

≡ Scottish and Southern Energy plc

Gary Keane
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Our Reference:
Your Reference:

Telephone: 01738 456400
Facsimile: 01738 456415
email:

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Dear Gary

Regulation of New Electricity Distribution Licence Holder – Energy Networks Limited

Please find below our comment in response to Ofgem's Notice Under Section 8A(3) of the Electricity Act in respect of modifications to the standard licence conditions that would apply to Energy Networks Limited (ENL).

We note that paragraph 5 of Ofgem's Notice refers only to open letters of 31 May 2002 and 24 September 2003. However, we question why no reference is made to the open letter on the same issue dated 16 April 2003 and we would therefore urge Ofgem to also consider the responses/comments Ofgem received to that letter in the content of this particular consultation.

We support the rationale behind Ofgem's intention to modify the standard conditions that would apply to ENL so that ENL's licence will include conditions equivalent to those contained within Section C of the existing Distribution licence in respect of "Restriction on Activity and Financial Ring Fencing", "Availability of Resources", "Undertaking from Ultimate Controller", "Credit Rating of Licensee" and "Indebtedness". Similarly we support the introduction of comparative price regulation for ENL by the application of a new condition on "Charging Arrangements". We also support the creation of a new section (section BA) in ENL's proposed licence that would contain these licence conditions.

Condition 1. Definitions and Interpretation

We understand that the definitions listed in the Annex to Ofgem's Notice will only be amended for the licence of ENL, but that in addition to these, all of the other, unaltered definitions currently contained within Standard Condition 1 of existing Distribution licences will apply to ENL. We therefore ask Ofgem to clarify the nomenclature of the



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Condition 1 that will apply to ENL since, clearly, it will not be the same as Standard Condition 1 contained within the existing Distribution licences. For example, will it become "Amended Condition 1. Definitions and Interpretation"?

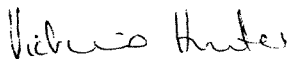
We do not understand why Ofgem has included in this section of the Annex the definitions "Master Registration Agreement", Metering Point Administration Service" and "metering point administration services" as they would appear to be exactly the same as those definitions set out in Condition 1 contained within the existing Distribution licences.


Proposed Condition BA5: Credit Rating

We note that proposed Condition BA5 (Credit Rating of Licensee) allows for the Authority to accept a credit rating for a new distribution licensee that is other than an investment grade issuer credit rating. We do not believe that this is necessarily appropriate and could, we believe, be contrary to the provision for Section 8A 6(b) of the Electricity Act 1989 since the provision for alternative arrangements is not allowed for in the equivalent condition within Section C of existing distribution licences.

Finally, to clarify, we understand that following the outcome of this consultation (and should the conditions included in the Appendix to Ofgem's Notice be applied), ENL's Distribution licence will include: Amended Standard Condition 1, Standard Licence Conditions 2 – 31 inclusive (that is Sections A and B) and new Conditions BA1, BA2, BA3, BA4, BA5 and BA6 contained with Section BA. Should this not be the case we would ask Ofgem to clarify exactly which conditions will apply to ENL.

Yours sincerely



 Rob McDonald
Director of Regulation