

## To the Company Secretary:

Western Power Distribution (West Midlands) plc Company Number: 03600574

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO WESTERN POWER DISTRIBUTION (WEST 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 (West 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 -£21.3m.

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

		DCTM Veri 11 11	Special	Price Base /	31 March	Legacy 31 March	31 March	31 March	31 March	RIIO 31 March	31 March	31 March	31 March	31 Marc
100   10		PCFM Variable Value	Condition	Units			2016	2017	2018	2019	2020	2021	2022	2023
Mathematical methods   Mathematical   Mathemati	CDE	Allowed percentage cost of corporate debt	CRC 3C	%			Revision	Revision	Revision		Revision			
Managemen	ALC		CRC 3B	Prices			Revision	Revision		9.9	Revision	Revision	Revision	Revision
Mathematical   Sum   S	ANLR		CRC 3B						78.7	61.7				
Mathematical   Math	ANLO	Actual non-load related capex - other	CRC 3B							10.5				
Mathematical   Signature   S	AFE	Actual faults expenditure	CRC 3B							30.2				
	TRE	Actual tree cutting	CRC 3B	£m 12/13			No	No	No	12.2	No	No	No	No
Mathematical   Math	ARP	Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13			No	No		12.3	No	No	No	No
Marie														
Month   Mont														
Manual   M	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							0.0				
Manual Proposition	SMAE	Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E							2.2				
Marie   Propriess   Property   Marie   Property   Pro	UCSSW	Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13			No	No	No		No	No	No	No
Manual   M	LRRC	Allowed Expenditure - Load Related	CRC 3G	£m 12/13			No	No	No	No	No	No	No	No
Manual Superdinum - November Colors				£m 12/13			No	No	No	No	No	No	No	No
Marcial Parallelium Novimination   No. 10														
Minima   M				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   Marc	UCCPC		CRC 3F	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
Many   March	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	LICSEFEC		CRC 3F											
March   Control   Contro														
Section   Content   Cont														
Signature   Control   Co	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										
Mary Balling Incontive Legislay Julijantemitr   Profession   Color Service   Profession   Prof	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	TTE	Tax liability revenue allowance adjustments - tax	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
LTPO   Deferred Revenue Expenditure pre-BIIO movement   CRC A3   Em Nominal   Nominal   Revision														
Revision	LTPS	* * * * * * * * * * * * * * * * * * * *	CRC 3A	£m Nominal	Revision	Revision								
NAMID   Financial   Financia	LTPD		CRC 3A	£m Nominal	Revision	Revision								
Manual   Manual   Manual   Manual   Miles	LTPC	DRE: Gross capex adjustment	CRC 3A	£m Nominal										
Incremental Legacy Adjustments used to calculate OutPV		WMID		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						0.3							
Tax Clawback   Chapter 15	PPF	PPF Levy	Chapter 15	£m 12/13			0.2							
Tax Tax True-Up Chapter 15	тсв	Tax Clawback	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  RLM Rising & Lateral Mains Chapter 15 Fm 12/13 Prices  SHET Shetland Chapter 15 Fm 12/13 Prices  FID 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				£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 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  -1.4.0 Em 12/13 Prices -1.4.0 Em 12/14 Prices -1.4.0 Em 12/1				Prices										
UWS Undergrounding & Worst Served Customers Ingrovements Ingrov		Bad Debts	,	Prices										
Uniformer School Chapter 15 Prices Em 12/13 Pr	TMA		Chapter 15	Prices			0.0							
LRR   Load Related Reopener   Chapter 15   Em 12/13   Prices   Chapter 16   Chapter 16   Em 12/13   Prices   Chapter 16	UWS		Chapter 15				0.3							
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  EN Enhanced Physical Site Security Chapter 15 Em 12/13 Prices  RLM Rising & Lateral Mains Chapter 15 Em 12/13 Prices  SHET Shetland Chapter 15 Em 12/13 Prices  FLD Flood Prevention (SSEH Only) Chapter 15 Em 12/13 Prices  Incremental Legacy Adjustments used to calculate OLRAV  RAV RAV Additions Chapter 15 Em 12/13 Prices  Incremental Legacy Adjustments used to calculate RIREV  RRI RRI Revenue Adjustment Chapter 16 Em 12/13 Prices  RRI RRI Revenue Adjustment Chapter 16 Em 12/13 Prices  RRI RRI RRI RAW Adjustment Chapter 16 Em 12/13 Prices  Chapter 16 Em 12/13 Prices  -14.0 Prices -14.0	HVC	High Volume Low Cost Connections	Chapter 15	£m 12/13			-0.7							
Prices   P	HVP	High Value Projects	Chapter 15	£m 12/13			0.0							
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  -1.2 30.3  -1.4 0  -14.0  RRI RLM Adjustment  Chapter 16 Em 12/13 prices  -1.4 0		-		Prices										
RAV RAV Additions Chapter 15 Prices  Incremental Legacy Adjustments used to calculate OLRAV  RAV RAV Additions Chapter 15 Fm 12/13 Prices  Incremental Legacy Adjustments used to calculate RIREV  RRI RRI Revenue Adjustment Chapter 16 Fm 12/13 Prices  RRI RRI RLM Adjustment Chapter 16 Fm 12/13 Prices  O.0  -14.0  RRI RLM RRI RLM Adjustment Chapter 16 Fm 12/13 Prices  O.0  -14.0	SHFT	Shetland	Chapter 15	Prices			0.0							
RAV         RAV Additions         Chapter 15 prices         Em 12/13 prices         -1.2 30.3           Incremental Legacy Adjustments used to calculate RIREV         Chapter 16 prices         Em 12/13 prices         -14.0           RRI RRI Revenue Adjustment         Chapter 16 prices         Em 12/13 prices         0.0           RRI RLM Adjustment         Chapter 16 prices         0.0		Flood Prevention (SSEH Only)					0.0							
RRI RLM Adjustment		l .												
RRI         RRI Revenue Adjustment         Chapter 16         £m 12/13 Prices         -14.0           RRI RLM         RRI RLM Adjustment         Chapter 16         £m 12/13 Prices         0.0	FLD			£m 12/13										
Prices     Prices	FLD	RAV Additions	Chapter 15		-1.2	30.3								
Prices 6 6 71/12	FLD	RAV Additions Incremental Legacy Adjustments used to calcula	Chapter 15 te RIREV	Prices £m 12/13	-1.2	30.3	-14.0							
RRI WFR Adjustment Chapter 16 Em 12/13 -0.9	FLD RAV RRI	RAV Additions Incremental Legacy Adjustments used to calcula RRI Revenue Adjustment	Chapter 15 te RIREV Chapter 16	Prices £m 12/13 Prices	-1.2	30.3								

