



SP Transmission & Distribution

Mr M Crouch
Director, Electricity Distribution
Ofgem
9 Millbank
London
SW1P 3GE

Your ref

Our ref
SM:me

Date

21 December 2005

Contact/Extension



Dear Martin

Distribution Losses – SP Distribution and SP Manweb

Thank you for your letter of 16 December. I am writing to confirm our position on your proposals.

We agree with the proposal that we should restate units distributed and revenues relating to time periods prior to 1 April 2005 into the years to which they relate, with full flow through of implied correction factors, subject to audit by SP's auditors. We will agree with yourselves the detailed process for carrying this forward.

We also agree with the proposal to amend Special Condition C1 of each licence above to insert the new losses targets set out in your letter and in the draft licence modification. I can confirm that the current draft attached to your letter achieves this.

As regards your third bullet point, we have discussed with your staff a statement of methodology for calculating losses, particularly our initial losses estimate, and we believe that at the time of writing we are close to agreement on a detailed statement of that method.

Turning to the draft closure statement attached to your letter, I understand that at the time of writing you were seeking the final opinion of your legal team on the draft we agreed by email on 20 December 2005, and will advise me of the outcome of their review in due course.

I hope that this is helpful and will facilitate your work in issuing an investigation closure statement and statutory draft licence modification.

Members of the ScottishPower group

New Alderston House Dove Wynd Strathclyde Business Park Bellshill ML4 3FF
Telephone (01698) 413000 Fax (01698) 413053

Finally, would you please note that by accepting these proposals neither SP Manweb nor SP Distribution admits that they have or will breach their respective electricity distribution licences in any way.

Yours sincerely

A handwritten signature in black ink, appearing to read "Scott Mathieson", written in a cursive style.

Scott Mathieson
Regulation Director
SP Transmission & Distribution