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Dear Paul,

**Electricity Distribution Allowed Loss Percentages –  
Representation by Scottish Power Energy Networks**

Scottish and Southern Energy welcomes the opportunity to respond to Ofgem's above impact assessment and consultation. We have some sympathy as to why Scottish Power Energy Networks (SP) is keen to revisit the allowed loss percentages (ALPs) set for both its distribution service areas (DSAs) in 2006. The difference between the ALPs set in 2006, relative to the ALPs that would prevail if changed to reflect the information that is now available, is considerable.

However, we share Ofgem's concerns that this could undermine the overall DPCR4 settlement. A change to the methodology used to determine SP's ALPs could provide a basis for other DNOs to challenge their losses targets.

In particular, we do not support SP's suggestion to disapply the losses incentive rolling mechanism in the event of any changes. We believe this mechanism is key to the incentive; allowing sustainable improvements to be rewarded, whilst penalising reductions that are subsequently cancelled out in future years. On the basis that any changes to SP's ALPs would have to be robust, we believe they should be subject to the same rolling retention mechanism.

In terms of adjusting SP's ALPs, we believe Ofgem should also be mindful of the revenues made by SP in the previous price control period, 2000-2005, which we understand were based on the same reporting methodology. Any proposed adjustment should therefore take account of this past performance.

On the separate issue of transmission-connected EHV units, we would firstly welcome clarity on our understanding that transmission-connected EHV units are the same as transmission-connected load customers. In its letter dated 4 November 2008, SP specifically refers to transmission-connected load customers and we believe there is a strong rationale for revising SP Distribution's ALP to exclude the

units associated with these customers from its total units distributed. Whilst we understand Ofgem's concerns in relation to the cost implications for customers, we believe it is important that Ofgem is consistent in its approach and therefore backdates the impact of this increase.

We believe this issue may also affect our Scottish Hydro Electric Power Distribution (SHEPD) DSA. We are currently reviewing the treatment of units associated with such customers on our network and will endeavour to inform Ofgem of the outcome of our analysis shortly.

Should you wish to discuss any of the above in more detail, please do not hesitate to contact me.

Yours sincerely,

Malcolm J. Burns

**Regulation Manager.**