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James Veaney  
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5 October 2016

Dear James

**INCENTIVE ON CONNECTIONS ENGAGEMENT (ICE): OPEN LETTER ON NORTHERN POWERGRID'S DELIVERY OF ONE OF ITS COMMITMENTS IN 2015-16**

I refer to your Open letter dated 7 September 2016 ('the Open letter') in which you invited stakeholders to respond to particular questions set out by Ofgem relating to the delivery of one of the commitments we made in our 2015-16 Looking Forward submission.

Following the publication of the Open letter Ofgem has confirmed to us that:

- the consultation initiated by the Open letter is being undertaken under the stage of the assessment process set out in paragraph 5.1(b) of Ofgem's *Incentive on Connections Engagement (ICE) Guidance Document*<sup>1</sup>; and
- there are no other commitments that are under consideration by Ofgem for a potential penalty under the ICE penalty regime.

I attach the submission from Northern Powergrid in response to the Open letter. In this submission we demonstrate that we delivered the commitment upon which Ofgem is consulting in the Open letter. In particular:

- The relevant commitment was about enabling self-determination of the point of connection ('POC') by independent connections providers ('ICPs') at higher voltages;
- That commitment was expressed as being discharged by providing access to all relevant data and standards required by ICPs;
- Access to all relevant data and standards did not depend upon the delivery of a new geographical information system;

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<sup>1</sup> Version 1.0, published on 1 April 2015.

NORTHERN POWERGRID

is the trading name of Northern Powergrid (Northeast) Ltd (Registered No: 2906593) and Northern Powergrid (Yorkshire) plc (Registered No: 4112320)  
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- The commitment was fully satisfied in September 2015 which was the date indicated in our 2015-16 Looking Forward submission.

Please note that Annex 1 to the attached submission is confidential.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jim Cardwell', with a long horizontal flourish extending to the right.

Jim Cardwell  
Head of Trading and Innovation

**INCENTIVE ON CONNECTIONS ENGAGEMENT (ICE): OPEN LETTER ON NORTHERN POWERGRID'S DELIVERY OF ONE OF ITS COMMITMENTS IN 2015-16 – SUBMISSION FROM NORTHERN POWERGRID**

1. The issue on which Ofgem is consulting is summarised in the Open letter in the following table.

<b>Licensee</b>	<b>Relevant Market segment(s) that may have been affected</b>	<b>Summary of reasons</b>	<b>Minimum criterion that may not have been met</b>
Northern Powergrid (Northeast)	Metered DG Connections - HV and EHV works  Metered Demand Connections – HV works	Northern Powergrid committed to extending Self-Determination to High Voltage (HV) points of connection. However, stakeholders indicated that delays in rolling out the Geographic Information System (GIS) had caused delays to the HV Self-Determination process. Northern Powergrid's ICE submission reports that the action was delivered and does not explain whether this was affected by the delayed GIS rollout.	The licensee has undertaken its comprehensive work plan of activities (with associated delivery dates) to meet the requirements of its connection stakeholders. If not, the reasons provided are reasonable and well justified.
Northern Powergrid (Yorkshire)	Metered DG Connections - HV and EHV works  Metered Demand Connections – HV works		

2. The commitment to which the Open letter is referring was set out in our 2015-16 Looking Forward submission. With respect to metered demand connections we made the following commitment:

**'ICP self-determination of point of connection**

We currently allow ICPs and IDNOs to self-determine a point of connection (POC) at LV up to 60kVA. In our work plan we said that we would expand this trial to include HV work between 250kVA and 315kVA. This was supported by Martin Design Associates, and also by those ICPs who have been engaging with DNOs on the development of the DNO Competition in Connection Code of Practice. We will provide access to all relevant data and standards required by ICPs by September 2015 and develop and implement an assurance process to assess and maintain standards for ICP-derived POC and design approval.'

3. With respect to distributed generation connections we made the following commitment:

**'Self-determination of Point of Connection**

We plan to provide access to all relevant data and standards required by independent connections providers (ICPs) by September 2015 and develop and implement an audit process to assess and maintain standards for ICP-derived POC and design approval.'

