



Distribution network operators,  
generators, independent  
distribution network operators,  
independent connection  
providers, consumers and their  
representatives and other  
interested parties

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*Promoting choice and value for  
all gas and electricity customers*

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### **Competition for part funded connections work: consultation document**

1. Under the Distribution Network Operators' (DNO) connection charging methodologies<sup>1</sup>, certain connections work is 'part funded' by the DNO. Where the DNO carries out this work, it will recover part of its costs from the connecting customer and fund the remainder of the costs itself using price control revenue<sup>2</sup>.
2. Where an Independent Connection Provider (ICP)<sup>3</sup> carries out this work, price control revenue is not available; it can only recover its costs from the connecting customer. This gives DNOs a significant advantage over ICPs in competing to construct part funded connections. As DNOs will incorporate connections they construct into their own networks, this advantage extends to competing with Independent Distribution Network Operators (IDNO) to own and operate sections of the network that include part funded connection assets.
3. It is our view that part funding should not, in itself, disadvantage ICPs or IDNOs in competing to construct or operate connection assets, and that developing effective competition in this area should benefit customers. However, practical issues may arise – for instance in relation to allowing IDNOs to adopt sections of the distribution system that have been funded in part using price control revenue.
4. We invite DNOs, ICPs, IDNOs to develop and bring forward proposals to introduce a mechanism via which price control revenue can be made available to ICPs where they construct connections that would be part funded if constructed by a DNO, and to consider the possibility of allowing IDNOs to adopt part funded connection assets.
5. This consultation aims to initiate this process by setting out and seeking the views of DNOs, ICPs, IDNOs and other interested parties on the issues that such a change might raise.

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<sup>1</sup> Under standard licence condition 13 of the Electricity Distribution Licence, each DNO is required to have in force a connection charging methodology that sets out the principles, methods and assumptions used to calculate connection charges. Since October 2010 each DNO's methodology is comprised of a section common to all DNOs and a company specific section. Each DNO's methodology can be found on its website.

<sup>2</sup> As regulated monopolies, DNOs are subject to 'price controls' over a five year period, under which they are awarded a certain amount of revenue which they recover from customers via Use of System charges.

<sup>3</sup> ICPs are accredited under the National Electricity Registration Scheme (NERS) administered by Lloyds Register Services

6. An independent company that acts as both an ICP and an IDNO, has submitted proposals to Ofgem setting out its views on how competition should be introduced to part funded connections. These are included in **appendix 2** to this document for respondents' consideration.

## **Background**

7. Since 2000 we have worked with the industry to develop competition in the electricity connections market. Although incumbent Distribution Network Operators remain dominant, customers have the choice of using an ICP for those elements of a connection scheme which are "contestable". Where contestable work is constructed by an ICP it may be adopted by the local DNO or an IDNO, who will own and operate the system.
8. We last reviewed the scope of competition in the electricity connections market in 2006/07<sup>4</sup>. At that stage we acknowledged that it may be appropriate to extend contestability to include part funded connections, but agreed with the DNOs that our resources would be better spent developing competition in the areas that were already contestable.
9. As part of the most recent price control of electricity distribution networks (DPCR5) we introduced arrangements to develop competition. In particular, the chance to earn regulated margins on contestable work and, on passing a competition test, unregulated margins. We now consider that it is appropriate to develop competition for part funded connections and wish to explore the practicalities involved.

### What connections work is 'part funded'?

10. Under the DNOs' connection charging methodologies, connections work that is defined as 'reinforcement' or is over and above the minimum scheme may be part funded by the customer and the company.
11. Reinforcement is defined as work that adds capacity to the existing network. Subject to certain caveats, the costs of reinforcement are split between the DNO and the customer in proportion to the ratio of the customer's required maximum capacity and the total capacity of the network after it has been reinforced.
12. The minimum scheme is the connection scheme to provide the customer's required maximum capacity at the lowest capital cost, subject to certain conditions. Where the DNO chooses to construct a connection scheme over and above the minimum scheme, it will bear the excess cost. (Note: the customer may request a connection in excess of the minimum scheme, in which case it will bear the excess costs).

## **Issues**

13. This section sets out and asks for respondents' views on what in our view are the main issues surrounding the development of competition for part funded connections.

