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15 December 2008

Dear Rachel

Consultation on IDNO and DNO Out of Area Use of System Charges: Reduction of the Three Month Notice Period for Amending Charges under SLC14 (20)

Thank you for your letter dated 3 November 2008 and the opportunity to comment on the issues therein.

The fundamental principle of licensing is that licences should provide a level playing field for all parties, and the way they achieve this is by placing common obligations on all parties. The current obligation under SLC 14 (20), which applies to all licensed distributors, is compatible with the IDNO's obligations under BA2.

Ofgem has chosen to apply a relative price control to IDNOs and this is reflected in condition BA2 of the IDNO licence. We agree with Ofgem's view that this approach has tended to result in IDNOs creating charging methodologies that effectively replicate the host DNO's charges, and we note that methodologies in this form have been approved by the Authority. It is the IDNO's choice to propose a methodology that exactly replicates the host DNO's charges, and this does not of itself constitute a reason why IDNOs should be released from their obligations to give three months' notice under SLC 14 (20).

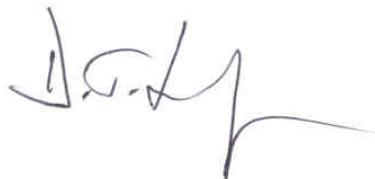
Notwithstanding this, Ofgem's current approach of offering IDNOs licence consent to provide only two months' notice when replicating the host DNO's charges is both pragmatic and reasonable, and is not inappropriate when use of system charges and methodologies are considered in the round.

Where an IDNO has an approved methodology (or part of an approved methodology) that involves the replication of DNO charges, then it is not inappropriate that the requirement to publish changes should be two months' notice, because suppliers will already have received three months' notice of changes from the host DNO. However, where an IDNO has an approved methodology for calculated charges, then the obligation under SLC14 (20) must remain at three months for the reasons set out above.

This leaves the situation where an IDNO changes its methodology from one of replication to calculation. In this situation it will have been necessary for the IDNO to submit a methodology change to Ofgem, around which there may have been either an IDNO or an Ofgem consultation and ideally a presentation from the IDNO to interested parties at the Distribution Charging Methodologies Forum. We consider that this is adequate 'publicity' and that an informed supplier would be aware that such an IDNO would potentially make two notifications under SLC 14 (20), each with two or three months' notice as appropriate.

In conclusion, therefore, we believe that Ofgem's current approach to two month notification periods for IDNOs with replication methodologies should be the norm rather than a temporary exception.

Yours sincerely

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

Denis Linford
Director of Regulation