4. It may be helpful if we explain the background to this commitment. From 2012, Northern Powergrid allowed competing independent connections providers ('ICPs') and independent distribution network operators ('IDNOs') to determine the point(s) on the Northern Powergrid distribution system into which the new connection assets being constructed would be connected. This ability to self-determine the point of connection ('POC') was initially limited to low voltage demand connections into our distribution system up to 60kVA and unmetered connections.
5. Arising from our stakeholders' engagement in the preparation of our 2015-16 Looking Forward submission, we said we would allow self-determination of the POC above this level and we committed to providing ICPs with access to all the relevant data and standards to enable them to do so for demand and distributed generation connections.
6. Having set out the background, we shall answer each of the questions in the Open letter.

**Do you consider that Northern Powergrid delivered its commitment? Do you have any additional evidence to support your view?**

7. Northern Powergrid has delivered the commitment set out in the 2015-16 Looking Forward submission in full and in accordance with the timescale set out therein.
8. At the time we published our plan we already permitted ICPs and IDNOs to self-determine the POC at low-voltage up to 60kVA and unmetered connections. From September 2015 we have allowed self-determination up to 250kVA at low voltage and up to 3,000kVA at high voltage. To facilitate this we have (from September 2015):
  - provided access to all relevant data and standards required by ICPs and IDNOs to enable them to self-determine the POC in accordance with our procedures and the requirements of the Competition in Connections Code of Practice; and

- developed and implemented an assurance process for self-determined points of connection and design.

9. Our own design teams access precisely the same data and standards to determine the POC when we are providing the new connection.
10. The Open letter makes reference to a comment from one respondent to Ofgem’s consultation which we think has been misunderstood. The comment is set out below:

‘Yes, the plan produced was suitable, and most of the activities were delivered. The exception to this was NPG’s proposed GIS system, which has been delayed but hopefully will be Live towards the end of the year. This has slowed our progress with the Self Determination of HV Points of Connection as the way that we currently have access to network information means this work can be quite time consuming.’

11. The inference to be drawn from the Open letter is that the commitment to enable self-determination of the POC at higher voltages was to be delivered by an IT system that was not delivered on time and it appears that this comment has led Ofgem to question whether we delivered the commitment set out in our 2015-16 Looking Forward submission. However, the ability for ICPs and IDNOs to self-determine the POC never depended upon the delivery of a new IT system. The new geographical information system known as eAM Spatial that we are introducing will bring benefits to the way that we manage our distribution system assets, but it is not, and never has been, the system on which we are relying to deliver the commitment set out in our plan.
12. We published our 2015-16 Looking Forward submission on 31 May 2015. At that point we were projecting that our eAM Spatial system would not ‘go live’ until December 2015.<sup>2</sup> It is scarcely credible that we would have included in our ICE commitments an action to deliver such a system earlier than our own internal forecasts of the ‘go live’ date for that system. This supports our position that our commitment was not dependent upon the delivery of a new geographical information system, nor was it any part of that commitment.

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<sup>2</sup> Confidential Annex 1 provides the timetable for the delivery of eAM Spatial at the Project Board in May 2015. It shows that, at that date, we were expecting a go-live date in December 2015 (as shown by the solid purple diamond in the fourth row from the bottom).

13. Stakeholders are aware of our plans to implement eAM Spatial as we have briefed them on its progress, but it is fundamentally wrong to suggest that this new system and the commitment with respect to which Ofgem is consulting have any dependency.
14. In the Open letter Ofgem notes that:

