

**To:**

**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)**

**Electricity Act 1989**  
**Section 11A**

**Decision on statutory consultation to make modifications to the ED1 Price Control  
Financial Instruments with respect to the Shetland Extended Interim Energy  
Solution**

1. Each of the companies to whom this decision 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 Act.
2. On 25 July 2019 the Gas and Electricity Markets Authority (the 'Authority')<sup>1</sup> gave notice ('the Notice') under section 11A(2) of the Electricity Act 1989 ('the Act') of proposed modifications to the ED1 Price Control Financial Model ('Financial Model') and the ED1 Price Control Financial Handbook ('Financial Handbook'), as defined in Charge Restriction Condition 1B (Interpretation of Part 4) of the Electricity Distribution Licence.
3. The Notice also specified a date for any representations on the proposed modifications to be made on or before 23 August 2019.
4. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b)(ii) of the Act, and we have not received a direction that the change should not be made.
5. We received one response to the Notice, which we have published on our website accompanying this decision. Having carefully considered the response received to the Notice, we have decided to proceed with the modifications to the Financial Model and Financial Handbook in the manner proposed in our consultation and to

---

<sup>1</sup> 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.

additionally reflect some of the minor amendments suggested by SHEPD in its consultation response.<sup>2</sup>

6. The Authority has decided to modify the Price Control Financial Instruments in the manner indicated in the letter accompanying this decision and the accompanying documents to give effect to our decision on allowed costs for Scottish Hydro Electric Power Distribution (SHEPD) relating to the Shetland Extended Interim Energy Solution.<sup>3</sup>
7. The effect of these proposed modifications is to introduce the new Variable Values in both the Financial Model and Handbook to ensure that SHEPD can recover the costs associated with the Extended Interim Energy Solution for Shetland from 2019/20 to 2022/23, along with the ex-ante cost allowances set out for each term. The modification to the Financial Model will increase SHEPD's variant allowed costs by a total of £85.4 million over the regulatory periods from 2019/20 to 2022/23.
8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules<sup>4</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The attached Schedule provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.
9. Under the power set out in section 11A of the Act, we hereby modify the ED1 Price Control Financial Instruments in the manner specified in the attached documents. This decision will take effect on 2<sup>nd</sup> November 2019.
10. This document is the notice of reasons for the decision to modify the Electricity Distribution licence held by the above licensees as required by section 49A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of**

**Steve McMahon**



.....  
**Deputy Director, Electricity Distribution and Cross Sector Policy**  
**Duly Authorised on behalf of the Gas and Electricity Markets Authority**  
**06 September 2019**

<sup>2</sup> Please refer to Appendix 1 in the decision letter published alongside this document for a summary of the changes that SHEPD proposed in its consultation response, and an explanation of which of these proposed amendments have been incorporated.

<sup>3</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/10/shetland\\_interim\\_solution\\_-\\_licence\\_decision\\_-\\_ls\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/10/shetland_interim_solution_-_licence_decision_-_ls_0.pdf)

<sup>4</sup> The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.

## SCHEDULE

### Relevant Licence Holders<sup>5</sup>

Licensee	Company Number
Scottish Hydro Electric Power Distribution Plc	SC213460

---

<sup>5</sup> A full list of all Electricity licence holders can be found at: <https://www.ofgem.gov.uk/publications-and-updates/list-all-electricity-licensees-including-suppliers>