

Statement by the Gas and Electricity Markets Authority, following an investigation into compliance by SP Manweb with obligations in its distribution licence relating to the calculation and reporting of units distributed and losses

10 January 2006

Background

1. The Gas and Electricity Markets Authority (the Authority) grants licences for the distribution of electricity. It has a duty to take enforcement action where it is satisfied that a licence obligation is being, or is likely to be, contravened and may impose a financial penalty in respect of a past or continuing contravention. In taking or considering enforcement action, the Authority can ask a licensee to provide information on its distribution activities.
2. SP Manweb plc and SP Distribution Ltd are two licensed electricity distribution network operators owned by Scottish Power (SP) plc.

The Investigation Remit

3. Ofgem¹ has conducted an investigation concerning obligations in SP Manweb plc's distribution licence relating to the reporting of units distributed and losses. This information is used to calculate the level of income due to / from each distribution licensee in respect of the losses incentive which is designed to encourage distribution licensee to reduce losses on the distribution system.
4. The investigation followed queries by a number of suppliers and large customers concerning the level of distribution charges in SP Manweb plc's area for 2005/06 and Ofgem's own analysis of the movement in charges from the previous year.

Conclusions

5. During the course of the investigation, Ofgem raised concerns in respect of losses based on the evidence provided by SP. Following discussion with SP, Ofgem considers that its concerns can be satisfactorily addressed by licence modifications and other actions as set out in paragraph 7 below.
6. SP Manweb plc and SP Distribution Limited have agreed to licence modifications, and a notice pursuant to section 11 of the Electricity Act 1989 is being published today.
7. SP Manweb plc and SP Distribution Limited have also agreed to take the following steps: -
 - a. To restate prior year losses and revenues to reflect units held on the balance sheet, based on settlement data at a date to be agreed with Ofgem, and to provide audited price control returns to Ofgem on that basis; and
 - b. To agree with Ofgem an approach to making initial losses estimates going forward.
8. In light of paragraph 7, no enforcement action is intended to be taken against SP Manweb plc.

¹ Ofgem is the office of the Authority