## To the Company Secretary:

Western Power Distribution (West Midlands) plc

Company Number: 03600574

## DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO WESTERN POWER DISTRIBUTION (WEST MIDLANDS) 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. Western Power Distribution (West Midlands) 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 and UCSSW;
- 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;
- CRC 3J (Allowed expenditure on Visual Amenity Projects) in respect of VAA values; and
- CRC 3K (Rail electrification adjustments) in respect to RE 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 -£7.6m.

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

PECR   Special Condition   C		WMID					1		Regulatory					
Column			•	_	31 March	31 March				31 March	31 March			31 March
Mathematical Control   Property	CDE					2015								
Mathematic   Mat														
Manuscrip   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000   10,000		· ·		Prices			Revision		Revision	Revision	Revision	Revision	Revision	Revision
Mathematical   Minimum	ANLR	·		Prices			Revision		Revision	Revision	Revision	Revision	Revision	Revision
Mathematical   Math	ANLO	Actual non-load related capex - other	CRC 3B	Prices				13.8	Revision	Revision	Revision	Revision	Revision	Revision
Many   Control	AFE	Actual faults expenditure	CRC 3B	Prices				36.9	Revision	Revision	Revision	Revision	Revision	Revision
Mary	TRE	Actual tree cutting	CRC 3B	Prices			Revision	16.8	Revision	Revision	Revision	Revision	Revision	Revision
Mathematical   Math	ARP	Actual 100% 'revenue pool' expenditure	CRC 3B	Prices				27.3		Revision		Revision	Revision	
Mary   Supplies   Mary   Mar	ACO	Actual controllable opex expenditure	CRC 3B	-			93.5	90.7						
March   Marc	UCEPS	·	CRC 3F	_										
Manual Control	UCHVP	Allowed Expenditure - High Value Projects	CRC 3F	_										No Revision
March	VAA	Allowed Expenditure - Visual Amenity Projects	CRC 3J	£m 12/13				0.4						
Manual	WSCC	•	CRC 3H	£m 12/13			No	0.1	No	No	No	No	No	No
March   Paper   Pape			CRC 3E	£m 12/13			No	1.5	No	No	No	No	No	No
Mode   Propendition   1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1							No	No	No	No	No	No	No	No
Mathematical   Math							No	No	No	No	No	No	No	
Market   M		·												Revision No
Mathieum		<u> </u>		Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
Mate   Secondary   Mate   Secondary   Mate	UCRE	Costs	CRC 3F	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
Mathematical particular prince control allowed provided and provided	IRM	Mechanism	CRC 3D	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
March   Marc	EDE	adjustment	CRC 3C	Prices			Revision							Revision
Mathems againstrance   Mathems againstrance   Mathems	OLREV	revenue adjustment	CRC 3A	Prices										
Control   Cont	OLRAV	- , , ,	CRC 3A	_				-						
Part   Description   Company   Com	RIREV		CRC 3A	-										
Professor   Prof	TGIE		CRC 3C											
The   Desproy general tax pool adjustment	TTE		CRC 3C	-										
Control   Cont	LTPG		CRC 3A	£m					<b>!</b>					
Deferred Revenue Legacy Adjustment   CRC 34   Seminaria   Revision   Procession	LTPS	Legacy special tax pool adjustment	CRC 3A	£m	No	No								
The	LTPD	·	CRC 3A	£m	No	No								
Min	LTPC	·	CRC 3A	£m	No	No								
Marie   Mari				Nominal			24 Manuah	24 Manak	24 Manual	24 M	24 M	24 Manuals	24 M	24 Manak
Persion True-Up			Handbook	Price Base										
PFF   PFF Levy	PTU			-			0.3	]						
TCB		· · · · · · · · · · · · · · · · · · ·												
Tax   Tax True-Up		·												
18x   18x   17x   19x				Prices										
Distributed Generation for DPCRS		<u> </u>		Prices										
HOLE Bad bebts Chapter 15 Prices Fine 12/13 Prices UWS Improvements LOAD Related Reopener Chapter 15 Em 12/13 Prices HWC High Volume Low Cost Connections Chapter 15 Em 12/13 Prices HWC High Value Projects Chapter 15 Em 12/13 Prices Em 12/			Chapter 15	Prices										
UMA Iranic Management Act Undergrounding & Worst Served Customers Improvements Impr	BDC	Bad Debts	Chapter 15	Prices			0.0							
Mark	ТМА		Chapter 15	Prices			0.0							
HVC High Volume Low Cost Connections  Chapter 15 Prices   fm 12/13   Prices   HVP High Value Projects  Enhanced Physical Site Security  Chapter 15   fm 12/13   Prices   Enhanced Physical Site Security  Chapter 15   fm 12/13   Prices   Enhanced Physical Site Security  Chapter 15   fm 12/13   Prices   Enhanced Physical Site Security  Chapter 15   fm 12/13   Prices   Enhanced Physical Site Security  Chapter 15   fm 12/13   Prices   Enhanced Physical Site Security  Chapter 15   fm 12/13   Prices   Ent 12/13   Pr	UWS		Chapter 15	Prices			0.3							
