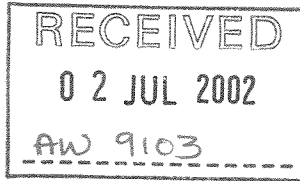


Our ref :
Your ref :



Andrew Walker
Director - Regulation & Financial Affairs
Ofgem
9 Millbank
London
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28 June 2002

Dear Andrew

REGULATION OF ELECTRICITY DISTRIBUTION LICENCE HOLDERS

Thank you for the opportunity to comment on your recent open letter on the regulation of electricity distribution licence holders. I am pleased to provide the views of East Midlands Electricity. We have some detailed comments on the proposals in your letter, and would also like to raise once again some of the more general concerns that EME has regarding Ofgem's work in this area to date.

Firstly, we welcome the suggestion that new distributors should report on the performance of their networks. However, we would prefer to see this extended to include the setting of targets and incentives for such networks, and would want to see the performance of any networks not owned by EME reported separately from ours, and excluded from our own reported performance under IIP. This will become increasingly important as more privately owned networks, over which we have no control in terms of their construction or maintenance, are built.

Your letter suggests that new distribution licensees should not be expected to maintain such a high credit rating as existing distributors are. We agree that small companies are less likely to be able to achieve the same credit rating as larger companies, but believe that this flags a serious issue that has not yet been addressed in Ofgem's process so far. Small companies are inherently more unstable, and the processes for dealing with a small distribution business that has gone into liquidation need to be considered urgently. If the host distributor is to be expected to adopt the assets in such circumstances, this brings very serious issues of criminal liability for assets that the distributor did not construct. The wider issue of adoption of assets by the host distributor was discussed more fully in the recent EA letter to Callum McCarthy, and we look forward to hearing Ofgem's views.

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As you know, EME is supportive of Ofgem's drive to introduce competition in connections, and we recognise that much useful work has been done so far. However, we do not believe that it is appropriate to be progressing on detailed issues such as those discussed in your letter when the overall framework for the connections market is not yet determined. Instead, we believe that the way forward now is to address the significant concerns raised by distributors in their recent letter to Callum McCarthy to establish a clear, agreed basis on which to build a workable, competitive marketplace.

As always, if you would like to discuss any of the points made in this letter further, please do not hesitate to contact me.

Yours sincerely



Lesley Queripel
Regulatory Strategy Manager

cc: Paul Eveleigh
Commercial & Regulation Manager