

To the Company Secretary:

Electricity North West Limited Company Number: 02366949
Northern Powergrid (Northeast) Limited Company Number: 02906593
Northern Powergrid (Yorkshire) plc Company Number: 04112320
SP Distribution plc Company Number: SC189125
SP Manweb plc Company Number: 02366937
Scottish Hydro Electric Power Distribution plc Company Number: SC213460
Southern Electric Power Distribution plc Company Number: 04094290
Eastern Power Networks plc Company Number: 02366906
London Power Networks plc Company Number: 03929195
South Eastern Power Networks plc Company Number: 03043097
Western Power Distribution (East Midlands) plc Company Number: 02366923
Western Power Distribution (West Midlands) plc Company Number: 03600574
Western Power Distribution (South Wales) plc Company Number: 02366985
Western Power Distribution (South West) plc Company Number: 02366894

Direction issued by the Gas and Electricity Markets Authority to Electricity Distribution Network Operators for the purposes of Special Condition CRC 5C (Directly Remunerated Services) of the Electricity Distribution Licence

WHEREAS

1. Each of the companies to whom this direction is addressed (each "the Licensee") is the holder of an electricity distribution licence ("the Licence") granted under section 6(1)(c) of the Electricity Act 1989 that includes Special Conditions.
2. Special Condition CRC 5C (Directly Remunerated Services) ("CRC 5C") sets out the basis on which services provided by the Licensee may be treated as Directly Remunerated Services for the purposes of the charge restriction conditions in the Licence.
3. Appendix 1 to CRC 5C sets out specific categories of Directly Remunerated Services and in relation to Value Added Services ("DRS8") says:

"This category consists of services that utilise Relevant Assets, as defined in standard condition 1 (Definitions for the standard conditions), under commercial arrangements between the licensee and another person (who must not be an Affiliate or Related Undertaking of the licensee), involving:

- (a) the installation of equipment for the purpose of electronic communications or data transfer;*
- (b) the display of any advertising or promotional material; or*
- (c) any service specified in a direction given by the Authority for the purposes of this condition that, in the absence of such a direction, would be included in category DRS9 (Miscellaneous),*

in each case subject to any further explanation or clarification as set out in the RIGs published under standard condition 46 (Regulatory Instructions and Guidance)."

4. In a letter dated 8 January 2016, Electricity North West Limited requested that the Authority¹ confirm the regulatory treatment of costs and revenues associated with network voltage control and network management services to be procured from the Licensee by National Grid Electricity Transmission plc ("NGET") for the purposes of its system operator residual balancing activity. Electricity North West Limited provided information about these prospective services in its letter and in subsequent email communications, in particular that:

- (a) These services have been developed through the Customer Load Active System Services ("CLASS") project under the Low Carbon Network Fund arrangements that are part of the RIIO-ED1 price control arrangements applicable to the Licensee.
- (b) The CLASS project demonstrated that distribution network voltage control and network management can reduce the effective demand for electrical power.
- (c) Initially, the only procurer of these services will be NGET with respect to its incentivised system operator residual balancing role.
- (d) During the introduction of these services, the costs attributable to these services are expected to be clearly distinguishable from other network operation costs, but subsequent costs associated with the use of network equipment may be less easy to distinguish from other network operation costs.

5. Having considered the information provided by Electricity North West Limited and other licensees, the Authority considers that:

- (a) in the absence of a direction of the type referred to in paragraph 3, distribution network voltage control and network management services procured from the Licensee by NGET for the purposes of its system operator residual balancing activity would be included in category DRS9 (Miscellaneous) of Directly Remunerated Services under CRC 5C; and
- (b) that, subject to paragraph 6, these services should be included in category DRS8.

6. The system balancing services referred to in paragraph 5, and below, are limited to those that are commissioned and paid for by NGET for the purposes of its system operator residual balancing activity. However, this paragraph is without prejudice to any future representation by the Licensee that additional system balancing services should be included in category DRS 8, and is without prejudice to any associated direction by the Authority.

7. The reasons for the Authority's view, set out in paragraph 5 are that:

- (a) These services will utilise Relevant Assets, as defined in Standard Condition 1 (Definitions for the standard conditions) of the licence, under commercial arrangements between a Licensee and another person who is not an Affiliate or Related Undertaking of that Licensee; and
- (b) the inclusion of the services referred to in paragraph 4 in category DRS8 is appropriate because the associated price control treatment will mean that:
 - (i) the Licensee will be incentivised to provide these services to NGET and this should benefit consumers by contributing to the efficient procurement of system balancing requirements;
 - (ii) consumers should benefit by sharing any Net Revenue (as that term is defined in CRC 5C) received by the Licensee for these services.

¹ The term "Authority", in this document, is used interchangeably with and means the Gas and Electricity Markets Authority.

NOW THE AUTHORITY HEREBY DIRECTS for the purposes of CRC 5C that distribution network voltage control and network management services procured from the Licensee by NGET for the purposes of its system operator residual balancing activity are to be included in category DRS8, Value Added Services.

This Direction shall have effect from and including 31 March 2016 and shall remain in effect until 31 March 2023, unless before that date the Authority revokes the Direction after consulting the Licensee and giving reasonable Notice to the Licensee.

This direction also constitutes notice of the reasons for the decision to issue this direction for the purposes of section 49A of the Electricity Act 1989.

Dated 31 March 2016

A handwritten signature in black ink, appearing to read 'Ian Rowson', written in a cursive style.

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Ian Rowson

Associate Partner, RIIO Finance

Duly authorised on behalf of the Gas and Electricity Markets Authority