### How much work would become contestable?

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<sup>4</sup> Review of Competition in Gas and Electricity Connections Proposals Document, paragraphs 4.50 – 4.54: [www.ofgem.gov.uk/Networks/Connectns/CompinConn/Documents1/16982-2607.pdf](http://www.ofgem.gov.uk/Networks/Connectns/CompinConn/Documents1/16982-2607.pdf)

14. It is expected that c. £820 million (26%)<sup>5</sup> of connections work will be part funded over the period 1 April 2010 to 31 March 2015. However, it is likely that some of this work will be non-contestable for other reasons, so will not be open to competition even if price control revenue is made available to ICPs. For example, reinforcement work that is not electrically separate from the existing distribution system is generally non-contestable.

*Question 1: We welcome respondents' views as to the total value and proportion of part funded work that would be deemed contestable in the case that the methodology is modified to make clear that connections work may be contestable where it is funded by more than one party?*

*Question 2: Do respondents consider that further changes to the rules surrounding contestability should be made in tandem with any move to introduce competition for part funded connections and, if so, what affect would this have on question 1?*

How should payments to ICPs be calculated and made?

15. It appears to us that, in order to allow ICPs to effectively compete with DNOs to construct part funded connections, arrangements would have to be created under which DNOs would make price control revenue available to ICPs.

16. There are a number of ways in which such a contribution from a DNO could be calculated, and the commercial arrangements surrounding payment could take many different forms. For instance, there are open questions surrounding the timing of payments and which party would bear the risk associated with non-completion of the works.

17. Options for the calculation of a DNO's contribution include but are not necessarily limited to:

- i. The total amount the DNO would have contributed had it carried out the work. For example, if the DNO would have contributed £10,000 of the connection costs, it would provide this funding to the ICP.
- ii. The proportion of the costs that the DNO would have contributed had it carried out the work. For example, if the DNO would have contributed 50% the costs it incurred in providing the connection it would contribute 50% of the ICPs connection costs. If the ICP's total costs are in excess of the DNO's its contribution will be greater than it would have been if it carried out the work and vice versa.
- iii. The proportion of the costs that the DNO would have contributed but limited by the total amount that the DNO would have contributed had it carried out the work. For example, if the DNO contributes £10,000 pounds and this is 50% of the total costs its contribution will be the lesser of 50% of the ICPs costs or £10,000.

*Question 3: We welcome respondents' views on whether arrangements should be established under which DNOs would make price control money available to ICPs, and how the amount of money should be calculated.*

*Question 4: We welcome respondents' views on any commercial issues that might arise if DNOs provided such payments to ICPs. For example, the timing of payment(s) and risks associated with an ICP being unable to complete a project.*

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<sup>5</sup>Figures based on the DNOs' Forward Cost Business Questionnaire responses and consider reinforcement only. It is expected that the value of work that is part funded because it is in excess of the minimum scheme will be negligible in comparison.

Should the proportion of work funded by the DNO affect contestability?

18. Previously the Electricity Connections Steering Group drew up proposals whereby part-funded connections work was only contestable where the customer pays for more than 50% of the costs. We understand that the main argument in support of this position was that if the DNO is bearing most of the costs, it is 'fair' that it should be able to choose who carries out the work.

19. Our view at this stage is that the percentage of the cost of part funded connection assets borne by the DNO should not, in itself, affect an ICP's ability to compete for connections work. We are therefore yet to be persuaded a '50%' rule is appropriate.

*Question 5: We welcome respondents' views in respect of whether the percentage of costs borne by the DNO should affect whether the part funded work is considered to be contestable?*

Should margins be applied to part funded connections?

20. As of 1 April 2010 DNOs have earned a regulated margin of 4% on certain contestable connections work<sup>6</sup>. In the future they may have the opportunity to earn an unregulated margin on segments of the connections market where they demonstrate that sufficient competition exists, or has the potential to exist, in order to protect customers' interests.

*Question 6: Do respondents consider that DNOs should be allowed to earn a margin on contestable part funded connections?*

*Question 7: Do respondents consider that the margin should be applied to the whole connection or restricted to the customer funded element of the connection?*

How will part funded work enter the RAV?

