



Ms Heather Glass  
Distribution Policy  
Ofgem  
9 Millbank  
LONDON  
SW1P 3GE

22 May 2006

Your ref  
Our ref      AF/rk

Dear Sirs,

**Regulation of independent electricity distributors; consultation on implications of licence applications from affiliates of existing licensees**

We refer to the consultation posted on 13 April 2006 and have a number of concerns, generally from the perspective of large scale developments and specifically in the context of Land Securities development in Ebbsfleet Valley. This response is made independently of Multi-Utility Joint Ventures Limited and EDF Energy plc who we understand will be responding separately.

We would be happy for this response to be placed on Ofgem's web site.

The points we wish to raise are as follows:

1. We appreciate that it is necessary for Ofgem to publicly consult on new initiatives that have a regulatory aspect. However we are concerned on the timing of this particular consultation, being issued prior to a formal application of the multi utility company for an IDNO licence, where parties will not have had the opportunity to consider matters with a full understanding of the background and nature of the potential application. We trust that Ofgem will take this into consideration when assessing responses to the consultation.
2. We would stress to Ofgem that the potential application stems from a Land Securities initiative in creating a new cost effective multi utility provision to meet the demands of a large scale urban regeneration project and it is not the result of a DNO seeking to enhance a business monopoly, as may be inferred from the consultation paper.
3. We believe that it is important to record that the potential application is part of a multi utility arrangement and not solely an electrical power distribution matter. The multi utility arrangement not only provides customers with the normal Ofgem regulatory framework but provides consumers significantly enhanced benefits of complimentary efficiency and value across all basic utilities.
4. We also believe that it is important to record that potential IDNO application is subject to a geographic limitation which, at Land Securities request, limits operations to the land specifically within Land Securities ownership
5. We can advise that legal and contract structures will prevail which, inter alia, will provide for an active involvement of Land Securities and establishes specific obligations under a Project Agreement geared to drive efficiency and value and establish added controls and which will



- be of significant benefit to the development and its residents. We expect these arrangements will be clarified in the formal application in due course.
6. A core objective of Land Securities in promoting the multi utility initiative is to provide key consumer benefits and significant community benefits. We believe it would be remiss if the opportunity to realise such benefits was missed, as they are wholly compatible with Ofgem's base mandate to protect the interests of the consumer.
  7. We agree with Ofgem that 'true' IDNO's have limited networks, few customers, small operations and have only been in operation since mid-2005. We believe that it would be irresponsible for Land Securities and not in consumer's best interests to entrust a 25 year development for a new regional township to any company without the capacity to provide guarantees and security on utility delivery and operation.
  8. We can advise Ofgem that having examined the market there are few companies with the capability of supporting large scale urban regeneration and the business ability to operate a multi utility company. We would suggest that limitation of the unregulated parts of Ex-PES companies to associate and compete on bids for such initiatives would reduce an already limited competitive base and disadvantages one company against another. This would in effect establish an anti-competitive framework on major development projects.
  9. We can also confirm that companies with the capability to provide utilities for Ebbsfleet Valley and establish a multi utility company have been considered and that the potential application has in fact been subject to a competitive process.
  10. Under the arrangements that are being proposed we do differ from the view that the competitive benefits from the IDNO contemplated would be weaker than that for a 'true' IDNO. We are informed that in practice the DNO business is essentially the same whether the IDNO is an affiliate or not.
  11. We are also somewhat confused by the assertion from other IDNO's and independent connectors that on the one hand an affiliate IDNO will have preferential treatment from the DNO and on the other hand be less effective at placing pressure on the DNO (presumably in connection with non contestable works). Irrespective of this anomaly we can assure Ofgem that Land Securities position within the shareholding of the multi utility company will enforce the effective interaction between IDNO and DNO which will be fully in consumers' interests.
  12. Whilst we fully support the protection of consumer's interests we would have a particular concern that the regulation being contemplated may not automatically give the result desired and savings generated from restricted use of system costs will more likely to lead to increased supplier profitability.
  13. The multi utility approach can only be achieved with capable organisations with structures combining an IDNO and a water inset licence. We are concerned that restrictive regulation being considered would be detrimental to the multi utility initiatives, not only for Land Securities but at any time on any large scale development in the UK.

We trust that Ofgem will take these concerns on board. However, prior to making any determination we would ask that Ofgem await the specific application from the prospective multi utility company.

We have separately briefed Ofgem on the details of the Ebbsfleet Valley Project and Land Securities strategy for the multi utility provision and we would be happy to provide further clarifications if required.



Yours sincerely,

Andy Freeman  
Project Director  
Urban Community Development