

Mr G Keane
Ofgem
9, Millbank
London
SW1P 3GE

23 October 2003

01698 413485

Dear Gary

Regulation of a New Electricity Distribution Licence Holder

I am writing in response to the statutory notice and consultation issued on 24 September 2003.

We understand that the licence modifications proposed represent interim arrangements for the regulation of new DNOs pending a wider ranging review later this year. We look forward to that consultation. As the consultation points out, the Act requires that modifications to standard licence conditions for new licensees should not, in the opinion of the Authority, result in an undue disadvantage for either new or existing licence holders of that type.

We note that the proposed licence changes are in general somewhat less onerous than the corresponding requirements on existing distributors. They also exclude a number of the obligations on existing distributors, for example in relation to charge restrictions for non-domestic premises, IIP, provision of distributor metering and data services, regulatory accounts, business separation and cross subsidies. We also hope that the forthcoming paper will take into account the obligations on existing operating out of their distribution services area, as a number of the obligations mentioned above do not apply in such circumstances. **It is important that artificial incentives for new distributors or for existing distributors operating out of area are avoided.**

As regards the proposed licence modifications our main comment of detail concerns Condition BA1 (charging arrangements).

We believe that paragraphs 1, 2 and 4 are unnecessary. Paragraph 1 requires the new distributor to make domestic DUoS charges available, which appears redundant against the requirement under Condition 4 to set out charges for use of system. Paragraph 2 permits the new distributor to vary his charges within different distribution services areas. We do not see why such a provision is needed.

In order to clarify the obligation to limit domestic DUoS charges for a new distributor to those charged by the DNO in the relevant distribution services area, we suggest deleting paragraphs 1, 2 and 4 and replace paragraph 3 as follows:

“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 to equivalent domestic customers in whose distribution services area the premises concerned are located.”

I hope this is helpful but please contact me if you need further information.

Yours sincerely

Dave Thornton
Regulation Manager
SP Transmission & Distribution