21. It is our view at this stage that, if part funded work is open to competition, any money paid to ICPs or IDNOs should enter the RAV in the same manner as if the DNO had carried out the work.

*Question 8: We welcome respondents' views as to whether the introduction of competition would have any effect in respect of the RAV?*

Should IDNOs be able to adopt part funded assets?

22. Normally, where a connection is constructed by an ICP, it may be adopted (ie owned and operated) by an IDNO, in which case the IDNO will recover UoS charges from customers connected to its network. However, allowing an IDNO to adopt assets that have been funded in part using price control revenue raises a number of complex issues, including:

- the nature of the relationship between the DNO and IDNO in respect of capacity required by the DNO; and
- the potential for the IDNO to charge customers in respect of the provision (as opposed to the operation and maintenance) of assets funded via price control revenue (ie through all customers' UoS charges).

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<sup>6</sup> The provisions for regulated and unregulated margins are set out in Special Condition CRC 12 of the DNOs' Electricity Distribution Licenses - <http://epr.ofgem.gov.uk/index.php?pk=doc575751>

*Question 9: We welcome respondents' views on whether and, if so, under what circumstances, IDNOs should be able to adopt part funded network assets?*

#### Regulatory arrangements

23. It is likely that any mechanism requiring price control revenue to be made available for ICP constructed or IDNO adopted connections, will need to be provided for within the DNOs' Electricity Distribution Licences, their Connection Charging Methodologies and/or other regulatory or statutory instruments.

*Question 10: Do respondents consider there is any reason why such provisions cannot be included within the current regulatory arrangements?*

*Question 11: We welcome respondents' views on the appropriate nature and location of such provisions?*

#### Dispute resolution

24. Where payments are required to be made from the DNO to an ICP or IDNO there may be scope for dispute – for example, over the amount or timing of the payment.

*Question 12: We welcome respondents' views on the need for and the appropriate nature of a dispute resolution process?*

#### Further comments

25. This consultation is intended to outline and survey respondents' views on the main issues surrounding the introduction of competition for part funded connections but is by no means exhaustive.

*Question 13: Do respondents have any views on any issues not covered above?*

#### **Next steps**

- 13 July: Deadline for responses to consultation.
- 29 July: Ofgem to publish a summary of responses document alongside an open letter setting out our thoughts on the appropriate way forward.
- DNOs and independents work together to draw up detailed proposals to introduce competition for part funded connections work.
- Proposals submitted to Ofgem for approval.

26. If you have any queries in respect of this consultation please contact Donald Smith at [donald.smith@ofgem.gov.uk](mailto:donald.smith@ofgem.gov.uk) or on 0141 331 6014.

Yours faithfully,

Rachel Fletcher  
**Partner, Distribution**

## Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. (In particular, we would like to hear from xxxx. If appropriate)

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 13 July 2011 and should be sent to:

- Donald Smith
- Distribution Policy Team
- Ofgem - Scotland  
Third Floor, Corner Stone  
107 West Regent Street  
Glasgow, G2 2BA
- 0141 331 6014
- [donald.smith@ofgem.gov.uk](mailto:donald.smith@ofgem.gov.uk)

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: having considered the responses to this consultation, Ofgem intends to publish a document in July 2011, summarising responses and providing guidance for an industry group to develop and bring forward detailed proposals later in the year.

1.7. Any questions on this document should, in the first instance, be directed to:

- Donald Smith
- Distribution Policy Team
- Ofgem - Scotland  
Third Floor, Corner Stone  
107 West Regent Street  
Glasgow, G2 2BA
- 0141 331 6014
- [donald.smith@ofgem.gov.uk](mailto:donald.smith@ofgem.gov.uk)

**Question 1:** We welcome respondents' views as to the total value and proportion of part funded work that would be deemed contestable in the case that the methodology is modified to make clear that connections work may be contestable where it is funded by more than one party?

**Question 2:** Do respondents consider that further changes to the rules surrounding contestability should be made in tandem with any move to introduce competition for part funded connections?

**Question 3:** We welcome respondents' views on whether arrangements should be established under which DNOs would make price control money available to ICPs, and how the amount of money should be calculated.

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**Question 8:** We welcome respondents' views as to whether the introduction of competition would have any effect in respect of the RAV?

