

Martin Crouch
Director, Distribution
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Central Networks

Pegasus Business Park
Castle Donington
Derbyshire
DE74 2TU
central-networks.co.uk

Jonathan Ashcroft
02476 185766

jonathan.ashcroft@central-
networks.co.uk

Date 28th September 2007

Dear Martin

**Consultation on United Utilities modification proposal
UU/2008/002.1: Proposal to introduce payments for the
adoption of connection assets**

Following on from your letter of the 17 August 2007 regarding the above, Central Networks welcomes the opportunity to provide comments on United Utilities proposal for the introduction of payments for the adoption of connection assets.

Please note that our response is on behalf of both Central Networks East and Central Networks West, the two distribution licence holders.

Our response follows the order of questions as detailed in your letter of 17 August 2007.



- 1 Does United Utilities (UU's) modification proposal better achieve the relevant objectives?
 - i) Is the proposal more cost reflective than the current methodology?

The current methodology appears to involve an element of duplication whereby the connection of

Central Networks East plc
2366923

Central Networks West plc
3600574

Central Networks Services Limited
3600545

Registered in
England and Wales

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

assets paid for by the new customers up-front also generates an ongoing Use of System (UoS) income stream. UU's proposal removes this duplication and, in doing this, Central Networks believes that it is more cost reflective than UU's current methodology.

- ii) Does UU's proposal restrict, distort or prevent competition in distribution?

Central Networks believes this proposal addresses an issue of double counting in UU's current methodology. UU has stated that other network operators already make payments to adopt distribution assets in these circumstances and, as such, their proposal creates a level playing field. For these reasons we do not believe that implementation of the proposal would restrict, distort or prevent competition.

- iii) Does the methodology proposed by UU provide sufficient clarity and transparency about the calculation and application of adoption payments?

Yes, the examples given in the proposal provide clarity about the mechanics of the methodology.

- 2 Have we correctly captured the main issues raised by UU's modification proposal, and more generally by adoption payments, in Annex 1?

We believe so, see comments in the sections below.

Extent of competition

- 3 Do adoption payments play a role in the development of a competitive market?

We believe that adoption payments do remove the duplication between new customers paying connection costs and the enduring tariff formulation. However we also believe that the market can only become truly competitive with

increased transparency and this would require all parties publishing their connection charging methodology in their licence condition 4 statements (LC4). Where adoption payments are offered these should in all cases be a clear element of the published methodology.

4 Is competition now effective?

We are now seeing increasingly diverse ownership of networks in our area, with increasing numbers of POC requests being received from third parties acting on behalf of IDNOs month on month, suggesting that competition in this area is effective.

However, there is a distortion within the market, between classes of customers and as per 1(ii) above, this proposal appears to correct this imbalance.

5 Are adoption payments now appropriate in order to reflect developments in the licensee's business?

Adoption payments remove the overlap between connection charges and enduring UoS tariffs and therefore create a level playing field. With hindsight, removing the Tariff Support Allowance simplified the connection charge boundary but has created a discrepancy between new and existing customers. The proposed methodology therefore better reflects our licence condition in avoiding discrimination between past and new customers.

Effect of average assumptions

6 Are the assumptions used by UU reasonably representative of the majority of connections?

The assumptions made by UU appear reasonable in balancing complexity with transparency.

7 What is the impact of the proposed methodology change on customers and competitors whose connections are not closely reflected in the modelled assumptions?

New customers will generally pay lower connection charges whilst continuing to pay the current enduring UoS charges as a result of this proposal. The use of standard charges is sensible in terms of the mass market, but will mean some customers do better than others (as with averaged tariffs). In terms of competition to adopt assets, we think it important that this is properly and transparently undertaken and this requires the publication of methodologies by all competing parties.

- 8 Does the combination of adoption payments and UoS boundary charges have anti-competitive effects?

UoS boundary charges are outside the scope of this consultation and are currently subject to industry-wide discussion and consideration by individual DNOs. However, adoption of the proposed methodology would remove overlaps and inconsistencies between UoS and connections and balance transparency and cost reflectivity.

Potential for discrimination and double-counting

- 9 Is there currently an issue of potential discrimination in UU's charging methodologies?

UU's proposal appears to remove the discrimination between pre and post 2005 customers.

- 10 Is there currently an issue of potential double-counting in UU's charging methodologies?

Central Networks believes that UU's proposal appears to remove the issue of double-counting.

- 11 Is the proposed modification the most appropriate way forward?

Central Networks believes that any proposal that removes discrimination and provides greater transparency and cost reflectivity is a move forward.

- 12 Is there any alternative approach to be considered, that would better meet the relevant objectives?

Feedback from developers to Central Networks suggests that the introduction of an asset adoption payment would represent a positive move forward for a number of reasons given above.

- 13 Does UU's proposal result in a shift in the connection boundary and, if so, is this appropriate?

Whilst DNO's split the recovery of costs between connection to the distribution system and ongoing UoS charges for utilisation of the network, it may be that more analysis is needed to ensure that with UU's proposal there is no over recovery for any reinforced assets when associated with the provision of any new or increased connection.

Exclusions from the methodology

- 14 Are the exclusions appropriate and have UU sufficiently justified these?

Central Networks believes that the exclusions detailed in UU's proposals are appropriate, as UU's case appears to be sound and provides sufficient justification. For completeness we would also expect Service Alterations to be included in the exclusions list since these do not provide any additional UoS income.

If you would like to discuss any of the comments in our response, please do not hesitate to contact me direct.

Yours sincerely

Jonathan Ashcroft
Regulation and Commercial Manager