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Our ref

Your ref

Date

30 June 2011

Dear Rachel

**PROPOSED MODIFICATIONS TO THE RING FENCE CONDITIONS IN  
NETWORK OPERATOR LICENCES**

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc.

The ENA Licence Drafting Group is writing to you separately with some drafting comments. WPD supports this letter.

We would like to comment on the policy issues raised in the Ofgem consultation issued on 25 March 2011.

In general we believe that the revised proposals contained in the consultation are a more realistic and proportionate response to providing additional 'ring fence' safeguards.

**Sufficiently Independent Directors**

We support Ofgem's proposal for 2 SIDs to sit on NWO boards. We do not support the 'SIDs alternatives' outlined in the consultation. We agree with Ofgem that neither of these proposals offers a better way forward than 2 SIDs.

WPD in common with other NWOs already has in position an independent non-executive director as a matter of good practice. However it may be that these persons do not entirely meet the SIDs criteria contained in the draft licence condition.

Whilst we appreciate the need for Ofgem's eligibility restrictions going forward, we would hope that this would not mean that suitably qualified and experienced non-executive directors cannot serve as a SID.

In an NWO ownership group such as WPD, which operates as an integrated distribution only business across four licence holders, a UK holding company may effectively be part of the NWO governance structure and thus within the ring fence that Ofgem is seeking to strengthen. The owners may be at a level above UK holding company. Thus in these circumstances a prohibition on SIDs membership of the board affiliate or related undertaking of the licensee may be more restrictive than Ofgem intends.

We note that there is the facility for Ofgem to give consent to existing non-executive directors serving as SIDs where they do not meet all of the eligibility criteria, given sufficient justification. We are also proposing some alternative drafting to address this issue.

Effective date for licence modifications

The licence drafting contains a number of "[effective date]". The consultation asks for views on deferred start dates. We agree that in a number of areas identified by Ofgem NWOs will need to take implementation measures including recruiting suitable SIDs and pulling together the necessary documentation required for the Intervention Plan. We will almost certainly seek Ofgem consent in relation to our current independent director. Therefore we propose a 6 month deferral.

Assuming that the modification notice is published in September, we propose an effective date of 1 April 2012 to coincide with the start of the regulatory year.

I hope these comments are helpful.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'AS', with a horizontal line extending to the right.

ALISON SLEIGHTHOLM  
Regulatory & Government Affairs Manager