

**Open letter on regulatory arrangements for independent distribution network operators**

**Response from Vattenfall**

Vattenfall welcomes the opportunity to comment on the Ofgem open letter on regulatory arrangements for independent distribution network operators.

Vattenfall IDNO is an Ofgem regulated Independent Distribution Network Operator. We provide grid connections for commercial projects and pay business owners or developers an Asset Adoption Value (AAV) to help reduce the total capital cost of designing and building new power networks. We also connect embedded generation to the grid, such as solar, wind, hydro and battery storage. It is from that perspective that we are happy to submit this short consultation response.

We understand from the letter that Ofgem may wish to review the benefits of competition from IDNOs in EHV connections and transmission network connections. We believe there are significant benefits from increased competition for EHV connections and transmission connections and welcome the chance to present our views, ahead of a review of the arrangements.

There are broadly three points of concern raised within your open letter:

1. On charging reference points for connections at EHV levels
2. That “some connection configurations may not be as shareable or economic and efficient as other options… and may give rise to higher overall system costs”
3. That fair recovery of shared network costs among all customers may not be possible

And you seek initial thoughts on the following two questions:

1. What do you consider to be the pros/cons of IDNOs connecting EHV customers embedded within distribution networks?
2. What do you consider to be the pros/cons of IDNOs connecting directly to the transmission network?

**Charging reference points for connections at EHV levels**

In relation to your concern in relation to undue risk for customers connecting at EHV where there is no reference point for tariffs, we agree with the points made by the INA that ‘under Licence Condition BA2[[1]](#footnote-2), IDNOs are required to set charges which do not exceed the host DNO charges for domestic consumers. In practice, although not prescribed, this methodology is also applied to charges for industrial and commercial customers in most cases. We agree with the INA that where possible; we seek to provide clarity, simplicity and certainty to connecting customers regarding tariff though accept that this is not always possible at the EHV level where site-specific charging from DNOs is not made available or are not provided in a timely fashion.’ We further agree with the INA that ‘in seeking to provide certainty and stability for customers, Ofgem should consider how these charges can be made transparent and timely.’

We share the INA assessment that customers connecting at this level are informed and knowledgeable purchasers of energy and demand significant transparency and understanding of tariff arrangements from IDNOs whilst carrying out their due diligence on project viability. We would agree therefore with the INA that the risks for customers connecting to IDNOs are not greater than for customers connecting to a DNO where site-specific charges apply.

**Charging reference points for connections at Transmission levels**

With regards to your analysis that fair recovery of shared network costs among all customers may be a particular concern for IDNOs seeking to connect directly to the transmission network and that this arrangement may have been part of the reason for customers to seek a connection to the transmission network directly from an IDNO, we would appeal to you for more evidence for this so that we might better understand this concern so that we can address it directly.

The INA assumes that you may be referring to the possibility of a distribution or private wire customer connected directly to the transmission network avoiding paying the residual element of the tariff which they would have otherwise been liable for if they had connected to the DNO network. We share the INA view that ‘this may create perverse incentives in determining the solution for connections for extremely large demand sites and it is important therefore that network costs are fairly recovered.’ We believe that there should be proper allocation of costs to incentivise behaviours for connection and ongoing use of the system.

**Connection Configurations**

Your open letter suggests that some connection configurations *“may not be as shareable or economical and efficient as other options”.* We agree with the INA that we need further information or evidence from Ofgem that there are specific reasons for IDNO connections to the Transmission network to be less shareable or efficient. As the INA have made clear, the provisions of the Electricity Act require distributors to make a connection between their network and a premises or another network apply equally to all distributors and, like them, we see no reason why connections made by an IDNO should be any less shareable or less economic.

It is important that customers on IDNO networks can continue to sell flexibility services to the Electricity System Operator (ESO) and the Distribution System Operator (DSO) as a way to ensure all networks are operating as efficiently as possible and help the national and regional system planners in their role of establishing the right outcomes of future network investment.

**The benefits to end-customers of IDNOs connecting at EHV and directly to the transmission network**

The benefits of IDNOs are highlighted by independent studies. For example, the LSE’s Building Back Faster study[[2]](#footnote-3) showed that “Key differences with the traditional regulated utilities lie in the focus on mostly new installations to the latest technical standards, and in the range of strategic choices across the range of network design, build, and adoption once in commission. By using an independent network provider, they can now choose a single partner across all regions and countries of the UK.” “The network connections provider can be integrated into the development team from planning to completion. The traditional “gaps” between developers and their regional utility operator are closed.”

Developers are now seeking connections at EHV and direct to the transmission network.

The benefits of IDNO connection seen at lower voltages can be realised developers see connecting via an IDNO as providing them with a simpler and quicker connection process.

The simplicity and speed of IDNO connections is largely driven by the IDNO focus on the customer needs. In a competitive environment, our processes must be responsive to the needs of the customer.

We can provide more flexibility on the choice of plant and equipment—we do not limit our customers to equipment on framework agreements. This can bring cost benefits to developers but can also mitigate supply chain issues with a particular equipment manufacturer.

Project developers see the advantage of using a regulated utility to support them in designing, building and operating high voltage assets; including the ability of a statutory undertaker to install cables in the public highway. Lastly, the ability of IDNOs to pay an asset value has a direct benefit to project costs.

Increased customer choice will lead to more competitive network connections. Vattenfall are committed to enabling fossil free living. Vattenfall Networks contributes to this goal by facilitating the connection of low carbon demand and generation technologies. IDNO competition for connections at EHV and transmission will only help us achieve this goal of achieving fossil free living.

We look forward to working with Ofgem on the further stages of this review.

1. [IDNO licence stat con - Utility Distribution Networks (UDN) (ofgem.gov.uk)](https://www.ofgem.gov.uk/sites/default/files/2023-03/Amended%20Standard%20Conditions%20%28iDNO%29%20-%20Current.pdf) [↑](#footnote-ref-2)
2. [Building-Back-Faster\_22-October-2020.pdf (ina.org.uk)](https://ina.org.uk/wp-content/uploads/2020/10/Building-Back-Faster_22-October-2020.pdf) [↑](#footnote-ref-3)