

Rachel Fletcher
Director Distribution
Ofgem

24 October 2008

Structure of Charges - Collective Licence Modification Proposal ref. 137/08

Dear Rachel,

This is formal confirmation that Central Networks will not raise a statutory objection to the proposed Collective Licence Modification (CLM).

In reaching the decision not to object we have assessed various risks associated with the CLM in light of our previously stated concerns, both about the common methodology itself and the plans for its implementation. We are still not fully comfortable with these risks, but are somewhat reassured by various statements indicating Ofgem's willingness to be flexible and pragmatic in dealing with any 'anomalies' that may be thrown up during implementation.

Setting aside our continuing concerns, Central Networks will do everything possible to see the structure of charges project through to a successful conclusion.

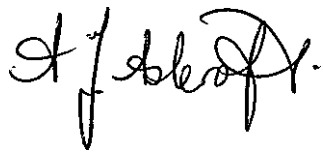
As you know we have started work on implementation, together with the other DNOs on a without prejudice basis, and significant progress has already been made. We have established the Common Methodology Implementation Working Group under Central Networks' interim chairmanship (to be known as the CMG), and three work-streams - to look at LRIC, DRM and tariff issues respectively. We have also established a separate workgroup to look at governance issues. Initially these structures are operating under the auspices of the ENA Regulation Group. However Ofgem's input to the governance and operation of this project will be vital to its success and we will need to firm up your intentions following the conclusion of the CLM consultation.

To illustrate the progress that has been made during this interim phase, the CMG has met a number of times, has prepared a milestone plan for the first phase of the project and has developed a detailed issues log, based on Ofgem's decision document. Issues identified in the log have been allocated to appropriate work-streams for resolution. The three work-streams

and the Governance Workgroup have been populated and all have initial meetings planned within the next week or so. We expect the work-streams to resolve many issues, but any that can't be resolved will be escalated to Ofgem. It will be important that escalated issues are resolved promptly and we look to you to ensure that Ofgem is able to do this.

If the CLM is agreed on the 29th October I suggest the DNOs should meet with you and your appointed consultant at the earliest opportunity to review the initial structure and agree a suitable way forward. We look forward to working in close cooperation with both Ofgem and your consultant throughout the project.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Ashcroft'.

Jonathan Ashcroft
Commercial and Regulation Manager

C.C. Andy Phelps (ENA)