



SP Transmission & Distribution

Mr G Keane
Distribution Policy Analyst
Office of Gas and Electricity Markets
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LONDON
SW1P 3GE

Your ref

Our ref

Date

25 February 2004

Contact/Extension

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Dear Gary,

ELECTRICITY DISTRIBUTION REBATES TO SUPPLIERS DECISION DOCUMENT – DECEMBER 2003

SP TRANSMISSION & DISTRIBUTION RESPONSE

Thank you for the opportunity to comment on your decision document on electricity distribution rebates to suppliers. We agreed that this response could be sent today, despite being after the original deadline of 20 February.

In general, SP Transmission & Distribution feel that the package of proposals set out in December's Decision Document could lead to perverse results when combined with the existing "best endeavors" requirement to set charges within the price control ceiling. We believe that this could lead to a situation where significant reductions in charges take place for a short period of time at the end of a financial year, to be followed by a significant increase at the start of the following year. Given that one of the key principles in developing charges is predictability we believe that the situation above is undesirable.

Although SP Transmission & Distribution have not used rebates in recent years, we continue to support their availability as a tool to manage compliance with price control while avoiding fluctuations in tariffs.

The proposal to reduce the notice period for indicative charges to 3 months is welcome, but will still mean that notice of any intra-year price changes will need to take place halfway through the year or earlier if they are to have any real impact on total revenue within the year as a whole.

SP Transmission & Distribution do not agree that approval of charging methodology itself implies the need for approval of individual rebates on each occasion. Furthermore, we believe the criteria for rebates receiving consent would need to be transparent for companies in order to help reduce the risks stemming from over-recovery.

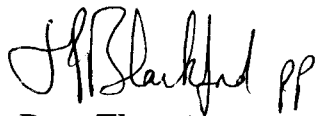
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We welcome the proposed reduction in the interest rate premium for over-recovery. However, given the proposed limitation on companies being able to manage their price control position through the year, the 'deadband' should be increased to 3% of allowed revenue. This will help to avoid companies being penalised for factors beyond their control, where sales mix, weather, or other factors lead to outturn revenue exceeding the cap.

I hope this is helpful, but please contact me if you would like to discuss further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Thornton', followed by the letters 'pp'.

Dave Thornton

Regulation Manager, SP Transmission & Distribution