To the Company Secretary:

Southern Electric Power Distribution plc
Company Number: 04094290

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SOUTHERN ELECTRIC POWER 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. Southern Electric Power 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 CRC2A (Restriction of Allowed Distribution Network Revenue) of the licence and references to Regulatory Year t-1 are to be construed accordingly; and
(b) Regulatory Year t for the purposes of these directions is the Regulatory Year that commences on 1 April 2016 and ends on 31 March 2017 ('Regulatory Year 2016/17').

3. Charge Restriction Condition CRC4B (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 CRC4B (Annual Iteration Process for the ED1 Price Control Financial Model) 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 (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 CRC1B). The Annual Iteration Process is used to calculate the value of the term MOD for the purposes of the formula specified in CRC2A (Restriction of Allowed Distribution Network Revenue).

7. In accordance with requirements set out in the Special conditions referred to in paragraph 4, on 13 November 2015 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November 2015 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 one representation on the calculation of Legacy Tax True-Up (a component of OLREV) from one licensee group. Values remain unchanged in this Direction, but the calculation may be reviewed for next year's AIP.

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 2016/17 is to take the value -£8.0m.

Schedule 2 to these directions shows the complete PCFM Variable Values Table (as that term is defined in CRC1B) 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.

Ian Rowson

Associate Partner, Regulatory Finance & Governance
Duly authorised on behalf of the Gas and Electricity Markets Authority
30/11/2015

SHEDULE 1 TO THE AUTHORITIY'S DIRECTION - PROPOSED REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except CDE shown to 2 d.p.)

SSES					Regulatory Year Ending								
				DPCR5 Legacy		RIIO-ED1							
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	**2.42%**	**2.42%**	**2.42%**	**2.42%**	**2.42%**	**2.42%**	**2.42%**
ALC	Actual load-related capex expenditure	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
ANLR	Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
ANLO	Actual non-load related capex - other	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
AFE	Actual faults expenditure	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
TRE	Actual tree cutting	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
ARP	Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
ACO	Actual controllable opex expenditure	CRC 3B	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	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	No Revision	No Revision	No Revision	No Revision
WSCC	Allowed Expenditure - Worst Served Customer Projects	CRC 3H	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
SMAE	Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
UCSSW	Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
LRRC	Allowed Expenditure - Load Related	CRC 3G	£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
UCRE	Allowed Expenditure - Uncertain Rail Electrification Costs	CRC 3F	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
IRM	Allowed Expenditure - Innovation Roll-out Mechanism	CRC 3D	£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	No Revision	No Revision
OLREV	Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 Prices			**-6.6**							
OLRAV	Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 Prices	**-0.3**	**-37.6**								
RIREV	RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 Prices			**14.7**							
TGIE	Tax liability revenue allowance adjustments - gearing / debt interest costs	CRC 3C	£m Nominal			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
TTE	Tax liability revenue allowance adjustments - tax trigger events	CRC 3C	£m 12/13 Prices			No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
LTPG	Legacy general tax pool adjustment	CRC 3A	£m Nominal	**0.7**	**11.8**								
LTPS	Legacy special tax pool adjustment	CRC 3A	£m Nominal	**0.7**	**14.3**								
LTPD	Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	**-4.6**	**-44.4**								
LTPC	DRE: Gross capex adjustment	CRC 3A	£m Nominal	**-5.1**	**-48.1**								

SSES		Financial Handbook	Price Base	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
Incremental Legacy Adjustments used to calculate OLREV													
PTU	Pension True-Up	Chapter 15	£m 12/13 Prices			-0.4							
PPF	PPF Levy	Chapter 15	£m 12/13 Prices			0.0							
TCB	Tax Clawback	Chapter 15	£m 12/13 Prices			0.0							
Tax	Tax True-Up	Chapter 15	£m 12/13 Prices			-2.0							
DG5	Distributed Generation for DPCR5	Chapter 15	£m 12/13 Prices			-4.4							
BDC	Bad Debts	Chapter 15	£m 12/13 Prices			0.0							
TMA	Traffic Management Act	Chapter 15	£m 12/13 Prices			0.0							
UWS	Undergrounding & Worst Served Customers Improvements	Chapter 15	£m 12/13 Prices			0.2							
LRR	Load Related Reopener	Chapter 15	£m 12/13 Prices			0.0							
HVC	High Volume Low Cost Connections	Chapter 15	£m 12/13 Prices			0.0							
HVP	High Value Projects	Chapter 15	£m 12/13 Prices			0.0							
EPS	Enhanced Physical Site Security	Chapter 15	£m 12/13 Prices			0.0							
RLM	Rising & Lateral Mains	Chapter 15	£m 12/13 Prices			0.0							
SHET	Shetland	Chapter 15	£m 12/13 Prices			0.0							
Incremental Legacy Adjustments used to calculate OLRAV													
RAV	RAV Additions	Chapter 15	£m 12/13 Prices	-0.3	-37.6								
Incremental Legacy Adjustments used to calculate RIREV													
RRI	RRI Revenue Adjustment	Chapter 16	£m 12/13 Prices			14.9							
RRI RLM	RRI RLM Adjustment	Chapter 16	£m 12/13 Prices			0.0							
RRI WFR	RRI WFR Adjustment	Chapter 16	£m 12/13 Prices			-0.2							

SHEDULE 2 TO THE AUTHORITIY'S DIRECTION - VARIABLE VALUE TABLE

Variable Name	Special Condition	Price Base / Units	Term	Regulatory Year Ending 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
Allowed percentage cost of corporate debt	CRC 3C	Annual Real %	CDE			2.55%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%
Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC			-	-	-	-	-	-	-	-
Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR			-	-	-	-	-	-	-	-
Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO			-	-	-	-	-	-	-	-
Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE			-	-	-	-	-	-	-	-
Actual tree cutting	CRC 3B	£m 12/13 prices	TRE			-	-	-	-	-	-	-	-
Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP			-	-	-	-	-	-	-	-
Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO			-	-	-	-	-	-	-	-
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			4.4	4.4	8.8	8.8	-	-	-	-
Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA			-	-	-	-	-	-	-	-
Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC			-	-	-	-	-	-	-	-
Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE			1.3	2.4	3.4	3.8	3.6	2.5	-	-
Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW			-	-	-	-	-	-	-	-
Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC			25.8	32.8	26.2	30.0	18.3	27.5	38.7	33.8
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			-	-	-	-	-	-	-	-
Pension Scheme Established Deficit revenue adjustment	CRC 3C	£m 12/13 prices	EDE			32.2	32.2	32.2	32.2	32.2	32.2	32.2	32.2
Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV			(6.6)							
Other legacy adjustments' price control RAV additions adjustment	CRC 3A	£m 12/13 prices	OLRAV	(0.3)	(37.6)								
RAV Rolling Incentive legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	RIREV			14.7							
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			-	-	-	-	-	-	-	-
Legacy general tax pool adjustment	CRC 3A	£m Nominal	LTPG	0.7	11.8								
Legacy special tax pool adjustment	CRC 3A	£m Nominal	LTPS	0.7	14.3								
Deferred Revenue Expenditure pre-RIIO movement adjustment	CRC 3A	£m Nominal	LTPD	(4.6)	(44.4)								
DRE: Gross capex adjustment	CRC 3A	£m Nominal	LTPC	(5.1)	(48.1)								