

To interested parties,

Statutory consultation on proposed changes to the Special Conditions (also known as the Charge Restriction Conditions) of the RIIO-ED1 Licence and the ED1 Price Control Financial Model

The electricity distribution network operators (DNOs) in Great Britain are the holders of an electricity distribution licence (the Licence) granted under section 6(1)(c) of the Electricity Distribution Act 1989.

Over the course of the RIIO-ED1 Price Control we have identified a number of minor changes we believe should be made to the the Special Conditions (also know as and referred to as the Charge Restriction Conditions) of the Licence. The changes are required to improve the clarity of the conditions of the Licence, by correcting mistakes including typographical errors, incorrect cross-references and formatting errors.

One of the changes we are proposing is a change in the capitalisation rate for SSEH.¹ This will require a modification to the ED1 Price Control Financial Model in order for this to impact allowed revenue in the November 2020 Annual Iteration Process (AIP).

None of the changes to the Special Conditons or the change to the ED1 Price Control Financial Model reflect a change in Ofgem policy in any part of the price control.

Ofgem's Proposal

We are proposing to modify the Licence and the ED1 Price Control Financial Model by making the changes (the draft modifications) outlined at Annex 2 to this letter. We welcome views on the draft modifications and will take them into consideration before making our final decision.

Structure of this letter

There are two annexes to this letter:

- Annex 1 gives Notice of a statutory consultation on our proposal to modify the Special Licence Conditions and the ED1 Price Control Financial Model.
- Annex 2 sets out the proposed draft modifications to the Special Licence Conditions and the resulting modification to the ED1 Price Control Financial Model.

Views invited

We welcome views from interested parties on our proposal and the draft modifications. Interested parties are asked to submit their views on the draft modifications no later than **29 July 2020**. More information about how to respond to the consultation is provided at Annex 1. If we decide to make the draft modifications to the Licence they will take effect

¹ Scottish Hydro Electric Power Distribution Plc, known as SHEPD or SSEH.

from **30 September 2020**. If we decide to make draft modifications to the ED1 Price Control Financial Model , this will be reflected in the November 2020 Annual Iteration Process.

If you have any queries in relation to the issues raised in this letter, please contact Jack Ambler at RIIO.ED1@ofgem.gov.uk.

Yours sincerely,

Steve McMahon
Deputy Director, Electricity Distribution and Cross Sector Policy, Systems and Networks

Annex 1 – Notice of statutory consultation

To: Electricity North West Ltd (ENWL)
Northern Powergrid (Northeast) plc (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)
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 Act 1989 Section 11A(2)

Notice of statutory consultation on a proposal to modify the Special Licence Conditions (also known as the Charge Restriction Conditions) and the ED1 Price Control Financial Model held by the above licensees

1. The Gas and Electricity Markets Authority ('the Authority')² proposes to modify the electricity distribution licences and the ED1 Price Control Financial Model, granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act') to the above licensees by amending the Special Licence Conditions in the manner set out at Annex 2.
2. The Authority considers that it is necessary to modify the Special Licence Conditions in the manner indicated to provide additional clarity and transparency for all parties.
3. The Authority considers that it is necessary to modify the ED1 Price Control Financial Model in the manner indicated to reflect the proposed modification to the Capitalisation rate for SSEH³ in the the Special Licence Conditions and to ensure that the modification can be included in time for the November 2020 Annual Iteration Process.
4. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk) or alternatively can be requested using email: foi@ofgem.gov.uk
5. Any representations with respect to the proposed licence modifications must be made on or before **29 July 2020**. Representations should be sent to Jack Ambler at Ofgem, 10 South Colonnade, Canary Wharf, London, E14 4PU, or by email to RIIO.ED1@ofgem.gov.uk.
6. We normally publish all representations on our website. If you do not wish your response to be published please clearly mark it as "not for publication". We prefer to receive responses in an electronic form so they can be published easily on our website.

² The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

³ Scottish Hydro Electric Power Distribution Plc, known as SHEPD or SSEH.

7. We will take into consideration all representations received by 29 July 2020 when deciding whether to make the proposed modifications. If we decide to make the proposed modifications, they will take effect from **30 September 2020**.

