

Alistair Buchanan
Chief Executive



Our ref: AB 48-07VHL
Sr Ignacio Sanchez Galan

*Promoting choice and
value for all customers*

23rd April 2007

Dear Sr Galan

Iberdrola – takeover of ScottishPower

I understand that you have now finalised the purchase of ScottishPower. As with all the companies which Ofgem regulates we look forward to a constructive working relationship. As you would expect we place great value on transparency and clarity.

Our first meeting, with yourselves as owner, is currently being arranged for early summer. In advance of that meeting I will write to you to set out the issues that I think we need to discuss.

On a more immediate note I want to make sure that you are aware of a pressing issue surrounding the treatment of ScottishPower's electricity consumers who have token prepayment meters. These meters require to be manually recalibrated in order to reflect changes in electricity prices. As a result of a strong upward movement in energy prices across the sector, some of these consumers have found themselves exposed to debt due to the fact that the increased tariff is applied to their consumption from the date of the price increase but the impact of this change in price is not evident to the consumer until the token prepayment meter has been recalibrated. In some cases customers have not had their meters recalibrated for many months – which can lead to considerable debts being built up.

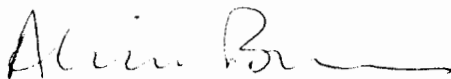
This issue has attracted significant public interest particularly within Scotland, not least because prepayment meters are often used by vulnerable customers who use these meters as a means of managing low household incomes and, importantly, to avoid the build up of debt. Around 50,000 ScottishPower meters still need to be reset.

There is active lobbying for Ofgem to act directly to force ScottishPower to resolve this situation. Ofgem recently appeared before the Scottish Parliament Cross Party Group (SPCPG) on Tacking Debt to answer questions on ScottishPower's policy in this area. There has also been a vote in the House of Commons condemning this practice. The SPCPG – who have also made their views known to ScottishPower – expressed serious concerns on this issue and contrasted ScottishPower's position with the decision by a number of your competitors not to apply tariff increases to token prepayment customers until the meter has been recalibrated. The consequence of which means that their customers do not build up debt as a result of the time period in between the announcement of the price increase and the recalibration of the meter.

At the end of last year the three suppliers who do 'back-date' these charges gave important commitments to improve performance – linked to our best practice statement. We preferred this approach to formal regulation recognising that suppliers could take different approaches to tackling the issue, provided that they treated customers fairly. However recent evidence suggests that there has been a significant slow-down in progress on ScottishPower's programme.

I have written to Philip Bowman on this issue, expressing my concern over recent slow progress and seeking a full explanation. I have also asked my colleagues to look at what further regulatory action we might take if we deem it to be necessary. Both of these letters will be published on Ofgem's website later this week.

Yours sincerely



Alistair Buchanan
Chief Executive

Cc Philip Bowman