

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

## **Consultation January 18/05 Response**

### **Energy Networks Ltd / Mowlem plc**

#### **Introduction**

This response is made jointly between Energy Networks Ltd a licence applicant and Mowlem PLC the owners of Energy Networks Ltd.

Energy Networks Ltd (ENL) have had a licence application submitted for some time and have been in discussion with Ofgem for some time over the finance ring fence arrangements proposed. In a response to Ofgem on February 11<sup>th</sup> 2004 ENL proposed alternative arrangements that were not accepted by Ofgem. That response is included in this submission but under confidential cover

ENL also wrote to Ofgem on May 7<sup>th</sup> confirming that they would meet any proposals arising out of the consultation, which was expected sooner than January 2005. It is still not clear under what arrangements an IDNO will operate. Ofgem have felt that the arrangements now in place will protect customers interests because they have awarded three new distribution licences.

ENL have expressed a view that the arrangements currently in place do not adequately protect customers' interests and that the financial ring fence has placed an excessive burden on independent network operators. The need to tie in an investment of 6 month operating costs that includes securing the upstream DuoS imposes additional risks on IDNOs. ENL ask that their response to consultation paper 180/04 be also considered here.

#### **Proposals for IDNO Charging Arrangements**

ENL supported existing arrangements or a relative price control methodology but with a floor and ceiling set against all the DNO long term charges not just the incumbent. The reason for this is that you have to identify who is the incumbent DNO otherwise you are exposing the IDNO to multiple charging arrangements when they operate across different DNO areas is. There are no proposals on how Ofgem intend to treat IDNOs adopting networks across different DNO areas thereby making it impossible to comment on the proposals without extensive modeling of different charging regimes. The floor and ceiling limit proposals and the period for review are acceptable but depending on which incumbent DNO is chosen as the base, we would like to see modifications applied retrospectively.

The proposals still reflect a degree of uncertainty over IDNO charges and therefore a risk disproportionate to the DNO.

### Financial Ring Fence

ENL is against a 'cash lock up' for reasons already stated in the introduction and in our confidential submission. We disagree that upstream use of system charges constitute an operating cost because they do so only under the current contractual arrangements. ENL has requested different arrangements but these have not been considered as serving customers best interests. The IDNO is carrying the risk that the DNO would have carried without any protection. ENL would like Ofgem to regulate the charges so that both DNO and IDNO share the risk.

We could not support a modification to BA6 in line with the DPCR4 proposal while the existing financial ring fence remains unchanged.

### Commercial Issues

#### Current Contractual Arrangements

The issue that IDNO carry the liability and risk of the upstream use of system charges would be negated with contractual relationships similar to those in the gas industry. However it is recognized that arrangements are currently governed by a distribution use of system agreement between suppliers and distributors. A use of system agreement between DNO and IDNO that recognizes that IDNOs should not carry risk that the DNO formerly carried rather than the industry carry the burden of increased costs changing the systems. The arrangements between IDNO and DNO should be the same within a GSP Group as exists between DNO and DNO. There maybe benefits to introducing arrangements similar to gas when there is quantitative evidence to support and justify the investment required.

#### Boundary Equipment

We recognize the requirements upon us of the ESQC regulations but would expect to cooperate with DNOs for the least cost solution. We would not expect to provide unnecessary or additional equipment that would not have been provided if there was a single distributor.

There is no reason why IDNO and DNO cannot develop operating procedures where both parties have reasonable access. This arrangement works between DNOs and between a DNO and a customer taking supply at HV.

#### Boundary Metering

The arrangements for metering between IDNO and DNO should be no different to the arrangements between DNO and DNO within the same GSP Group. Customers taking supply at high voltage are subject to demand metering and the nature of the boundary equipment lends itself to accommodating metering with little additional equipment. Normal practice should be adopted.

Who benefits over boundary metering? Operation of boundary metering should be the same as any other meter. A supplier is appointed, a meter is installed and a customer is

charged. Boundary metering installed under different arrangements is inconsistent with the market. Boundary metering should not be used for revenue protection where it is not used now.

By all means change the way the market operates but impose those changes on all licence holders not just on IDNOs and only after quantitative information is provided by DNO or IDNO to substantiate a change not because there is now competition in electricity distribution. But why even the debate over boundary metering relating to actual use of system charges and losses. Why is it not an issue now? There are merits in obtaining accurate information but the DNOs are not tasked with measuring losses at this, why the interest in measuring the relative losses for an IDNO distributor?

The IDNOs have entered the market to own and operate networks supplying domestic customers knowing that the use of system income is from arbitrary profiling. The apportionment of use of system agreed under the connection and use of system agreement guarantees the IDNO income. Disputes between DNO and IDNO will arise when striking this agreement.

#### Quality of Service

Guaranteed standards should be applied equally to DNOs and IDNOs and they should strive to meet the same performance targets for customers regardless whether their exit point is on an IDNO network or the DNO network.

There must be an exemption on CML / CI reports on a IDNO network where a failure is attributable to the upstream system.