

## To the Company Secretary:

SP Distribution plc

Company Number: SC189125

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SP 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. SP 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 2021 and ends on 31 March 2022 ('Regulatory Year 2021/22').
- 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 10 November 2020 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November 2020 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 2021/22 is to take the value -£7.0m.

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

27 November 2020

Price Base / Units   2014   2015   31 March   31 March   2016   2016   2017   2018   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019   2018   2019	9 2020 No	h 31 March 2021 No	31 March 2022	31 March 2023
Condition   Units   2014   2015   2016   2017   2018   2017   2018   2	No		2022	2023
ALC Actual load-related capex expenditure	on Revision	INO	4 630/	
ALUA Actual loan-load related capex expenditure - asset replacement replacement replacement - Revision		n Revision No	1.62% No	1.62% No
AIVLE replacement CRC 3B Prices Revision Revisio		Revision	Revision	Revision
	on <b>69.1</b>	No Revision	No Revision	No Revision
ANLO Actual non-load related capex - other CRC 3B	on <b>5.9</b>	No Revision	No Revision	No Revision
AFE Actual faults availabilities PRO 3B Em 12/13 No No No No No	10.2	No	No	No
Prices   Revision	4.0	Revision	Revision	Revision No
Prices Revision Revis	OII	Revision No	Revision No	Revision No
ART ACTUAL 11/0% revenue pool expenditure CKC.3B Prices Revision R		Revision	Revision	Revision
ACU Actual controllable opex expenditure CRC-3B Prices Revision Re	on //.6	Revision	No Revision	No Revision
UCEPS Allowed Expenditure - Enhanced Physical Site CRC 3F Em 12/13 No No No No No Revision Re	No on Revision	No Revision	No Revision	No Revision
UCHVP Allowed Expenditure - High Value Projects CRC 3F Em 12/13 No No No No No No Revision Re	No on Revision	No Revision	No Revision	No Revision
VAA Allowed Expenditure - Visual Amenity Projects CRC 31 Em 12/13 No No No No No	No	No	No Revision	No Revision
WSCC Allowed Expenditure - Worst Served Customer CRC 3H Em 12/13 No	No	No	No	No
Projects Prices Revision Revis		n Revision No	Revision	Revision No
Allowed expenditure - Smart meter koll-out costs CRC SE Prices Revision Rev		Revision	Revision	Revision
UCSSW Allowed Expenditure - Specified Street Works CRC 3F Em 12/13 No No Revision Re	on Revision	No Revision	No Revision	No Revision
LRRC Allowed Expenditure - Load Related CRC 3G Em 12/13 No No No No Revision Revisio	No on Revision	No Revision	No Revision	No Revision
RE Allowed Expenditure - Rail Electrification (WPD) CRC 3K Prices Revision	No	No	No Revision	No Revision
UCMC Allowed Expenditure - Moorside Costs CRC 31 Em 12/13 No No No No	No	No	No	No
Prices Revision Revis	on Revision No	n Revision No	Revision	Revision No
OCSFE (SSEH) Prices Revision R			Revision No	Revision
UCCPC Process (SSEH) CRC 3F Prices Revision Revi	on Revision	Revision	Revision	Revision
UCLB Allowed Expenditure - Link Boxes CRC 3F Em 12/13 No No No Revision Rev	No on Revision	No Revision	No Revision	No Revision
UCSC Allowed Expenditure - Subsea Cables (SSEH)  CRC 3F	No on Revision	No Revision	No Revision	No Revision
UCRE Allowed Expenditure - Uncertain Rail Electrification CRC 3F £m 12/13 No No No No No	No	No	No Revision	No Revision
Costs Prices Revision	No Revision	No	No	No
Mechanism  Mechanism  Prices  Revision	on Revision No	n Revision No	Revision	Revision No
UCSEPEC Energy Costs (SSEH) CRC 3F Prices Revision Revisi	on Revision	Revision	Revision	Revision
UCSESPC Allowed Expenditure - Shetland Enduring Solution Process Costs (SSEH)  CRC 3F Em 12/13 No No No Revision Revisio	on Revision	No Revision	No Revision	No Revision
UCSEBC Allowed Expenditure - Shetland Extension Battery CRC 3F Em 12/13 No No No No No Revision Revisi	No on Revision	No Revision	No Revision	No Revision
FDF Pension Scheme Established Deficit revenue CRC 3C £m 12/13 No No No No No	No on Revision	No Revision	24.7	24.7
Other legacy adjustments' price control allowed CRC 3A £m 12/13 No	on Revision	Revision		
revenue adjustment Prices Revision Other leavay adjustment's price control RAV Fm 12/13 No. No.				
OLRAV additions adjustment CRC 3A Prices Revision Revision				
control allowed revenue adjustment CRC 3A Prices Revision			Ţ	
TGIE Tax liability revenue allowance adjustments - CRC 3C Em No No No No No Revision	on Revision	No Revision	No Revision	No Revision
TTE Tax liability revenue allowance adjustments - tax	on 3.6	3.2	2.8	No Revision
ITPG Legacy general tay pool adjustment CRC 3A £m No No				
NOTIFIED IN NO. NO.				
Nominal Revision Revision  Nominal Revision Revision  Nominal Revision Revision  Nominal Revision Revision				
LIPD adjustment CKC-3A Nominal Revision Revision				
LTPC DRE: Gross capex adjustment CRC 3A Fm No No Nominal Revision Revision				
SPD Financial Price Base 31 March 31 Ma				31 March
Handbook   Frice base   2014   2015   2016   2017   2018   201   2016   2017   2018   2016   2017   2018   2016   2017   2018   2017   2018   2017   2018	9 2020	2021	2022	2023
PTIJ Pension True-IIn Chanter 15 fm 12/13				
PPF				
Prices   Fm 12/13				
TCB Tax Clawback Chapter 13 Prices U.U				
Tax True-Up Chapter 15 Prices 1.7				
DG5 Distributed Generation for DPCR5 Chapter 15 Em 12/13 Prices -4.3				
BDC Bad Debts Chapter 15				
TMA Traffic Management Act Chapter 15 £m 12/13 0.0				
Prices Undergrounding R. Warst Sarvad Customars Fig. 12/13				
UWS Improvements Chapter 15 Prices U.U				
LKK Load Kelated Keopener Chapter 15 Prices 0.0				
HVC High Volume Low Cost Connections Chapter 15 Em 12/13 Prices 0.0				
HVP High Value Projects Chapter 15 Em 12/13 Prices 0.0				
FPS Enhancer Physical Site Security Chanter 15 Em 12/13				
Prices 6m 12/13				
RLW RISING & Lateral Mains Chapter 13 Prices U.U				
Shetiand Chapter 13 Prices 0.0				
FLD Flood Prevention (SSEH Only) Chapter 15 £m 12/13 Prices 0.0				
Incremental Legacy Adjustments used to calculate OLRAV				
RAV RAV Additions Chapter 15 Prices 1.3 1.1  Incremental Legacy Adjustments used to calculate RIREV				
RRI RRI RRI RRI RRI RRI RRI RRI Adjustment Chanter 16 fm 12/13 -0.3				
Prices Fm 12/13				
KKI KLM RKI KLM Adjustment Cnapter 16 Prices U.U				
RRI WFR Adjustment Chapter 16 Prices 0.2				

