Electricity Distributors
and other interested parties

Promoting choice and value for all gas and electricity customers

Direct Dial: 020 7901 7194
Email: rachel.fletcher@ofgem.gov.uk

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Dear Colleagues,

Independent Distribution Network Operators (IDNOs) Point of Connection (POC) Applications

It has come to light that under recently introduced IDNO charging arrangements IDNOs[1] could seek a connection to distribution network operators' (DNOs') distribution systems[2] at a higher voltage level than may be necessary, given the requirements of the end customers. Our main concern is that connections by an IDNO at a higher than necessary voltage level could result IDNOs receiving additional income without providing additional and required distribution services.

In this letter we further set out our concerns and note that an electricity distributor does not have an obligation to offer IDNOs a connection at the voltage level that they request if the resulting agreement for doing so would be likely to cause it to be in breach of its duties under section 9 of the Electricity Act 1989 (the "Act"). We also provide some guidance on how we may go about formulating a view on whether it is necessary for an IDNO to connect at a higher voltage level.

Condition BA2 of the IDNO licence prevents IDNOs from charging suppliers for services provided to customers connected to their networks any more than the host DNO[3] would have charged for equivalent customers. In turn the charge to the IDNO by the host DNO is based on a discount methodology, with the discount being based on the IDNO point (voltage) of connection[4]. The size of the discount, and hence the income available to an IDNO, is intended to increase with the voltage of the IDNO connection to reflect the increased cost of services provided by the IDNO.

We are concerned that IDNOs' may seek a point of connection at a higher voltage than may be necessary without providing additional and required distribution services at the intermediate voltage levels[5]. Unless the distribution services provided by an IDNO are both additional and required then it is difficult to justify the IDNO earning the additional income associated with a POC at a higher voltage level.

[1] And DNOs operating outside of their distribution services area (DSA).
[2] Where the DNO is operating within its DSA.
[3] By host DNO we mean the DNO network to which the IDNO network is connected.
[4] A more detailed description of the methodology used to derive IDNO charges can be found on page 26 of the CDCM report which can be found via the link "CDCM submission documents" at the following link http://2010.energynetworks.org/structure-of-charges/
[5] Intermediate between the IDNO POC and the connections of customers connected to the IDNO network.

When offering connections to IDNOs under section 16(2) of the Act we note that a DNOs' duty to make a connection to the distribution system requires it to "*provide such electric lines or electrical plant as may be necessary to enable the connection to be used for the purposes for which it is required*". This duty, therefore, does not appear to require the DNO to offer an IDNO a connection at the voltage level that it requests if the voltage level of the connection is higher than necessary.

We also note that both IDNOs and DNOs have an duty under the section 9(1)(a) of the Act to "*develop and maintain an efficient, coordinated and economical system of electricity distribution".* We therefore consider that it could be the case that the seeking and granting of a connection at a higher voltage than is necessary may not be compatible with their duties under section 9(1) of the Act.

Ofgem would have to balance all of the above if it was required to make any determination on the appropriateness of such connection offers or take enforcement for non-compliance with any statutory requirement. Any determination or enforcement action using our powers under sections 16(2) or 9 of the Act would be dependent on the specifics of the particular circumstances of the case. However, we are able to offer some broad guidance regarding how we might formulate our view on whether it is necessary for an IDNO to connect at a higher voltage level. Consistent with the IDNO discount charging methodology we would therefore expect that in return for any additional income that IDNOs will earn for connecting at a higher voltage level they are also providing services that are both additional and required.

Additional and required services in these circumstances might mean the IDNO has installed and is operating and maintaining assets at lower voltage levels (to its POC) similar to the assets that would have been put in place if the connection had been made by a DNO. For example in the case of an EHV IDNO connection with LV end users connected to the IDNO network, this could be interpreted as installing, operating and maintaining assets at HV and LV levels similar to those that would have been put in place by the DNO if it had made the connection. We would consider that assets that would not be put in place by a DNO but that are mandated by statutory or legal requirements, such as ESQCR, to be both necessary and required.

To follow up on our concerns we will be monitoring the situation regarding the volumes of IDNO connections at each voltage level going forward.

Yours Sincerely,

Rachel Fletcher
Partner, Distribution

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**