



## **ScottishPower EnergyNetworks**

### **Application by EDF Energy (IDNO) Ltd for an electricity distribution licence (May 2008)**

#### **Response by SP Energy Networks**

SP Energy Networks (SPEN) welcome the opportunity to comment on the issues raised in this consultation paper.

Our main comment on the proposals is that there is no explicit recognition of the additional costs in operating and maintaining the network assets of EDF Energy (IDNO) Ltd ('EDFI'). Thus additional income (taking the DNO and IDNO licences together) is effectively disallowed, but additional costs are not (explicitly) taken into account.

Secondly, we understand that the reason that an IDNO is sought for the networks concerned is to facilitate adoption payments to the developers concerned. Since 2005 DNOs have been discouraged from providing such payments, on the grounds that they were perceived to potentially distort competition in connections. Such payments are now regularly offered by IDNOs to developers, however. As IDNOs are now rapidly increasing their presence in many areas of the country, we therefore believe that the case for DNOs not providing adoption payments should be reviewed.

Although in the short term the proposals will lead to lower use of system charges in the EDF EN Distribution Services Areas than would otherwise have been the case, it is unclear whether this is beneficial to customers in the medium term if DNOs are discouraged from addressing competition from IDNOs in their Distribution Services Areas.

Turning to the licence modifications our detailed comments are as follows.

#### *(1) Modified licence conditions for Applicant*

Condition BA1 (Regulation of charging arrangements). No comment.

Condition 4.9 (Prohibition of cross-subsidy). It is not clear how this would operate in combination with e.g. the changes to the DNO allowed revenue conditions, in the absence of an explicit position on the treatment of operating costs for the new networks.

Condition BA4 (Specific restriction of activity). There is no indication given of what criteria the Authority would apply in determining an application from the licensee to distribute electricity through assets to be connected to its network.

#### *(2) Special Conditions for DNO (B2, D1 and D2)*

We note the changes proposed, but please see our comments above on the issues relating to netting off the IDNO revenue from the DNO's allowed revenue.

*(3) Other points*

We note that no losses incentive is proposed for the applicant. The applicant will therefore be incentivised to construct assets that are as cheap as possible, taking no account of losses performance. This is an anomaly, as DNOs are incentivised to manage losses, and will therefore take this into account in construction of network assets.