To the Company Secretary:

London Power Networks plc Company Number: 03929195

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO LONDON POWER NETWORKS 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)

Making a positive difference for energy consumers

WHEREAS

- 1. London Power Networks 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 CRC 1B (Interpretation of Part 4) of the licence and references to Regulatory Year t-1 are to be construed accordingly; and
- (b) Regulatory Year t is the Regulatory Year that commences on 1 April 2020 and ends on 31 March 2021 ('Regulatory Year 2020/21').
- 3. CRC 4B (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 CRC 4A (Governance of ED1 Price Control Financial Instruments) of the licence:
- CRC 3A (Legacy price control adjustments) in respect of LTPG, LTPS, 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 (The 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 CRC 1B). The Annual Iteration Process is used to calculate the value of the term MOD for the purposes of the formula specified in CRC 2A (Restriction of Allowed Distribution Network Revenue).
- 7. In accordance with requirements set out in the Special Conditions referred to in paragraph 4, on 11 November 2019 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November 2019 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 2020/21 is to take the value -£17.2m.

Schedule 2 to these directions shows the complete PCFM Variable Values Table 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.

Steve McMahon

Deputy Director, Network Price Controls

Duly authorised on behalf of the Gas and Electricity Markets Authority 29 November 2019

SCHEDULE 1 TO THE AUTHORITY'S DIRECTIONS - REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except CDE shown to 2 d.p.)

LPN				Regulatory Year Ending DPCR5 Legacy RIIO-ED1											
PCFM Variable Value		Special	Price Base /	31 March		31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March		
		Condition	Units Annual Real	2014	2015	2016 No	2017 No	2018 No	2019 No	2020 No	2021	2022	2023		
CDE	Allowed percentage cost of corporate debt	CRC 3C	%			Revision	Revision	Revision	Revision	Revision	1.78%	1.78%	1.78%		
ALC	Actual load-related capex expenditure	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	21.4	No Revision	No Revision	No Revision	No Revision		
ANLR	Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	43.7	No Revision	No Revision	No Revision	No Revision		
ANLO	Actual non-load related capex - other	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	12.9	No Revision	No Revision	No Revision	No Revision		
AFE	Actual faults expenditure	CRC 3B	£m 12/13			No	No	No	25.8	No	No	No	No		
TRE	Actual tree cutting	CRC 3B	Prices £m 12/13			Revision No	Revision No	Revision No	No	Revision No	Revision No	Revision No	Revision No		
	-		Prices £m 12/13			Revision No	Revision No	Revision No	Revision	Revision No	Revision No	Revision No	Revision No		
ARP	Actual 100% 'revenue pool' expenditure	CRC 3B	Prices			Revision	Revision	Revision	11.2	Revision	Revision	Revision	Revision		
ACO	Actual controllable opex expenditure	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	82.4	No Revision	No Revision	No Revision	No Revision		
UCEPS	Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
UCHVP	Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
VAA	Allowed Expenditure - Visual Amenity Projects	CRC 3J	£m 12/13			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
WSCC	Allowed Expenditure - Worst Served Customer	CRC 3H	Prices £m 12/13			No	No	No	No	No	No	No	No		
SMAE	Projects	CRC 3E	Prices £m 12/13			Revision No	Revision No	Revision No	Revision 1.9	Revision No	Revision No	Revision No	Revision No		
	Allowed Expenditure - Smart Meter Roll-out costs		Prices £m 12/13			Revision No	Revision No	Revision No	No	Revision No	Revision No	Revision No	Revision No		
UCSSW	Allowed Expenditure - Specified Street Works	CRC 3F	Prices fm 12/13			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision		
LRRC	Allowed Expenditure - Load Related	CRC 3G	Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
RE	Allowed Expenditure - Rail Electrification (WPD)	CRC 3K	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
UCMC	Allowed Expenditure - Moorside Costs	CRC 3L	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
UCSFE	Allowed Expenditure - Shetland Uncertain Energy (SSEH)	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No	No Revision		
UCCPC	Allowed Expenditure - Shetland Competitive Process	CRC 3F	£m 12/13			No	No	No	No	No	No	No	No		
UCLB	(SSEH) Allowed Expenditure - Link Boxes	CRC 3F	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No		
			Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No		
UCSC	Allowed Expenditure - Subsea Cables (SSEH)	CRC 3F	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision		
UCRE	Allowed Expenditure - Uncertain Rail Electrification Costs	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
IRM	Allowed Expenditure - Innovation Roll-out Mechanism	CRC 3D	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
UCSEFEC	Allowed Expenditure - Shetland Extension Fixed Energy Costs (SSEH)	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
UCSESPC	Allowed Expenditure - Shetland Enduring Solution	CRC 3F	£m 12/13			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
UCSEBC	Process Costs (SSEH) Allowed Expenditure - Shetland Extension Battery	CRC 3F	Prices £m 12/13			No	No	No	No	No	No	No	No		
EDE	Costs (SSEH) Pension Scheme Established Deficit revenue	CRC 3C	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No		
	adjustment Other legacy adjustments' price control allowed		Prices £m 12/13			Revision No	Revision	Revision	Revision	Revision	Revision	Revision	Revision		
OLREV	revenue adjustment Other legacy adjustments' price control RAV	CRC 3A	Prices	N		Revision									
OLRAV	additions adjustment	CRC 3A	£m 12/13 Prices	No Revision	No Revision		1								
RIREV	RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 Prices			No Revision									
TGIE	Tax liability revenue allowance adjustments - gearing / debt interest costs	CRC 3C	£m Nominal			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision		
TTE	Tax liability revenue allowance adjustments - tax	CRC 3C	£m 12/13			No Revision	No Revision	No Revision	No Revision	0.4	No Revision	No Revision	No Revision		
LTPG	trigger events Legacy general tax pool adjustment	CRC 3A	Prices £m Nominal	No	No	REVISION	REVISION	Revision	REVISION	I	REVISION	REVISION	REVISION		
LTPS				Revision No	Revision No										
	Legacy special tax pool adjustment Deferred Revenue Expenditure pre-RIIO movement	CRC 3A	£m Nominal	Revision No	Revision No										
LTPD	adjustment	CRC 3A	£m Nominal	Revision	Revision No										
LTPC	DRE: Gross capex adjustment	CRC 3A	£m Nominal	Revision	Revision										
	LPN	Financial	Price Base	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March		
	Incremental Legacy Adjustments used to calcula	Handbook te OLREV		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
PTU	Pension True-Up	Chapter 15	£m 12/13 Prices			0.5									
PPF	PPF Levy	Chapter 15	£m 12/13 Prices			0.0									
тсв	Tax Clawback	Chapter 15	£m 12/13 Prices			0.0									
Тах	Tax True-Up	Chapter 15	£m 12/13			10.7									
DG5	Distributed Generation for DPCR5	Chapter 15	Prices £m 12/13			0.1									
			Prices £m 12/13			-									
BDC	Bad Debts	Chapter 15	Prices £m 12/13			0.0									
TMA	Traffic Management Act	Chapter 15	Prices			-7.0									
UWS	Undergrounding & Worst Served Customers Improvements	Chapter 15	£m 12/13 Prices			0.0									
LRR	Load Related Reopener	Chapter 15	£m 12/13 Prices			0.0									
HVC	High Volume Low Cost Connections	Chapter 15	£m 12/13 Prices			-0.4									
HVP	High Value Projects	Chapter 15	£m 12/13			0.0									
EPS	Enhanced Physical Site Security	Chapter 15	Prices £m 12/13			0.0									
RLM			Prices £m 12/13												
	Rising & Lateral Mains	Chapter 15	Prices £m 12/13			0.0									
SHET	Shetland	Chapter 15	Prices			0.0									
FLD	Flood Prevention (SSEH Only)	Chapter 15	£m 12/13 Prices			0.0									
DAY	Incremental Legacy Adjustments used to calcula		£m 12/13	0.9	-45.7										
RAV	RAV Additions Incremental Legacy Adjustments used to calcula	Chapter 15 Ite RIREV	Prices	0.9	-45./]									
RRI	RRI Revenue Adjustment	Chapter 16	£m 12/13			12.1									
RRI RLM	RRI RLM Adjustment	Chapter 16	Prices £m 12/13			0.0									
			Prices £m 12/13												
RRI WFR	RRI WFR Adjustment	Chapter 16	Prices			-0.6									

