



SP Transmission & Distribution

Mr J Scott
Technical Director
Ofgem
9 Millbank
London
SW1P 3GE

Your ref

Our ref

Date

7 April 2006
Contact/Extension

Jeff Hunt

01698 413439

Dear John

P2/5 Compliance - Distribution Licence Condition 5

I am writing on behalf of SP Distribution and SP Manweb in response to your open letter of 28 February.

We welcome the opportunity to comment on issues relating to P2/5 and the Condition 5 requirements. It is our considered view, however, that there is little in Ofgem's proposals to warrant a departure from the current derogation provisions.

We agree with the statement in the letter that it is in the wider interests of customers that companies should use their best commercial and engineering judgement in assessing the need for reinforcement against predicted demand. We also agree that P2/5 compliance needs to be considered alongside the IIP incentives to manage Customer Interruptions (CI) and Customer Minutes Lost (CML). These provide a stronger and more focussed incentive deliver security of supply at lower voltage levels than P2/5. However, it does not follow from this that departure from P2/5 in respect of smaller demand groups should be subject to a general but conditional derogation.

Our main difficulty with these proposals is that for the categories of non-compliance concerned they amount to gathering and retaining all the evidence that would be required for a derogation request, without this actually having to be submitted to Ofgem. The licensee involved would take a view that this met the criteria set out, but short of applying for a derogation it would have no means of confirming its position. In effect, the licensee would carry out most of the work involved in preparing for a derogation request, but would not receive the benefit of the derogation itself. The proposed arrangements therefore appear to pose increased risks to companies without clear offsetting advantages. At this stage we therefore do not see the case for a change from the status quo.

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If Ofgem nevertheless decides to proceed with these proposals, it is important that the derogation criteria are clear. For example, the proposed requirement that non-compliance “... *does not have a significant impact on the performance of the overall system*” is open to a range of interpretations. Further consultation would be needed to limit the scope for ambiguity or misunderstanding as far as possible. It might be appropriate for DNOs to work jointly with Ofgem to develop more detailed criteria in this area. In addition, in this case we would expect Ofgem to review and approve our processes for managing compliance with the revised arrangements. This would help us to manage our risk of non-compliance, and reduce the possibility that following an incident our processes were judged adversely with the benefit of hindsight.

I am conscious that this is a somewhat negative response on this occasion, but although there are some helpful observations in the letter relating to P2/5 compliance, we do not at present see a clear case for departing from current derogation provisions.

I hope that this is helpful, but please contact me if you would like to discuss.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Hunt', followed by two small vertical lines.

Jeff Hunt
Price Reviews and Technical Manager
SP Transmission & Distribution