

To the Company Secretary:

Western Power Distribution (East Midlands) plc Company Number: 02366923

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO WESTERN POWER DISTRIBUTION (EAST MIDLANDS) 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. Western Power Distribution (East Midlands) 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 and UCSSW;
- 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;
- CRC 3J (Allowed expenditure on Visual Amenity Projects) in respect of VAA values; and
- CRC 3K (Rail electrification adjustments) in respect to RE 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 -£17.4m.

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

	ALC ANLR ANLO AFE	Allowed percentage cost of corporate debt Actual load-related capex expenditure	CRC 3C	Units Annual Real %			2016 No	2017 No	2018 No	2019 No	2020 No	2021	2022	31 Marc 2023 1.09%
100 10	ALC ANLR ANLO AFE	Actual load-related capex expenditure		%								1.09%	1.09%	1.09%
Mathematical Ma	ANLO AFE		CRC 3B				Ne	No				Na	Nie	No
Management	ANLO AFE	Actual non-load related capex expenditure - asset					Revision	Revision	31.9	24.1	Revision	Revision	Revision	Revision
Mathematical Sum S	AFE		CRC 3B						75.8	56.2				
Mathematical Math		Actual non-load related capex - other	CRC 3B							8.1				
Mathematical 1908 1908 1909	TRF	Actual faults expenditure	CRC 3B							32.8				
Mathematical Color Part		Actual tree cutting	CRC 3B	£m 12/13			No	No	No	8.0	No	No	No	No
Mathematical Math	ARP	Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13			No	No		11.4	No	No	No	No
Marie														
Month Mont														
Many	UCEPS		CRC 3F	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
Mathematical Math	UCHVP	Allowed Expenditure - High Value Projects	CRC 3F	Prices			Revision	Revision	Revision		Revision	Revision	Revision	Revision
Ministry	VAA	Allowed Expenditure - Visual Amenity Projects	CRC 3J							0.0				
Marie Mari	WSCC		CRC 3H											
Mathematical part	SMAE	Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E							2.2				
Marie Propriess	UCSSW	Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13						1.2				
Manual M	LRRC	Allowed Expenditure - Load Related	CRC 3G	£m 12/13										
Manual Superdinum - November Colors				£m 12/13			No	No	No	No	No	No	No	No
Marcial Parallelium Noberlium Confession (1998) 1975														
Minimage				Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
Mathematical Math	UCSFE	(SSEH)	CRC 3F	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
Marcial Parcial Parc	UCCPC		CRC 3F	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
Many Marche Mercal Mer	UCLB	Allowed Expenditure - Link Boxes	CRC 3F											
Mode Continue Mode Continue Mode Continue Mode Continue Mode Continue Mode M	UCSC	Allowed Expenditure - Subsea Cables (SSEH)	CRC 3F											
Manufacture	UCRE		CRC 3F	£m 12/13			No	No	No	No	No	No	No	No
Monte Composition Section Se	IRM	Allowed Expenditure - Innovation Roll-out	CRC 3D	£m 12/13			No	No	No	No	No	No	No	No
Market M	LICSEEEC		CRC 3F											
March Control Contro														
Section Content Cont														
Signature of the part of signature of the pa	UCSEBC	Costs (SSEH)	CRC 3F	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
Name	EDE	adjustment	CRC 3C	Prices			Revision							
Mathitus algustment Mathitus	OLREV	revenue adjustment	CRC 3A	Prices										
Marcon M	OLRAV		CRC 3A											
Total ballety reversue allowance adjustments - gaaring	RIREV	RAV Rolling Incentive legacy adjustments' price	CRC 3A	£m 12/13										
The continue of the continue	TGIE	Tax liability revenue allowance adjustments - gearing	CRC 3C											
Price Pric	TTF		CRC 3C	£m 12/13			No	No	No	No		No	No	No
CR CR CR CR CR CR CR CR					No	No	Revision	Revision	Revision	Revision		Revision	Revision	Revision
Life Description of part of the content of the														
Revision	LTPS	· · · · ·	CRC 3A	£m Nominal	Revision	Revision								
EMID	LTPD		CRC 3A	£m Nominal	Revision	Revision								
Mandbook Mile Sale 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023	LTPC	DRE: Gross capex adjustment	CRC 3A	£m Nominal										
