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Our ref

Your ref

Date

3 September 2018

Dear David

Response to Ofgem's letter regarding Independent Distribution Network Operators – licence applications from affiliates of existing licensees

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to Ofgem's Open Letter on licence applications from affiliates of existing licensees.

Competition in the electricity connections market has expanded significantly from when Ofgem last consulted on an application for an IDNO Licence from a DNO affiliate. There are now 14 IDNO licences in operation across the country, as many as there are DNOs, providing an indicator that this is deemed to be a viable approach by those market participants.

Our view is that there is merit in providing alternative options for competition in the connections market, however in this particular scenario Ofgem needs to ensure that the distribution licence conditions would operate effectively to provide safeguards to customers and the competitive market due to the nature of association between the DNO and DNO affiliate within their group.

Potential implications of granting a licence to an affiliate of an existing licensee.

WPD consider that whilst an affiliate IDNO would provide another option for connection customers and end consumers, in order to maintain fair and open competition in the market, we believe that the appropriate checks and controls need to be in place to prevent any unfair interaction with the DNO and its affiliate. Such requirements are largely already contained in the Distribution Licence.

Ofgem needs to consider the following factors before making a decision on the appropriateness of an IDNO affiliate licence.

Ordinarily an affiliate connection business of a DNO could not offer adoption payments to connection customers for the new connection assets constructed unless they contracted with another DNO. By having an IDNO licence, the DNO affiliate would be able to offer this 'end-to-end' service themselves to a connection customer. However, there would need to be some transparency in the approach taken by the affiliate IDNO to these adoption payments to ensure that consumers are protected from any potential discrimination in the application of these payments. This could be by inclusion of the principles under which these are calculated in the IDNO's charging methodology statement.

We do not see that it would be necessary to restrict the affiliate IDNO from competing in any specific area / geographic region on a 'level playing field' with other market participants as long as the appropriate ring-fencing arrangements were in place. Ofgem need to review the existing safeguards to ensure they will apply to an IDNO affiliate, (for example by amending SLC42 to include IDNO affiliates and ensuring that the IDNO affiliate is included with the Cross Subsidy Audit).

A DNO has a range of additional obligations and reporting requirements relating to its Distribution Services area including the regulatory incentives such as IIS, RIGs reporting, Losses, Secondary Deliverables and the CIC Code of Conduct. None of these would apply to the affiliate operating under a separate IDNO licence. In addition the DNO would be able to transfer parts of its existing network to the IDNO affiliate under SLC26. Ofgem needs to consider the impact of an IDNO affiliate operating in the DNO area and consider how safeguards might be put in place to address possible customer detriment which could occur where the affiliate IDNO is competing for connections with the affiliate DNO.

In summary we have no objection to the granting of an IDNO licence to a DNO affiliate, providing the appropriate controls are in place to protect consumers, connection customers and other market participants from unfair competition. We also believe that there should be no undue restrictions on the affiliate IDNO which could unfairly limit its ability to provide connection customers with a competitive offering, therefore there needs to be a balance between the controls / monitoring and ensuring open competition.

If you would like to discuss this further please contact me on 0117 9332382 or at nrichardson@westernpower.co.uk

Yours sincerely

A handwritten signature in black ink, appearing to read 'Natasha Richardson', with a horizontal line underneath.

NATASHA RICHARDSON
Regulatory Compliance Manager