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**Question 11:** We welcome respondents' views on the appropriate nature and location of such provisions?

**Question 12:** We welcome respondents' views on the need for and the appropriate nature of a dispute resolution process?

**Question 13:** Do respondents have any views on any issues not covered above?

## Appendix 2: Independent company's proposals

An independent company, that acts as both an IDNO and ICP, has submitted the following proposals (reproduced verbatim) for the introduction of competition for part funded connections to Ofgem. We are not consulting on these specific proposals but recommend that respondents review these proposals and use them to inform their responses.

### Summary

When a DNO proposes to include Reinforcement work in a connection offer to a customer that has submitted a connection request regarding contestable works (and the DNO will fund such Reinforcement work in whole or in part), the DNO is obliged to:

(i) notify competing ICPs/IDNOs (via a public register and when responding to a connection request), that the DNO proposes such Reinforcement work to be undertaken as part of the contestable works (i.e. increasing the transparency of the availability of Reinforcement work to ICPs);

(ii) offer to pay the ICP/IDNO an amount equivalent to the funding that the DNO would provide itself for such Reinforcement work (i.e. applying appropriate cost apportionment rules (see below) to calculate the connection charge payable by the DNO); and

(iii) where the contestable works (including the Reinforcement work) will be owned by distributor other than the DNO following construction and connection, offer to enter into a connection agreement (with such distributor) for the capacity required by the Reinforcement work<sup>7</sup>.

1.2 To ensure a mandatory requirement on DNOs to abide by these obligations, we suggest this solution is implemented by modifying DNOs' common connection charging methodologies ("CCMs")<sup>8</sup> (by the DNOs themselves, or following a short public consultation at the requirement of Ofgem pursuant to the obligations on the DNOs under Standard Condition 13 of DNOs' Electricity Distribution Licences and Ofgem's related powers) on a limited number of core aspects (as set out at (2) below). Further detail regarding particular aspects of the solution's practical application could then be set out in best practice guidelines, as necessary (for example, following a subsequent, more in-depth, public consultation). This approach would also have the benefit of the main obligations becoming enforceable in a shorter timeframe; in our view by delaying the introduction of the principal obligations of the proposed solution until all best practice details of the solution's application are settled would lead to a significant number of customers for connection works facing limited competitive choice in the interim period. In this letter I

<sup>7</sup> As required under standard condition 20.3(c) of DNOs' Electricity Distribution Licence (26 August 2010), this offer would incorporate the generic model contract terms set out in the Distribution Connection and Use of System Agreement (in particular with regard to the provision of use of system (in this case by the IDNO to the DNO regarding the assets built and connected by the ICP) up to agreed maximum import and maximum export capacities (subject to any specific agreement between the parties/terms of the connection offer that may provide otherwise)). See <http://www.dcusa.co.uk/Public/DCUSADocuments.aspx?s=c>. The offer would also contain any terms (e.g. in a bilateral connection agreement) on which the DNO would pay charges for the ongoing costs of operating and maintaining the assets (and not recovered through use of system charges) (see below).

<sup>8</sup> As a result of Ofgem's consultation entitled "Electricity distribution proposals for a common connection charging document" (ref: 96/10), Ofgem has approved a common connection charging document for each DNO pursuant to decisions CE/2010/01, CN/01/2010, EDFE 033, ENW/2010/01, SPEN-10-02, SSEPD/09/2004 and WPD/Connection/018, all published on 29 July 2010.

have not addressed any potential aspects that would need to be covered in best practice guidelines, and have instead focussed on the key obligations that would need to be included in DNOs' CCMs, and provided limited examples of their practical application.

## 2. Amending DNOs' CCMs

2.1 DNOs' CCMs specify that there are five key stages when a customer requests a connection to the DNO's distribution system (irrespective of whether a customer's application specifies that an ICP will undertake any contestable works):

- (i) the customer's application.
- (ii) the DNO's design.
- (iii) the DNO's connection offer.
- (iv) acceptance of the DNO's connection offer.
- (v) construction of the required works by the DNO.