.....
Steve McMahon
Deputy Director, Systems & Networks
Duly Authorised on behalf of the Gas and Electricity Markets Authority
1 July 202

Annex 2 – Proposed modifications to the Special Licence Conditions

The following changes apply to all holders of an electricity distribution licence:

| Condition | Paragraph | Current text | Change required | Reason for change |
|-----------|-----------|---|--|--------------------------------|
| 1A | 1 | ...in accordance with the Terms of Part 1... | "Terms" should be lower case as it is not a defined term and for consistency with its use elsewhere. | Correcting typographical error |
| 1B | 7 | At the definition of Transmission Connection Point Charges: (b) charges payable by the licensee to another Authorised distributor in respect of units transported from that person's network | Change to: (b) charges payable by the licensee to another Electricity Distributor in respect of units transported from that person's network. | Correcting typographical error |
| 2B | 22 and 25 | | Remove the references to the SMCT and SMITt values as being zero for 2023/24 and 2024/25. | Correcting typographical error |
| 2J | 11 | Customers | Change to "Customers" as it is a defined term. | Correcting typographical error |
| 2J | 11 | ...and is calculated in accordance... | Change "is" to "are as "Returned LCN Fund Royalties" is plural. | Correcting typographical error |
| 3A | 11 | Regulatory year 2015/16 | Change to "Regulatory Year" as it is a defined term. | Correcting typographical error |
| 3A | 23 | Regulatory year 2015/16 | Change to "Regulatory Year" as it is a defined term. | Correcting typographical error |

| Condition | Paragraph | Current text | Change required | Reason for change |
|-----------|-----------|---|---|---|
| 3B | 5 | <p>Totex Incentive Mechanism Adjustments are applied under the Annual Iteration Process for the ED1 Price Control Financial Model and calculation of these adjustments uses the Totex Capitalisation Rate Specified for the licensee in Appendix 1 of this condition which:</p> <p>(a) for all licensees other than SSEH applies for each Regulatory Year in the Price Control Period; and</p> <p>(b) for SSEH applies in relation to the relevant Regulatory Year, and</p> <p>which is a fixed value contained in the ED1 Price Control Financial Model.</p> | <p>Totex Incentive Mechanism Adjustments are applied under the Annual Iteration Process for the ED1 Price Control Financial Model and calculation of these adjustments uses the Totex Capitalisation Rate Specified for the licensee in Appendix 1 of this condition which for all licensees applies for each Regulatory Year in the Price Control Period and is a fixed value contained in the ED1 Price Control Financial Model</p> | <p>The rate was initially set at 62% for the first four years, and 70% for the latter four years of the price control. This reflected the expectation that there would be an enduring solution reached for Shetland by this point, however as this has not happened, the capitalisation rate for the last four years of the price control has been amended to reflect the rate at the beginning of the price control.</p> |
| 3B | 16 | ...will, subject to a Time Value of Money Adjustment be... | Add a comma after "Adjustment" due there being a comma after "will". | Correcting typographical error |
| 3B | 19 | ...relevant regulatory Year. | Change to "Regulatory Year" as it is a defined term. | Correcting typographical error |

| Condition | Paragraph | Current text | Change required | Reason for change |
|------------------|------------------|---|---|--|
| 3B | Appendix 1 | SSEH: Totex Incentive Strength Rate (%) - 56.47 Totex Capitalisation Rate (%) - 62.00 for Regulatory Years 2015/16 to 2018/19 (inclusive) 70.00 for Regulatory Years 2019/20 to 2022/23 (inclusive) | For SSEH, in the column "Totex Capitalisation Rate (%)" all of the text after the figure "62.00" should be deleted. | The rate was initially set at 62% for the first four years, and 70% for the latter four years of the price control. This reflected the expectation that there would be an enduring solution reached for Shetland by this point, however as this has not happened, the capitalisation rate for the last four years of the price control has been amended to reflect the rate at the beginning of the price control. |
| 3D | 8(b) | electricity consumers | Change to "Customers" which is a defined term whereas "electricity consumers" is not. | Correcting typographical error |
| 3E | 8 | | Continue the formula in this paragraph to Regulatory Year 2021/22 and 2022/23. | Correcting typographical error |
| 3E | 9 | | SMAE should not be set to zero in 2012/22. | |
| 3E | Part C | | The true up process should not happen in 2022/23. Paragraphs 3E.9 and 3E.10, and Table 2, can be removed (and section/paragraph references in subsequent sections updated accordingly). | Remove unnecessary elements |
| 3E | 11 | ...the Authority will by 30 November in each Regulatory Year t-1, or as soon as reasonably practicable thereafter, issue... | Add a comma after "will" due there being a comma after "thereafter". | Correcting typographical error |

