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*Promoting choice and
value for all customers*

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Date: 24th May 2007

Dear Natasha,

ELECTRICITY ACT 1989: NOTICE OF DETERMINATION OF ADJUSTMENT FACTOR (AF_t) UNDER SPECIAL CONDITION F1 OF THE DISTRIBUTION LICENCE OF WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

On 27th April 2007 the Gas and Electricity Markets Authority ("the Authority") received notification from Western Power Distribution of its intention to apply an adjustment factor (AF_t) to the price controls on legacy basic meter asset provision, as set out in Special Condition F1, Part B of the distribution licence of Western Power Distribution (South Wales) plc ("the licensee"). The adjustment factor is intended to recover a proportion of asset stranding costs for token prepayment meters within the licensee's distribution services area.

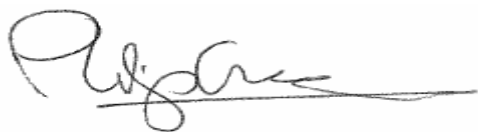
Following consideration of this notification, the value of AF_t has been determined as £0.99 per meter across all price-controlled meters in the South Wales distribution area. This adjustment may be applied by the licensee over an adjustment period of 18 months, between July 1st 2007 and 31st December 2008. This reflects an estimated recoverable stranded cost for token prepayment meters (PPMs) of £1,449,825.

In accordance with section 49A(3) of the Electricity Act 1989, the Authority's reasons for making this determination are in order to allow the licensee to recover 30% of the efficient costs incurred or likely to be incurred as a consequence of a supplier's decision to replace one prepayment meter technology with another, as set out in Special Condition F1, paragraph 10 of the distribution licence of Western Power Distribution (South Wales). In making this determination, the Authority has consulted with the licensee and given full regard to its statutory duties, the purpose of the relevant licence condition and to the methodological guidelines published by the Authority.

As set out in the methodological guidelines, if the replacement of legacy token prepayment meters occurs significantly faster than assumed in the determination of the AF_t, then Western Power may submit a subsequent application for a further adjustment to be applicable. Conversely, if the replacement of legacy token prepayment meters is significantly slower than assumed in the determination of the AF_t, then Western Power will apply a 30% discount to the tariff cap for those meters for which replacement is delayed.

If you have any queries please do not hesitate to contact Duncan Mills on 020 7901 7443.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Davies', with a long horizontal line extending to the right.

Philip Davies
Director, GB Markets
Ofgem

For, and on behalf of, **The Gas and Electricity Markets Authority**