Incremental Legacy Adjustments used to calculate OuRPV Fire		EMID		Price Base										31 Marc
PPF PPF Levy		Incremental Legacy Adjustments used to calcula		Trice base	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
PPF Levy	PTU						-0.1							
Tax Clawback	PPF	PPF Levy	Chapter 15	£m 12/13			0.1							
Tax Tax True-Up	тсв	·	Chapter 15	£m 12/13			0.0							
DGS Distributed Generation for DPCRS Chapter 15 Fm 12/13 Prices BDC Bad Debts Chapter 15 Fm 12/13 Prices TMA Traffic Management Act Chapter 15 Fm 12/13 Prices UMORGY Grounding & Worst Served Customers Improvements LRR Load Related Reopener Chapter 15 Prices HVC High Volume Low Cost Connections Chapter 15 Fm 12/13 Prices HVP High Value Projects Chapter 15 Fm 12/13 Prices EPS Enhanced Physical Site Security Chapter 15 Fm 12/13 Prices EPS Enhanced Physical Site Security Chapter 15 Fm 12/13 Prices HVR Rising & Lateral Mains Chapter 15 Fm 12/13 Prices SHET Shetland Chapter 15 Fm 12/13 Prices Fin D Rood Prevention (SSEH Only) Chapter 15 Prices Incremental Legacy Adjustments used to calculate OLRAV RAV RAV Additions Chapter 16 Fm 12/13 Prices Incremental Legacy Adjustments used to calculate RIREV RRI RRI Revenue Adjustment Chapter 16 Fm 12/13 Prices F				£m 12/13										
December		· · · · · · · · · · · · · · · · · · ·												
TMA Traffic Management Act Chapter 15 Prices UWS Indergrounding & Worst Served Customers Chapter 15 Prices IRR Load Related Reopener Chapter 15 Em 12/13 Prices HVC High Volume Low Cost Connections Chapter 15 Em 12/13 Prices EM 12/13 Prices EM 12/13 Prices HVP High Value Projects Chapter 15 Em 12/13 Prices Incremental Legacy Adjustments used to calculate CIRAV RAV AAV Additions Chapter 15 Em 12/13 Prices Incremental Legacy Adjustments used to calculate RIREV RRI RRI Revenue Adjustment Chapter 16 Em 12/13 Prices EM 12/13 Prices -52.2 RRI RRI RRI RRI MA Adjustment Chapter 16 Em 12/13 Prices Em 12/14 Prices Em 12/1			,	Prices										
UWS Undergrounding & Worst Served Customers Ingrovements Ingrovements Ingrovements Ingrovements Ingrovements Ingrovements Ingrovements Ingrovements Ingrovements Undergrounding &	BDC	Bad Debts	Chapter 15	Prices			0.0							
Uniformer School Related Reopener Chapter 15 Prices Em 12/13 Prices Prices Em 12/13 Prices Em	TMA		Chapter 15	Prices			0.0							
HVC High Volume Low Cost Connections Chapter 15 Prices High Volume Low Cost Connections Chapter 15 Prices HVP High Value Projects Chapter 15 Prices Em 12/13 Prices Em 12/14 Prices Em 12/13 Prices Em 12/14 P	UWS		Chapter 15				0.2							
HVC High Volume Low Cost Connections Chapter 15	LRR	Load Related Reopener	Chapter 15	£m 12/13			0.0							
HVP High Value Projects Chapter 15 Em 12/13 Prices	HVC	High Volume Low Cost Connections	Chapter 15	£m 12/13			0.7							
Prices P	HVP	High Value Projects	Chapter 15	£m 12/13			-4.0							
Prices P	EPS			£m 12/13										
RISING & Lateral Mains														
FLD Flood Prevention (SSEH Only) Incremental Legacy Adjustments used to calculate OLRAV RAV RAV Additions Incremental Legacy Adjustments used to calculate RIREV RRI RRI Revenue Adjustment Chapter 15 Em 12/13 Prices -0.4 84.5 -52.2 RRI RRI RRI RRI Adjustment Chapter 16 Em 12/13 Prices -52.2 RRI RRI RRI Adjustment Chapter 16 Em 12/13 Prices -52.2 -53.2 -54.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2 -55.2		-		Prices										
RAV RAV Additions Chapter 15 Prices	SHET	Shetland	Chapter 15	Prices			0.0							
RAV RAV Additions Chapter 15 prices Em 12/13 prices -0.4 s4.5 84.5 Incremental Legacy Adjustments used to calculate RIREV RRI RRI Revenue Adjustment Chapter 16 prices Em 12/13 prices -52.2 RRI RLM RRI RLM Adjustment Chapter 16 prices Em 12/13 prices 0.0	FLD						0.0							
RRI RRI RLM Adjustment Chapter 15 Prices -0.4 84.5						6:-								
RRI RRI Revenue Adjustment Chapter 16 £m 12/13 Prices -52.2 RRI RLM RRI RLM Adjustment Chapter 16 £m 12/13 Prices 0.0		RAV Additions			-0.4	84.5								
Prices Prices	RAV	Incremental Legacy Adjustments used to calcula	te RIRFV											
KKI KLM ADJUSTMENT Chapter 16 Prices U.U							-52.7							
RRI WFR Adjustment Chapter 16 Em 12/13 -0.8	RRI	RRI Revenue Adjustment	Chapter 16	Prices										

