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Dear Mark

Regulation of Independent Electricity Distribution Network Operators - Initial Proposals Document

I am writing in response to the Initial Proposals on the Regulation of Independent Electricity Distribution Network Operators on behalf of Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc.

The most important issue to WPD is that it is essential that boundary metering is provided to ensure an accurate measurement of energy crossing the IDNO boundary. This is required not only for accurate billing but also to ensure the effective management of losses within the IDNO network.

I hope that our comments are helpful, please do not hesitate to contact me if you require any further information.

Yours sincerely

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

Regulation of Independent Electricity Distribution Network Operators
Initial Proposals Document

Response from Western Power Distribution

Chapter 5 - Proposals for IDNO charging arrangement

Views on Proposal 1

We support Proposal 1 as an appropriate method of charging.

Non- discrimination

It is our opinion that there should be no need to regulate non-domestic charges beyond the non-discrimination provisions of LC4 provided the IDNO is required to produce a transparent charging methodology. To ensure domestic customers receive protection, the connection methodology for the IDNO needs to match that of the incumbent DNO if Ofgem use incumbent DNO charges for domestic customers as the starting point for IDNO charges, otherwise the IDNO could charge a higher connection charge than the DNO and then ongoing UoS charges at the same level as the DNO.

Nested networks

We agree that further consideration of nested network issues is required, including consideration of Connection Charge Regulations and Competition in Connection requirements (e.g. ER G81) and processes. These issues are also entwined with the decision on use of GB D-Code. However, in order to keep the arrangements as simple and straightforward as possible we would suggest the relationship with the nested network is as per IDNO/DNO model. This position may need to be kept under review as the market develops/matures.

Start date

Assuming the simpler suggestion in proposal 1 is suggested then there seems to be no difficulty with a start date for the control of April 2005. There is no reason to believe that the prices charged by DNO's in 2005 will be subject to more distortion than in any other year, for example as a result of movements in over and under recoveries.

Chapter 6 - Financial Ring Fencing of IDNO's

Licence modifications

We agree that the only alternative arrangements to holding an investment grade credit rating are cash or an on demand bond and that upstream UoS charges constitute an operating cost.

Chapter 7 – Commercial Issues

Alignment of contractual arrangements to Gas

The current arrangements provide a transparent framework through which to charge using existing processes backed up by the introduction of simple boundary metering. This allows Suppliers to receive one bill from the IDNO's and the IDNO's to receive one bill from the DNO's. It should be noted that billing to IDNO's should be managed using the same contractual terms as those currently operated between DNO's and Suppliers.

We do not believe that any change to Supplier's receiving one bill for distribution services is justified. If separate bills from IDNO and DNO are required to be produced for Suppliers this will require a fundamental re-design of the current data transfer processes. Extensive analysis work would have to be undertaken to establish a method of satisfying this requirement. Due to the significance of the change this is highly likely to be prohibitively expensive and would result in significant extra costs for market participants.

Boundary Metering

In order to support the above arrangements it is essential that boundary metering is provided to ensure an accurate measurement of energy crossing the IDNO boundary. This is required not only for accurate billing but also to ensure the effective management of losses within the IDNO network. Boundary metering should be in place for all network types and should be applied for all networks

The correct evaluation of losses can have a significant impact on DNO revenues, it is therefore essential that boundary metering is provided so that DNO's can treat consumption on IDNO networks correctly. Boundary metering would also allow the correct treatment of more complex cases where IDNO's may have more than one point of entry from the DNO or else points of entry from more than one DNO.

Allowing an alternative to boundary metering in de minimis situations would mean that DNO's would have to have 2 systems rather than one for dealing with IDNO's. As all boundary points are required to have isolation facilities this makes the requirement for boundary metering less onerous than it might otherwise have been.

We strongly agree with Ofgem that isolation/protection is essential at the boundary between networks and that the cost of this should be borne by the IDNO.

Comments in respect of Quality of Service

We support Ofgem's view that IDNOs should report quality of service data, by identifying CIs and CMLs that arise from:

- Unplanned incidents on the IDNOs own network;
- Pre-arranged incidents on the IDNOs own network;

- Incidents on connected network; and
- Incidents on distributed generation connected to the IDNOs own network.

This approach is consistent with the approach that has been prescribed by Ofgem for quality of service reporting by DNOs.

We propose that DNOs should not count the customers connected to downstream (i.e. IDNO) networks for the purposes of RIGs reporting and the IIP incentive scheme. Our rationale for this proposal is that:

- This would be consistent with the counting of customers that are connected to a DNO's network, which is connected downstream on another network, such as the transmission network;
- It would not be possible for a DNO to validate the number of customers counted to a downstream network – this would impact on the DNOs reporting accuracy;
- A DNO would not be able to validate changes, between incident date and IIP audit date, in the number of customers connected to a downstream network, - this would impact on the accuracy assessment by the IIP auditor; and
- If DNOs did count the customers connected to downstream networks, then this would involve double counting as the IDNO is required to report the quality of service experienced by customers connected to the IDNOs networks.

Additional Comments

There are several areas which have not been mentioned in the Consultation but have previously been flagged up as matters requiring a clear statement of Ofgem's position.

- It is important that IDNO Licences are not awarded by Ofgem until the IDNO has in place the licence required MPAS arrangements to issue its own MPANs.
- A recognition that in offering a Point of Connection to the IDNO, the DNO is obliged to offer the least cost technically compliant connection, which might be near the limit of , e.g. statutory voltage tolerances. Alternative PoC offers may then be required, charged accordingly.
- In responding to a rota shedding instruction from NGT, the host DNO would treat the IDNO as any other customer. The IDNO would be responsible for notifying the host DNO of vulnerable customers.
- There should be a common GB D-Code . If Ofgem permits IDNOs to operate to another D-Code the requirements must be equivalent. In the latter

scenario, there would be complex technical and commercial questions relating to the interface between Codes.

- Ofgem confirms that the Host DNO is not a Distributor of Last Resort in the event of the failure or winding up of the IDNO.
- The desirability of establishing good physical separation between DNO and IDNO networks in the same street.
- It is also essential to consider what happens when an IDNO becomes a DNO. It is right that they should be subject to a price control however we would argue that the new DNO could not be used as a comparator with existing DNOs; we are dealing with old assets and requirements for increased investment compared to a new DNO whose network comprises solely of new assets – the two are not comparable.
- There are also issues relating to IIP and the customer survey, if an IDNO's customer telephones the DNO we will be asking them to dial a different number for their IDNO – if these customers are then chosen in the customer survey the response will of course be negative. It is important that these customers are not surveyed.