



Electricity Distribution Network Operators, Independent Distribution Network Operators, Independent Connection Providers and other interested parties

Promoting choice and value for all gas and electricity customers

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Date: 17 November 2010

Dear Colleague

Upfront charges levied by electricity Distribution Network Operators (DNOs)

Background

On 14 August 2008 we published a letter¹ regarding DNOs practice of levying upfront assessment and design (A&D) charges as a pre-condition of providing a connection notice under section 16 of the Electricity Act 1989 (the "Act"). The letter stated that there is nothing in section 16 of the Act, nor in the procedure provided for in section 16A of the Act, that permits a DNO to impose any charges as a pre-condition to its meeting the duty under section 16A(5) of the Act to give a formal offer notice setting out its full terms to connect.

The purpose of this letter is to remind DNOs that while our 14 August 2008 letter specifically referred to A&D fees, DNOs should refrain from levying any upfront fees in respect of section 16 connection offers, including offers being produced for Distributed Generation ("DG") connections.

Upfront charges for design studies and 'Statement of Works'

We note that prior to a DNO producing a connection offer it normally carries out certain studies of its network to assess the impact of the potential connection and any necessary design work.

Further to this, when DG connects to the distribution network it is possible that these connections can have an effect on the National Transmission System (NTS) operated by National Grid Electricity Transmission PLC ("NGET") and that NGET may need to reinforce the NTS to cope with the additional generation. Section 6.5.5.1 of the Connection and Use of System Code requires DNOs to request a 'Statement of Works' from NGET as soon as is reasonably practicable once they have received a complete application for connection from a Relevant Embedded Medium Power Station or a Relevant Embedded Small Power Station. The Statement of Works provided by NGET in response to such a request would include information on any transmission system reinforcement that may be required if the generator connects to the distribution network.

Ofgem's view

For the benefit of clarity we set out Ofgem's position on upfront charging. Whilst section 16A of the Act has now been amended (new section 16A(4A)) to enable the Secretary of State to make regulations for the purpose of entitling DNOs to require section 16 customers

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=271&refer=Networks/Connectns/CompinConn>

to pay reasonable connection offer expenses, such charges will only be permissible once these regulations have been made by the Secretary of State. We understand that process is still ongoing and no regulations have yet come into effect.

Therefore, DNOs should not currently impose any charges as a pre-condition to meeting their duty under section 16A(5) of the Act to give a formal offer notice. In light of this DNOs should not charge customers fees for Statement of Works or design studies as a pre-condition to providing a connection offer under section 16A of the Act.

If you wish to discuss any of the matters arising in this letter please do not hesitate to contact Rebecca Langford on 0207 901 7388.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', with a stylized flourish at the end.

Rachel Fletcher
Partner, Distribution