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Dear Chris

Revised Standards of Performance arrangements for electricity distributors

You have invited comments on the draft Statutory Instrument 2005- The Electricity (Standards of Performance) Regulations. Overall, we welcome the revised layout which has in our view made the Regulations much clearer and easier to understand, particularly for the “lay reader”.

We also support the main changes:

- separating the existing 18 hour guaranteed standard for supply restoration into two standards covering normal and severe weather;
- extending the guaranteed standards to all distributors;
- removing the overall standards for distributors; and,
- setting out procedures for determining disputes.

Supply restoration under normal and severe weather

With regard to the severe weather standard, we still believe that it is appropriate to cap the size of events that are covered, for precisely the reasons that are set out in the consultation paper. In our view, it is not good regulatory practise for distribution prices to rise significantly following an extreme event simply due to the large amounts of compensation being paid out. This is in effect no more than a cross-subsidy of rural customers by urban customers. We continue to support the ENA proposal of a “Category 4” event, applying above a threshold of 50% of exposed customers, where normal standards of performance arrangements should not apply.

We also continue to believe that it is not appropriate for the severe weather standard (Regulation 6) to apply to the Highlands and Islands of Scotland. Our reasons for this were set out in detail in our letter to Ofgem dated 18 October 2004. We are not seeking to weaken the existing protection for customers, simply to recognise the unique circumstances. In our view, the proposed Regulation 7 (Supply Restoration: Highlands and Islands) addresses our concerns and is in line with the proposal we put forward in our letter.

Extension of the standards to IDNOs and DNOs operating out of area

Although we agree that the distribution guaranteed standards should be extended to IDNOs and DNOs operating out of area, we do not support the proposed arrangements for making payments to customers. The proposed arrangements could result in protracted delays, while the IDNO and the host DNO agree liability, before customers receive compensation. In our view, this is not good customer service. Instead we suggest that the IDNO/DNO to whose network the customer is connected should make the initial payment and then claim compensation from the upstream DNO as appropriate.

Finally, with regard to Regulation 8 – Supply Restoration: Multiple Interruptions. We are disappointed that the opportunity has not been taken to bring the overall cap into line with the severe weather standard. We have raised this several times in our consultation responses, yet have yet to see any recognition of our concern. In our view, the cap of 500,000 customers GB-wide is meaningless. For example, it is not usual for the same severe weather event to affect both Hydro's area and the rest of GB. Therefore, in effect over 75% of Hydro's customers would have to have their supply interrupted before this cap applied. This is unrealistic. Although we recognise that payments made under the supply restoration standards do not count towards the multiple interruption standard, we still regard this cap as an anomaly.

I hope our comments above are helpful. If you would like to discuss any of the points raised then please call.

Yours sincerely

Rob McDonald
Director of Regulation