

Name
Licensee

Your Ref:
Our Ref:
Direct Dial: 020 7901
Email:

Dear

7 November 2001

LICENCE FEES: COST PASS-THROUGH

In July 2001, Ofgem held a workshop with industry representatives to discuss the revised licence fee payment regime. In response to earlier consultations, a number of industry representatives expressed concern that the present restrictions on network prices would prevent some network businesses from fully recovering the costs of licence fees under the revised arrangements. This message was reinforced at the July workshop. Following careful consideration of the points raised, Ofgem gave a commitment to the principle of full cost pass-through. It was agreed that the price control conditions would be modified, as necessary, to facilitate cost pass-through.

The enclosed discussion document sets out Ofgem's proposals for achieving cost pass-through for each of the network businesses. The document also sets out initial drafts of the licence modifications to give effect to these arrangements. We intend to start the statutory 28-day consultation process to formally consult on the licence modifications around 20 November 2001. It is hoped that this will enable us to introduce the licence modifications around 18 December 2001. I should be grateful if you could provide detailed comments on the proposed changes by no later than 3pm on 14 November 2001. Nevertheless, where companies have substantive comments in response to the enclose paper, it would be helpful to hear from them before the 14 November deadline.

The detailed formula for calculating licence fees will be set out in a subordinate document to be issued by Ofgem. This will be subject to revision from time to time if circumstances or changes in the structure of the industries so require. This document will be made available as soon as practicable.

Licence fees will be allocated between network businesses on the basis of the number of customers connected, both directly and indirectly, to each licensee's system. Ofgem proposes to use the number MPANs in electricity and meter supply points in gas as a proxy for the number of customers connected to electricity and gas networks respectively. In electricity,

where there are two tiers of monopoly business, costs will be split equally between transmission and distribution. To facilitate the calculation of the licence fee invoices for 2001/02, I attach a formal request for information under the relevant Standard Licence Condition in respect of the number of customers connected to your company's system. This information should be returned to Ofgem by 20 November 2001.

Yours sincerely

Colin Green
Distribution and Financial Affairs

**INFORMATION REQUEST ISSUED UNDER THE PROVISIONS OF STANDARD LICENCE
CONDITION [] (PROVISION OF INFORMATION TO THE AUTHORITY)**

To facilitate the calculation of the invoices for the 2001/02 licence fee, please provide by no later than 3pm on 20 November 2001, the following information.

- The number of customers directly connected to your system (to the nearest MPAN, or gas supply point) on 1 April 2001;
- An estimate of the number of customers connected indirectly, or downstream, to your system (to the nearest 1000 MPANs or gas supply points) on 1 April 2001; and

Responses should be sent to:

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