

Martin Crouch
Director - Distribution (Networks Division)
Ofgem
9 Milbank
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18 January 2005

Central Networks Response - Distribution Price Control Licence Modifications and Draft RIGs

Dear Martin,

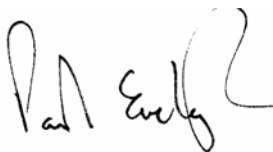
This letter forms Central Network's (CN) response in respect of the draft licence modifications and draft RIGs documents published as part of the DPCR4 Final Proposals, namely the:

- Draft price control licence modifications;
- Price control reporting framework: Regulatory Instructions and Guidance; and
- Distributed Generation Incentive; Innovation Funding Incentive; Registered Power Zones: Regulatory Instructions and Guidance.

CN have taken part in the industry group review of these documents and we fully support the response and amendments submitted by Roger Barnard on behalf of the group. We trust that sufficient time will be allowed at the meeting of the Joint Legal Working Group on 26th January to address the small number of issues of policy that have been identified by the DNOs. CN's additional comments are given overleaf.

If you wish to discuss any of our comments or to seek further clarification please contact George Moran on 01332 393326 in the first instance. CN will continue to participate in the consultation process, with the aim of ensuring that the licence modifications and RIGs replicate the principles and policy agreed to in accepting the distribution price control proposals.

Yours sincerely



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CN additional standard and special licence condition comments:

Ref: Special Condition (SC) Standard Condition (C)	Comment / Correction
SC B1; Annex B; Central Networks East plc	Value of P_0 for LV2 category is incorrect – should be 0.1680
SC B1; Annex C; Central Networks West plc	Value of MR_t is incorrect – should be 3.124
SC F1; para 7	<p>The formula in this paragraph needs to be amended to:</p> $MAPPC_t = [MEAP_i/ELA_i + MEAP_i * 6.9/200 + 0.242] \times PIT_t$ <p>The reasons for the change are:</p> <ol style="list-style-type: none"> 1. The original pricing formula does not reflect Ofgem's intent that it should represent “a price that reflects the modern equivalent asset value spread over the expected life of the meter plus a 6.9% pre-tax cost of capital and operating costs allocated on a per meter basis” 2. The original formula would drive pricing differences across regions (even in the same company) for the same meter 3. The logistics of maintaining average lives of all meter types year on year will be extremely cumbersome (not something done at present). <p>Our proposal is a simpler and more consistent approach.</p>
SC F1; para 12	The proposal that Ofgem should determine expected life based on supplier activity will by its nature only happen after the event - providing even less recovery for the DNOs. DNOs should be in the position to take a reasonable view on the expected behaviour of suppliers in the year when setting tariffs for that particular year.
SC F1; para 12	Due to the disaggregated price caps any stranding of a specific PPM type is going to accelerate stranding of that type.
C42; para 5(a)(ii)	We don't believe that this is possible without the Authority engaging with the auditor and the DNO via a tri-partite engagement letter or a bi-partite letter with a written notice.