC 3F	£m 12/13 Prices  £m 12/13	-		No Revision No Revision 63.6 No Revision	36.5 5.4 9.2 69.6	No Revision No Revision No Revision No	No Revision No Revision No Revision No Revision	No Revision No Revision No Revision No Revision	No Revision No Revision No Revision No Revision	No Revision No Revision No Revision	No Revision No Revision No Revision
AFF		CRC 3B  CRC 3B  CRC 3B  CRC 3B  CRC 3B  CRC 3F	£m 12/13 Prices  £m 12/13	-		No Revision No Revision <b>63.6</b> No Revision	5.4 9.2 69.6	No Revision No Revision No Revision	No Revision No Revision No Revision	No Revision No Revision No Revision	No Revision No Revision No Revision	No Revision No Revision	No Revision No Revision
TRE   Actual tree cutting		CRC 3B  CRC 3B  CRC 3B  CRC 3F  CRC 3F  CRC 3F  CRC 3H  CRC 3H  CRC 3E  CRC 3F  CRC 3F  CRC 3F  CRC 3F  CRC 3F	£m 12/13 Prices  £m 12/13			Revision  No Revision  63.6  No Revision	9.2 69.6	No Revision No Revision	No Revision No Revision	No Revision No Revision	No Revision No Revision	No Revision No	No Revision No
ARP   Actual 300% revenue poof expenditure   CRC 38   Prices		CRC 3B  CRC 3B  CRC 3F  CRC 3F  CRC 3F  CRC 3H  CRC 3H  CRC 3F	£m 12/13 Prices  £m 12/13	-		No Revision <b>63.6</b> No Revision	9.2 69.6	No Revision No	No Revision No	No Revision No	No Revision	No	No
ACQ   Actual controllable opex expenditure		CRC 3B  CRC 3F  CRC 3F  CRC 3J  CRC 3H  CRC 3H  CRC 3E  CRC 3F  CRC 3F  CRC 3F  CRC 3F  CRC 3F	£m 12/13 Prices £m 12/13	-		63.6 No Revision	69.6	No	No	No		Revision	Revision
UCEPS   Allowed Expenditure - Enhanced Physical Site   Security   Prices		CRC 3F  CRC 3F  CRC 3J  CRC 3H  CRC 3E  CRC 3F  CRC 3F  CRC 3F  CRC 3F  CRC 3F	£m 12/13     Prices  £m 12/13	-		No Revision		Revision	Dovicion	D!	No	No	No
Security		CRC 3F  CRC 3J  ECRC 3H  CRC 3E  ECRC 3F  ECRC 3F  ECRC 3F  ECRC 3F  ECRC 3F	£m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13	-				No	No	No	Revision No	Revision No	Revision No
VAA   Allowed Expenditure - Visual Amenity Projects   CRC 3J   Em 12/13   Prices		CRC 3J  ECRC 3H  ECRC 3E  ECRC 3F  ECRC 3G  ECRC 3F	£m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13	-			No	No	No	No	Revision No	Revision No	Revision No
WSCC   Allowed Expenditure - Worst Served Customer   Prices   Pr		CRC 3H  CRC 3E  CRC 3F  CRC 3G  CRC 3F	£m 12/13 Prices £m 12/13 Prices £m 12/13	_		No		No	No	No	Revision No	Revision No	Revision No
SMAE Allowed Expenditure - Smart Meter Roll-out costs   CRC 36		CRC 3E  CRC 3F  CRC 3G  CRC 3F	£m 12/13 Prices £m 12/13						No		Revision No	Revision No	Revision No
UCSSW Allowed Expenditure - Specified Street Works		CRC 3F ECRC 3G ECRC 3F	£m 12/13	-		No					Revision No	Revision No	Revision No
LRRC   Allowed Expenditure - Load Related   CRC 3G   Fm 12/13   Prices   Em 12/13		CRC 3G E	Dricos								Revision No	Revision No	Revision No
CRC 3F		CRC 3F		-		Revision	Revision	Revision	Revision	Revision	Revision No	Revision No	Revision No
CRUCRE   Allowed Expenditure - Uncertain Rail Electrification   CRC 3F   Prices   Em 12/13   Prices   Em		CRC 3F	Prices	-		Revision		Revision		Revision	Revision No	Revision No	Revision No
CRC 3F		coca- I f	Prices	-		Revision	Revision	Revision	Revision	Revision	Revision No	Revision No	Revision No
Revision		CRC 3F	Prices	-		Revision	Revision	Revision	Revision	Revision	Revision No	Revision No	Revision No
Additions adjustments of the regacy adjustments price control allowed revenue adjustment of the regacy adjustments of the regacy adjustment of the regacy adjustments of the regacy adjustments of the regacy adjustments of the regacy of the regacy adjustments of the regacy of the regacy adjustments of the regacy of	-	CRC 3D	Prices	-		Revision	Revision	Revision	Revision		Revision	Revision	Revision
OLREV revenue adjustment  OLRAV Other legacy adjustments' price control RAV additions adjustments' price control RAV additions adjustments' price control allowed revenue adjustments of the control allowed revenue allowance adjustments of the control allowed revenue allowance adjustments of the control allowed revenue allowed revenue allowed revenue adjustments of the control allowed revenue allowed revenu		CRC 3C	Prices						28.7	28.8	28.7	19.2	18.7
Additions adjustment   CRC 3A   Prices   Revision   R		CRC 3A	Prices	No	l No	-3.4							
TGIE Tax liability revenue allowance adjustments - gearing / debt interest costs  TTE Tax liability revenue allowance adjustments - tax trigger events  CRC 3C		CRC 3A	Prices				1						
TTE Tax liability revenue allowance adjustments - tax trigger events  CRC 3C		CRC 3A	Prices	-			N	NI -	NI-	N.	N	NI -	N.
