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*Promoting choice and
value for all customers*

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Our ref: Networks/Distribution

Date: 27 October 2008

Dear Alan,

Representation by Scottish Power on its Allowed Loss Percentages

As I mentioned in our telephone conversation earlier this morning I am writing to request further information from you to enable us to consult effectively on the issues involved with your representation concerning allowed loss percentages (ALP) for SP Distribution Ltd (SPD) and SP Manweb plc (SPM).

We have decided that we should carry out an impact assessment as we consider that the issues raised by SP's representations are important and meet the test set by s5A of the Utilities Act, specifically in respect of the potential financial impact on market participants and on the wider public^[1]. For example, our decision could have significant cost implications for suppliers and customers, and there could be financial and environmental considerations in respect of the efficient ongoing operation of the losses incentive scheme. We also consider that conducting an impact assessment is consistent with best regulatory practice^[2].

As part of this, we would like to include an illustration(s) from you of the change(s) to ALPs you consider appropriate and their likely impact(s) on suppliers, customers and other interested parties, which should mean that any responses to consultation are made on a more informed basis. For any options you choose we would ask you to set out:

- the probable increase in loss incentive earnings versus your current forecasts (using projected distribution/loss levels as appropriate)
- the consequential effect on allowed revenues and DUoS tariffs broken down by different types of distribution customer
- how you would intend to recover any additional loss incentive earnings through DUoS tariffs and over what time period

It would also assist us in accurately reflecting your request and the reasons for it if you could explain for any options you identify the reasons why you think the option appropriate

^[1] Sections 5A(2)(b), (c) and (d) of the Utilities Act

^[2] See doc ref 33/08 Ofgem's 'Guidance on Impact Assessments', particularly chapters 2 & 3.

and also why you consider your proposed revenue recovery mechanism appropriate in the light of your relevant statutory and licence obligations.

We still propose to let you have sight of the impact assessment before publication to provide any comments on factual accuracy and to make sure that we have accurately captured the option(s) you want us to consider and their potential impact(s).

I know you will be disappointed by a further short delay in publishing the paper but we consider that in all the circumstances this is the most appropriate way to take the matter forward. We believe it should be possible to complete the consultation/impact assessment in time to submit a paper to the Authority meeting in January 2009 for a decision.

I would be grateful if you could confirm when you will be able to provide us with the information we are seeking. We will then confirm when we will be able to provide you with an opportunity to comment on our draft impact assessment. Please call me if anything isn't clear.

This letter is also being copied to Scott Mathieson at SPEN.

Yours sincerely,



Steve Smith
Managing Director – Networks