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Private Networks

Dear Sean,

We have recently received a number of applications from potential Private Network Operators for the provision of a connection to our Distribution System for a number of Private Networks.

In view of these applications, we have been reviewing Chapter 3 of the draft Energy Bill in relation to the potential financial or operational impacts on Central Networks particularly in relation to electricity distribution. This review has highlighted financial, safety and operational issues which we feel it appropriate and timely to raise with the Authority.

Chapter 3 addresses a number of commercial issues for the on-going financial operation of a network operator in administration. However, our main concerns relate to the physical operation of the network and the associated safety implications.

On 25 July 2003 we wrote to the Authority for clarification of our Licence Condition 2 which defines our Distribution Services Area (copy enclosed.) We still believe that the interpretation of Distribution Services Area should relate to customers directly connected to our Distribution System. If this Licence Condition was interpreted in a manner such that we had to provide services to customers on an embedded network, then this could lead to safety or operational issues. You will be aware that Central Networks also

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raised this point in our response to the consultation 169/03 – The provision of metering services by new electricity distribution network operators.

In the event of an Energy Administrator being appointed we would envisage that the Authority would want to ensure continuity of supply for the customers on that network. Whilst the Energy Bill is silent on this issue we would expect the Energy Administrator to aim to sell the business as a going concern to protect the interests of those customers. We recognise that in protecting the interests of those customers a reasonable solution may be to offer the sale of the networks to the Host DNO. Before we could consider the purchase of such a network, we would expect the appropriate assurances to be forthcoming that the network complies with all appropriate legislation in all respects. If Central Networks did purchase such a network and it was subsequently discovered not to comply then we would expect any expenditure in bringing the network to the required standard to be fully recovered through the price control.

Whilst we note the objectives on Energy Administration detailed in Section 152 of Chapter 3 we would also expect the Authority to ensure that the Energy Administrator will have, at the time of appointment, appropriate contracts in place to safeguard both the on-going operation and repair of the network.

We would also like to take the opportunity to raise some further issues relating to New Licensed Distribution Network Operators. Our initial perception was that these would be developed on greenfield sites, on further analysis we believe that there will be a mix of greenfield and brownfield developments. This raises a number of safety issues in relation to the identification of underground cables installed by more than one network operator in the same footpath or highway. In the Telecommunications industry this is addressed by the embedded telecommunications provider being mandated to use different coloured ducting. We believe that the Authority should raise this issue with the DTI, the HSE and HAUC prior to new licences being awarded.

A generic model Connection and Use of System Agreement has been developed (the terms for Use of System based on the 1998 JPW Use of System Agreement) this includes the provisions for Cover to limit our financial risk. Our current remedy for non-payment of Use of System charges is termination of the Agreement, ultimately leading to de-energisation of the exit point. Whilst we will endeavour to ensure the payment performance of the network operator in the same manner as any

other users of the network, we would seek assurance from the Authority that they will allow full pass through of any bad debt incurred through failure of the Private Network Operator.

We are aware of current discussions regarding the need for exit point metering between the host distribution network and the embedded network. Central Networks and the industry in general were supportive of Elexon Modification proposal P70. CMRS Metering for Inter-DNO Boundaries Within A GSP Group. However, whilst we note that the Authority supported this proposal it was rejected on a technicality. It is Central Networks' policy to meter all exit points from our network unless circumstances exist which may permit the granting of an unmetered supply.

We would expect these issues and any other issues the industry may have to be satisfactorily resolved prior to any Distribution Licence being granted to a Private Network Operator.

As a number of issues raised above span Chapter 3 of the draft Energy Bill, I assume that you will make appropriate parties aware of this letter at Ofgem?

We would wish to meet with you to discuss the issues mentioned above; to this end I will make contact with you in the next couple of weeks to arrange a mutually convenient time and venue.

Yours sincerely

John Hill
Senior Contracts Executive