trigger events			Nominal			Revision	Revision	Revision	Revision	Revision	No Revision	No Revision	No Revision
LTPS Legacy special tax pool adjustment  CRC 3A Nominal Revision Revision  LTPS Legacy special tax pool adjustment  CRC 3A Nominal Revision Revision  Revision Revision  Revision Revision  Revision Revision  Revision		CRC 3C	Prices		T						No Revision	No Revision	No Revision
LTPD Deferred Revenue Expenditure pre-RIIO movement adjustment CRC 3A Nominal Revision Revision Revision  LTPD Deferred Revenue Expenditure pre-RIIO movement adjustment CRC 3A Fm No Revision Revision  LTPC DRE: Gross capex adjustment CRC 3A Fm No Revision Revision  SPN Financial Handbook Price Base Incremental Legacy Adjustments used to calculate OLREV  Revision Revision Revision  SPN Financial Handbook Price Base 2014 2015 2016 2017 2018 2019 2020 2020 2020 2020 2020 2020 2020	1	CRC 3A	Nominal	Revision	Revision								
Adjustment CRC 3A Nominal Revision Revision  LTPC DRE: Gross capex adjustment CRC 3A Fm Nominal Revision Revision  SPN Financial Handbook Handbook Price Base 2014 2015 2016 2017 2018 2019 2020 2019 2020 2019 2020 2019 2019	1	CRC 3A	Nominal	Revision	Revision								
SPN SPN Financial Handbook Incremental Legacy Adjustments used to calculate OLREV Revision	1	CRC 3A	Nominal	Revision	Revision								
Handbook Price Base 2014 2015 2016 2017 2018 2019 2020 2016 Incremental Legacy Adjustments used to calculate OLREV		CRC 3A											
Incremental Legacy Adjustments used to calculate OLREV		IΡ	Price Base								31 March 2021	31 March 2022	31 March 2023
1 - 1 = 1	1	LREV	£m 12/13	-									
Prices Pension True-Up Chapter 15 Prices 1.0		apter 15	Prices	-									
PPF Levy Chapter 15 Prices 0.0	1	apter 15	Prices	-									
TCB Tax Clawback Chapter 15 Prices 0.0		apter 15	Prices	-									
Tax True-Up Chapter 15 Prices 9.1	╛	apter 15	Prices	-									
DGS Distributed Generation for DPCRS Chapter 15 Prices 1.7		apter 15	Prices	-		-							
BDC Bad Debts Chapter 15 Prices 0.0		apter 15	Prices	-									
IMA Traffic Management Act Chapter 15 Prices -8.0  Undergrounding & Worst Served Customers -8.0		apter 15	Prices	-									
Improvements  Chapter 15 Prices  -0.2	1	apter 15	Prices	-		-							
LRR Load Related Reopener Chapter 15 Prices -6.3	1	apter 15	Prices	-		-							
HVC High Volume Low Cost Connections Chapter 15 Prices -0.8	╛	apter 15	Prices	-									
HVP High Value Projects Chapter 15 Prices 0.0		apter 15	Prices	-		-							
EPS Ennanced Physical Site Security Chapter 15 Prices    Fm 12/13		apter 15	Prices	-		-							
RLM Rising & Lateral Mains Chapter 15 Prices 0.0	1	apter 15	Prices	-									
SHET Shetland Chapter 15 Prices 0.0		apter 15	Prices	-									
FLD Flood Prevention (SSEH Only) Chapter 15 Prices  Incremental Legacy Adjustments used to calculate OLRAV	1	apter 15				0.0							
RAV RAV Additions  Chapter 15  Chapter 15  Chapter 15  Frices  -0.3  -42.5	+	f		-0.3	-42.5								
Incremental Legacy Adjustments used to calculate RIREV  fm 12/13		f											
RRI RRI Revenue Adjustment  Chapter 16 Fm 12/13 Prices  1.4	-	apter 16	Prices	-		1.4							
RRI RLM Adjustment  Chapter 16 Fm 12/13 Prices  O.0		apter 16	Prices			0.0							
RRI WFR Adjustment  Chapter 16  Chapter 16  Prices  -0.6		- 1				1 06							

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

				Regulatory Year Ending										
Variable Name	Special Condition	Price Base / Units	Term	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	2014	2015	2.55%		2.29%				2.19%		
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			6.5	12.8	-	-	_	-	-	_	
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			30.2	41.2	-	-	-	-	_	_	
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			18.9	14.4	-	-	-	-	-	_	
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			30.7	36.5	-	-	-	-	-	-	
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			2.2	5.4	-	-	-	-	-	-	
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			10.9	9.2	-	-	-	-	-	-	
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			63.6	69.6	-	-	-	-	-	-	
Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS			0.5	0.5	-	-	-	-	-	-	
Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 prices	UCHVP			4.7	5.8	5.8	5.4	4.5	2.7	-	-	
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			0.3	0.3	-	-	-	-	-	-	
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			0.0	0.4	-	-	-	-	-	-	
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			0.4	1.4	2.6	2.9	2.9	2.1	-	-	
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			-	-	-	-	-	-	-	-	
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			26.1	34.1	35.2	25.9	21.1	20.9	27.5	25.6	
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			34.1	34.1	34.1	28.7	28.8	28.7	19.2	18.7	
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			(3.4)								
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	(0.3)	(42.5)									
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV			0.8								
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	2.4	10.0									
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	(0.8)	(47.3)									
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	10.7	5.1									
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	10.9	5.4									