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Our ref
pjlw

Your ref
consultn 180/04

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Dear Donna

Ofgem consultation 180/04
Regulation of Independent Electricity Distribution Network Operators

I write to provide the contribution of Western Power Distribution (South West) plc and (South Wales) plc – “WPD” for short, in response to the above Consultation.

As you are aware, there are a wide range of unresolved issues surrounding embedded networks which impinge both on licenced networks where the IDNO has in aggregate more than 2.5MW / 2,500 Customers, but also on unlicenced networks where the IDNO has yet to meet these thresholds. Careful consideration is required of the respective requirements which need to be in place on both licenced and unlicenced networks and the transition arrangements between the two. If there were significant differences, an independent might elect to set up multiple small companies each one not breaching the 2500 Customer /2.5MW threshold to avoid the Licence requirements.

Whilst we discussed the extent of these issues in the Ofgem / DNO meeting held on 17th August and various proposals for pursuing those are currently being developed, it is important that they are considered for their impact in the area of this Consultation, as there are inter-dependencies between regulatory / licencing requirements and what is left to be covered in Agreements.

WPD believe that, where practicable, common requirements should be established within Licence conditions to avoid the potential for extended debate or referrals over the content of individual Agreements. This has the further benefit of assisting Ofgem in meeting it's duties under the Electricity Act, as amended, in -



- protecting the long term interests of Customers by setting parallel or equal technical requirements on both IDNOS and DNOs,
- meeting the requirements of section 8A (6) of the Act by ensuring that IDNOs have as equally onerous requirements imposed on them as on DNOs, so as not to distort competition in the market or raise Competition Act issues.

I attach detailed comments overleaf. If you have any questions please call me.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'R G Westlake', written over a horizontal line.

R G Westlake
Regulatory & Government Affairs Manager

Licence conditions

Amongst the list of issues which should be considered for inclusion in IDNO Licences are the following, and if not included Ofgem should indicate how they will otherwise be addressed;

- Standards to which new networks should be constructed. These should be the same or equal to those contained in the Ofgem ECSG accepted national documents ENA ER G81 for connections up to and including 11kV. This reflects back into what Ofgem believes will happen if an IDNO winds up and if it considers a Distributor of Last Resort scenario.
- Credit cover arrangements should be as for Supplier cover
- IIP, Guaranteed Standards, Customer Standards of Service
- Provision of Urgent Metering Services
- What Distribution Code should be required and whether this should be common for all IDNOs, and then common when the IDNO works across multiple DNO areas. Should this be the same common DCode as employed by DNOs?
- Treatment of system losses
- Applicability of Connection Charge Regulations and what constitutes “shallow” in a nested network
- Duties to meet requirements of the Act eg s16 requests for connection
- Duties related to unmetered connections such as streetlighting – compliance with BSCP 520, information to host DNO / UMISO if they are not themselves to have UMISO duty.
- Notices to Customers of planned interruptions of supply
- Requirement for point of isolation and protection at the interface with another network
- Duties to provide information / records concerning loading, and location of buried apparatus.
- Duties relating to actions required in emergency – restoration of supplies, load shedding, DTI classified protected Customers
- Duty to establish arrangements with DNO concerning operation and safety at interface

Use of system charges

Having regard to Figure 1 of the Consultation, which shows money flows in electricity and gas models, it is accepted that focus on charging the Supplier is more attractive, especially when considering the potential complexities of nested networks.

There are a number of difficulties in establishing the level DUOS charges where IDNs are connected within a voltage level –

- The % use of a DNO network will vary from site to site, and consequently as an IDNO adds (or subtracts) sites in its portfolio, the aggregate %'s will also move.
- It is understood that an IDNO will have a common 2 digit MPAN prefix irrespective of which DNO territory a given site is situated. Some mechanism is thus necessary to address this, unless settlement metering at the interface between DNO and IDNO is established.
- The treatment of losses within IDNO network has to be addressed; simple if there were boundary settlement metering.

Metering

There is little doubt that the use of settlement boundary metering removes the complexities of establishing suitable alternative means of capturing the required data on which to base DUOS and so it is necessary to strike an appropriate balance. This could be achieved by considering, in a model, the discounted cost of provision of settlement boundary metering against the discounted future energy charges and then setting a threshold based on the agreed capacity of a connection.

Quality of Service

To safeguard Customers, avoid discrimination between IDNOs and DNOs and resulting potential market distortion, equal standards of performance should be applied and subject to the same regulatory controls.

If IDNOs were not subject to the same IIP q.o.s. reporting requirements as a DNO it would not be possible for Ofgem, Customers, or other interested parties to draw equivalent comparisons of the performance of IDNs of measures which Ofgem have clearly decided are necessary as otherwise they would not have been imposed on DNOs. From a Customer perspective, they should both expect and receive the same level of monitoring and overview safeguards irrespective of their being fed by a DNO or an IDNO.

Charging arrangements

WPD has no objection to extending the interim arrangements.