2.2 DNOs should be obliged to amend their CCMs to state that, when responding to a connection request (i.e. at the time of the DNO's connection offer) from an ICP/IDNO proposing to undertake contestable works (irrespective of whether the DNO or another distributor will adopt the contestable works), the DNO must state in all cases:

- (i) whether the DNO has received a connection request from another customer (i.e. the housing developer) regarding the same, or similar, location, and if relevant identifying the capacity required and relevant property requiring connection;
- (ii) the extent, if any, that the contestable works will comprise an element of Reinforcement work, with information on the Reinforcement work required (as must be provided to the customer by the DNO under the minimum requirements of a DNO's costs breakdown under §2.18 of DNOs' CCMs<sup>9</sup>);
- (iii) the cost apportionment that will apply to the connection charge for the contestable Reinforcement work and the extent that such Reinforcement work is therefore to be funded by the DNO (which would apply as if the DNO had been selected by the housing developer to provide the connection works);
- (iv) that, where the contestable works (including the Reinforcement work) will be owned by a distributor other than the DNO following construction and connection, the DNO will be willing to enter into a (bilateral) connection agreement with the other distributor with respect to the required Reinforcement work, and the terms on which the DNO is willing to pay for the ongoing provision of the capacity required by the Reinforcement work (either through charges for use of system or a capitalised maintenance and operation fee) (see options below); and
- (iv) that the DNO's connection offer is conditional on the ICP being awarded the contract to

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<sup>9</sup> Where a connection offer comprises an element of contestable works and has a connection charge less than £20,000, DNOs' CCMs do not require the DNO to provide any breakdown of costs. [The ICP/IDNO] notes however that Standard Condition 14.3 of DNOs' Electricity Distribution Licences places a duty on distributors to present the charges in a connection offer "...in such form and with such detail as would enable any person to make a reasonable estimate of the charges for which he would become liable in respect of ... the provision of connections to the licensee's Distribution System", and therefore questions whether the £20,000 limit, below which distributors do not need to provide a breakdown of costs, complies with this licence obligation. The [ICP/IDNO] also notes that where a connection offer comprises non-contestable works only, the DNO must provide a breakdown of costs pursuant to §3.23 of DNOs' CCMs.

build and connect the customer's connection works and the IDNO adopting such works.

2.3 DNOs should also be obliged to amend their CCMs to state that:

(i) as soon as reasonably practicable after the DNO has identified that a connection request from a customer (such as a housing developer) relates to contestable works that may comprise an element of Reinforcement work, the DNO must disclose on a publicly available register<sup>10</sup> that the DNO has received such a connection request, identifying the capacity required, the relevant property requiring connection, and the information set out in paragraph 0(ii) above (to the extent available)<sup>11</sup>; and

(ii) when responding to a connection request from a customer (such as a housing developer) with a connection offer regarding contestable works that will comprise an element of Reinforcement work, the DNO must state in all cases that any funding that would be payable by the DNO to the customer as a result of cost apportionment would be payable to any ICP/IDNO undertaking the contestable works (if selected by the customer instead of the DNO).

2.4 DNOs are generally obligated to respond to connection requests as soon as practicable after receiving the request, under s.16A of the Electricity Act 1989 (as amended). As noted at the Meeting, [the ICP/IDNO] is concerned that DNOs may obfuscate and delay their response to connection requests (in particular when responding to connection requests from ICPs). [The ICP/IDNO] therefore considers that the obligation should be "as soon as reasonably practicable" in order to oblige DNOs to respond within a reasonable timeframe.

2.5 By increasing the transparency of the availability of Reinforcement work, and by obliging DNOs to offer to pay a fair price for such work to ICPs (no more than the same "price" it would "pay" if it had been selected by the housing developer to provide the connection works), ICPs/IDNOs<sup>12</sup> will be placed on a more level playing field when competing against DNOs for connections works that incorporate an element of Reinforcement work.

2.6 The addition of the new rules would enable ICPs to apportion the connection charge (i) between the customer and the DNO (in respect of Reinforcement work provided for the DNO), or (ii) between the customer, the IDNO and the DNO (if the IDNO is to take ownership of the contestable works and provide a connection to the DNO) (see below for further details). As a result, ICPs/IDNOs would be able to submit substantially more competitive offers to customers seeking a connection in a location where the DNO requires Reinforcement work.

