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Dear Gary

REGULATION OF A NEW ELECTRICITY DISTRIBUTION LICENCE HOLDER

I refer to your letter and Notice of 24 September regarding ENL.

General Principles

We are pleased to note that many of our comments to the consultation last year have been reflected in the proposed licence conditions for ENL. We have consistently argued for an approach that would place identical obligations on all parties that would be operating monopoly businesses. However, there are still some issues that we would wish to comment on.

Charging Arrangements

We welcome your intention to adopt the proposals for charge restriction conditions set out in the letter of 31 May 2002. With regard to encouraging competition, we argued previously that all distribution licences should include an obligation to adopt, where the licensee can specify reasonable requirements for new assets and publish adoption terms that include payments related to future tariff income. This would encourage the competitive connections market whilst still allowing the constructor or developer to take out a distribution licence if they believed that there were further profit opportunities from doing so. We hope our suggestion will be further considered.

Quality of Service

We welcome the intention to introduce similar requirements on new entrants as apply to existing distributors. We note that you will be publishing a consultation paper in due course that will consider tailoring the requirements to reflect the size of new entrants and other specific circumstances. The size of any new entrant should not diminish the level of service that a customer should expect and any "tailoring" should not result in a general lowering of service.

Financial Ring-Fencing

We responded previously that whilst welcoming new entrants, you should exercise caution before seeking to relax any of the ring-fencing provisions for new entrants. We note the proposal to introduce a modified SLC 46 allowing Ofgem to give consent to alternative financial arrangements. It is important for the future that new entrants need to maintain the same financial rigour as existing distributors and the recent problems in generation and supply must act as a warning for the future.

There is no ‘distributor of last resort’ to pick up the consequences of a failed business and given the relaxing of the licence application regulations, we consider that SLC 46 should be monitored carefully for new entrants. The sudden failure of a distribution business, whatever the size, would have more serious direct consequences for customers than we have seen with the recent demise of some supply companies.

Yours sincerely

Mike Boxall
Head of Electricity Regulation