| Condition | Paragraph | Current text | Change required | Reason for change |
|------------------|------------------|---|---|--|
| 3F | 5 | ...for each Regulatory Year, as at 1 April 2015 (that is, before any relevant adjustments have been made under the provisions of this condition) are,... | Change to: ...for each Regulatory Year are, as at 1 April 2015 (that is, before any relevant adjustments have been made under the provisions of this condition) respectively zero. | Correcting typographical error |
| 3F | 8 | (c) for all uncertain cost activities other than High Value Project Costs, constitutes a material amount as specified for the licensee in Appendix 2, 3, 4 or 5 (as the case may be) to this condition; | remove reference to appendix 5. | Remove unnecessary elements |
| 3F | 10 | Application window | Add new paragraph (c) ((b) for WPD's licences) to include window for DNOs to submit for logged up costs under SSWC: "...; and (c) for Specified Street Works Costs, in addition to the application window under paragraph 3F.10(b) the application window that opens on 1 September 2023 and closes on 30 September 2023." | Allow the DNOs to submit for logged up costs under SSWC, as set out in the RIIO-ED1 Reopener Decision: Specified Street Works Costs ⁴ |

⁴ https://www.ofgem.gov.uk/system/files/docs/2019/10/riio-ed1_reopener_decision_-_specified_street_works_costs_new.pdf

| Condition | Paragraph | Current text | Change required | Reason for change |
|-----------|--------------------------|--|---|----------------------------|
| 3F | 12 (13 in some licences) | <p>“Where a proposal has been duly made by the licensee under paragraph 3F.8, the Authority will, within four months of the close of the application window, determine any revisions that are to be made to the licensee’s allowed level of expenditure...”</p> | <p>Amend to clarify that four month deadline for Authority’s determination may move where further information requested under paragraph 3F.13</p> <p>“Where a proposal has been duly made by the licensee under paragraph 3F.8, the Authority will, subject to paragraph 3F.13, determine within four months of the close of the application window any revisions that are to be made to the licensee’s allowed level of expenditure ...”</p> | Provide additional clarity |
| 3F | 13 (14 in some licences) | <p>“ ... (b) requesting the licensee to provide that further or reformatted information or analysis, the application window will be treated as remaining open for the purposes of this Part A until the later of the closing date referred to in paragraph 3F.10 and the date on which such further or reformatted information or analysis is provided.”</p> | <p>“ ... (b) requesting the licensee to provide that further or reformatted information or analysis, the Authority will have a period of four months the date specified in the Notice for receipt of that further information or analysis to determine any revisions that are to be made to the licensee’s allowed level of expenditure for the uncertain cost activities concerned and the Regulatory Years to which those revisions relate in accordance with the methodologies set out in the sections of chapter 7 of the ED1 Proce Control Financial Handbook set out above at paragraph 3F.12.”</p> | Provide additional clarity |

| Condition | Paragraph | Current text | Change required | Reason for change |
|-----------|------------|---|---|---|
| 3F | 22 | <p>3F.22 Revised PCFM Variable Values for the licensee, as determined under paragraph 3F.20, will be directed by the Authority by:</p> <p>(a) 30 November in Regulatory Year 2018/19 in respect of Link Box Costs; and</p> <p>(b) 30 November in Regulatory Year 2019/20 in respect of all other uncertain cost activities.</p> | <p>Add new part (c) to note the date for directing revised SSWC values:</p> <p>"...; and (c) 30 November in Regulatory Year 2023/24 in respect of an application for Specified Street Works Costs made during the application window available under paragraph 3F.10 (b).</p> <p>For WPD's licensees, add a new part (b) to note the date for directing revised SSWC values:</p> <p>"...; and (b) In respect of Specified Street Works Costs, revised PCFM Variable Values for the licensee will be directed by the Authority by 30 November in Regulatory Year 2023/24."</p> | <p>Allow adjustments following the closeout of Specified Street Works Costs</p> |
| 3F | Appendix 5 | | <p>Remove material amount box and references to this.</p> | <p>Remove unnecessary elements</p> |

