To the Company Secretary:

SP Manweb plc

Company Number: 02366937

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SP MANWEB 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. SP Manweb 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 -£18.5m.

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

Associate Partner, RIIO Networks

& Randall

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

CDE Allowed percentage cost of corporate debt CRC 3C Annual Real % No Revision Revi	arch 20 2021 9% 2.19% No Revision	19% 2 10 ision R	No Revision	31 March 2023 2.19% No Revision No Revision
ALC Actual load-related capex expenditure ACTUAL Indian non-load related capex expenditure - asset replacement ANLO Actual non-load related capex - other ARE Actual faults expenditure CRC 3B	P% 2.19% No Revision	9% 2 No ision R	No Revision Ro Revision Ro Revision Ro Revision Ro Revision Ro Revision Ro Revision	No Revision
ALC Actual load-related capex expenditure ANLR Actual non-load related capex expenditure - asset replacement rep	sion Revision No Revision Revision No Revision Revision Revision Revision Revision	ision R lo ision R	Revision No Revision Revision No Revision Revision Revision	Revision No Revision
ANLR Actual non-load related capex expenditure - asset replacement ANLO Actual non-load related capex - other AFE Actual faults expenditure CRC 3B Finizes Actual tree cutting CRC 3B Finizes Finizes Finizes Finizes Actual 100% 'revenue pool' expenditure CRC 3B Finizes ACO Actual controllable opex expenditure CRC 3B Finizes Finizes Finizes Finizes ACO Actual controllable opex expenditure CRC 3B Finizes Fini	No sion Revision No Sion Revision No Sion Revision No Sion Revision No Revision	lo ision R	No Revision Revision Revision Revision	No Revision
ANLO Actual non-load related capex - other AFE Actual faults expenditure CRC 3B Em 12/13 Prices TRE Actual faults expenditure CRC 3B Em 12/13 Prices Em 12/13 Prices ARP Actual tree cutting CRC 3B Em 12/13 Prices ARP Actual 100% 'revenue pool' expenditure CRC 3B Em 12/13 Prices ACO Actual controllable opex expenditure CRC 3B Em 12/13 Prices ACO Actual controllable opex expenditure CRC 3B Em 12/13 Prices ACO Actual controllable opex expenditure CRC 3B Em 12/13 Prices ACO Actual controllable opex expenditure CRC 3B Em 12/13 Prices CRC 3F Em 12/13 Prices Allowed Expenditure - High Value Projects CRC 3F Em 12/13 Prices CRC 3F Em 12/13 Prices Allowed Expenditure - Visual Amenity Projects CRC 3B Em 12/13 Prices Allowed Expenditure - Worst Served Customer Projects CRC 3B Em 12/13 Prices Allowed Expenditure - Specified Street Works CRC 3F Em 12/13 Prices Allowed Expenditure - Specified Street Works CRC 3F Em 12/13 Prices CRC 3F Em 12/13 Prices Allowed Expenditure - Load Related CRC 3G Em 12/13 Prices Allowed Expenditure - Specified Street Works CRC 3F Em 12/13 Prices	No sion Revision No No Revision	lo ision R	No Revision Revision Revision	No Revision
AFE Actual faults expenditure TRE Actual tree cutting CRC 3B	No sion Revision No No Revision	lo ision R	No Revision Revision	No Revision Revision
TRE Actual tree cutting CRC 3B	No sion Revision No No Revision	lo ision R	No Revision	No Revision
ARP Actual 100% 'revenue pool' expenditure CRC 3B	No Revision	lo ision R	No Revision Revision	No Revision
ACO Actual controllable opex expenditure ACO Actual controllable opex expenditure CRC 3B Em 12/13 Prices CRC 3F Em 12/13 Prices CRC 3F CRC 3F Em 12/13 Prices CRC 3F CRC 3F CRC 3F Em 12/13 Prices VAA Allowed Expenditure - High Value Projects VAA Allowed Expenditure - Visual Amenity Projects CRC 3I CRC 3I Em 12/13 Prices CRC 3I CRC 3B Em 12/13 Prices CRC 3F Em 12/13 Prices No	No Revision	lo ision R	No Revision No Revision No Revision No Revision No Revision No Revision Revision	No Revision No Revision No Revision No Revision No Revision No Revision Revision
UCEPS Allowed Expenditure - Enhanced Physical Site Security CRC 3F Prices Prices Prices Prices Security CRC 3F Prices Pri	No sion Revision No Revision	lo ision R	No Revision No Revision No Revision No Revision No Revision Revision	No Revision No Revision No Revision No Revision No Revision
CRC 3F	No Revision	lo ision R	No Revision No Revision No Revision No Revision	No Revision No Revision No Revision No Revision
VAA Allowed Expenditure - Visual Amenity Projects WSCC Allowed Expenditure - Worst Served Customer Projects SMAE Allowed Expenditure - Smart Meter Roll-out costs UCSSW Allowed Expenditure - Specified Street Works CRC 3F CRC 3F CRC 3F Em 12/13 Prices Allowed Expenditure - Specified Street Works CRC 3F Em 12/13 Prices Allowed Expenditure - Load Related CRC 3F Em 12/13 Prices Em 12/13 Prices Allowed Expenditure - Link Boxes CRC 3F Em 12/13 Prices Allowed Expenditure - Link Boxes CRC 3F Em 12/13 Prices Em 12/13 Prices Allowed Expenditure - Link Boxes CRC 3F Em 12/13 Prices No No No No No Revision	No Revision Revision Revision Revision	lo ision R	No Revision No Revision No Revision	No Revision No Revision No Revision
WSCC Allowed Expenditure - Worst Served Customer Prices MSCC Projects MSCC Allowed Expenditure - Smart Meter Roll-out costs MSCC Projects MSCC Allowed Expenditure - Smart Meter Roll-out costs MSCC SE Fin 12/13 Prices MSCC 3E Fin 12/13 Prices MSC Allowed Expenditure - Link Boxes MSC Allowed Expendi	No Revision Revision Revision	lo ision R lo ision R lo ision R	No Revision No Revision	No Revision No Revision
SMAE Allowed Expenditure - Smart Meter Roll-out costs CRC 3E Em 12/13 Prices CRC 3F CRC 3F Em 12/13 Prices CRC 3F CRC 3F Em 12/13 Prices No Revision Revisi	No Revision Revision	ision R lo ision R lo ision R lo ision R	No Revision	No Revision
UCSSW Allowed Expenditure - Specified Street Works LRRC Allowed Expenditure - Load Related UCLB Allowed Expenditure - Link Boxes CRC 3F CRC 3F CRC 3F Em 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13 Prices CRC 3F Revision Re	o No Revision	lo ision R lo ision R		
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Allowed Expenditure - Innovation Roll-out fm 12/13		ision R	Revision No	Revision No
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adjustment CRC 3C Prices Revision Revision Revision 26.6 2	.6 26.6	5.6	26.6	26.6
OLREV revenue adjustment CRC 3A Prices -21.3				
additions adjustment CRC 3A Prices Revision Revision				
RIREV RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment CRC 3A Prices -4.2	- N.	1-	NI -	NI -
/ debt interest costs CRC 3C Nominal Revision R	o No sion Revision	ision R	No Revision	No Revision
trigger events Prices Revision	o No sion Revision		No Revision	No Revision
LTPG Legacy general tax pool adjustment CRC 3A				
LTPS Legacy special tax pool adjustment CRC 3A				
LTPD Deferred Revenue Expenditure pre-RIIO movement adjustment adjustment CRC 3A Nominal Revision Revision				
LTPC DRE: Gross capex adjustment CRC 3A				
	arch 31 March 20 2021		1 March 2022	31 March 2023
Incremental Legacy Adjustments used to calculate OLREV fm 12/13				
Prices Prices -0.3				
PPF PPF Levy Chapter 15 Prices 0.0				
TCB Tax Clawback Chapter 15 Prices 0.0				
Tax True-Up Chapter 15 Prices -8.3				
DGS Distributed Generation for DPCRS Chapter 15 Prices -4.0				
BDC Bad Debts Chapter 15 Prices 0.0				
IMA Traffic Management Act Chapter 15 Prices 0.0 Undergrounding & Worst Served Customers Fm 12/13				
Improvements Chapter 15 Prices 6m 12/13				
LRR Load Related Reopener Chapter 15 Prices -8.6				
HVC High Volume Low Cost Connections Chapter 15 Prices Fm 12/13				
HVP High Value Projects Chapter 15 Prices 0.0				
EPS Ennanced Physical Site Security Chapter 15 Prices Fm 12/13				
RLM Rising & Lateral Mains Chapter 15 Prices 0.0				
SHET Shetland Chapter 15 Prices 0.0				
FLD Flood Prevention (SSEH Only) Chapter 15 Prices Incremental Legacy Adjustments used to calculate OLRAV 0.0				
RAV RAV Additions Chapter 15 Chapter 15 Frices -0.1 -4.1				
Incremental Legacy Adjustments used to calculate RIREV fm 12/13				
RRI RRI Revenue Adjustment Chapter 16 Fm 12/13 Prices -3.7				
RRI RLM Adjustment Chapter 16 Prices				
RRI WFR Adjustment Chapter 16 Chapter 16 Fm 12/13 Prices -0.6				

