

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(1)(a)**

**Modification of the special conditions of the electricity distribution licences held
by the above licensees**

1. The above licensees are each 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. Under section 11A(2) of the Act, the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 1 June 2017 ('the Notice') that it proposes to modify Charge Restriction Condition 2 (The Network Innovation Allowance) of the Licence. We stated that any representations in relation to or objections to the modification proposal must be made on or before 28 June 2017.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received no objections or representations in relation to the proposed modifications.
5. We are making this licence change 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 pass the Network Innovation Competition initial screening process in 2018/19 and thereafter². The modifications are set out in Schedule 1 of this Notice.
6. The effect of the modifications is to reduce to zero the amount the licensees in whose licences these modifications are made can recover as Bid Preparation Costs in 2018/19 and thereafter.
7. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7

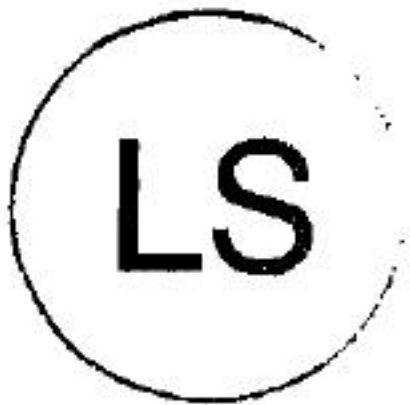
¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

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

of the CMA's Energy Licence Modification Appeals Rules³ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

8. Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the special conditions of the electricity distribution licence of the licensees set out in the attached Schedule 2 in the manner specified in the attached Schedule 1. This decision will take effect from 1 September 2017.
9. This document is notice of the reasons for the decision to modify the electricity distribution licences held by the licensees set out in the attached Schedule 3 as required by section 49A(2) of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**



.....
Geoffrey Randall, Associate Partner, RIIO Networks
Duly authorised on behalf of the
Gas and Electricity Markets Authority

18 July 2017

³ The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.

Schedule 1: 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_t 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_t 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_t 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_t 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_t means the Base Demand Revenue in Regulatory Year t, and is derived in accordance with Part C of CRC 2A.

Schedule 2: Relevant Licence Holders

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