| Condition | Paragraph | Current text | Change required | Reason for change |
|-----------|----------------|--|--|--|
| 3G | 11 (c) and (d) | <p>“... (c) on a net basis, which offsets customer contributions against gross expenditure; (d) net of an adjustment for any expenditures avoided, or that may reasonably be expected to be or to have been avoided, as a result of demand-side response or other non-traditional solutions to load related issues; and”</p> | <p>Provide consistency with the text in CRC 5G by updating the text in part (c) of 3G.11 to align with CRC 5G:</p> <p>“(c) net of any customer contributions against gross expenditure which changes the Specific Customer Funded Reinforcement Percentage Band specified in Table 2 at paragraph 5G.3; and”</p> <p>Update the text in part (d) of 3G.11 for clarity, to read:</p> <p>“(d) net of an adjustment above the level specified in the Final Determination for the licensee for any expenditures avoided, or that may reasonably be expected to be or to have been avoided, as a result of demand-side response or the use of other non-traditional solutions to load related issues;”</p> | Ensure consistency between related conditions in the licence |
| 3G | 20 | Where the Authority gives Notice of proposed relevant adjustments under paragraph 3G.16, the Authority will, by 30 November 2024, determine any revisions that are to be made to the licensee’s Base Demand Revenue for the Next Price Control Period | <p>Add in text to allow adjustment to DNO’s RAV as well as Revenue:</p> <p>Where the Authority gives Notice of proposed relevant adjustments under paragraph 3G.16, the Authority will, by 30 November 2024, determine any revisions that are to be made to the licensee’s Base Demand Revenue and Regulatory Asset Value for the Next Price Control Period</p> | Provide additional clarity, allowing adjustments to RAV as well as revenue, as set out in the Decision on the closeout methodologies for RIIO-ED1 ⁵ |

⁵ https://www.ofgem.gov.uk/system/files/docs/2019/12/decision_on_the_closeout_methodologies_for_riio-ed1_0.pdf

| Condition | Paragraph | Current text | Change required | Reason for change |
|------------------|------------------|---|---|--------------------------------|
| 3G | 21(d) | ...that have avoided, or may be reasonably expected to avoid or have been avoided... | Delete "been". | Correcting typographical error |
| 3H | 19 | Worst Served Customer: means a Customer of the licensee who has experienced the following level of Higher Voltage unplanned interruptions during the three-year period at the same premises immediately preceding the Regulatory Year in which the relevant expenditure is made: (a) on average, four or more such interruptions per Regulatory Year over that three-year period, and (b) at least three such interruptions during each Regulatory Year in the three year period. | Simplify the definition of a Worst Served Customer to read: Worst Served Customer: means a Customer of the licensee who has, at the same premises, experienced at least 12 Higher Voltage interruptions over the three-year period immediately preceding the Regulatory Year in which the relevant expenditure is made, no fewer than three of which must have occurred within each complete Regulatory Year falling within the three year period. | Simplification |
| 5D | 3(a) | (a) the licensee's performance against its Network Asset Secondary Deliverables | Insert semi-colon at end of paragraph point (a): (a) the licensee's performance against its Network Asset Secondary Deliverables; | Correcting typographical error |
| 5D | 9(a) | ...incremental cost of delivering to the Network Asset Secondary Deliverables... | Delete "to". | Correcting typographical error |

