

**The Company Secretary
SP Manweb PLC (Company No. 02366937)
3 Prenton Way
Prenton
CH43 3ET**

SECTION 11 & SECTION 49A(1)(b) OF THE ELECTRICITY ACT 1989

**MODIFICATION OF A CONDITION IN THE DISTRIBUTION LICENCE
TREATED AS GRANTED BY THE GAS AND ELECTRICITY MARKETS
AUTHORITY TO SP MANWEB PLC UNDER SECTION 6(1)(c) OF THE
ELECTRICITY ACT 1989; AND**

**NOTICE OF THE REASONS FOR THE DECISION TO MODIFY THE
LICENCE**

WHEREAS:

1. SP Manweb PLC ("the Licensee"), is the holder of a distribution licence ("the Licence") treated as granted by the Gas and Electricity Markets Authority ("the Authority") under section 6(1)(c) of the Electricity Act 1989 ("the Act").
2. In accordance with section 11 of the Electricity Act 1989 the Authority gave notice on 10 January 2006 on its website that it proposed to make modifications to Special Condition C1 (Calculation of charge restriction adjustments arising from the distribution losses incentive scheme) of the Licence (the "Condition") and specified that any representations or objections to the proposed modifications must be made within 28 days, on or before 7 February 2006.
3. The reasons why the Authority proposes to make these licence modifications, following an investigation into compliance by the Licensee with its obligations in Special Condition C1 relating to the calculating and reporting of units distributed and losses, are fully set out in:
 - (a) Notice under section 11 of the Electricity Act 1989 - Proposal to modify the licences granted or treated as granted to SP Manweb plc and to SP Distribution Limited under section 6(1)(c) of the Electricity Act 1989, January 2006, 08/06; and
 - (b) Statement by the Gas and Electricity Markets Authority, following an investigation into compliance by SP Manweb with obligations in its distribution licence relating to the calculating and reporting of units distributed and losses, January 2006, 07/06,

copies of which are available (free of charge) from the Ofgem Library, 9 Millbank, London, SW1P 3GE (020 7901 7003) or the Ofgem website (www.ofgem.gov.uk).

4. The modifications are set out in the attached Schedule and involve in summary: -
 - (a) amending the meaning of ALP (allowed loss percentage) in paragraph 2 of the Condition, by including the words "to the relevant year t"; and
 - (b) amending Annex A to the Condition by introducing altered ALP values for the Licensee, which will result in two ALP values; one for the relevant year t commencing 1 April 2005 and the other for each successive relevant year t commencing from 1 April 2006 onwards.
5. The Authority served a copy of the notice on the Licensee and the Licensee has given its consent in writing to the modifications.
6. The Authority did not receive any representations or objections to the modifications by 7 February 2006 or at all.
7. In accordance with section 11(4) of the Act the Authority also sent a copy of the notice of its intention to make the modifications to the Secretary of State and did not receive by 7 February 2006 or at all, a direction from the Secretary of State not to make any modification.

NOW in accordance with the powers contained in section 11 of the Act and with the consent of the Licensee, the Authority **HEREBY MODIFIES** Special Condition C1 of the Licensee's Licence to be as set out in the attached Schedule **WITH EFFECT** on and from 13 February 2006.

This document also constitutes under section 49A(1)(b) of the Act a notice of the reasons for the decision to modify the Licensee's Licence.

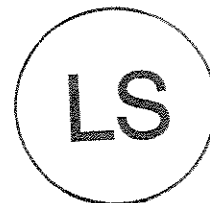
The Official Seal of the Gas and Electricity Markets Authority is affixed hereto and is authenticated by



Martin Crouch, Director - Distribution

Duly authorised on behalf of the Authority

13 February 2006



Schedule

MODIFICATION OF A CONDITION IN THE DISTRIBUTION LICENCE TREATED AS GRANTED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SP MANWEB PLC UNDER SECTION 6(1)(c) OF THE ELECTRICITY ACT 1989

SPECIAL CONDITION C1 – Calculation of charge restriction adjustments arising from the distribution losses incentive scheme

1. The purpose of this condition is to establish the amount of incentive that adjusts allowed demand revenue so as to reflect the performance of the licensee under the scheme set out below in respect of distribution losses.

Formula for the losses incentive adjustment (IL_t)

2. For the purposes of paragraph 2 of special condition B3 (Restriction of distribution charges: total incentive revenue adjustment), IL_t is calculated in accordance with the following formula:

$$IL_t = [LR \times PIAL_t \times (AL_t - L_t)] + \left[PLR \times PIAL_t \times \left(1 + \frac{ALP}{100} \right) \times PVL_t \right]$$

where:

- LR is the distribution losses incentive rate and takes the value of £48/MWh for units physically distributed on or after 1 April 2005.
- PLR is the previous distribution losses incentive rate and takes the value of £32.24/MWh for units physically distributed before 1 April 2005.
- $PIAL_t$ is the price index adjustment, which in the relevant year commencing 1 April 2004 takes the value of 1, and in each subsequent relevant year is derived from the following formula:

$$PIAL_t = \left[1 + \frac{RPI_t}{100} \right] \times PIAL_{t-1}$$

L_t means, in respect of the relevant year t , the adjusted distribution losses calculated in accordance with the methodological basis set out in paragraphs 3 to 5 and 9.

