

Chris Watts
Head of the Quality of Service Team
Ofgem
9 Millbank
SW1P 3GE

Tim Tutton
UK Director of Regulation

tim.tutton@ngtuk.com

Direct tel +44 (0)1926 653140

Direct fax +44 (0)1926 656520

17 November 2004

Dear Chris

Open Letter on Ofgem's proposals to implement revised standards of performance arrangements for electricity distributors

We support the proposal to limit DNO exposure to 2% of price control revenue for interruptions under severe weather conditions. This approach reflects the need to achieve a balance between adequate protection for customers and mitigating risk arising from such events to DNOs. By contrast, Transco currently faces a much higher level of overall exposure for failure to restore supplies to domestic customers following unplanned interruptions, which could amount to £50 million for a single incident. In the post network sales environment, each licensee will inherit this same level of financial exposure, which could amount to a factor of 10 times that proposed for DNOs i.e. 20% of a gas networks allowable revenue. This is an issue that we consider will need to be addressed as part of any future price control for gas distribution networks.

Regarding the issue of whether there should be a cap on the size of events which are covered by compensation payments, we believe that such a mechanism is desirable because, as Ofgem has identified, an incident could be so severe that, despite the extra time allowed under the square –rule, a significant amount of customers could still be off supply after the allowed period, giving rise to compensation running into millions of pounds. As a proportion of these costs would be passed through to customers, this could result in a significant rise in distribution charges in subsequent years.

I hope the above is helpful.

Yours sincerely

Tim Tutton