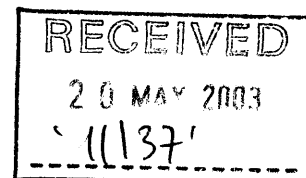




SP Transmission & Distribution



Mr A Walker
Director - Regulation & Financial Affairs
Ofgem
9 Millbank
London
SW1P 3GE

Your ref

Our ref

Date

16 May 2003

Contact/Extension

01698 413476

Dear Andrew,

Regulation of new electricity distribution licence holders

I am writing in response to the paper issued on 16 April 2003. We are responding separately to another paper on MPAS-related obligations for new distributors that was also issued in April 2003.

We broadly support the proposed licence conditions for new distributors, which should help to ensure that companies entering the electricity distribution sector on a commercial basis are subject to appropriate restraints over charging and financial structures.

Our main concern is over the proposed structure of licences for new distributors. With the exception of new condition 50 (charging arrangements), and new condition 54 (credit ratings), the new licence conditions duplicate some of those that currently appear in Section C of the distribution licence. Section B, where the new conditions are intended to appear should contain conditions applicable to all distributors. However, the proposed licence structure will contain different Section B conditions depending on whether or not the holder is a new entrant.

This seems to us an unwieldy structure. It would be simpler if the relevant section C conditions were moved to section B, edited as appropriate for cross references, so that they applied to all licensees. This would ensure that licences remain standardised where possible, and that common numbering of licence conditions was maintained. The existing Condition 46 (credit rating) could be amended in line with the proposed Condition 54 (for existing distributors, Ofgem's consent would still be required for any alternative arrangements to an investment grade credit rating).

Our detailed comments on the proposed Condition 50 are as follows:

Paragraph 1 of the proposed condition requires the licensee to provide use of system charges. Condition 4B already requires licensees to offer terms for use of system. It is not clear what purpose is served by this paragraph.

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Paragraph 3 defines “use of system charges” as those charges applied by the incumbent (ex-PES) licensed distributor. This seems confusing to us (as the condition relates to DuoS charges by the new distributor) . We suggest rewording paragraph 3 so that it reads

“The licensee shall set distribution use of system charges for domestic customers so that, except with the prior written consent of the Authority , the standing charge, unit rate and any other component of charges shall not exceed the corresponding components of charges made by the licensed distributor in whose Distribution Services Area the premises concerned are located.”

In this case, paragraphs 1, 2 and 4 could be deleted.

I hope that these comments are helpful, but please contact me if you need any further information.

Yours sincerely

pp. J Sutherland

Jim Sutherland
Asset Director