To the Company Secretary:

Southern Electric Power Distribution plc Company Number: 04094290

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SOUTHERN ELECTRIC POWER DISTRIBUTION 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. Southern Electric Power Distribution 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, 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 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 -£19.5m.

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

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Associate Partner, RIIO Networks Duly authorised on behalf of the Gas and Electricity Markets Authority 30 November 2017

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

	SSES			DPCR5	Legacy			Regulatory])-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	No Revision	2.19%	2.19%	2.19%	2.19%	2.19%
ALC	Actual load-related capex expenditure	CRC 3B	£m 12/13 Prices			No	15.2	No	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			74.8	82.0	No Revision	No Revision	No Revision	No Revision	No	No Revision
ANLO	Actual non-load related capex - other	CRC 3B	fm 12/13 Prices			No Revision	15.0	No	No	No	No	No	No Revision
AFE	Actual faults expenditure	CRC 3B	£m 12/13 Prices			No	34.5	No	No	No	No	No	No Revision
TRE	Actual tree cutting	CRC 3B	£m 12/13 Prices			No	18.1	No	No	No	No	No	No Revision
ARP	Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 Prices			10.5	12.3	No	No Revision	No	No Revision	No	No
ACO	Actual controllable opex expenditure	CRC 3B	finces fm 12/13 Prices			102.4	108.1	No	No	No	No	No	No
UCEPS	Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	finces fm 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No	No	No	No
UCHVP	Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 Prices			No	No Revision	No	No	No	No Revision	No	No
VAA	Allowed Expenditure - Visual Amenity Projects	CRC 3J	finces fm 12/13 Prices			No	0.4	No Revision	No	No	No	No	No
wscc	Allowed Expenditure - Worst Served Customer	CRC 3H	£m 12/13			No	No Revision	No Revision	No	No	No	No	No
	Projects Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	Prices fm 12/13			No	1.4	No	No	No	No	No	No
UCSSW	Allowed Expenditure - Specified Street Works	CRC 3F	Prices £m 12/13			Revision No	No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
LRRC	Allowed Expenditure - Load Related	CRC 3G	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
UCLB	Allowed Expenditure - Link Boxes	CRC 3F	Prices fm 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
UCRE	Allowed Expenditure - Uncertain Rail Electrification	CRC 3F	Prices fm 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
IRM	Costs Allowed Expenditure - Innovation Roll-out	CRC 3D	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
EDE	Mechanism Pension Scheme Established Deficit revenue	CRC 3C	Prices £m 12/13			Revision No	Revision No	Revision No	Revision 25.4	Revision 25.4	Revision 16.1	Revision 16.1	Revision 16.1
OLREV	adjustment Other legacy adjustments' price control allowed	CRC 3A	Prices £m 12/13			Revision No	Revision	Revision					
OLRAV	revenue adjustment Other legacy adjustments' price control RAV	CRC 3A	Prices £m 12/13	No	No	Revision	J						
RIREV	additions adjustment RAV Rolling Incentive legacy adjustments' price	CRC 3A	Prices £m 12/13	Revision	Revision	No]						
TGIE	control allowed revenue adjustment Tax liability revenue allowance adjustments - gearing	CRC 3C	Prices £m			Revision No	No	No	No	No	No	No	No
TTE	/ debt interest costs Tax liability revenue allowance adjustments - tax	CRC 3C	Nominal £m 12/13			Revision No	Revision No	Revision	Revision No	Revision No	Revision No	Revision No	Revision No
LTPG	trigger events Legacy general tax pool adjustment	CRC 3A	Prices £m	No	No	Revision	Revision		Revision	Revision	Revision	Revision	Revision
LTPS	Legacy special tax pool adjustment	CRC 3A	Nominal £m	Revision No	Revision No								
LTPD	Deferred Revenue Expenditure pre-RIIO movement	CRC 3A	Nominal £m	Revision No	Revision No								
	adjustment DRE: Gross capex adjustment	CRC 3A	Nominal £m	Revision No	Revision No								
		Financial	Nominal	Revision	Revision 31 March	21 March	21 March	21 March	21 March	21 March	31 March	21 March	21 March
	SSES Incremental Legacy Adjustments used to calcula	Handbook	Price Base	31 March 2014	2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2020	2021	31 March 2022	31 March 2023
PTU	Pension True-Up	Chapter 15	£m 12/13 Prices			-0.4]						
PPF	PPF Levy	Chapter 15	£m 12/13 Prices			0.0	•						
тсв	Tax Clawback	Chapter 15	£m 12/13			0.0							
Тах	Tax True-Up	Chapter 15	Prices £m 12/13			-2.0							
DG5	Distributed Generation for DPCR5	Chapter 15	Prices £m 12/13 Prices			-4.4							
BDC	Bad Debts	Chapter 15	fm 12/13 Prices			0.0							
ТМА	Traffic Management Act	Chapter 15	£m 12/13 Prices			0.0							
UWS	Undergrounding & Worst Served Customers Improvements	Chapter 15	fm 12/13 Prices			0.2							
LRR	Load Related Reopener	Chapter 15	fm 12/13 Prices			0.0							
HVC	High Volume Low Cost Connections	Chapter 15	£m 12/13			-0.1							
HVP	High Value Projects	Chapter 15	Prices £m 12/13			0.0							
EPS	Enhanced Physical Site Security	Chapter 15	Prices £m 12/13			0.0							
RLM	Rising & Lateral Mains	Chapter 15	Prices £m 12/13			0.0							
SHET	Shetland	Chapter 15	Prices fm 12/13			0.0							
FLD	Flood Prevention (SSEH Only)	Chapter 15	Prices £m 12/13			0.0							
	Incremental Legacy Adjustments used to calcula		Prices			L	J						
RAV	RAV Additions	Chapter 15	£m 12/13 Prices	-0.3	-37.6								
RRI	Incremental Legacy Adjustments used to calcula RRI Revenue Adjustment	te RIREV Chapter 16	£m 12/13			15.0							
	RRI RLM Adjustment	Chapter 16	Prices £m 12/13			0.0							
	RRI WFR Adjustment	Chapter 16	Prices £m 12/13			-0.2							
		Shapter 10	Prices			0.2							

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

					Regulatory Year Ending								
Variable Name		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%			2019				
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			15.2	15.2	-	-	-	-	-	-
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			74.8	82.0	-	-	-	-	-	-
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			16.3	15.0	-	-	-	-	-	-
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			28.9	34.5	-	-	-	-	-	-
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			16.7	18.1	-	-	-	-	-	-
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			10.5	12.3	-	-	-	-	-	-
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			102.4	108.1	-	-	-	-	-	-
Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS			-	-	-	-	-	-	-	-
Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 prices	UCHVP			4.4	4.4	8.8	8.8	-	-	-	-
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			0.2	0.4	-	-	-	-	-	-
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			0.5	-	-	-	-	-	-	-
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			0.7	1.4	3.4	3.8	3.6	2.5	-	-
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			-	-	-	-	-	-	-	-
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			25.8	32.8	26.2	30.0	18.3	27.5	38.7	33.8
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			32.2	32.2	32.2	25.4	25.4	16.1	16.1	16.1
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			(6.7)							
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	(0.3)	(37.6))							
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV			14.8							
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			-	-	(0.1)	(0.0)	-	-	-	-
Legacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	0.7	11.8								
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	0.7	14.3								
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	(4.6)	(44.4))							
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	(5.1)	(48.1)	1							