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## **Regulation of Independent Electricity Distribution Network Operators**

Dear Donna

Central Networks welcomes this opportunity to respond to Ofgem's consultation titled 'Regulation of Independent Electricity Distribution Network Operators'.

My comments are listed below and follow the order they appear in the consultation.

### **3.2.4**

Central Networks supports the principal of 'level playing field' regulation for Independent Distribution Networks Operators (IDNO's) and Distribution Network Operators (DNO's), but recognises that some differences might be appropriate initially. In creating the regulatory environment for IDNOs account should be taken of the issues which were discussed at the meeting between Ofgem and DNO's on 17 August 2004. For ease of reference a consolidated list of these issues is attached.

CN has expressed a number of safety and operational concerns regarding IDNO's and would wish to reiterate these concerns in our response to this consultation. A copy of our letter of the 11 June 2004 detailing these concerns is therefore attached.

### **4.2.4**

#### **1<sup>st</sup> and 2<sup>nd</sup> Bullet Points**

Central Networks believes that the existing arrangements in electricity should be maintained as far as possible. We understand that all DNO's are

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contributing to a standard DNO/IDNO Connection and Use of System Agreement. Central Networks currently have such an agreement in place with an IDNO and would be happy to offer this as a template for a national agreement if required.

The creation of a further class of electricity industry party analogous to gas shippers, or placing additional obligations on suppliers, can only lead to very substantial costs for changes to core industry systems. It is difficult to see sufficient benefit to the end consumer to justify the costs of implementing this, and it would therefore conflict with Ofgem's objective of protecting the consumer.

### **3<sup>rd</sup> Bullet Point**

It is essential for both the DNO and IDNO that there is in place boundary metering for a number of reasons, these being as follows: -

- Transparency of data (and inter DNO billing)
- Measurement of losses on DNO and IDNO networks
- Potential identification of revenue protection issues on the IDNO network
- Will aid the calculation of unmetered supplies on the IDNO's network
- Will aid the governance of the Use Of System charges IDNO's can apply
- Will provide a measured benchmark in the event of a dispute on the IDNO network
- Will enable DNOs to continue to provide accurate data to Ofgem on 'units distributed'
- Will provide a stable platform in the event of an IDNO going into administration.

We have had some discussions with Ofgem regarding the appropriateness of installing boundary metering. In general, Central Networks believe that boundary meteringshould be installed' but there may be a de-minimus value where such metering is not mandated (this could be set at 5 domestic

properties for example). This is of course based on the fact that aggregated downstream data would be made available the DNO for billing and reporting purposes.

Typically we would expect the size of the connection to necessitate half hourly boundary metering as aggregated non-half hourly data is not a satisfactory solution.

Without boundary metering it would be difficult for DNO's to provide Ofgem with report data required by licence on areas such as losses.

There may be exceptional circumstances where we would permit a connection without a boundary meter but would expect the connection to be governed by the Unmetered (Electricity Supply) Regulations 2001.

You will be aware that we wrote to the Authority in July last year (a copy of our letter is attached for ease of reference) requesting clarification on our Licence Condition regarding the Provision of Meter Operation Services within our Distribution Services Area. Subsequent to this Ofgem consulted on whether the host DNO should provide these services on the IDNO's network or whether they should be provided by the IDNO itself. The final decision document from Ofgem concluded that these services should be provided by the host DNO. Whilst Central Networks will comply, we are unclear as to how we can charge for the provision of the metering on the IDNO network on a fair and equitable basis.

#### **4<sup>th</sup> and 5<sup>th</sup> Bullet Points**

All distributors, whether operating solely as in area DNO's, out of area DNO's or as IDNO's are de facto monopolies and therefore, following the level playing field approach, all distributors should be treated equally with regards to IIP reporting, Standards of Performance and Guarantees of Service etc. Central Networks believes that if this were not the case then some end consumers would suffer and be discriminated against.

#### **6<sup>th</sup> Bullet Point**

Whilst the IDNO reporting requirements are still under consideration, it is not appropriate to determine the requirements between a DNO and an IDNO. However CN sees as important issues such as loss of supply on an IDNO network regarding certain customer classes e.g. hospitals. Clarification would be required on compensation payments as a result of actions / inter actions by DNO's/IDNO's. Central Networks however be

pleased to work with the industry in producing the appropriate requirements once further clarity on this issue is available.

It is not clear from the consultation document what would happen to the Bond and Keep Well Agreement if in the event an IDNO is put into receivership.

### **5.31**

#### **1<sup>st</sup> Bullet Point**

Central Networks believes that the simple price capping approach for IDNO's is appropriate and will remain appropriate for some while. It would however be prudent to review the pricing arrangement as and when IDNOs became more established.

It should be borne in mind that the current control for DNO's is extremely costly and resourceful and subjecting an IDNO to such rigours would be inappropriate.

#### **2<sup>nd</sup> Bullet Point**

Central Networks has no views on the other options suggested in the Consultation Document. As in the first bullet point again it would be more appropriate to review pricing when the IDNO became more established.

#### **3<sup>rd</sup> Bullet Point**

No other options.

#### **4<sup>th</sup> Bullet Point**

The tiered approach would appear to be appropriate. As IDNO's grow to a substantial size it would seem appropriate to subject them to similar price controls as DNO's at that point.

Central Networks considers that a 500,000 customer base is approaching a DNO scale business.

#### **5<sup>th</sup> Bullet Point**

We do not consider this appropriate due to reasons previously given in 4.2.4.

### **6.33**

Credit ratings assigned by Moody's Investor Service or Standard and Poor's Corporation are based on information that is not generally available, and that is additional to that in the public domain. These Credit Rating Agencies

have access to the relevant businesses, and are privy to information regarding future strategy etc. that enables them to measure long-term risk. Their analysis focuses, therefore, on an assessment of the level and predictability of an issuer's future cash generation in relation to its commitments to repay debt holders. For these reasons Central Networks believe that IDNO's should be subject to the same scrutiny as DNO's are in this respect. This supports the level playing field approach.

In addition to the above, Central Networks would like to make the following comments:

The reinforcement contribution rule comes into force from April 05 and requires a DNO to charge customers a proportion of the cost of any upstream reinforcement aligned to the load they require as a fraction of the capacity of the reinforced network. The DNO must then recover the unrecovered costs from subsequent applications for connection that benefit from the reinforced network based on similar proportional rules. If we connect an IDNO to our network and make a charge for upstream reinforcement using the new rule, it is not clear whether or how the unrecovered charges will be recovered from new applicants to the IDNO's network and any subsequent nested networks.

If you wish to discuss this any further please contact me on 01332 393322.

Yours sincerely

John Hill  
Senior Contracts Executive