



Your ref COp/THS

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Dear Simon,

Electricity Distribution Licence Review: Proposals

I am writing on behalf of Northern Electric Distribution Limited (NEDL) and Yorkshire Electricity Distribution plc (YEDL), the licensed electricity distributors of CE Electric UK Funding Company Ltd (CE Electric UK), in response to Ofgem's consultation dated 25 October 2007 on its distribution licence proposals.

We applaud the initiative that has been taken to review the distribution licence in this way and would welcome seeing that initiative taken just a little further at this stage, in two areas:

- It has never been clear to us exactly what is meant by the word "form" in the context of the requirement for Ofgem to approve the form of a number of charging-related statements. This would seem an excellent opportunity to provide desirable clarity in this area; and
- This would seem also to be an excellent opportunity to review the content of relevant RIGs against the content of the corresponding licence conditions, particularly where mandatory actions or reporting requirements are specified in the RIGs rather than in the licence condition or where, in relation to current SLC4F, an annual reporting requirement is specified in the licence but a quarterly reporting requirement is stipulated in the associated guidance document.

So far as the treatment of the special conditions of the distribution licence is concerned, we would support the proposal set out in paragraph 2.40 of the consultation document, to modify special condition A1 as proposed pending the necessary detailed review of the special conditions. We would also support Ofgem's preference for the statutory consultation to be carried out at the level of a single proposed licence modification.

We are firmly of the view that there is no longer any useful purpose to regulatory accounts, their previous usefulness having been completely eclipsed by RRP, and we would urge Ofgem to follow up on the logic of that: to do so would certainly be completely in keeping with the objectives of the current review.

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We fully support the significant consolidation of the obligations on DNOs and IDNOs in the distribution licence and believe that the distinction between the two groups of licensees should be minimised.

A number of other substantive comments are attached as an appendix to this letter. I have separately identified a number of typographical, punctuation etc errors in the draft licence conditions and shall e-mail you a list of these at the beginning of next week.

I hope you find these comments helpful. If you have any questions or would like to discuss any of the issues raised in this letter, please do not hesitate to contact me.

Yours sincerely

Tony Sharp

Tony Sharp
Regulation Manager

Appendix

CE Electric UK

Substantive comments on Appendix 3 to Ofgem's 25 October 2007 consultation on Electricity Distribution Licence Review: Proposals

Condition 1

- Whilst an alternative to the term “de minimis business” would be well in keeping with the spirit of the review, the use of “Ancillary Business” would seem to have the potential to confuse, given that this is something that is separate from “Distribution Business”, which is itself capable of containing within it “any business that is **ancillary** to the business in question”. Thus the term “ancillary business” could relate to something that was part of “Distribution Business” as well as to something that was expressly not part of it. One of these two usages of the word “ancillary” could usefully be changed.
- The definition proposed for “Application Regulations”, in referring in its third line to “an Electricity Distribution Licence”, appears to limit the obligation set out in PLC12.9 when compared with the current SLC4D(8) and runs counter to the current definition.
- In defining Excluded Services as services that are ancillary to the distribution of electricity through the licensee’s Distribution System, the draft would appear to rule out the existing category of excluded service that is so designated at paragraph ES1 of Appendix 1 to special condition A2 (namely the distribution of EHV units (to post-April 2005 sites)).
- Under the proposed definition of “Exit Point”, the phenomenon of losses could make the whole Distribution System an exit point.

Condition 4

- The wording of paragraph 4.1 would place all of a licensee’s activities under the condition 4 obligations – should it not be limited to “Distribution Business”?

Condition 7

- This condition, at paragraph 7.11, places charging in accordance with charging statements within the scope of determination by the Authority, but appears not to do the same in respect of charging in accordance with charging methodologies, which would be a change from the arrangements currently existing in SLC4E(4). If this is deemed to be covered elsewhere, it could usefully be brought into this condition.

Condition 9

- Notwithstanding what is stated in paragraph 9.5, the dropping from the statement referenced in paragraph 9.3 of the obligation for the licensee to set out how it would ensure compliance with the Rights of Entry (Gas and Electricity Boards) Act 1954 represents a relaxation of the current obligation.

Condition 11

- As this condition brings into the licence a specific requirement to provide information relating to the licensee’s dealings with customers under the Electricity (Standards of Performance) Regulations 2005, it could usefully include appropriate reference to the Ofgem “best practice” document, not least as this sets out the reporting requirements and reporting template, and is also the only source of stated obligations relating to audit of arrangements in this area.

Condition 12

- There has been no justification provided for throwing the onus on licensees (in paragraph 12(2)(b)) to ensure that a connection request it receives is compliant with S16A of the Act. It would seem more reasonable to make the requirement instead “to take all reasonable steps to **assist the requester** to ensure that it does so comply”.
- Paragraph 12.7 refers only to agreements for use of system, but the current obligation (in SLC4D(7)) covers connection agreements as well.

Condition 13

- The charging power set out in paragraph 13.9 is limited to reports produced under paragraph 13.8, whereas under current arrangements (SLC4(8), SLC4(7) and SLC4B(14)) that power extends also to the methodology statements referenced in paragraph 13.1.

Condition 15

- The reporting requirement set out in the licence, at paragraph 15.9, is an annual one. The reporting requirement set out in the associated guidance document is a quarterly one. It would be helpful if the opportunity could be taken to bring the two into line by providing scope for quarterly reporting in the licence itself, not least because the provisions of paragraph 15.12 do not extend to altering the reporting frequency set out in the licence.

Condition 20

- Paragraph 20.9 says that the Fuel Security Code has effect as a standard condition of the licence. Given, for example, that it cannot be made subject to S11A procedures, this wording is perhaps incorrect and could benefit from the addition, say, of “if it were” between “as” and “a”.

Condition 25

- The changed wording in paragraph 25.6 would not necessarily make a direction without notice invalid, as existing SLC25(10) does.

Condition 28

- The wording of paragraph 28.2 might perhaps extend Schedule 3 and 4 powers to Ancillary Business (currently de minimis business), whereas current SLC31A(1) limits it unequivocally to “Distribution Business”. It is not clear whether such a change might have been intended.

Condition 35

- The way that paragraph 35.4 is worded, it would appear to limit the obligation in respect of Convenience Customers to directions made in connection with an application under the Application Regulations, which would seem to exclude the existing DNOs, who have this obligation in their current licences.

Condition 46

- The wording in paragraphs A6 to A8 of Appendix 1 appears to overlook Specified Information detailed under paragraph A3(a).