

Mr C Green
Networks – Distribution
Ofgem
9, Millbank
London
SW1P 3GE

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Jeremy Blackford
0151 609 2346

Dear Colin

DPCR Licence Modifications and Regulatory Instructions and Guidance (RIGs)

I am writing on behalf of SP Distribution and SP Manweb in response to your e-mail request of 16 December 2004 for written comments relating to policy and drafting for the licence modifications and associated documents published in early December 2004.

We acknowledge the considerable progress that has been made on both the licence changes and the RIGs since the summer of 2004, and appreciate the cooperative approach taken by Ofgem in dialogue with DNOs during this period.

However, it is clear to us that some significant further work remains necessary, during and after the meeting on 26 January. As you may know we have been working with other DNOs on the draft documents published in December, and a joint commentary is being sent to you on behalf of DNOs that we broadly support. Aside from that, issues of particular concern to us include the following.

- **DNO-specific parameters**

We understand that remaining values will be issued on 31 January, and we look forward to seeing these. Those that are contained in the December 3 licence drafting appear to be correct with the exception of the tariff basket weights contained in appendix B of special licence condition B1. The values for the HV and LV1-LV3 weights for SP Distribution and SP Manweb are the same as those contained in the June 2004 initial proposals. Since that time, we have sent to Ofgem updated values based on illustrative tariffs for 2004/05, and we included the updated values in our response to the September 2004 Update Paper. The relevant text and figures are reproduced below.

SECTION 1: Licence amendments - Some key outstanding issues

1.1 Tariff basket weights in price control

The June 2004 DCPR initial proposals included new estimates made by Ofgem of tariff basket weights. Since that time each DNO has submitted to Ofgem illustrative DUoS tariffs and a revised DUoS charging methodology on which these are based. The methodology for SP Distribution and SP Manweb is intended to provide enhanced cost-reflectivity. The corresponding tariff basket values per unit are therefore more suitable as revised weights in distribution price control. For convenience, the values are set out below.

| | <i>SP Distribution</i> | <i>SP Manweb</i> |
|------------|------------------------|------------------|
| <i>LV1</i> | <i>2.7442</i> | <i>1.8699</i> |
| <i>LV2</i> | <i>0.6794</i> | <i>0.6016</i> |
| <i>LV3</i> | <i>1.8388</i> | <i>1.4532</i> |
| <i>HV</i> | <i>0.7426</i> | <i>0.6020</i> |

I would be grateful if you would ensure that these updated figures are incorporated into the revised licence drafts to be issued at the end of January.

- **Revenue and DG RIGs**

Both of these documents require further work to ensure consistency with the licence, and to remove areas of ambiguity and duplication. We strongly support a separate meeting early in February between DNOs and Ofgem to discuss both documents in order to put them in a more satisfactory state for use from April 2005.

- **All RIGs documents to be subordinate to the licence**

The draft revenue RIGs include the form of words below that should appear in all RIGs documents in order to clarify that the licence takes precedence.

"For the avoidance of doubt this RIGs document is subordinate to the licence conditions that may apply to the determination of allowed revenues or which contain associated reporting obligations. Consequently, the RIGs will not change any definitions or obligations contained within the distribution licence and in the event of any dispute the licence conditions will always take precedence."

- **Recovery of uncertain costs (SC A3) – application in Scotland**

The joint drafting submitted by DNOs refers to the Transport (Scotland) Bill, as enacted, in order that references to the Traffic Management Act 2004 also work as appropriate in Scotland.

- **Incorporation of post-BETTA definitions**

The December drafting includes 'pre'-BETTA references to interconnectors, Scottish interconnection, Scottish Grid Code etc. that should not apply if go-live occurs on 1 April 2005.

I hope that this is helpful, but please contact me if you need to discuss any of the above points further.

Yours sincerely

Jeremy Blackford
SP Transmission & Distribution