

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) plc (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)
(the “licensees”)

Direction under Part B 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

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’),¹ gave notice on 02 July 2020 (‘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 10 August 2020. The notice also specified the date for any representations on the proposed modifications to be made on or before 29 July 2020.
3. We received no representations in response to the Notice, prior to the close of the above mentioned period.
4. Part A of CRC 4A sets out the assessment process of the likely impact of an intended modification and Part B of CRC 4A sets out the circumstances in which a modification may be made.

¹ The “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority (GEMA) in its day to day work.

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 Subsea Cables Costs to feed through to SSEH's allowed revenue.
6. We have agreed with SSEH that the £45.3m allowed expenditure in respect of Subsea Cables Costs should be 100% allocated to the "Non-load related capex – asset replacement" category since the expenditure is related to the cost of protecting subsea cables, which falls under "asset replacement".
7. In accordance with paragraph 4A.10 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 10 August 2020.

Table 1 – Location of modifications within the Model

| Nature of Modification | Sheet reference | Cell reference |
|--|------------------------------------|------------------|
| Incorporating allocation rates for the Subsea Cables expenditure allowance to feed into base revenue for SSEH. | SSEH | AJ220:AQ2220 |
| Two of the licence terms relating to Shetland uncertain costs (rows 35 and 36) were in the wrong cells, and have been swapped around to reflect what is currently in the licence. This change applies to all input sheets. | Input All licensee input sheets | H35:H36, F35:F36 |
| The license conditions for the Shetland terms were incorrectly labelled 'CRC 3CF' instead of 'CRC 3F'. This change applies to all input sheets. | Input All licensee input sheets | F33:F36 |

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James Veaney
Head of RIIO-ED2 Policy
Duly Authorised on behalf of the Gas and Electricity Markets Authority
7 August 2020