

To:

Western Power Distribution (West Midlands) plc (WMID)
Western Power Distribution (East Midlands) plc (EMID)
Western Power Distribution (South Wales) plc (SWALES)
Western Power Distribution (South West) plc (SWEST)
Electricity North West Ltd (ENWL)
Northern Powergrid (Northeast) plc Ltd (NPgN)
Northern Powergrid (Yorkshire) plc (NPgY)
London Power Networks plc (LPN)
South Eastern Power Networks plc (SPN)
Eastern Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)
Scottish Hydro Electric Power Distribution plc (SSEH)
Southern Electric Power Distribution plc (SSES)
(the “licensees”)

Notice under Part B of Charge Restriction Condition 4A (Governance of ED1 Price Control Financial Instruments) of the Electricity Distribution Licence to make modifications to the ED1 Price Control Financial Model

1. Each of the companies to whom this Notice is addressed (each ‘the licensee’) is the holder of an Electricity Distribution Licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989.
2. Charge Restriction Condition (CRC) 4A (Governance of ED1 Price Control Financial Instruments) of the Electricity Distribution Licence establishes the circumstances in which the Gas and Electricity Markets Authority (‘the Authority’)¹, by way of direction, can make changes to the ED1 Price Control Financial Model (‘the Model’).
3. Part A of CRC 4A sets out the process the Authority will follow in order to assess the likely impact of an intended modification and Part B of CRC 4A sets out the circumstances in which a modification may be made.
4. In accordance with CRC 4A.9, the Authority hereby gives notice to the licensees that it proposes to modify the Model in the manner indicated in Table 1 in this Notice.

¹The “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority (GEMA) in its day to day work.

Table 1 – Location of modifications within the Model

Nature of Modification	Sheet reference	Cell reference
Incorporating allocation rates for the Subsea Cables expenditure allowance to feed into base revenue for SSEH.	SSEH	AJ220:AQ2220
Two of the licence terms relating to Shetland uncertain costs (rows 35 and 36) were in the wrong cells, and have been swapped around to reflect what is currently in the licence. This change applies to all input sheets.	Input All licensee input sheets	H35:H36, F35:F36
The license conditions for the Shetland terms were incorrectly labelled 'CRC 3CF' instead of 'CRC 3F'. This change applies to all input sheets.	Input All licensee input sheets	F33:F36

Fig 1: Table 1.

- Allocation rates are required in the PCFM to feed the Subsea Cables allowance from the PCFM variable values table to Totex.
- On 29 November 2019, whilst the Model published correctly reflected the allowed expenditure of £45.3m, the allocation percentages required to feed this expenditure through to base revenue had not been updated. As such, the additional allowed expenditure was not recognised in SSEH's allowed revenue in that period.
- The Authority considers that it is necessary to modify the Model in the manner indicated, in order to facilitate the recognition of SSEH's revised allowed expenditure in respect of the agreed Subsea Cable costs, in its allowed revenue.
- We have agreed with SSEH that the £45.3m allowed expenditure in respect of Subsea Cable costs should be 100% allocated to the "*Non-load related capex – asset replacement*" category, since the expenditure is related to the cost of protecting subsea cables, which falls under 'asset replacement'.
- It is the view of the Authority that the inclusion of allocation percentages for pre-existing Subsea Cable expenditure is not likely to have a significant impact on any of the persons mentioned in CRC 4A.4. The proposed modification serves to correct a manifest error contained in the ED1 Price Control Financial Model and is therefore not considered a significant modification under CRC 4A.6.
- The proposed modification has been agreed by SSEH and the Authority. Furthermore, the proposed modification will have no impact on the other licensees and has been agreed at the latest ED1 Price Control Financial Model Working Group meeting held on 18 June 2020.²
- Authority proposes that these modifications will come into effect on 10 August 2020. This falls within the normal cut-off date for functional changes to the Model, that being 30 September (paragraph 1.16(a) of the Fast Track and Slow Track Financial Handbooks).³

² The minutes of the Price Control Financial Model Working Group meeting held on 18 June 2020 are attached at Appendix 2.

³ https://www.ofgem.gov.uk/system/files/docs/2017/08/ed1_handbook_v4_fasttrack_0.pdf.

12. Any representations with respect to the proposed licence modifications may be made on or before 29 July 2020 to: Varun Venaik, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to varun.venaik@ofgem.gov.uk.
13. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons. You can ask us to keep your response confidential, and we will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. Unless you mark your response confidential, we will publish it on our website, www.ofgem.gov.uk, and put it in our library.
14. If the information you give in your response contains personal data under the General Data Protection Regulations 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.
15. We prefer to receive responses in electronic form so we can more easily place them on our website.

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Steve McMahon
Deputy Director, Electricity Distribution and Cross Sector Policy
Duly Authorised on behalf of the Gas and Electricity Markets Authority
06 August 2019