

To the Company Secretary:

Southern Electric Power Distribution plc
Company Number: 04094290

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SOUTHERN ELECTRIC POWER DISTRIBUTION 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. Southern Electric Power Distribution 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, LTPE, 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 -£26.1m.

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

