

Rachel Fletcher
Director, Electricity Distribution
Ofgem

13th May 2008

Dear Rachel,

Delivering the electricity structure of charges project

I am responding to your recent consultation on the above subject, on behalf of Central Networks East and West.

We share Ofgem's desire for more cost reflective charging for network use and for greater recognition of the role of embedded generation in reducing demand driven reinforcement.

Central Networks has worked closely with ScottishPower EnergyNetworks and SSE Power Distribution, together known as 'G3', since the end of 2006. Before this we contributed fully to the work undertaken by the joint DNOs, under the auspices of Ofgem's ISG and the ENA.

G3 has developed a methodology which encompasses demand and generation at all voltage levels, which recognises both the costs and benefits of embedded generation and which delivers appropriate locational signals to all EHV customers. These signals include negative prices for embedded generators, where appropriate. As such, we believe we have a complete package that better meets our licence conditions, that effectively delivers Ofgem's objective of increased economic efficiency, and which better facilitates competition in generation.

The G3's work has been complex and has taken some time to bring to fruition. We used a specialist consultant to help develop the mathematical modelling and subsequently commissioned critiques of our work by two leading economic consultants. Copies of these critiques have been passed to your team. We also undertook extensive stakeholder engagement, formal consultation and many detailed discussions with your team including detailed demonstrations of our models.

As the culmination of this work, SP recently submitted the first two modification proposals to the Authority. Central Networks is finalising work on the numbers and will submit proposals by the end of June. Central Networks' proposals will be substantially the same as those submitted by SP. To underline this and to provide further comfort about our intentions, we plan shortly to give your team draft copies of the documentation which we will submit. I hope this will be helpful to you.

G3's common methodology, when implemented in all six service areas, will bring the benefits of more cost reflective charges to around half of all electricity customers in the UK.

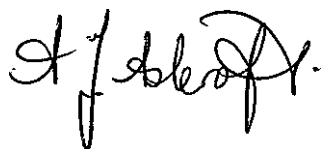
We believe that it would be highly counter productive for Ofgem to now intervene in the Structure of Charges Review via either of the alternative licence modifications proposed in the consultation, and support the response to your letter made by the ENA on behalf of DNOs. If we are forced to change direction at this stage we believe that a huge amount of work will be wasted, and significant amounts of time will be required to agree the new way forward and then to implement it. This would be particularly difficult if development of a common methodology is mandated. Furthermore we do not believe there would be any realistic expectation that the final product would be better than that which G3 has already produced, or that it would be delivered sooner.

G3 is the only collaborative group of DNOs in this field, and we believe this collaboration has resulted in a superior product. We have consistently offered to share the G3 methodology with other DNOs and remain open to additional members to the group. We believe the G3 methodology would be an excellent 'blueprint' for a common approach.

Having said this, we do not believe anyone has the definitive 'right answer' for a Structure of Charges methodology at this stage, when the relative effectiveness and acceptability of different approaches is largely untested. Standardisation of methodologies across all DNOs would take away the opportunity the industry now has to test and learn from the different approaches. We therefore believe that DNOs should be allowed to continue with their individual developments, with a view to future comparison, innovation and iteration, leading finally to a better common approach.

We hope that you will find the SP proposal of benefit in progressing this issue and trust that you will assess whether such proposals better meet your objectives and our licence conditions and will support them accordingly.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Ashcroft', written in a cursive style.

Jonathan Ashcroft
Regulation Manager