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

				Regulatory Year Ending									
Variable Name	Special Condition	Price Base / Units	Term	31 March	31 March	31 March		31 March		31 March		31 March	31 March
Allowed percentage cost of corporate debt	CRC 3C	Annual Real %	CDE	2014	2015	2016	2017 2. 4 2%	2018 2.29%	2019 2.19 %	2020 2.19 %	2021 2.19 %	2022 2.19 %	2023 2.19 %
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			23.5	19.1	-	_,,,	-			
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			71.4	72.1	_	_	_	-	-	_
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			16.2	17.8	_	_	_	-	-	_
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			18.6	19.9	_		_	_	_	_
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			9.9	10.0	_	_	_	_	_	_
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			9.6	19.5	_	_	_	_	_	_
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			75.9	78.6	_	_	_	_	_	_
Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS			0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 prices	UCHVP			_	_	_	_	_	-	_	_
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			0.2	0.2	-	-	-	-	-	-
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			_	_	-	-	-	-	-	_
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			0.4	2.3	1.5	1.8	1.8	1.1	-	-
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			_	-	-	-	-	-	-	-
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			28.0	23.6	19.8	15.6	14.3	23.0	23.7	18.0
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			27.7	27.7	27.7	26.6	26.6	26.6	26.6	26.6
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			(21.3)							
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	(0.1)	(4.1)								
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV			(4.2)							
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	(8.5)	(9.9)								
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	(5.5)	(4.2)								
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	-	-								
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	-	-								