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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)
Electricity North West Ltd (ENWL)
Northern Powergrid (Northeast) Ltd (NPgN)
Northern Powergrid (Yorkshire) plc (NPgY)
London Power Networks plc (LPN)
South Eastern Power Networks plc (SPN)
Eastern Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)
Scottish Hydro Electric Power Distribution plc (SSEH)
Southern Electric Power Distribution plc (SSES)

Notice 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 with respect to the revision of allowed expenditure for Link Box Costs following the Mid-period review decision.

1. Each of the companies to whom this Notice 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. Charge Restriction Condition (CRC) 4A (Governance of ED1 Price Control Financial Instruments) of the Electricity Distribution Licence establishes the circumstances in which the Gas and Electricity Markets Authority ('the Authority')¹, by way of direction, can make changes to the ED1 Price Control Financial Model ('the Model').
3. Part A of CRC 4A sets out the process the Authority will follow in order to assess the likely impact of an intended modification and Part B of CRC 4A sets out the circumstances in which a modification may be made.
4. In accordance with CRC 4A.9, the Authority hereby gives notice to the licensees that it proposes to modify the Model in the manner indicated in Table 1 in this Notice.

Table 1 – Location of modifications within the Model

Nature of Modification	Sheet reference	Cell reference
Inclusion of allocation percentages to allocate the £23.4m allowed expenditure in respect of Link Box Costs to "Non-load related capex – asset replacement" such that this amount is	SPMW	AL208:AQ2 208

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.

picked up by the calculations in the Model and fed through to allowed revenue.		
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5. In 2017, Ofgem made a decision to revise SPMW's allowed expenditure in respect of Link Box Costs, by an additional £23.4m.² The decision was made following a consultation with all stakeholders and the additional allowed expenditure was intended to be implemented in the version ED1-Price Control Financial Model published on 30 November 2018, following the Annual Iteration Process 2018.
6. Whilst the allowed expenditure of £23.4m was correctly reflected within the Model published on 30 November 2018, the allocation percentages required to feed this expenditure through the Model were not updated. As such, the additional allowed expenditure was not recognised in SPMW's allowed revenue in that period.
7. The Authority considers that it is necessary to modify the Model in the manner indicated, in order to facilitate the recognition of SPMW's revised allowed expenditure in respect of the agreed Link Box Costs, in its allowed revenue.
8. We have agreed with SPMW that the £23.4m allowed expenditure in respect of Link Box Costs should be 100% allocated to the "*Non-load related capex – asset replacement*" category to ensure consistency with how the costs are recorded in the Cost and Volume RRP.
9. It is the view of the Authority that the inclusion of allocation percentages for pre-existing Link Box Cost expenditure is not likely to have a significant impact on any of the persons mentioned in CRC 4A.4. This proposed modification serves to correct a manifest error contained in the ED1 Price Control Financial Model and is therefore not considered a significant modification under CRC 4A.6
10. This proposed modification has been agreed by SPMW and the Authority. Furthermore, the modification will have no impact on the other licensees and has been agreed at the latest ED1 Price Control Financial Model Working Group meeting, held on 29 July 2019, the minutes of which are in the attached appendix, published alongside this notice.
11. The Authority proposes that these modifications will come into effect on 06 September 2019. This falls within the normal cut-off date for functional changes to the Model, that being 30 September (paragraph 1.16(a) of the Fast Track and Slow Track Financial Handbooks).³
12. Any representations to the proposed modifications should be made on or before 04 September 2019 either in writing to the Regulatory Finance team at Ofgem, 10 South Colonnade, Canary Wharf, London E14 4PU, or by email to RegFinance@ofgem.gov.uk.
13. Unless you mark your response confidential, we will publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.
14. If the information you give in your response contains personal data under the General Data Protection Regulations 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its

² https://www.ofgem.gov.uk/system/files/docs/2017/11/decision_link_boxes_0.pdf

³ https://www.ofgem.gov.uk/system/files/docs/2017/08/ed1_handbook_v4_fasttrack_0.pdf

statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

15. We prefer to receive responses in electronic form so we can more easily place them on our website.



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Steve McMahon
Deputy Director, Electricity Distribution and Cross Sector Policy
Duly Authorised on behalf of the Gas and Electricity Markets Authority
06 August 2019