

**To:**

**Eastern Power Networks Plc  
Electricity North West Ltd  
London Power Networks Plc  
Northern PowerGrid (North East) Ltd  
Northern PowerGrid (Yorkshire) Plc  
Scottish Hydro Electric Power Distribution Plc  
South Eastern Power Networks Plc  
Southern Electric Power Distribution Plc  
SP Distribution Plc  
SP Manweb Plc  
Western Power Distribution (East Midlands) Plc  
Western Power Distribution (South Wales) Plc  
Western Power Distribution (South West) Plc  
Western Power Distribution (West Midlands) Plc**

**Electricity Act 1989  
Section 11A(2)**

**Notice of statutory consultation on a proposal to modify the special conditions of the electricity distribution licences held by the licensees above**

1. The Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> proposes to modify the Charge Restriction Condition 2H (The Network Innovation Allowance) of the electricity distribution licences held by the licensees listed above, granted or treated as granted under section 6(1)(c) of the Electricity Act 1989.
2. We are proposing this modification to implement our policy decision of 31 March 2017 that licensees should not be able to recover the cost of preparing submissions in respect of projects which passed the Network Innovation Competition initial screening process in 2018/19 and thereafter.<sup>2</sup>
3. The effect of the proposed modifications is to reduce to zero the amount licensees can recover as Bid Preparation Costs to zero in 2018/19 and thereafter.
4. The proposed modification is set out in the Appendix to this notice. A copy of the proposed modification and other documents referred to in this Notice have been published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)). Alternatively they are available from our Research and Information Centre, 9 Millbank, London, SW1P 3GE (020 7901 7003).
5. Any representations with respect to the proposed licence modification must be made on or before 28 June 2017 to: Anna Kulhavy, Office of Gas and Electricity Markets, 3<sup>rd</sup> Floor, Cornerstone, 107 West Regent Street, Glasgow, G2 2BA or by email to [networks.innovation@ofgem.gov.uk](mailto:networks.innovation@ofgem.gov.uk).
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.

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<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

<sup>2</sup> The policy decision document is available on our website: <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-review-our-policy-decision>

7. If we decide to make the proposed modification it will take effect not less than 56 days after the decision is published.

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**Geoffrey Randall**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**1 June 2017**

## Appendix – Charge Restriction Condition 2H (The Network Innovation Allowance) of the Electricity Distribution Licence

### Part B: Calculation of Allowable NIA Expenditure (ANIA)

2H.7 For the purposes of the Principal Formula the amount of ANIA is derived from the following formula:

$$\text{ANIA}_t = \min[(\text{PTRA} \times \text{ENIA}_t) + \text{BPC}_t, (\text{NIAV} \times \text{BR}_t)]$$

where:

- PTRA** is the pass-through factor and has the value of 0.9.
- ENIA<sub>t</sub>** means the Eligible NIA Expenditure for Regulatory Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with standard condition 46 (Regulatory Instructions and Guidance).
- BPC<sub>t</sub>** means the Eligible NIC Bid Preparation Costs for the Regulatory Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with the provisions of the RIGs issued under standard condition 46 (Regulatory Instructions and Guidance); ~~but where~~ **Where** the licensee is part of an Electricity Distribution Group, the amount of such costs recoverable by all of the licensees in that group cannot ~~be more than exceed~~ **the amount calculated in accordance with this condition.**  
**The value of BPC<sub>t</sub> for Regulatory Years t = 2013/14 to 2017/18 is the lower of:**  
**(a) £175,000 in total; or**  
**(b) 5 per cent of the amount applied for by the Licensee or the group where relevant under the Network Innovation Competition, as defined in CRC 5A (the Network Innovation Competition).**  
~~**in the For Regulatory Year 2018/19 and in subsequent Regulatory Years BPC<sub>t</sub> will have the value zero. (except insofar as the Authority consents otherwise).**~~
- NIAV** means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition).
- BR<sub>t</sub>** means the Base Demand Revenue in Regulatory Year t, and is derived in accordance with Part C of CRC 2A.