

Chris Watts
Head of the Quality of Service team
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Direct Line 01925 237096
mike.boxall@uuplc.co.uk

10 November 2004

Dear Chris

OPEN LETTER ON OFGEM'S PROPOSALS TO IMPLEMENT REVISED STANDARDS OF PERFORMANCE ARRANGEMENTS FOR ELECTRICITY DISTRIBUTORS

I refer to your open letter on the above dated 22 October.

As you are aware, the Industry steering group chaired by Roger Barnard has been discussing the drafting of the Statutory Instrument (SI) both within the industry and with Ofgem and we will therefore leave further drafting proposals to that forum. However, we would like to comment on two policy issues raised in your letter.

Cap on the size of events

We have always argued that a cap is appropriate particularly as it is included in the overall exposure of 4% for all quality of supply related matters during the next five years. As suggested in your letter, the lack of a cap could lead to large amounts of compensation being paid out which would have a material impact on a DNO's financial position. Clearly, such an eventuality would not be in the interests of the company or the generality of customers where a proportion of the costs are passed through to customers. The experience both nationally and for this company suggests that a widespread severe event could take much longer to repair than the four days referred to in your letter. Whilst such a severe occurrence has a low probability, the weather pattern of recent years suggests that probability is more likely than in the past. We still believe that there should be an upper limit beyond which extremely severe weather is exempted from compensation and is included in the SI and we support the upper threshold of no greater than the equivalent of 50% of exposed customers.

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

We remain particularly concerned about your proposals as we have indicated to you at the recent Legal/Licence group meetings. We have always argued in the past for DNOs and new entrants to operate on a level playing field and this means that an IDNO must not be artificially protected from their obligations to customers. We believe your proposal would

artificially protect IDNOs as the customer would not be paid in the event of a loss of supply involving more than one DNO until the DNOs/IDNO agreed where fault rested or Ofgem determined a dispute. This would not be a timely or straightforward process and would leave the customer that has claimed a payment feeling increasingly annoyed at the delay. It would also put further pressure on energywatch staff that would have to deal with those customers. Our own discussions with energywatch suggest that they agree with our reservations on this proposal.

We suggest that the easier approach for customers, companies and Ofgem would be for the DNO/IDNO to whom the customer was directly connected to have the obligation to make the initial payment. The companies in dispute can then attempt to resolve who is responsible without the customer being unduly affected. We are sure the draft Statutory Instrument could be amended to reflect this alternative approach.

We understand Ofgem are concerned with this alternative proposal as an IDNO might have to make some large initial payments in certain scenarios. However, as indicated above, distributors, whether they are long established or new entrants, must be treated fairly and the Ofgem proposal seems only to add to a customer's frustration after they have suffered a loss of supply in circumstances where responsibility is unclear.

We hope Ofgem will consider our comments with a view to making the appropriate changes before the new changes are introduced in April 2005.

Yours sincerely

Mike Boxall
Head of Electricity Regulation