



SP ENERGY NETWORKS

Regulation and Commercial
Director's Office

Rachel Fletcher
Director – Distribution
Office of Gas and Electricity
Markets
9 Millbank
London
SW1P 3GE

Your ref

Our Ref

Date

29 October 2008

Contact / Extension

01698 413475

Dear Rachel,

Collective Licence Modification Proposal ref. 137/08: Delivering the Electricity Distribution Structure of Charges project

It is after significant and intensive review of the proposed Licence Condition Modification Proposal (ref. 137/08) that I regret to inform you that SP Energy Networks has decided to object to the proposed licence condition.

This decision has proven far from easy and has involved lengthy deliberations by the SP Energy Networks executive, management and pricing teams. You will have been aware of our significant concerns from our various letters to Ofgem and opinions expressed by us at various meetings, including at the recent DNO structure of charges meeting with Steve Smith.

Perhaps the most important factor behind our decision was the disproportionate effect that the current proposal would have on some customers connected to the SP Distribution and SP Manweb networks. This issue would apply notwithstanding the recent proposal to introduce a fixed growth rate for each distribution price control period (proposed 1% per annum for 2010-2015). While this adjustment could partially suppress excessive charges in some circumstances, applying a generic growth rate across entire networks would by definition result in further non-cost reflective charging and in some circumstance result in our customers facing higher charges where there is no associated real reinforcement need, and customers facing lower charges where there is a potential real reinforcement need.

While some mitigation of the problems might be available, this is conditional and dependent on Ofgem and other industry parties. In particular, Ofgem would need to act pragmatically and make decisions speedily to ensure sensible results for customers and DNOs alike, but Ofgem's obligations in this regard are not defined and neither are the circumstances in which derogations will be deemed appropriate. We think that all these matters need to be addressed with much greater assurance and clarity. In doing so, we believe that it may become clear that the charging model itself is the source of much of the problem; if so, it will be important to be open to the option of adopting a different model which achieves cost reflectivity in a more straightforward way, without the extreme impacts described above.

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SP Manweb plc Registered Office: 3 Prenton Way, Prenton CH43 3ET Registered in England and Wales No. 2366937 Vat No. GB 659 3720 08
SP Distribution Ltd Registered Office: 1 Atlantic Quay, Glasgow G2 8SP Registered in Scotland No. 189125 Vat No. GB 659 3720 08

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We would suggest that Ofgem builds upon the current DNO project framework to facilitate further industry discussion in order to address the issues we and others have raised about the current proposals.

However, we can also see merits, should the Authority decide to follow that course, in the matter being referred to the Competition Commission (CC), and in the thorough examination of the issues which would then ensue.

We have long documented our concerns over the Bath / WPD LRIC model's potential to create disproportionately extreme prices for customers under highly utilised network conditions and low growth rates, and the potential competition law consequences for DNOs. This is of particular concern to SP Manweb, which typically has higher network utilisation than other DNOs as a consequence of its interconnected network. A CC referral should result in much greater certainty that a common methodology will provide appropriate charges for all of our customers, and provide confidence to DNOs in relation to satisfying competition law.

SP Energy Networks has taken a proactive approach in relation to the structure of charges project, expending considerable effort and expenditure in developing and proposing alternative distribution use of system methodologies. We remain committed to working with Ofgem, either directly or through the medium of the CC, to help find a way forward which works best for customers.

I attach as an appendix to this letter the formal objections from SP Manweb and SP Distribution of the proposed modification of standard licence condition 13 and introduction of new standard licence conditions 50 and 13A.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Scott Mathieson', with a long horizontal flourish extending to the right.

Scott Mathieson
Regulation and Commercial Director

**Proposed Modification of Standard Licence Condition 13 and
Introduction of new Standard Licence Condition 50 and 13A**

In response to the statutory consultation notice dated 1 October 2008 in respect of the above proposed modification, this notice constitutes a statutory objection to that proposal on behalf of SP Distribution Ltd and SP Manweb plc.

I confirm that I am duly authorised to give this notice on behalf of each of the above named companies.

Signed:



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Dated:

29/10/08