

Martin Crouch  
Director - Distribution  
Ofgem  
9 Millbank  
London  
SW1P 3GE

31 May 2006

**Central Networks**  
Pegasus Business Park  
Castle Donington  
Derbyshire  
United Kingdom  
DE74 2TU  
central-networks.co.uk

Jonathan Ashcroft  
T 01332 393600

Dear Martin

**Regulation of independent Electricity distributors: consultation on implications of licence applications from affiliates of existing licensees**

Central Networks welcomes the opportunity to comment on your letter regarding the above. This response is on behalf of both Central Networks East and West.

We believe that a level playing field needs to be established on which DNOs and IDNOs can compete for the construction and operation of new networks on an equal basis. The existence of equal competition would be economically efficient and would effectively eliminate the incentive for DNO affiliates to seek IDNO type licences. We believe that similarly equitable arrangements should also be established for the provision of competitive connections.

Central Networks' comments on the Options outlined in the letter are as follows:

***Option 1 - Treat affiliates in the same way as other potential IDNOs***

- moving DNOs affiliates to IDNO basis of charging will accelerate cherry picking (i.e. hiving off low cost to serve customers), make for more complex charging and cause the higher cost to serve customers to be charged more;

Central Networks East plc  
No 2366923  
Central Networks West plc  
No 3600574  
Central Networks Services  
Limited  
No 3600545

Registered in England and  
Wales

Registered Office:  
Westwood Way  
Westwood Business Park  
Coventry, CV4 8LG

- therefore we believe IDNOs must be put on the same footing as DNOs by some means so as to remove the incentive to cherry pick;
- this would require strong business separation rules to be in place between the DNOs and IDNO affiliates to ensure that the DNO did not discriminate in favour of its affiliate IDNO;
- as a result of the business separation the IDNO would have to duplicate services already provided by its affiliated DNO (e.g. MPAS, loss of supply, etc.) which would lead to double overheads, or the responsible host DNOs would have to offer services to all others on an equal basis
- price control comparison is likely to be more complex where a DNO has an affiliated IDNO;

***Option 2 - Refuse to grant a licence, or restrict any licence to exclude the affiliated DNO's area***

- It is our view that this would be likely to be anti competitive, particularly in constraining a DNO's ability to compete with an IDNO in the low cost to serve communities.

***Option 3 - Grant a licence to a competent applicant but with modifications to provide additional protection for consumers***

- Ofgem should make such modifications to the licence and / or price control framework as would provide a level playing field for competition between DNOs and IDNOs (including DNO affiliates)
- Modifications should be made to all licenses in order to protect all customers (not just those benefited by IDNOs), facilitate competition and ensure that end customers see the benefits of competition (rather than developers)
- In the case of IDNOs affiliated to DNOs, particular attention would have to be given to removing the potential benefits of cherry picking, whilst encouraging innovation and efficiency in construction

*Option 4 - Modify the DNO's licence and/or price control*

- Any such modification should allow DNOs and IDNOs to compete on a level basis
- Level competition would remove the incentive for DNO affiliates to seek IDNO licences

Central Networks believes that a mix of option 3 and 4 may be necessary in order to create a level playing field. This should not be on the basis of DNOs competing with IDNOs, which will accelerate cherry picking and frustrate Ofgem's objective of protecting the interests of consumers. Rather, unless a radical policy change is to be implemented, the benefits seen by those customers with lower cost to serve should continue to be passed to those of greater cost.

In addition to the responses to particular options above we would highlight the following issues which we believe create potential barriers to entry for both Competitive Connection Providers constructing network extensions, and also IDNOs operating networks within the area of DNO's of which it is an affiliate.

It is our view that there are a number of issues in relation to certain statutory powers of an IDNO/DNO which currently do not allow for a level playing field, for example the New Road Street Work Act, planning permission and compulsory purchase powers.

Taking the above in turn:

- New Road Street Works Act (NRSWA) – whilst an IDNO/DNO are statutory undertakers by virtue of their Distribution Licence, Competitive Connections Providers (CCP) have to rely on a Section 50 notification process to enable them to carry out street works in the public highway.
- Planning permission – Central Networks considers that this is a significant barrier for CCP as unlike an IDNO or a DNO who enjoy deemed planning consent under the general development order rights, a CCP will always have to obtain planning consent. This perhaps might be addressed through an agreement between the CCP

and the host DNO by the DNO allowing the CCP to act as its agent for the purposes of seeking planning consent.

- Compulsory purchase powers – as with NRSWA above, the CCP is at a significant disadvantage in situations where a third party refuses to grant appropriate consents whereas an IDNO or DNO can use their compulsory purchase powers in order to secure a connection. As with planning permission referred to above, this might be addressed if the IDNO/DNO were to offer such services to CCPs in these circumstances.

We believe such issues must be addressed in order to establish a level playing field in the provision of competitive connections, whether via competition in connection providers or via IDNOs. Such factors are presently providing incentives to create an IDNO rather than operate as a CCP. We will of course also include these issues in our response to Ofgem's connection market review.

I hope that these few comments are helpful.

Yours sincerely

Jonathan Ashcroft  
Regulation Manager