

# 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 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 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 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 -£17.7m.

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

## SCHEDULE 1 TO THE AUTHORITY'S DIRECTIONS - REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except CDE shown to 2 d.p.)

	EMID	e	<b>D</b> -6	DPCR5		24.5	24.5			-ED1	21.11	24.55	24.5
	PCFM Variable Value	Special Condition	Price Base / Units	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2020	31 March 2021	31 March 2022	31 March 2023
CDE	Allowed percentage cost of corporate debt	CRC 3C	Annual Real %			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	0.76%	0.76%
ALC	Actual load-related capex expenditure	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	25.9	No Revision	No Revision	No Revision
ANLR	Actual non-load related capex expenditure - asset	CRC 3B	£m 12/13			No	No Revision	No Revision	No Revision	67.6	No Revision	No Revision	No Revision
ANLO	replacement Actual non-load related capex - other	CRC 3B	Prices £m 12/13			No	No	No	No	9.7	No	No	No
AFE		CRC 3B	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	-	Revision No	Revision No	Revision No
	Actual faults expenditure		Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	36.0	Revision No	Revision No	Revision No
TRE	Actual tree cutting	CRC 3B	Prices £m 12/13			Revision No	Revision	Revision	Revision No	8.8	Revision No	Revision	Revision
ARP	Actual 100% 'revenue pool' expenditure	CRC 3B	Prices			Revision	25.2	1.4	Revision	11.5	Revision	Revision	Revision
ACO	Actual controllable opex expenditure	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	86.5	No Revision	No Revision	No Revision
UCEPS	Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
UCHVP	Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
VAA	Allowed Expenditure - Visual Amenity Projects	CRC 3J	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	0.3	No Revision	No Revision	No Revision
WSCC	Allowed Expenditure - Worst Served Customer	CRC 3H	£m 12/13			No	No	No	No	No	No	No	No
SMAE	Projects Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision 1.2	Revision No	Revision No	Revision No
UCSSW		CRC 3F	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	No	Revision No	Revision No	Revision No
	Allowed Expenditure - Specified Street Works		Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
LRRC	Allowed Expenditure - Load Related	CRC 3G	Prices £m 12/13			Revision No	Revision	Revision No	Revision	Revision	Revision	Revision	Revision No
RE	Allowed Expenditure - Rail Electrification (WPD)	CRC 3K	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
UCMC	Allowed Expenditure - Moorside Costs	CRC 3L	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
UCSFE	Allowed Expenditure - Shetland Uncertain Energy (SSEH)	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
UCCPC	Allowed Expenditure - Shetland Competitive Process (SSEH)	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
UCLB	Allowed Expenditure - Link Boxes	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
UCSC	Allowed Expenditure - Subsea Cables (SSEH)	CRC 3F	£m 12/13			No	No	No	No	No	No	No	No
UCRE	Allowed Expenditure - Uncertain Rail Electrification	CRC 3F	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
	Costs Allowed Expenditure - Innovation Roll-out		Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
IRM	Mechanism Allowed Expenditure - Shetland Extension Fixed	CRC 3D	Prices £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No	Revision No
UCSEFEC	Energy Costs (SSEH) Allowed Expenditure - Shetland Enduring Solution	CRC 3F	Prices £m 12/13			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
UCSESPC	Process Costs (SSEH)	CRC 3F	Prices			Revision	Revision	Revision	Revision	Revision	Revision	Revision	Revision
UCSEBC	Allowed Expenditure - Shetland Extension Battery Costs (SSEH)	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
EDE	Pension Scheme Established Deficit revenue adjustment	CRC 3C	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	36.3	36.3
OLREV	Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 Prices			No Revision							
OLRAV	Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 Prices	No Revision	No Revision		1						
RIREV	RAV Rolling Incentive legacy adjustments' price	CRC 3A	£m 12/13	riction	ricerision	No	]						
TGIE	control allowed revenue adjustment Tax liability revenue allowance adjustments -	CRC 3C	Prices £m			Revision No	No						
TTE	gearing / debt interest costs Tax liability revenue allowance adjustments - tax	CRC 3C	Nominal £m 12/13			Revision No	Revision No	Revision No	Revision No	Revision No	Revision 0.9	Revision	Revision No
	trigger events		Prices £m	No	No	Revision	Revision	Revision	Revision	Revision	0.9	0.8	Revision
LTPG	Legacy general tax pool adjustment	CRC 3A	Nominal £m	Revision No	Revision No								
LTPS	Legacy special tax pool adjustment	CRC 3A	Nominal £m	Revision	Revision								
LTPD	Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	Nominal	No Revision	No Revision								