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

				Regulatory Year Ending									
Variable Name		Price Base / Units	Term		31 March		31 March	31 March					
				2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Allowed percentage cost of corporate debt	CRC 3C	Annual Real %	CDE			2.55%	2.42%	2.29%	2.09%	1.94%	1.78%	1.78%	1.78%
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			23.5	36.2	35.5	21.4	•	-	-	-
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			32.2	34.0	42.7	43.7	-	-	-	-
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			14.7	13.4	12.2	12.9	-	-	-	-
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			29.0	25.0	26.3	25.8	•	•	-	-
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			(0.0)	-	-	-	-	-	-	-
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			10.0	8.7	10.7	11.2	•	-	-	-
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			68.8	73.4	81.8	82.4	•	•	-	-
Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS			•	0.5	-	-	•	•	-	-
Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 prices	UCHVP			11.0	9.6	14.8	16.3	14.7	8.0	7.6	5.8
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			-	-	-	-	-	-	-	-
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			0.8	1.8	1.7	1.9	2.9	2.2	-	-
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			-	-	-	-	-	-	-	-
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			45.7	42.5	46.0	41.9	48.0	46.8	41.0	40.2
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			-							-
Allowed Expenditure - Shetland Extension Fixed Energy Costs (SSEH)	CRC 3F	£m 12/13 prices	UCSEFEC			-			-		-		-
Allowed Expenditure - Shetland Enduring Solution Process Costs (SSEH)	CRC 3F	£m 12/13 prices	UCSESPC			-			-		-		-
Allowed Expenditure - Shetland Extension Battery Costs (SSEH)	CRC 3F	£m 12/13 prices	UCSEBC			-	-		-			-	-
Pension Scheme Established Deficit revenue adjustment	CRC 3C	£m 12/13 prices	EDE			39.8	39.8	39.8	36.9	37.1	36.9	23.6	23.1
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			4.0							
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	0.9	(45.7)								
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV		(,	11.4							
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							0.4			
Legacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	9.5	8.7					•••			
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	(18.2)	(64.5)								
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	(4.2)	(6.3)								
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	(4.2)	(6.5)								
Dre. Gloss tapex aujustilient	CITC SA	LIII NUIIIIIdi	LIPC	(4.2)	(0.5)								