

Eleanor Warburton

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Dear Eleanor,

Response to the Open letter on regulatory arrangements for independent distribution network operators

UK Power Distribution is an IDNO who will soon be serving a small portfolio of EHV-connected customers, including directly connected to the transmission network. As such, we are interested in contributing to the preparation of the upcoming review announced in Ofgem's Open letter.

Our position is summarised as follows and is developed in more detail in the Annex to this letter:

- **We support more competition at EHV level** and we are hearing from our customers that there is a market demand for it,
- **We are leading the way in connecting directly to the transmission network** and would be willing to share our experience and suggestions to make the process more efficient and accessible to more parties,
- **The risk that the Open letter implies (i.e. unchecked EHV DUoS prices), is only a perceived one:** our own EHV prices are set according to a methodology which is subject to the regulator's approval, consistent, justified and public.

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- **We welcome more scrutiny**, as long as it is not overburdening, if a consensus does emerge for it, perhaps to address the misperception of risk, reassure customers, and work to increase competition in networks operations.

In an effort to be as collaborative as possible, we have shared commercially-sensitive information in our response, and as a result would like to ask that only a redacted version, attached, is published.

Finally, since the relevance of the topic of EHV DUoS charges is acute to Ofgem, our business and our customers, we would relish the opportunity to meet and discuss further.

Best regards,

Wendy Andrews
Managing Director

Annex: Detailed response to the Open letter

In this annex, we start by replying to the two questions posed by the Open letter, and go on to make some additional points.

Q1: What do you consider to be the pros/cons of IDNOs connecting EHV customers embedded within distribution networks?

UK Power Distribution currently owns one such site since 2017, and two more are in construction.

Based on our experience, we can report the following benefits to the customer:

- A better, faster experience ahead of connection: IDNOs offer a stronger customer-focus service. EHV connections are in effect one aspect of large, multi-million pound construction projects. Developers typically have their own delivery team, working according to a programme which an IDNO often has a much better ability to engage with. Our interactions with the developer are typical to account management practices, rather than being transactional and are driven by the various stages of the application process. This allows for the design submission to be flexible and evolving.
- Financial benefit: The payment made by an IDNO to a developer to adopt the electrical network can be deducted from the construction costs, which helps mitigate the project's financial risk

From our perspective, this type of connection creates challenges for calculating our own EHV tariffs. This is because we are dependent on the Distribution Network Operators (DNO) providing us with key information, which can take time, and are near impossible to forecast ourselves. This challenge has contributed to a desire to revise our charging methodology and our recent modification submission.

Q2: What do you consider to be the pros/cons of IDNOs connecting directly to the transmission network?

[REDACTED]

The benefits mentioned in answer to the previous question apply. In addition, based on our engagement with developers, we can report that they see a direct Transmission/IDNO connection as a way to simplify the process and the technical solution. Without this option, they can either connect via the DNO (and most likely join a distribution connection queue,

doubled with that of a Statement of Work), or if they prefer connecting closer to a grid supply point, connect directly themselves to the Transmission Owner (TO). This though, may leave them having to own and operate the cables from the supply point to their premises, which is a technical expertise they are not set up for. A TO/IDNO connection offers an alternative to those scenarios, by allowing them instead to work with a competent, licenced network operator, by removing layers of communications and complexity, and by giving them better control over costs.

[REDACTED]

If an Ofgem goal is to support the connection process at transmission level, while also promoting competition in the electricity distribution, we suggest improving the process of creating new Grid Supply Points. We are proud to be amongst the first IDNO connecting directly to the transmission network, and expect future projects to benefit from the collective experience gained by the teams leading the process of applying the relevant codes to the NGET/IDNO connection. In comparison to connecting to a DNO, the technical due-diligence is more complex and we acknowledge that this may be justified by the need to ensure safety and security of the site. The business process is also more complex in comparison, and this, we believe, is less justified, and could be improved to address issues we have come across

[REDACTED]

In addition, we address four statements made in the Open letter

“Proposed EHV methodologies that do not have a reference point for calculating charges (or a host DNO in the case of a direct transmission connection) may be more akin to DNO price controls but without the same level of scrutiny or output regulation”
on page 3.

We strongly disagree with the implication that our charges escape scrutiny. In line with the electricity distribution licence, IDNOs submit a Use of System charging methodology statement for approval to Ofgem, publish it, and issue their charges annually according to it. We are open to discuss and explain these to our customers.

We also would like to bring nuance to the implication made around the lack of reference to the host DNO's methodology because our models to generate EHV DUoS tariff do take significant input from it. Both our models, use elements of the host DNO's tariff as the basis for building up our own, meaning that we adopt some key calibration metrics.

“Without a reference point for setting tariffs, we are also concerned that connecting customers may be exposed to undue risk where long term contracts are agreed under these arrangements” on page 3

We have not entered in such contract with our own EHV customers (current or future), but do welcome regulation that would provide reassurance to EHV customers in general that they will not be penalised for opting for independent network operators.

We note Government's three core pillars in their 'smarter regulation programme'¹, including “making regulation a last resort, not a first choice” and point to their relevance in this review.

“Some connection configurations may not be as shareable or economic and efficient as other options, and significant differences between DNO and LDNO solutions may give rise to higher overall whole system costs” on page 3

It is unclear to us what kind of situation or triggers would lead to such an outcome. IDNOs are subject to the same obligations as DNOs in terms of new connection requests and whole system thinking. Distributed Energy Resources connected to an IDNO can participate in ancillary services, and sell their flexibility services to the both the ESO and the DSO [REDACTED]

[REDACTED]

[REDACTED]

“Fair recovery of shared network costs among all customers may not be possible. We understand that the proposed arrangements are partly driven by the potential opportunity for reduced network charges for connecting customers.” on page 3

¹ As quoted by the department for Business and Trade, in the October 2023 publication, available from: www.gov.uk/government/calls-for-evidence/smarter-regulation-and-the-regulatory-landscape/smarter-regulation-and-the-regulatory-landscape-call-for-evidence-overview

² [REDACTED]

We agree with the objective of a fairer charging system across transmission and distribution networks, as distortions created by pricing may end up creating behaviour outcomes that go against whole system efficiency. We support optimising the charging system to achieve this, while mitigating risks to the financial viability of projects and to economic growth.