

22 October 2003

Mr Gary Keane  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Mr Keane,        Regulation of a New Electricity Distribution Licence Holder

The Independent Electricity Distributors Association (IEDA) is currently in the process of being established. The aim of the Association is to provide a forum for the collective views of companies wishing to acquire an electricity distribution licence. Founding members of the IEDA are Alstom, Laing Energy and McNicholas.

This letter represents the views of the IEDA (and hence the above three companies) on the Ofgem Consultation Paper dated 24 September 2003, entitled "Consultation on the Modification of Standard Licence Conditions for a New Electricity Distribution Licence Holder Pursuant to Section 8A of the Electricity Act 1989".

In general, the main thrust of the paper is accepted. However, the practical application of the principles set out in the paper needs to be developed further so as to ensure that regulation of the Independent Electricity Distributors (IEDs) is a practical working arrangement that will require minimum intervention by Ofgem.

Comments and suggestions on each section of the paper are as follows:-

#### Charging Arrangements

In making the following comments, we assume that at the 2005 Price Review, the use of capitalised O & M costs and tariff support will be discontinued and we support that approach.

With the separation of Supply and Distribution, we believe that there is no longer a case for the complex Distribution Use of System tariffs (DUoS) that exist with some DNOs. Distributors should mainly be concerned with the costs and charges of transporting a kW or kWh of energy across their networks at maximum reliability to the end customer - whether they are a DNO or an IED.

In a similar way to the DNOs, we also suggest that the IED should be entitled to a similar return on the assets installed in a new distribution network, as the DNO and that it should be cost reflective.

We support the approach outlined whereby the IED would need to ensure that for domestic customers, the use of system charges should not exceed that which would have been made by the distribution licence holder in whose area the distribution services network is located. However, the practical method of dealing with this approach needs further development so as to avoid delays and an increase in connection referrals to Ofgem for determination.

We agree that providing site specific charges for network extensions is not the answer as this would take time and be an administrative burden on the DNOs. However, there needs to be a relatively easy and transparent means of separating the present DNO DUoS between the DNO

and the IED to ensure that the above mentioned principle is easily maintained and that the IED obtains the same return as the DNO on the new assets.

At the present time at least one DNO provides DUoS tariffs for different voltage levels and this could easily be extended so as to provide DUoS charges for the entry and exits of each voltage level. These would be published and available to the IED to enable them to make informed business decisions.

If a new simplified approach was taken to the DUoS tariffs, as suggested above, then the overall administrative burden to the DNOs would not be greatly increased. This would be much simpler than providing site specific charges - which in many cases are not transparent.

On the point made in the paper about different networks having different costs, this is bound to be so. However, we do not believe it is practical to provide for the different costs by levying different up front charges because in most cases the developer is not the final owner of the development.

### Quality of Service

We accept the requirements laid out but would stress that the standards of performance would need to be tailored to reflect the size of the new entrant, as mentioned in the paper.

### Financial Ring Fencing

We believe that most new entrants will be new companies with no financial track record, but are likely to be subsidiaries of larger companies. The proposal that a parent company would give an undertaking in favour of its subsidiary seems to be a practical solution.

### Remaining Sections of the Paper

There are no other major comments, but we suggest that the above proposals should be reflected in the actual licence conditions for the individual applications.

### Annex to Notice Under Section 8A of the Electricity Act 1989

#### Standard Condition BA1: Charging arrangements

Paragraph 3 states that “the standing charge, unit rate and any other component of charges shall not exceed the distribution use of system charges to equivalent domestic customers”. We suggest that referring to “standing charge, unit rate and any other component of charges” is too specific and may inhibit innovative tariffs. It is suggested that “the overall cost per unit” should replace these words.

If you would wish to discuss any of the above comments please contact me.

Yours sincerely

John Spiller  
Chairman, The Independent Electricity Distributors Association