LTPC	DRE: Gross capex adjustment	CRC 3A	£m Nominal	No Revision	No Revision								
	EMID	Financial	Price Base	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March
	Incremental Legacy Adjustments used to calcula	Handbook ate OLREV		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
PTU	Pension True-Up	Chapter 15	£m 12/13 Prices			-0.1							
PPF	PPF Levy	Chapter 15	£m 12/13 Prices			0.1							
тсв	Tax Clawback	Chapter 15	£m 12/13	•		0.0							
Tax	Tax True-Up	Chapter 15	Prices £m 12/13			7.2							
DG5			Prices £m 12/13										
	Distributed Generation for DPCR5	Chapter 15	Prices £m 12/13			13.1							
BDC	Bad Debts	Chapter 15	Prices £m 12/13			0.0							
TMA	Traffic Management Act	Chapter 15	Prices			0.0							
UWS	Undergrounding & Worst Served Customers Improvements	Chapter 15	£m 12/13 Prices			0.2							
			£m 12/13			0.0							
LRR	Load Related Reopener	Chapter 15	Prices			0.7							
LRR HVC	Load Related Reopener High Volume Low Cost Connections	Chapter 15 Chapter 15	£m 12/13			0.7							
			£m 12/13 Prices £m 12/13			-4.0							
HVC	High Volume Low Cost Connections	Chapter 15	fm 12/13 Prices fm 12/13 Prices fm 12/13										
HVC HVP EPS	High Volume Low Cost Connections High Value Projects Enhanced Physical Site Security	Chapter 15 Chapter 15 Chapter 15	fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13			-4.0 0.0							
HVC HVP EPS RLM	High Volume Low Cost Connections High Value Projects Enhanced Physical Site Security Rising & Lateral Mains	Chapter 15 Chapter 15 Chapter 15 Chapter 15	fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices			-4.0 0.0 0.0							
HVC HVP EPS	High Volume Low Cost Connections High Value Projects Enhanced Physical Site Security	Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15	£m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13 Prices	· · ·		-4.0 0.0							
HVC HVP EPS RLM	High Volume Low Cost Connections High Value Projects Enhanced Physical Site Security Rising & Lateral Mains Shetland Flood Prevention (SSEH Only)	Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15	£m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13	· · ·		-4.0 0.0 0.0							
HVC HVP EPS RLM SHET FLD	High Volume Low Cost Connections High Value Projects Enhanced Physical Site Security Rising & Lateral Mains Shetland Flood Prevention (SSEH Only) Incremental Legacy Adjustments used to calcula	Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 te OLRAV	fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13	-0.4	84.5	-4.0 0.0 0.0 0.0							
HVC HVP EPS RLM SHET	High Volume Low Cost Connections High Value Projects Enhanced Physical Site Security Rising & Lateral Mains Shetland Flood Prevention (SSEH Only)	Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 te OLRAV Chapter 15	£m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13 Prices £m 12/13 Prices	-0.4	84.5	-4.0 0.0 0.0 0.0							
HVC HVP EPS RLM SHET FLD	High Volume Low Cost Connections High Value Projects Enhanced Physical Site Security Rising & Lateral Mains Shetland Flood Prevention (SSEH Only) Incremental Legacy Adjustments used to calcula RAV Additions	Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 te OLRAV Chapter 15	fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13 Prices fm 12/13	-0.4	84.5	-4.0 0.0 0.0 0.0							
HVC HVP EPS RLM SHET FLD RAV	High Volume Low Cost Connections High Value Projects Enhanced Physical Site Security Rising & Lateral Mains Shetland Flood Prevention (SSEH Only) Incremental Legacy Adjustments used to calcula RAV Additions Incremental Legacy Adjustments used to calcula	Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 Chapter 15 te OLRAV Chapter 15 ate RIREV	Em 12/13 Prices Em 12/13 Prices Em 12/13 Prices Em 12/13 Prices Em 12/13 Prices Em 12/13 Prices Em 12/13	-0.4	84.5	-4.0 0.0 0.0 0.0 0.0							

#### 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
				2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Allowed percentage cost of corporate debt	CRC 3C	Annual Real %	CDE			2.55%		2.22%	1.91%		1.09%	0.76%	0.76%
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			44.9	32.1	31.9	24.1	25.9	-	-	-
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			82.0	89.6	75.8	56.2	67.6	-	-	-
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			8.9	14.1	14.5	8.1	9.7	-	-	-
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			36.5	33.8	31.4	32.8	36.0	-	-	-
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			9.9	8.2	11.8	8.0	8.8	-	-	-
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			13.2	25.2	1.4	11.4	11.5	-	-	-
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			95.0	90.1	88.0	89.2	86.5	-	-	-
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			0.0	0.0	-	0.0	0.3	-	-	-
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	1.2	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	36.3	36.3
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	0.9	0.8	-
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)								
	CILL DA	EIIINUIIIIdi	LIFC		()								