## 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			31 March		
variable tvarile	Special Condition	Frice base / Offics	Term	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%	1.62%	1.62%		
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			9.4	9.5	16.2	22.8	19.9			-		
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			61.3	64.7	58.5	64.9	69.1		-	-		
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			12.4	12.4	10.5	6.9	5.9		-	-		
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			21.3	20.7	18.0	24.3	19.2		-	-		
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			2.8	2.9	3.0	2.8	4.0		-	-		
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			11.1	17.6	16.6	16.1	16.2		-	-		
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			63.7	68.5	77.0	82.5	77.6		-	-		
Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS			-	-	-	-	-		-	-		
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			-	0.1	-	0.2	0.0	-	-	-		
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			-		0.0	-	-	-		-		
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			0.6	4.1	6.2	3.1	1.9	1.6		-		
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			-		-	-	-	-		-		
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			18.4	20.5	25.2	19.7	14.8	14.0	14.7	13.2		
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			-		-	3.1	3.1	0.6	0.6	0.6		
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			28.1	28.1	28.1	28.5	28.5	28.5	24.7	24.7		
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			(3.2)									
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	1.3	1.1										
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV			(0.1)									
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			-	-		-	3.6	3.2	2.8	(0.0)		
Legacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	(8.4)	(4.8)										
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	(19.2)	(7.5)										
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	-	-										
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	-	-										