| Condition | Paragraph | Current text | Change required | Reason for change |
|-----------|------------------------------|---|---|--------------------------------|
| 5D | 24(b) | (b) (where not associated with the amendment) remain as equally challenging as equivalent Network Asset Secondary Deliverables set out in the Network Assets Workbook that was applicable at 1 April 2015 | Insert semi-colon at end of bullet point (b): (b) (where not associated with the amendment) remain as equally challenging as equivalent Network Asset Secondary Deliverables set out in the Network Assets Workbook that was applicable at 1 April 2015; | Correcting typographical error |
| 5D | 32 (Network Assets Workbook) | " means the file of that name in Microsoft Excel ® format containing worksheets setting out the Network Asset Secondary Deliverables first published by the Authority on 21 May 2014" | amend to: "means the file of that name in Microsoft Excel ® format containing worksheets setting out the Network Asset Secondary Deliverables and the associated file named SD Monetised Risk that calculates the monetised risk deliverable from this, first published by the Authority in February 2015 and as updated by the Authority from time to time and published on its website." | Provide additional clarity |
| 5E | 2 | Authorised supplier | Change to "Electricity Supplier" which is a defined term whereas "Authorised supplier" is not. | Correcting typographical error |
| 5G | 1(a) | Missing semi-colon | Insert semi-colon at end of bullet point (a). | Correcting typographical error |
| 5G | 7 | Where the Authority gives Notice of proposed relevant adjustments under paragraph 3G.13 of CRC 3G (Revising the allowed level of Load Related Expenditure), the licensee will not be subject to an additional net to gross Load Related Expenditure adjustment. | Remove the words "paragraph 3G.13 of". | Correcting typographical error |

| Condition | Paragraph | Current text | Change required | Reason for change |
|-----------|-----------|---|--|--------------------------------|
| 5K | 16 | ...some or all of the provisions the subject of.. | At the definition of Disapplication Notice add the words "that are" after "provisions" | Correcting typographical error |

The following changes apply only to the holders of an electricity distribution licence specified in the table:

| Licensee(s) | Condition | Paragraph | Current text | Change required | Reason for change |
|---------------------------|-----------|------------|---|---|----------------------------------|
| WMID, EMID, SWALES, SWEST | 2B | 38 | Typo in 2B.38 of WPD version compared to other DNOs. | Amend LBDA to IBDA. Discrepancy between fast and slow-track licences - appears to be a typographical error. | Correcting a typographical error |
| SSEH | 2B | 40 | For the purposes of the Principal Formula, and subject to 2B.42, SNESRC _t is derived in accordance with the following formula: $\text{SNESRC}_t = (\text{SNESRC}_A(t-2) / \text{RPIA}_A(t-2) - \text{SNESRC}_E) \times \text{PVF}_A(t-2) \times \text{PVF}_A(t-1) \times \text{RPIF}_t$ | Change SNESRCE to SNESRC _E t-2 as per definitions in paragraph 2B.41 | Correcting a typographical error |
| WMID, EMID, SWALES, SWEST | 2B | Appendix 5 | Typo in Appendix 5 - Values for the SMIE term (£m, 2012/13 prices) by licensee (see Part F of this condition) | Columns 21/22 and 22/23 amend NA to 0 for WPD licensees (does not appear in slow track licensee's CRCs). | Correcting a typographical error |

| Licensee(s) | Condition | Paragraph | Current text | Change required | Reason for change |
|--|------------------------|-----------------------|---|--|---|
| WMID, EMID, SWALES, SWEST | 2D | 27 | In the formula for the Qc _t term above: SWPM _t (the total severe weather payments made term) is the total amount of the payments that the licensee:(a) has made formally to Customers in respect of Regulatory Year t for failures to meet the standard of performance for restoration under severe weather conditions imposed on the licensee under Regulation 7; or (b) has made to Customers in the form of ex gratia payments for a severe weather event in respect of Regulatory Year t (provided that, in calculating SWPM _t , no more than a total of £700 of payments per Customer for any given event in respect of Regulatory Year t may be taken into account). | Reference to £700 payment cap is still set at £300 in WPD's licence and needs to be brought in line with slow tracked companies. | Correcting a typographical error |
| Modification to the ED1 Price Control Financial Model | | | | | |
| Licensee(s) | Sheet reference | Cell reference | Current Text | Change Required | Reason for change |
| SSEH | SSEH | AN69:AQ69 | 70% | 62% | See the reason given at the Table of Proposed modifications to the Special Licence Conditions applicable to all holders of an Electricity Distribution Licence for the modification to Appendix 1 of Special Condition 3B |