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Dear Donna

Regulation of Independent Electricity Distribution Network Operators

Thank you for the opportunity to comment on these proposals.

United Utilities believes that wherever possible the regulatory arrangements for DNOs should be consistent so that customers face the same level of protection regardless of who owns the network to which they are connected. This also reduces the overall costs in regulating the electricity sector.

The attached appendix provides our views on specific points raised in your consultation. There are also a range of more detailed issues that have been forwarded under separate cover by the ENA which need to be addressed.

If you wish to discuss any of the issues raised in this letter please do not hesitate to give me a call.

Yours sincerely

Stephen Parker

Senior Regulatory Analyst

APPENDIX

Contractual Arrangements

Whether similar contractual arrangements as those that exist in the gas sector should be applied to the electricity sector;

To achieve this in the electricity sector it would be necessary to establish systems and processes that would enable the host DNO to identify the supplier, and the relevant electricity consumption, at each metering point attached to embedded DNO. Suppliers would also need access to the data to enable them to verify DUoS bills.

Addition of further nested DNOs would add another layer of complexity.

This is likely to be a costly and significant exercise and therefore we do not support this approach.

the governance of inter-distributor relationships and the appropriate agreements between the two parties;

The regulatory framework governing connections to a DNO network applies to suppliers, generators and distributors. The differences in the nature of the connection and use of system arrangements between these different parties are relatively minor.

We see little merit in establishing separate arrangements to manage inter DNO relationships and agreements.

whether boundary metering should be required between a DNO's network and an IDNO embedded network;

The only means by which the distribution of electricity (and consequential losses) can be accurately measured and billed is by metering at the entry and exit points of that network. We believe therefore it is necessary to meter at the boundary point between networks (with the costs of installation and operation borne by the connecting party).

However, we recognise that at relatively small sites the economic costs of metering outweigh the benefits of this accuracy. It is perhaps appropriate to apply the criteria set out in the Electricity (Unmetered Supply) Regulations 2001 in making decisions about lifting the requirement for boundary metering. This would require the connected load to be of a predictable nature and either less than 500W or impractical to meter through cost or technical difficulties.

which parts of the IIP reporting arrangements requirements should apply to IDNOs and how would these need to be modified to reflect their circumstances;

It will be far easier and simpler for relatively small DNOs to accurately report data therefore we believe the reporting requirements should be consistent across all DNOs.

DNOs currently report loss of supply to customers caused by NGC. This could be replicated for the IDNO in relation to the DNO and potentially NGT.

which of the standards of performance should apply to IDNOs and how would these need to be modified to reflect differences in size and other circumstances between incumbent DNOs and IDNOs;

It is difficult to understand why customers attached to one particular DNO should not receive the same levels of compensation as customers attached to a different DNO for the same service failures. The standards of performance should apply consistently across all DNOs.

What arrangements need to be put in place between IDNOs and DNOs to enable IDNOs to report appropriately;

We would expect IDNOs to inform the DNO of the connection of a vulnerable customer to their network as part of the contractual relationship. The DNO can then account for these in its operational planning as with vulnerable customers connected directly to the DNO.

We would also expect the IDNO to report the presence of any embedded generation.

To what extent do existing reporting arrangements for DNOs need modifying to reflect the existence of IDNOs

IDNOs will be measured and reported as single exit points. Distinguishing IDNO connections separately in reporting arrangements is likely to be a complex exercise.

We do not believe any significant modifications are necessary. However, DNOs may want to report any loss of supply caused by IDNOs network protection failing to clear a fault that the DNO network clears causing loss to DNO customers.

Charging Arrangements

Views are invited on the existing IDNO charging arrangements;

As there are currently no IDNOs operating in electricity the only observations can be drawn from the gas market. In gas, customers have in the absence of regulatory controls faced higher use of system charges because capital sums have been paid to developers. It was necessary in the interests of customers to impose price controls. Similar controls introduced in advance to electricity represent a necessary measure to protect the interests of customers.

Whether the options discussed for long term charging arrangements have other strengths and weakness, what the relative (and where possible quantified) value of the strengths and weaknesses are and how Ofgem should evaluate the options;

Adopting option B would give an additional advantage in that it would increase the number of companies Ofgem could use in its comparative analysis work for DNOs generally.

Any other suitable options for the long term charging arrangements;

We have identified no further suitable options.

Whether a tiered approach to charging arrangements is appropriate and if so, how the threshold should be determined;

We believe a two tiered approach is appropriate.

In the very early stages of an IDNOs operations the price controls should be relatively simple and Option A delivers this. However, this should only be in place for companies with less than 50,000 customers. Beyond this Option B should be applied. Ofwat have demonstrated that a consistent approach to price regulation can be adapted to cater for significant variation in the size of the regulated water companies. The threshold therefore can be set at a relatively low level.

The desirability and appropriateness of consistency between charging arrangements in the IDNO and IGT sectors.

It is more desirable and appropriate to have consistent arrangements across the electricity sector rather than between gas and electricity where there are a number of inherent structural differences.

Financial Ring Fencing

The alternative arrangements to condition BA5 set out in paragraph 6.21

Generally we support Ofgem's approach in this area. The consequence of a DNO failure is likely to be much greater than that of a supplier because of the impact on the physical operation of the network. It is vital therefore that DNOs are financially stable companies in their own right.

The revised arrangements set out in relation BA5 will require continual monitoring by Ofgem given that many of these companies will be looking to grow at significant rates. It is important that if these are adopted that Ofgem has the necessary reporting information available to ensure the necessary security is maintained.

Any other suitable arrangements which would afford consumers the same protection as the requirement for an investment grade credit rating.

The only other suitable arrangements are those identified by Ofgem – cash or on demand bonds.