

Mr Paul Darby
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Your ref: 65/08
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Dear Sir

Application By EDF Energy (iDNO) Ltd for an Electricity Distribution Licence

I refer to your proposals for EDF Energy (IDNO) Ltd application for an electricity distribution licence.

The Market

Core Utility Solutions Limited (Core), a subsidiary of ScottishPower Limited, operates in the competitive connections market across the United Kingdom and is active in 9 out of the 14 traditional DNO franchise areas under the competition in connections (CinC) framework.

We would take this opportunity to highlight that it is becoming increasingly difficult to win independent connections under the current regulatory framework and we attribute this fact to a distortion in the market that has been created by allowing only IDNOs to offer asset values (or adoption payments).

Under current arrangements IDNOs payments are now regularly offered by IDNOs to developers through the capitalisation of a portion of future DuoS income in order to offset part of the connection charge. Where IDNOs are working in active partnership with ICP businesses, as happens in most cases since the majority belong to the same groups, this creates an unfair playing field when bidding against "pure" Independent Connection Providers. As IDNO/ICP affiliated companies are now rapidly increasing their presence in many areas of the country, this is now having an adverse effect on competition in connections.

Our experience suggests that many developers, when making the decision on who to appoint to install and own the utility infrastructure will typically opt for the "cheapest cost" option, ignoring any long term quality of service issues. We are therefore not convinced that the consumer is getting the best deal in the current situation.

This does not mean that we are questioning the concept of adoption payments themselves but rather the unfair advantage that certain IDNO businesses have under the current regime and we would like to see fairer competition between IDNOs and DNOs when offering these payments in a way that does not distort the market for Independent Connection Providers throughout the UK.

Ofgem Proposals

Regarding Ofgem's specific proposals:

We support OFGEM proposals 15(a) and 15(c) namely;

- 15(a) prohibit cross subsidy between the applicant's distribution business and any other business
- 15(c) provide for the reporting of costs, revenues and other information to allow for the price control treatment

However, we do not support the proposal 15(b):

- to restrict the applicant's distribution business activity to the specific developments and require the applicant to apply for consent to OFGEM for any other distribution activity to other developments;

When a developer is considering the various options available to them during the tender process, they require certainty over who will adopt assets and under what terms, without the added complication of it depending on a decision by OFGEM for each individual development. Therefore we consider that proposal 15(b) is unduly restrictive and unworkable in the commercial market when competing for connections work.

Finally, in our experience we frequently receive poor service when applying for a point of connection to other IDNOs, which adversely impacts our ability to compete for connections work. We therefore also support the decision that standard licence condition 15 (standards for the provision of non contestable connection services) is "switched on" in the EDFE iDNO licence and it also remains our view that this should be "switched on" for the four other iDNOs.

Clearly the EDF application raises questions about the current arrangements for all market participants and we would suggest that this opens up the need for a more thorough debate on the future of competition in connections whether under DPCR5 or as a separate work-stream.

Yours sincerely,

George Kirk
Commercial and Risk Director