

NOTICE UNDER S11 OF THE ELECTRICITY ACT 1989 (as amended)

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 11 of the Electricity Act 1989 (as amended) ("the Act") as follows:

1. The Authority proposes to modify the conditions of the distribution licences treated as granted to each of Aquila Networks plc and East Midlands Electricity Distribution plc ("the licensees") under section 6(1)(c) of the Act by modifying special condition B in each licence in respect of the formula in paragraph 1.
2. The reason that the Authority proposes to make the above licence modifications is to ensure, pursuant to the Authority's policy statement "Mergers in the Electricity Distribution Sector" issued in May 2002, that customers of the merged group are compensated for the detriment arising from the impact of the merger on the efficacy of comparative price regulation as a result of Powergen UK plc's acquisition of Aquila Sterling Limited, which indirectly owns Midlands Electricity plc. The licensees are members of the merged group.
3. In summary, the effect of the proposed licence modifications is that the regulated revenue of the distribution companies in the merged group will in aggregate be reduced by a total of £32 million over a five year period with effect from April 1st 2004.

A copy of the proposed licence modifications and other documents referred to in this notice are available (free of charge) from the Ofgem library (telephone 020 7901 1600) or the Ofgem website (www.ofgem.gov.uk).

Any representations or objections to the proposed licence modifications may be made before March 6th 2004 to:

Martin Crouch
Director of Electricity Distribution
Ofgem
9 Millbank
London
SW1P 3GE

Or by e-mail to Dorothy.Eke@ofgem.gov.uk

Date *6th February 2004*

Signed on behalf of the Authority by Martin Crouch, Director of Electricity Distribution

Duly authorised by the Gas and Electricity Markets Authority



MODIFICATION TO THE ELECTRICITY DISTRIBUTION LICENCE OF AQUILA NETWORKS PLC AND EAST MIDLANDS DISTRIBUTION PLC

SCHEDULE

1. The formula in paragraph 1 of special condition B (Restriction of distribution charges) shall be amended to read as follows:

$$M_{dt} = P_{dt} + PN_{dt} + LF_{dt} + Q_{dt} + Z_{dt} + CA_{dt} + SW_{dt} - PM_{dt} - MG_{dt} - K_{dt}$$

2. In special condition B (Restriction of distribution charges), the following new paragraph 8 shall be inserted after paragraph 7:

Formula for MG_{dt} as used in Paragraph 1

8. For the purposes of paragraph 1, in the fifteenth and every subsequent relevant year up to and including the nineteenth relevant year MG_{dt} shall be derived from the following formula, for every relevant year thereafter it shall take the value zero:

$$MG_{dt} = \frac{MR_{dt} \cdot PIM_t}{D_t}$$

where:

MR_{dt} shall take the value of £3.124 million for Aquila Networks plc and £3.276 million for East Midlands Electricity Distribution plc

PIM_t in the year commencing 1st April 2001 equals 1 and in all subsequent years is derived using the following formula:

$$PIM_t = \left(1 + \frac{RPI_t}{100} \right) PIM_{t-1}$$

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