## 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			31 March		
Allowed percentage cost of corporate debt	CRC 3C	Annual Real %	CDE	2014	2015	2016 2.55%	2017 2.38%	2018	2019 1.91%	2020	2021 1.09%	2022 1.09%	2023 1.09%		
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			32.0	16.6	15.4	9.9	1.30%	1.07/0	1.07/0	1.07/6		
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			87.0	93.1	78.7	61.7	•		•	-		
Actual non-load related capex experioritie - asset replacement	CRC 3B	£m 12/13 prices	ANLO			10.6	13.8	19.0	10.5	•		·	•		
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			42.5	36.6	32.5	30.2						
Actual free cutting	CRC 3B	£m 12/13 prices	TRE			13.9	16.8	14.6	12.2		-		_		
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			14.5	27.3	1.9	12.3						
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			93.5	91.1	89.2	89.4		-		_		
Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS			73.3	71.1	67.2	07.4	•		·	•		
Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 prices	UCHVP			-	-	-		•		•	-		
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			0.6	0.4		0.0	•		·	-		
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			0.0	0.1	0.1	0.0			·	-		
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			0.1	1.5	1.7	2.2	2.3	- 1.6		-		
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			0.2	1.5	1.7	2.2	2.5	1.0		-		
Allowed Expenditure - Specified Street Works  Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			23.7	24.6	23.4	27.8	30.1	27.2	31.1	35.3		
Allowed Expenditure - Rail Electrification (WPD)	CRC 3K	£m 12/13 prices	RE			23.7	24.0	23.4	27.8	30.1	(6.5)	(6.5)	(6.5)		
Allowed Expenditure - Mair Electrification (WPD)  Allowed Expenditure - Moorside Costs (ENWL)	CRC 3L	£m 12/13 prices	UCMC			-	-	-		•	(6.5)	(6.5)	(6.5)		
	CRC 3F	£m 12/13 prices	UCSFE			-	-	-	-	•	-	•	-		
Allowed Expenditure - Shetland Uncertain Energy (SSEH) Allowed Expenditure - Shetland Competitive Process (SSEH)	CRC 3F	£m 12/13 prices	UCCPC			-				•		·	-		
Allowed Expenditure - Shedand Competitive Process (SSEH)  Allowed Expenditure - Link Boxes	CRC 3F		UCLB			-	-	-	-	•	-	•	-		
Allowed Expenditure - Subsea Cables (SSEH)	CRC 3F	£m 12/13 prices £m 12/13 prices	UCSC			-				•		·	-		
Allowed Expenditure - Subsea Cables (SSER)  Allowed Expenditure - Uncertain Rail Electrification Costs	CRC 3F	£m 12/13 prices	UCRE			-	-	-	-	•	•	•	-		
Allowed Expenditure - Uncertain Rail Electrification Costs  Allowed Expenditure - Innovation Roll-out Mechanism	CRC 3D	£m 12/13 prices £m 12/13 prices	IRM			-	-	-	-	•	-	•	-		
Allowed Expenditure - Shetland Extension Fixed Energy Costs (SSEH)	CRC 3F		UCSEFEC			-				•		•	•		
	CRC 3F	£m 12/13 prices £m 12/13 prices	UCSESPC			-	-	-	-	•	•	•	•		
Allowed Expenditure - Shetland Enduring Solution Process Costs (SSEH) Allowed Expenditure - Shetland Extension Battery Costs (SSEH)	CRC 3F	£m 12/13 prices £m 12/13 prices	UCSESPC			-	-	-	-	•	-	•	-		
Pension Scheme Established Deficit revenue adjustment	CRC 3C		EDE			32.6	32.6	32.6	32.6	32.6	32.6	32.6	32.6		
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices £m 12/13 prices	OLREV			6.2	32.0	32.0	32.0	32.6	32.6	32.6	32.6		
Other legacy adjustments' price control allowed revenue adjustment  Other legacy adjustments' price control RAV additions adjustment	CRC 3A		OLRAV	(1.2)	30.3										
	CRC 3A	£m 12/13 prices £m 12/13 prices	RIREV	(1.2)	30.3	(14.8)									
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment						(14.8)									
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	(10.5)	(1.7)	-	•	•	•	0.6	•	•	•		
Legacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	(19.5)	(1.7) 37.0										
Legacy special tax pool adjustment	CRC 3A CRC 3A	£m Nominal	LTPS												
Deferred Revenue Expenditure pre-RIIO movement adjustment		£m Nominal	LTPD	8.0 6.7	6.4										
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	6.7	3.7	I									