‘the relevant documentation [relating to the provision of relevant data and standards] appears to have been published in November 2015.’
15. A reader might infer from Ofgem’s statement that there was a gap between the September 2015 date that we had indicated in our 2015-16 Looking Forward submission and the publication date of November 2015 noted by Ofgem. Such an inference is particularly likely to be drawn by a reader of the Open letter because the next paragraph refers to observations from a stakeholder about ‘delays in the roll-out of Northern Powergrid’s new GIS software.’
16. However, no such inference should be drawn from the November date that appears on the documentation. We first placed the relevant documentation on the website in September 2015. At that point the documentation was labelled ‘draft’ because it was new and we thought it might need to be revised in the light of stakeholder experience and feedback. In November we updated the documentation with some minor changes and at that point we put a new date on the publication. In short, we had already met our commitment because all the necessary documentation was available from September. There was no delay in discharging this commitment.
17. Since the new geographical information system was not relevant to the delivery of the commitment and we delivered the commitment by the indicated date of September, it follows that there were ‘no delays in the ability of ICPs to self-determine HV points of connection’ and therefore the statement in the Open letter that ‘Northern Powergrid may not have fully delivered on its commitment and that this may have had an adverse impact on customers in the relevant market segments’ is incorrect. The secondary observation in the Open letter that, if there had been a failure, then ‘Northern Powergrid has also not provided an explanation to stakeholders for this delay’, requires no rebuttal since there was neither failure nor delay in delivering the commitment.
18. The Open letter refers to the fact that ‘the issue was only reported by one respondent’. We understand this to be a reference to the comment cited above at paragraph 10.

Ofgem will note that this response does not suggest that ICPs are unable to self-determine the POC at higher voltages or that the necessary information is not available. It simply says that the work can be quite time-consuming.

19. There is no reason to infer from this observation that the commitment has not been delivered. ICPs and IDNOs that wish to self-determine the POC at higher voltages have been able to do so, subject to our procedures and the requirements of the Competition in Connections Code of Practice, since September 2015.
20. Answers to the remaining questions in the Open letter are invited only where the respondent believes that we did not deliver this commitment. For completeness, and without prejudice to our demonstration above that the commitment was delivered in full, we shall provide comments on each of these follow-up questions.

**What specific actions did you expect Northern Powergrid to complete in order to deliver this commitment? Which of these actions do you believe was not complete?**

21. Nothing in our 2015-16 Looking Forward submission suggests that our commitment would be met by the delivery of a new geographical information system. Moreover, the commitment was expressed in terms of *expanding* our trial of POC self-determination at low voltage to include higher voltage work. There was no suggestion that we were building a new system that would be introduced as a result of the commitment.
22. We have taken a great deal of trouble to keep stakeholders informed of our progress in meeting all the commitments in our plan. However, we have gone further than this and given connections stakeholders insights into future developments that may impact on the connections activity. It is possible that the respondent that linked the commitment in our 2015-16 Looking Forward submission to the introduction of the new geographical information system has jumped to the erroneous conclusion that the means by which we intended to deliver that commitment was the new IT System. However, we did nothing to lead anyone to suppose that this was the case and we should not now be penalised because someone has assumed that link when responding to an Ofgem consultation.
23. It would be unreasonable for Northern Powergrid to suffer a penalty because one (or more) respondents had formed a view of their own about the nature of our commitment where that understanding differed from the commitment we actually gave. We are accountable for the

promises we made, not for the subsequent observations of stakeholders of what ‘specific actions’ they expected us to take. No other licensee has been required to account for a commitment where the meaning of the commitment is defined after the event by reference to comments made by third parties and it would be inconsistent and discriminatory for Ofgem to hold Northern Powergrid to a different standard than the standard to which it has held other DNOs.

**Do you consider that Northern Powergrid provided reasonable and justified reasons why the commitment was not delivered?**

24. Since we delivered the commitment, we had no reason to provide stakeholders with such reasons.

**Do you consider that the issue affected connection customers in both of Northern Powergrid’s licence areas?**

25. The ‘issue’ has not affected connection customers because the commitment was delivered. Even if it had not been fully delivered, or if it had been delivered late, neither of which is the case, it is hard to see how connection customers would have been adversely affected. The fact is that there is presently little demand from ICPs to self-determine the POC at higher voltages.<sup>3</sup> This is understandable because there is commercial risk and cost associated with this exercise at higher voltages that is avoided by the ICP or IDNO if they ask us to do it for them. Moreover, in order to self-determine the POC an ICP has to have the appropriate accreditation from the National Electricity Registration Scheme (‘NERS’). At present only one ICP that is active in our distribution services areas has full NERS accreditation at high voltage and, in Great Britain, none has full accreditation at EHV.

