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Dear Donna

Regulation of Independent Electricity Distribution Network Operators – Consultation Paper

National Grid Transco (NGT) welcomes the opportunity to submit our views in respect of the above consultation.

Credit arrangements

NGT's response to Ofgem's September 2003 consultation "Modification of standard licence conditions for a new electricity licence holder" articulated our concerns about the possible impact of relaxing the credit framework through the introduction of alternative arrangements in the licences of Independent Distribution Network Operators (IDNOs). We are disappointed that Ofgem has retained these aspects of the proposed regime in their latest IDNO consultation and wish to reiterate our arguments against them.

We argued against alternative credit arrangements in our previous responses because of the interaction with the approved credit rating under the Connection and Use of System Code (CUSC). Currently, users signing up to the CUSC who fail to meet A- have to put in place credit unless they meet the credit rating requirement of their licence, in the DNOs case BBB-. The proposed two tier alternative arrangements, where the IDNO credit rating requirement may be satisfied by third party bonds, bring some ambiguity as to whether the IDNO meets the credit rating required by the CUSC, with the obvious impact of increased financial risk to NGT in the event that an IDNO connects to the transmission system. Where new IDNO applicants have met these relaxed requirements during their licence application, it is unclear whether, when signing up to the CUSC, the requirement to put credit in place could be satisfied by third party bonds.

Whilst we recognise and support Ofgem's intention to promote competition in the distribution of electricity through the growth of IDNOs, we strongly believe that this goal should not be pursued at the expense of the requirement to guarantee industry wide financial security. In the light of this we would urge Ofgem to review these proposals and take into account the potential adverse impact on financial assurance within the electricity industry.

Definition of de-minimis activities

Paragraphs 6.6 and 6.7 address the restrictions upon activity in licence condition BA2. We agree that it is appropriate for activities to be restricted such that de-minimis revenue is restricted to 2.5% of the transportations business turnover and de-minimis investments limited to 2.5% of the sum of the licensees share capital, share premium and consolidated reserves. However, we believe that the definition of investment should mirror that in NGC's and Transco's licences, thereby permitting

the netting off of revenues arising from de-minimis activities when calculating de-minimis restrictions.

In their June 2003 consultation "Second consultation on electricity licences under BETTA", section 10.64, Ofgem state that NGC's licence should retain the de-minimis definition whereby revenues are netted off against costs. Ofgem further acknowledge that it is their intention to bring the de-minimis definition in the Scottish transmission companies licence's into line with that of NGC. We therefore consider that in the interests of consistency this principle should be applied to the IDNOs as well, otherwise the cumulative effect of operating costs associated with de-minimis business will require these activities to be ceased over time, the more so according to the success encountered.

If you require any further information or wish to discuss this response please contact me on the telephone number above.

Yours sincerely

By e-mail

Tim Tutton