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Dear Eleanor

Open letter on regulatory arrangements for independent distribution network operators

Thank you for the opportunity to respond to the open letter published by Ofgem on 19th October. I am writing on behalf of ESP Utilities Group Ltd (ESP), comprising of four independent gas transporter businesses, ESP Water operating as a NAV in the clean and wastewater sector, and ESP Electricity Ltd an Independent Distribution Network Operator.

ESP Electricity has been operating as an IDNO, offering effective competition and improved service levels to connecting customers from all market sectors, since 2004. Over that time, we have been witness to the increased appetite for competition from new housing developers, businesses, data centres and most recently from Charge Point Operators supporting the roll out of Electric Vehicle charging infrastructure. We have engaged with Ofgem and the Industry to implement some of the key changes which have enabled this market to succeed and grow and welcome this opportunity to engage constructively on how to expand this successful model.

Increasingly Developers are seeking to realise the benefits that they gain in using an IDNO to connect at lower voltage tiers, for their higher voltage connections.

You ask two specific questions in your letter relating to the pros/cons of IDNOs connecting EHV customers embedded with distribution networks and directly to the transmission network, which we address below.

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

ESP does not currently have any connections direct to the Transmission network, but we operate in a market where reputation and perception is important, and we note the concern that *“some [IDNO] connection configurations may not be as shareable or economic and efficient as other options ... leading to higher overall system costs”*.

The provisions of the Electricity Act and Licence Conditions require distributors to make a connection between their network and a premises or another network, and to consider proposals which are beneficial for the whole system. We see no reason why connections made by an IDNO should be any less shareable or less economic than those made by other distributors and would be pleased to understand if there are specific circumstances or examples which have given rise to this concern.

We note an area of concern that you identify is in relation to undue risk for customers connecting at EHV where there is no reference point for calculating charges. Wherever possible ESP seeks to provide clarity, simplicity, and certainty to connecting customers regarding tariffs. This is not always possible at the EHV level where site-specific charging from DNOs is not made available. Where DNOs are transparent with their boundary charges these are not always provided in a timely fashion.

In seeking to provide certainty and stability for customers, Ofgem should consider how these charges can be made more transparent and timelier.

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

Developers recognise that connecting via an IDNO provides them with a simpler connection process, negating the need to go through the DNO to obtain the Statement of Works (SOW) from the Transmission Operator, which can often result in delays in securing an offer from a DNO, compared to securing the capacity, and importantly their queue position, more quickly.

The expansion of the IDNO model provides flexibility to connect local generation and storage for communities efficiently, without being constrained by the location of transmission grid supply points. Embedded distribution connection direct from transmission system is inherently reliable, dedicated, often easier and may be quicker to deliver where transmission substation is closer to the point of supply than the nearest DNO primary.

You make reference to the *“fair recovery of shared networks costs”*, and the *“potential opportunity of reduced network charges for connecting customers.”* We understand that some directly connected customers may avoid paying residual charges which they would otherwise be liable for under a DNO connection. This creates an incentive linked to residual charges, the removal of which was one of the goals of the Targeted Charging Review. Given this, we believe cost allocations should be reviewed to incentivise behaviours for connection and ongoing use of the system.

Additional benefits for developers include greater choice of licenced boundary metering point when connecting embedded distribution direct to the transmission system. Companies seeking these kinds of connection are generally project financed, with specialisms in battery, PV, and onshore wind, and will have little experience in the construction, operation, and maintenance of high voltage assets. Gaining this capability, even by contracting out, can be done only at a considerable premium, whereas utilising an IDNO provides additional

expertise and avoids them needing to become Statutory Undertakers to put cables in the public highway.

We are aware of and support the collaboration between Ofgem, Government and Industry to speed up connections arrangements at both distribution and transmission level and we welcome the proposal to open this sector to greater competition through the CATO model. We believe that IDNOs also have a role to play for connections at this level in providing additional network development capability to meet the needs of customers wishing to benefit from last mile connection and network operation, supplementing the capability and capacity of the TOs and DNOs.

We agree, and the market demand for IDNO services concurs, with your assessment that effective competition can be a more effective way of delivering improved customer service and efficiency. It follows that such competition in a regulated sector should be subject to ongoing monitoring and periodic review to embed enduring benefits for customers. We welcome the proposal to consider more widely, the regulatory arrangements for IDNOs and look forward to working with you as you develop this review.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V Spiers', written in a cursive style.

Vicki Spiers
Regulations Director