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Dear Roger

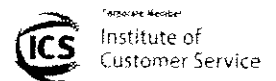
CONNECTIONS ASSESSMENT AND DESIGN (A & D) FEES LEVIED BY ELECTRICITY DISTRIBUTION NETWORK OPERATORS

Thank you for your letter of 14th August, Central Networks welcomes the opportunity to comment on the issue of charging up-front fees and the wider issue of recovering costs expended in this type of work generally. Please note that this response is on behalf of both Central Networks East and Central Networks West the two licence holders.

CN is generally supportive of the stance Ofgem has taken, however we believe that there is a case for charging up-front fees particularly in respect of PoC applications for the provision of associated non-contestable works

CN is structured such that its agent Energy Services (ES) carries out the S16 activities on its behalf. This arrangement enables CN to give autonomy to the S16 applications, maintaining confidentiality for the contestable elements of each quotation.

Central Networks is currently experiencing an upward trend in the numbers of applications, particularly for the provision of Point of Connections, conversely



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there has been a marked fall in projects proceeding to final connection.

Clearly, by not charging for A&D costs upfront will inevitably mean that Network Operators will build such charges into the connection charges of parties who proceed with their connection.

In our view, we feel that it is inappropriate to smear such costs across the general customer base, since section 19 of the Act only allows a Network Operator to recover a reasonable cost for the provision of a connection to its distribution system.

The following is an example of a Network Operators inability to recover A&D costs where a generator enquires about a connection to the network:

The costs for a Network Operator to process an embedded generation connection application can be quite significant in carrying out detailed studies of the effects of connecting the proposed generator to its network and its other customers, in addition to the design and costing of the connection works.

Such application may also trigger an application from the Network Operator to the GB Transmission Operator, to enable the Network Operator to reflect any necessary transmission works within its offer. In such cases, the Network Operator may have to pay an application fee to the Transmission Operator.

As the developers of such generation schemes typically apply for the connection prior to obtaining consents, these are essentially speculative applications, many of which fail to progress to an actual connection for a number of reasons, for example planning issues. In such circumstances, the A&D Costs which may include the Transmission Operators application fee faced by the Network Operator cannot now be recovered from the party who has caused them to be incurred.

Such smearing of costs, (particularly at a time of lower uptake of formal offers) has the potential to inflate the charge for one successful applicant over and above what could be considered as reasonable in all the circumstances. As the statute currently stands Network Operators do not have the ability to recover such costs against the party incurring the same and therefore they are currently smeared across the general customer base. It is inappropriate that such costs should fall on the Network Operator, to be met either by other customers, as part of their connection charge, or by shareholders. Central Networks believes that the party who causes the cost to be incurred should be the party who pays such costs.



Central Networks is aware of a solution to this particular problem which was recently presented to BERR in order to provide them with an understanding of the issues that Network Operators currently face.

The solution seeks to amend section 16A(3) of the Act to provide a lawful basis on which a Network Operator may, to the extent that is reasonable, request an applicant to pay costs attributable to providing an offer of terms for connection.

Central Networks believes that charging for the assessment and design work associated with the provision of a formal offer for a connection under the Act is justified. It is our view that requests by their very nature and complexity are likely to be more expensive, and indeed certain requests relate to speculative developments which more often than not do not proceed, and hence these costs are never recoverable.

Central Networks considers this to be an important issue which requires satisfactory resolution to the extent that Network Operators have the ability to recover such costs. If this provision isn't incorporated via the Act, CN will look towards another route to ensure costs are attributed fairly.

I trust that you find the above helpful though should you wish to discuss any aspect of our response in greater detail, please do not hesitate to contact me.

Yours sincerely

np
Julie L'abraham
Policy and Compliance Manager