

**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)**

**Direction under paragraph 4A.12 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. In accordance with paragraph 4A.9 of Charge Restriction Condition (CRC) 4A (Governance of ED1 Price Control Financial Instruments) of the Electricity Distribution Licence, the Gas and Electricity Markets Authority (the 'Authority')<sup>1</sup>, gave notice on 06 August 2019 ('the Notice') of proposed modifications to the ED1 Price Control Financial Model ('the Model'), and specified the date from which it proposed these modifications should take effect as 06 September 2019. The notice also specified the date for any representations on the proposed modifications to be made on or before 04 September 2019.
3. We received no representations in response to the Notice, prior to the close of the above mentioned period.
4. Part A of SC 4A sets out the assessment process of the likely impact of an intended modification and Part B of SC 4A sets out the circumstances in which a modification may be made.
5. The reason the Authority has decided to modify the Model in the manner indicated in Table 1 (below) in this Direction, is to facilitate the allowed expenditure for Link Box Costs to feed through to SPMW's allowed revenue. This decision follows a decision

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<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.

we made in 2017 to revise SPMW's allowed expenditure in respect of Link Box Costs by an additional £23.4m.<sup>2</sup>

6. 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.
7. In accordance with paragraph 4A.12 of CRC 4A, we hereby direct that the modifications in Table 1 in this Direction are made to the Model. These modifications are to have effect from the date of this Direction.

**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 picked up by the calculations in the Model and fed through to allowed revenue.	SPMW	AL208:AQ2 208



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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 September 2019**

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/11/decision\\_link\\_boxes\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/11/decision_link_boxes_0.pdf)