



FAO
Distribution Network Operator
Regulation Managers

*Promoting choice and
value for all customers*

Our Ref: Networks/Electricity Distribution

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Dear Colleagues

Presentational error in the Final Proposals documents

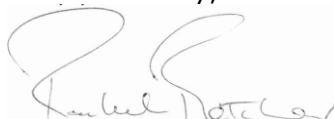
I am writing to set out an error in the presentation of our efficiency scores for network operating costs and indirect costs in the DPCR5 Final Proposals documents. This does not affect our cost baselines or allowed revenues which remain as published. The correct efficiency scores were applied in all our calculations.

As set out in paragraphs 4.88 to 4.92 of the Allowed Revenue – Cost assessment document (no. 146/09), Scottish Power highlighted errors in the data they had provided relating to faults at a very late stage in the process. The errors meant that the cost drivers for the SP DNOs in 2008-09 were significantly understated in the analysis in our 28 October cost assessment update. Given the limited time available we carried out a small number of regressions to estimate the probable impact that the correct SP figures would have on the cost baselines for SP. On the basis of this we made a limited adjustment to their cost baselines.

We inadvertently published the efficiency scores based on this small run of regressions rather than our main analysis in the Final Proposals documents (paragraph 3.30 in document 144/09, paragraph 4.95 and Table 4.15 in document 146/09 and paragraph 1.142 and Table 11 in document 146a/09). The correct efficiency scores based on our main analysis are set out below together with the version set out in the Final Proposals document.

	Correct efficiency scores - based on main analysis			Efficiency scores as published - based on limited SP Run	
	NOC	Indirects		NOC	Indirects
CN West	101%	116%		104%	117%
CN East	84%	92%		88%	92%
ENW	88%	104%		93%	107%
CE NEDL	98%	91%		100%	95%
CE YEDL	117%	83%		122%	88%
WPD S Wales	87%	106%		91%	105%
WPD S West	97%	96%		97%	95%
EDFE LPN	102%	109%		100%	97%
EDFE SPN	118%	103%		124%	102%
EDFE EPN	120%	118%		128%	119%
SP Distribution	119%	100%		97%	99%
SP Manweb	116%	100%		93%	98%
SSE Hydro	65%	102%		70%	102%
SSE Southern	87%	81%		93%	83%
RANGE	55%	36%		57%	36%
QUARTILE	87%	93%		93%	95%
Upper third	91%	97%		93%	96%

Yours faithfully,



Rachel Fletcher
Partner, Distribution