AL_t means an amount representing the benchmark level of distribution losses in the relevant year t calculated, subject to paragraphs 6 to 8 below, in accordance with the following formula:

$$AL_t = \frac{ALP}{100} \times AUD_t$$

where:

ALP is the allowed loss percentage and shall, unless the Authority has directed otherwise in accordance with paragraph 7, take the value set against the licensee's name for the relevant year t in Annex A.

AUD_t means, in respect of the relevant year t , the adjusted units distributed as defined in paragraph 5.

PVL_t means the number of units distributed recorded by the licensee, in respect of the relevant year t , that were physically delivered before 1 April 2005, and where the adjustment may be positive or negative.

RPI_t is determined in accordance with paragraph 4 of special condition B1 (Restriction of distribution charges: demand use of system charges).

Basis of calculation of adjusted distribution losses (L_t)

3. Adjusted distribution losses shall be deemed to be the difference between adjusted system entry volumes and adjusted units distributed.
4. Adjusted system entry volumes shall be equal to the sum of:
 - (a) all units metered on entering the licensee's distribution system;
 - (b) all units deemed to be entering the licensee's distribution system by entry points that are unmetered; and

(c) an amount (in units) representing the excess adverse effect on losses (DGA_t) of units entering the system at entry points (other than entry points which are connected to an onshore transmission network) where the loss adjustment factor applied for settlement purposes is less than 0.997, as calculated by the following formula:

$$DGA_t = \sum (LAF_{it} - 0.997) \times DGV_{it}$$

where:

$$LAF_{it} = \min(LAG_{it}, 0.997)$$

DGV_{it} is the total number of units, in respect of the relevant year t , entering the distribution system at entry point i ;
and

LAG_{it} is the value, in the relevant year t , of the loss adjustment factor applicable to entry point i .

5. Adjusted units distributed shall be equal to:

(a) the sum of:

- (i) all units distributed by the licensee metered at exit points on leaving the licensee's distribution system, and
- (ii) all units deemed to be leaving the licensee's distribution system at exit points that are unmetered;

(b) but excluding:

- (i) the units, whether metered or unmetered, recorded as distributed by the licensee and that were physically delivered before 1 April 2005, and
- (ii) in respect of Scottish Hydro-Electric Power Distribution Limited, also those units deemed to be leaving the licensee's distribution system at shared unmetered exit points.

6. Subject to paragraph 7, the value of ALP set against the licensee's name in Annex A shall apply so long as this condition continues in force.
7. The Authority, having due regard to the purpose of this condition, and being satisfied, following consultation with the licensee, that there has been a material change (whether an improvement or a deterioration) in the quality of the information used to derive the adjusted system entry volumes or adjusted units distributed, may, with the licensee's consent (which shall not be unreasonably withheld), direct the licensee to change the value of ALP, to which paragraph 6 refers, to a different value specified by the Authority.
8. A change to the value of ALP in accordance with paragraph 7 may be directed by the Authority at any time during the year but shall not take effect before the beginning of the relevant year commencing immediately after the date of the direction.
9. The licensee shall, unless otherwise agreed by the Authority, calculate each component of adjusted distribution losses for the relevant year on the same basis as that used within the calculation of adjusted distribution losses in respect of the relevant year commencing 1 April 2002, pursuant to paragraph 7 of special condition D (Information to be provided to the Authority in connection with the charge restriction conditions), or in Scotland special condition E, of this licence in the form in which it was in force on 31 March 2005.

Annex A: Value for ALP by licensee

Licensee	ALP
Central Networks West plc	4.96
Central Networks East plc	5.69
United Utilities Electricity plc	5.68
Northern Electric Distribution Limited	5.20
Yorkshire Electricity Distribution plc	5.90
Western Power Distribution (South West) plc	6.96
Western Power Distribution (South Wales) plc	4.94
EDF Energy Networks (LPN) plc	6.54
EDF Energy Networks (SPN) plc	6.54
EDF Energy Networks (EPN) plc	6.32
SP Distribution Limited	•
SP Manweb plc	••
Scottish Hydro-Electric Power Distribution Limited	8.73
Southern Electric Power Distribution plc	6.74

- For SP Distribution Limited, ALP shall take the value:
 - i. 5.41 for the relevant year t commencing 1 April 2005
 - ii. 5.13 for the relevant year t commencing 1 April 2006 and every subsequent relevant year t.

- For SP Manweb plc, ALP shall take the value
 - i. 5.85 for the relevant year t commencing 1 April 2005
 - ii. 5.32 for the relevant year t commencing 1 April 2006 and every subsequent relevant year t.