HVC High Volume Low Cost Connections Chapter 15 Prices HVP High Value Projects Chapter 15 Frices EPS Enhanced Physical Site Security Chapter 15 Frices RLM Rising & Lateral Mains Chapter 15 Frices FM 12/13 Prices  FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13 Prices FM 12/13	LRR	Load Related Reopener	Chapter 15				0.0							
HVP High Value Projects  Chapter 15	HVC	High Volume Low Cost Connections	Chapter 15	-			-0.7							
EPS Enhanced Physical Site Security  RLM Rising & Lateral Mains  Chapter 15 Fm 12/13 Prices  Fm 12/13 Prices	HVP	High Value Projects	Chapter 15	£m 12/13			0.0							
RLM Rising & Lateral Mains  Chapter 15	EPS	Enhanced Physical Site Security	Chapter 15	£m 12/13			0.0							
SHET Shetland Chapter 15 Frices Fm 12/13 Prices  FLD Flood Prevention (SSEH Only) Chapter 15 Fm 12/13 Prices  Incremental Legacy Adjustments used to calculate OLRAV  RAV RAV Additions Chapter 15 Fm 12/13 Prices  Incremental Legacy Adjustments used to calculate RIREV  RRI RRI Revenue Adjustment Chapter 16 Fm 12/13 Prices  RRI RRI RLM Adjustment Chapter 16 Fm 12/13 Prices  RRI RRI RLM Adjustment Chapter 16 Fm 12/13 Prices  RRI RRI RLM Adjustment Chapter 16 Fm 12/13 Prices  RRI WER Adjustment Chapter 16 Fm 12/13 Prices  RRI WER Adjustment Chapter 16 Fm 12/13 Prices  RRI WER Adjustment Chapter 16 Fm 12/13 Prices	RLM	Rising & Lateral Mains	Chapter 15	£m 12/13			0.0							
FLD Flood Prevention (SSEH Only)  Chapter 15 Fm 12/13 Prices  Incremental Legacy Adjustments used to calculate OLRAV  RAV Additions  Chapter 15 Fm 12/13 Prices  Incremental Legacy Adjustments used to calculate RIREV  RRI RRI Revenue Adjustment  Chapter 16 Fm 12/13 Prices  Fm 12/13 Prices  -1.2 30.3  -1.4.0  RRI RRI RRI RLM Adjustment  Chapter 16 Fm 12/13 Prices  -14.0  RRI RRI RRI RRI RRI RRI MAdjustment  Chapter 16 Fm 12/13 Prices  -1.0 0.0		-		£m 12/13										
Incremental Legacy Adjustments used to calculate OLRAV  RAV RAV Additions  Chapter 15				£m 12/13										
RAV Additions Chapter 15 Prices -1.2 30.3  Incremental Legacy Adjustments used to calculate RIREV  RRI RRI Revenue Adjustment Chapter 16 Fm 12/13 Prices  RRI RLM Adjustment Chapter 16 Fm 12/13 Prices  RRI WER Adjustment Chapter 16 Fm 12/13 Prices  RRI WER Adjustment Chapter 16 Fm 12/13 Prices  -1.2 30.3  -1.2 30.3  -1.2 0.0	,		•	Prices										
Incremental Legacy Adjustments used to calculate RIREV  RRI RRI Revenue Adjustment  Chapter 16	RAV	RAV Additions	Chapter 15		-1.2	30.3								
RRI RLM RRI RLM Adjustment  Chapter 16 Prices  Fin 12/13 Prices  RRI WER Adjustment  Chapter 16 Em 12/13 Prices  -14.0  0.0								]						
RRI RLM Adjustment Chapter 16 Prices 0.0  RRI WER Adjustment Chapter 16 fm 12/13 -0.9		<u> </u>	•	Prices										
RRI WER TRRI WER Adjustment	RRI RLM	RRI RLM Adjustment	Chapter 16	Prices			0.0							
	RRI WFR	RRI WFR Adjustment	Chapter 16	-			-0.9							

## 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		I.	2.55%	2.38%	2.22%	2.03%	2.03%	2.03%	2.03%	2.03%
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			32.0	16.6	-	-	-	-	-	-
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			86.9	93.1	-	-	-	-	-	-
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			10.6	13.8	-	-	-	-	-	-
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			42.5	36.9	-	-	-	-	-	-
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			13.9	16.8	-	-	-	-	-	-
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			14.5	27.3	-	-	-	-	-	-
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			93.5	90.7	-	-	-	-	-	-
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			-	-	-	-	-	-	-	-
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			0.6	0.4	-	-	-	-	-	-
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			0.1	0.1	-	-	-	-	-	-
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			0.2	1.5	1.9	2.3	2.3	1.6	-	-
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			-	-	-	-	-	-	-	-
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			23.7	24.6	23.4	27.8	30.1	27.2	31.1	35.3
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			32.6	32.6	32.6	32.6	32.6	32.6	32.6	32.6
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			6.2							
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	(1.2)	30.3		_						
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			-	-	-	-	-	-	-	-
Legacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	(19.5)	(1.7)								
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	30.7	37.0								
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	8.0	6.4								
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	6.7	3.7								