2.7 In addition, if these "rule" changes are introduced, this would provide the right incentive for DNOs to operate in an efficient and proportionate manner. DNOs would be forced to conduct an accurate internal estimate of any Reinforcement work that they may require before including this estimate in an offer to an ICP (a practice that does not necessarily take place currently). By providing this estimate to ICPs (who may choose to

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<sup>10</sup> For example, this information could be published on the DNO's website

<sup>11</sup> It would be open to the DNO to agree with the customer (i.e. the housing developer) whether to include the information set out in paragraphs 0(iii) to (v) on the register.

<sup>12</sup> ICPs would need to be able to share this information with any IDNO that may adopt the assets built and connected by the ICP.

discuss the DNO's Reinforcement work with an IDNO with a view to the IDNO adopting the assets to be built and connected by the ICP), ICPs/IDNOs could place increased reliance upon DNOs' claims for Reinforcement work.

2.8 For completeness, DNOs' CCMs would also need to be amended to acknowledge explicitly that Reinforcement work may be funded by the DNO or by one or more third party (reflecting the apportionment of the connection charge between, at least, the customer seeking connection and the DNO). DNOs' CCMs currently seek to limit the opportunity to provide Reinforcement work to "Reinforcement... works... which... are fully funded by the single third party seeking the connection" (§6.11, third bullet). As explained in the Letter, §6.11 applies such that where the contestable works (including the Reinforcement work) will be adopted by the DNO, not only does this oblige ICPs, or their customers, to pay for the Reinforcement work in full themselves (rather than benefitting from recovering a significant portion of the costs, as the DNO can, by adding the relevant proportion of the Reinforcement work to its Regulatory Asset Base and subsequently through use of system charges to its wider customer base), but the DNO would also take ownership of revenue-generating assets without paying for any part of their construction/connection (i.e. in effect customers using an ICP in this situation are double charged).

### **3. Practical Application**

3.1 I set out below further details regarding the practical application of the proposed changes to DNOs' CCMs.

#### **Connection Charge Apportionment**

3.2 §§5.16 to 5.28 of DNOs' CCMs provide for the apportionment of a connection charge between a customer seeking connection and the DNO. These paragraphs can be applied in the same fashion by the DNO when calculating the like-for-like price that it would offer to pay ICPs (by way of connection charge) for the Reinforcement work.

#### *No Spare Capacity*

3.3 Where the DNO's Reinforcement work, together with the customer's capacity requirements, utilised all available capacity from the contestable works that were to be built and connected by the ICP, the DNO would offer to pay the ICP the same as the amount that would be payable by the DNO under the apportionment rules regarding its connection offer to any other customer. This would be the case irrespective of whether the DNO or an IDNO adopts the assets.

#### *Spare Capacity*

3.4 Where the DNO's Reinforcement work, together with the customer's capacity requirements, was insufficient to utilise all available capacity from the contestable works that were to be built and connected by the ICP, the agreement between the ICP and the DNO would depend on who would ultimately adopt the assets:

(i) in the event that an IDNO were to adopt the assets (and therefore own the spare

capacity), the offer made to the ICP would reflect the proportion of the total capacity of the new assets represented by the capacity required by the DNO. The ICP would be responsible for bearing the remainder of the costs and it would be up to the ICP/IDNO to determine what proportion it considered it was able to recover from the customer.

(ii) in the event that the DNO were to adopt the assets, §§5.16 to 5.28 of DNOs' CCMs would apply as above, i.e. as the entity that would adopt the assets, the DNO would adopt the cost of the spare capacity.

### **Maintenance Charge Apportionment**

3.5 Having adopted the assets built and connected by the ICP, the IDNO needs to ensure that all users of the assets, including the DNO, contribute towards the costs of maintaining the assets. Such costs are usually recovered via use of system charges (published in relevant charging statements) and recovered in accordance with the provisions of the Distribution Connection and Use of System Agreement. Alternatively, CCMs allow for the future costs of operation and maintenance of assets to be recovered as a capitalised charge (either as an up-front charge or as an annualised charge). Such arrangements could be covered off in a bilateral connection agreement between the DNO and IDNO. It would therefore be open to the parties to agree an up-front lump-sum or annual use of system payments regarding the maintenance costs, in either case in proportion to the parties' maximum import and export capacities as a share of the total capacity of the new assets.