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

						Regulatory Year Ending									
Variable Name	Special Condition	Price Base / Units	Term	31 March	31 March		31 March			31 March			31 March		
Allowed percentage cost of corporate debt	CRC 3C	Annual Real %	CDE	2014	2015	2016 2.55%	2017	2018	2019	2020 1.58%	2021 1.09%	2022 1.09%	2023 1.09%		
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			44.9	32.1	31.9	24.1	1.30%	1.07%	1.07/6	1.07/6		
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			82.0	89.6	75.8	56.2		·				
· · · · · · · · · · · · · · · · · · ·	CRC 3B					8.9	14.1	14.5	8.1	•	-	-	-		
Actual non-load related capex - other Actual faults expenditure	CRC 3B	£m 12/13 prices £m 12/13 prices	ANLO AFE			36.5	33.8	31.4	32.8	•	-	-	-		
•	CRC 3B					9.9	8.2	11.8	8.0	-	-	-	-		
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE ARP			13.2	24.4	2.1	11.4	•	-	-	-		
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ACO			95.0	90.1	88.0	89.2	•	-	-	-		
Actual controllable opex expenditure		£m 12/13 prices				95.0	90.1	88.0	89.2	•	•	•	•		
Allowed Expenditure - Enhanced Physical Site Security	CRC 3F CRC 3F	£m 12/13 prices	UCEPS			•	•	•	•	•	•	•	•		
Allowed Expenditure - High Value Projects		£m 12/13 prices	UCHVP			-	-	•	-	•	•	•	-		
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			0.0	0.0	-	0.0	•	•	•	•		
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			0.2	0.1	0.1	-	-		•	-		
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			0.3	1.4	1.6	2.2	2.2	1.6				
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			0.4	0.6	0.9	1.2	1.1	1.2	1.2	1.2		
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			52.7	46.3	21.0	27.6	25.7	34.1	47.8	41.9		
Allowed Expenditure - Rail Electrification (WPD)	CRC 3K	£m 12/13 prices	RE							•	(3.4)	(3.4)	(3.4)		
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			31.8	31.8	31.8	31.9	31.9	31.9	31.9	31.9		
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			17.1									
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	(0.4)	84.5										
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV			(53.0)									
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			-		-	-	1.2		-	-		
Legacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	(21.1)	(1.2)										
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	44.6	98.6										
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	18.2	(4.7)										
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	17.1	(7.1)										