

TO:

The Company Secretary
Electricity North West Ltd
(Company number 02366949)
304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG

Notice under section 11A (2) of the Electricity Act 1989

The Gas and Electricity Markets Authority (the 'Authority') hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (the 'Act') as follows:

1. The Authority proposes to modify the electricity distribution licence ('the licence') held by Electricity North West Limited (ENWL) ('the licensee') granted or treated as granted under section 6(1)(c) of the Act by inserting into paragraph 2 of Special Condition CRC 14 (Distribution Charges: supplementary restrictions) an additional sub-paragraph (b). This sub-paragraph is to provide for the value for the interest rate adjustment applied by the licensee in the Regulatory year beginning 1 April 2012 to over and under recoveries of revenue ('the PRt term') to be set in a direction given by the Authority for the Regulatory Year concerned, as set out in bold text in Annex 1 to this notice.
2. The Authority proposes to make the modification to allow it to prevent the licensee being unfairly penalised for under (or over) recoveries of revenue resulting from the Authority's decision¹ not to activate the Distribution Losses Incentive Mechanism in the fifth price control period (DPCR5).
3. The effect of the proposed modification will be to stipulate that the PRt term in the Regulatory Years beginning on 1 April 2012 may be set in a direction given by the Authority, provided that the value shall either be zero, 1.5 or 3.
4. A copy of the proposed licence modification, and other documents referred to in this notice are available on the Ofgem website (www.ofgem.gov.uk).
5. Any representations on the proposed licence modifications may be made on or before 22 July 2013 to: Lesley Ferrando, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to lesley.ferrando@ofgem.gov.uk.
6. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.

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<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=755&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>

7. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.



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Hannah Nixon
Senior Partner
Smarter Grids and Governance (Distribution)

Duly authorised on behalf of the Authority

21 June 2013

Annex 1: Proposed change to CRC 14

Part A: Interest adjustment for over and under recoveries of revenue

14.2 For the purposes of Part D of CRC 3 (Restriction of Distribution Charges: Use of System Charges), the value of the interest rate adjustment PRt is to be treated as follows:

(a) in the Regulatory Years beginning on 1 April 2010 and 1 April 2011, PRt will be set in a direction given by the Authority in the Regulatory Year concerned provided that the value directed shall either be zero, 1.5 or 3; ~~and~~

(b) **in the Regulatory Year beginning on 1 April 2012, if circumstances related to the decision not to activate the Distribution Losses Incentive Mechanism (ref 149/12) are deemed by the Authority to have impacted on Regulated Combined Distribution Network Revenue causing either (c) (i) or (ii) to come into effect, and the Authority considers that these circumstances require the PRt to be set to a different value, then PRt will be set in a direction given by the Authority for the Regulatory Year concerned providing that the value directed shall either be zero, 1.5 or 3;**

(c) in other Regulatory Years:

- (i) if, in respect of Regulatory Year t-1, Regulated Combined Distribution Network Revenue exceeds 103 per cent of Combined Allowed Distribution Network Revenue, PRt must have the value of 3;
- (ii) if, in respect of Regulatory Year t-1, Regulated Combined Distribution Network Revenue is less than 97 per cent of Combined Allowed Distribution Network Revenue, PRt must have the value of zero;

and in all other cases:

- (iii) PRt must have the value of 1.5.