



Ofgem
The Office of Gas and Electricity Markets
Commonwealth House
32 Albion Street
Glasgow
G1 1LH

By email only to: electricitynetworkcharging@ofgem.gov.uk

1 December 2023

Dear Sirs/Madams

Thank you for the opportunity to respond to this Open Letter on regulatory arrangements for independent distribution network operators ("IDNOs") and non-IDNO LDNOs (that is, DNOs operating distribution networks outside of their licenced areas) (the "Open Letter").

Bute Energy Limited ("Bute Energy") is encouraged that Ofgem is signalling a review of regulatory arrangements for LDNOs given the potential to further enhance competition within the provision and operation of distribution networks. When determining the scope of any review, it is submitted that Ofgem should focus on enhancing competition and exercise caution in adopting a wide review if that could disturb important and positive developments, discussed below, that are already in train.

Bute Energy is developing a portfolio of generators including wind farms and other generation technologies within Wales. Several of these projects can be directly connected to the Transmission System and work on these is proceeding at pace (the first project to connect will be Twyn Hywel Energy Park scheduled to commence generating in 2025). However, for projects that are more distant from the Transmission System, there has been a continuing problem in obtaining connections via the existing DNOs. A project to bring a Transmission Circuit into mid Wales failed after many years of work and its planning application has recently been withdrawn. In 2019 Bute Energy commenced discussion with NGESO and NGET on an alternative connection strategy and subsequently incorporated an affiliated company, Green Generation Energy Networks Cymru Ltd ("Green GEN Cymru"), who would develop and construct a new distribution system to facilitate connection of the generation projects, including Bute Energy's projects. Green GEN Cymru applied for an IDNO licence and is awaiting completion of Ofgem's assessment of its application.

As a developer of on-shore generation projects, Bute Energy is of the view that LDNOs have a crucial role to play in higher voltage connections, including via direct connections to the Transmission System. We agree that expansion in this area should be regulated in an appropriate manner. This will ensure that IDNOs and other LDNOs can continue to support the necessary developments on the path to net zero.

To specifically answer the two questions raised about IDNO activities in the Open Letter, Bute Energy would like to respond in respect of both IDNOs and DNOs operating outside of their service areas (collectively, LDNOs) as follows:

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- 1 What do you consider to be the pros/cons of LDNOs connecting EHV customers embedded within distribution networks?
- Pros: **Customer choice**, if LDNO EHV connections were prohibited, customers would have no choice but to go to the host DNO. Whilst customers can choose to use an ICP for the connection work, that is not the same as being connected to an alternative network, whose charges, contract terms and delivery may be preferred by the customer. In any event, LDNOs also offer customers the choice of using an ICP, expanding customer choice further.
- Innovation**, we understand that LDNOs have shown an ability to develop alternative models of connection better suited to customer needs.
- Favourable pricing**, contractual terms or speed of connection, unless LDNOs offered customers benefits they would not be used.
- Cons: **None**, we cannot see any disbenefit from continuing to allow LDNOs to offer and make EHV connections, indeed if they were prohibited, customers would have reduced choice and those who had accepted or connected at EHV would face severe difficulties in establishing alternative arrangements.
- 2 What do you consider to be the pros/cons of LDNOs connecting directly to the transmission network?
- Pros: **Customer choice**, if LDNO connections to the Transmission System were prohibited customers would have limited choice. They could go to the host DNO, but in many areas DNOs are unable to offer timely or attractively priced connection options. These customers could also seek to make direct connections to transmission substations, but this will add to congestion at these sites, which we understand to be severely limited anyway. It might also be impractical where the customers are located a long distance from the Transmission System.
- Better use of limited transmission connection points**, by aggregating several customers together, transmission owner substations will be less congested than if customers had asked for direct connections themselves.
- Innovation**, by connecting directly to the Transmission System LDNOs have developed alternative models of connection better suited to customer needs.
- Accelerated development**, Bute Energy's experience is that offered connection dates can be materially accelerated by offering a direct connection to the Transmission System with the LDNO developing the intervening network.
- Favourable pricing**, contractual terms, or speed of connection, unless LDNOs offered customers benefits they would not be used.
- Cons: **Potential gaps in industry rules and regulations**, to the extent that they exist, such gaps may have arisen as the activities of LDNOs have evolved, without appropriate evolution of the rules and regulations. For example, there is an apparent difference in the allocation of Transmission Demand



Residual costs as between a direct customer connection and an EHV connection to a directly connected LDNO. Also, more generally, if LDNO activity at EHV and with direct connections is “under the radar” their potentially valuable role could be overlooked. For example, the recently published Ofgem decision paper on the Future of local energy institutions and governance makes no explicit mention of LDNOs and the way their financial models differ from DNOs.

Yours faithfully

Lawson Steele, Director
For and on behalf of Bute Energy Ltd