**Do you consider that stakeholders in “Metered Demand – HV” and “Metered DG – HV and EHV” relevant market segment were adversely affected? Were other market segments also affected?**

26. We agree with Ofgem’s identification of the relevant market segments, but since the commitment was delivered, no stakeholders in any market segments were adversely affected.

**What impact did this have? Do you consider that the impact warrants a penalty against Northern Powergrid?**

27. Since we delivered the commitment, there was no impact and no penalty is warranted.

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<sup>3</sup> The lack of interest in POC self-determination was noted by SSE in its ICE Looking Back submission: ‘...we find that the number of ICPs/IDNOs willing to submit their own POCs via the website is minimal’.



28. However, even if it were true (which it is not) that some part of the commitment was not delivered, in determining whether a penalty is merited and, if so, how large, Ofgem should be guided by the purpose of the incentive mechanism which is to encourage DNOs to 'provide good customer service to larger connection customers.'<sup>4</sup> Ofgem has stated that it is:

'...supportive of DNOs setting themselves ambitious workplans and outputs. DNOs should not be penalised for failing to deliver stretching targets, as long as the risk of underachievement is understood at the outset and reasons provided for failing to meet the targets are reasonable and well justified.'<sup>5</sup>

29. No one has doubted that Northern Powergrid's 2015-16 Looking Forward plan – which included more than 100 commitments across the metered demand, unmetered demand and distributed generation segments - was ambitious, nor has it been suggested that we 'failed' to understand the risks from the start. Any 'failure' on our part to explain why we 'failed' to meet this target is explained by the fact that we did not think – and we still do not think – that we failed to meet it.

30. In these circumstances it would be consistent neither with the purpose of the incentive mechanism nor with the spirit of the guidance that encourages ambition, to impose a penalty because a stakeholder had formed the (mistaken) impression that we had committed to deliver a new geographical information system in our 2015-16 Looking Forward submission. Indeed, the stakeholder whose comment led Ofgem to publish the Open letter said that we 'had a well-developed engagement strategy', that 'the Plan was suitable' and that it had 'been a generally good year for NPG'.

31. Appendix 3 to the Open letter implies that Ofgem has discretion as to what level of penalty to impose if it determines that a licensee has failed to meet the minimum criteria (the relevant column heading in the table is headed 'Max. penalty per market segment (£m)').

32. However, paragraph 5.1(b) of Ofgem's Incentive on Connections Engagement (ICE) Guidance Document provides that when Ofgem assesses ICE submissions against the minimum criteria an 'internal Ofgem panel will assess whether the licensee meets the assessment criteria ... *and apply a pass or fail criteria to each segment.*'<sup>6</sup> Furthermore, the algebra in the licence operates such that

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<sup>4</sup> Ofgem, Incentive on Connection Engagement (ICE) Guidance Document, Overview.

<sup>5</sup> *Ibid.*, paragraph 3.9.

<sup>6</sup> Emphasis added.

where a penalty is levied in respect of a particular market segment, the penalty will be the amount described in the Open Letter as the 'Max. penalty per market segment'.<sup>7</sup>

33. In view of the above, Northern Powergrid does not accept that there has been any failure to meet the minimum criteria or that it would be reasonable for Ofgem to conclude that there has been. However, even if Ofgem were to conclude that there was some shortcoming in how we delivered the particular commitment in question, it is apparent that the failure would only be slight and in respect of only two out of 74 commitments that related to the two market segments in question (since Ofgem has already confirmed there is no case to answer on 72 (i.e. 97%) of them). In those circumstances, it would surely be unreasonable to conclude that the degree of failure was in any way extensive and that we had failed in respect of the entire market segments in question. Any penalty should properly reflect that and it would lead to a disproportionate outcome if the mechanical application of a formula were to result in a penalty of £1.1m for Northern Powergrid.

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<sup>7</sup> CRC 2E.12

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Annex 1 – eAM Spatial Programme Delivery Chart – May 2015

