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1 December 2023

Eleanor Warburton, Interim Director
Energy Systems, Management and Security
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Dear Eleanor,

Open letter on regulatory arrangements for independent distribution network operators (“IDNOs”)

Northern Powergrid supports Ofgem’s review of the regulatory arrangements for IDNOs in respect of extra high voltage (“EHV”) connections and would highlight that we believe a wider review of the framework around connections to IDNOs’ networks at all voltages would be of benefit; whilst creating competition is necessary, regulatory arrangements for IDNOs must ensure a level playing field between DNOs and IDNOs.

We support the creation of a competitive market that drives positive outcomes for connections customers such that they are connected to electricity networks efficiently and economically. However, the regulatory arrangements must keep all customers in mind to ensure that:

- a) The costs associated with new connections are distributed fairly; and
- b) The connection of new assets uses the whole system fairly and efficiently.

The current arrangements for IDNOs do not achieve this and can result in short-termism, inefficient network development and overall results in a market where IDNOs are able to selectively deliver work at a lower price to customers.

We agree that the application of bespoke tariffs by IDNOs at EHV provides little protection to connectees and, moreover, allowing IDNOs to connect directly to the Transmission network, at a time when efficient network development is key in enabling net zero, does not encourage efficient whole-system solutions.

We note the common obligation that IDNOs and DNOs have to develop their networks in an economical, efficient and coordinated manner. However, as IDNOs seek points of connection at higher voltages, this becomes difficult to execute. For example, while it is, in theory, possible to use connections from IDNO

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networks to support the DNO's network, in practice the lack of IDNO network information makes this difficult to implement.

Furthermore, IDNOs are incentivised to protect their capacity to enable future development of their networks rather than supporting the customers in the wider area connected to the DNO's network. For example, when a customer applies for a connection to a DNO's network in an area where the entirety of the available capacity has been allocated to an IDNO, it will likely lead to additional, potentially inefficient reinforcement being required. While an electricity distributor must comply with Section 9 of the Electricity Act¹, if competition in distribution at the higher voltages is to become more common there must be further mechanisms and oversight to ensure efficiency and co-ordination are achieved.

In addition, the current arrangements for IDNOs at lower voltages incentivise IDNOs to develop and operate areas of network that have a lower-than-average cost to serve, leveraging the equivalent DNO tariff to their benefit. This is to the detriment of the generality of customers because the DNO bears the cost of higher-than-average cost network, which drives up the DNO's tariff. IDNOs also have no incentive to develop solutions that may have a higher upfront cost but actually serve the broader distribution network (DNO networks and IDNO networks) through resilience and reliability.

We support the development of regulatory frameworks that create positive outcomes for customers by creating efficient, reliable electricity networks at least cost. We agree that competition is a necessary tool to achieve that outcome but it must be applied within a framework that is equitable and sets appropriate incentives for all parties to develop their networks in the most efficient way and thereby benefit customers. Ofgem's review should seek to address the inequality between IDNO and DNOs across all voltage levels – creating a level playing field for competition.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'P. Glendinning'.

Paul Glendinning
Director of Energy Systems

¹ Electricity Act 1989, section 9 which states "It shall be the duty of an electricity distributor to develop and maintain an efficient, co-ordinated and economical system..." [Electricity Act 1989 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/1989/29/section-9)