

1 December 2023

Our ref: IDNO Open Letter

Eleanor Warbuton
Ofgem
10 South Collonade
London
E14 4PU

By email only to electricitynetworkcharging@ofgem.gov.uk

Dear Eleanor

BUUK Infrastructure welcomes the opportunity to respond to this open letter in regulatory arrangements for IDNOs. BUUK is the leading provider of independent utility networks in GB and operates across a range of utilities including electricity, gas, water and telecoms. This cross-utility experience has also provided us with experience of a range of regulators. Through this experience we recognise that Ofgem's regime has provided a good balance between ensuring customers are protected but also enabling growth through competition and the long-term benefits that this can bring to consumers. BUUK owns and operates two licensed IDNO business through its subsidiaries the Electricity Network Company Limited (ENC) and Independent Power Networks Limited (IPNL). These licensees have been owning and adopting distribution networks which connect end consumers for nearly 20 years, and we have considerable experience in the development of the regulatory framework for IDNOs over that period of time.

We have worked closely with Ofgem and other industry stakeholders in the introduction of several initiatives which have brought clarity and structure and allowed IDNOs to bring significant benefits to the connections and distribution markets, including the development of the Common Distribution Charging Methodology (CDCM), Price Control Disaggregation Model (PCDM) and Competitions in Connections Code of Practice (CiCCoP). We note that Ofgem has asked two specific questions in relation to the arrangements, and we have provided answers to those in the appendix to this letter. However, Ofgem's letter highlights wider areas of consideration and so we make some broader points in this letter.

IDNOs have facilitated considerable development and improvements to the speed and processes for getting connected to the networks by giving customers genuine choice for how their connections are delivered and by driving efficiency and innovations. Much of the work which has been done by IDNOs to improve the speed of connections is referenced in the INA's

'Building Back Faster'¹ report. The development of CiCCoP has, for example, allowed customers to take control of more aspects of their connection such as opening up self-determination of points of connection, and self-connection to the existing assets. It is important that, in the context of transitioning the electricity system to net-zero, this type of competition and innovation is harnessed to help the GB network to meet its goals for decarbonisation. The scope of any review needs to be conscious not only of the benefits which IDNOs have brought but of the potential future benefits which the IDNO model can bring. It must also be proportionate and be cognisant of other areas within the industry which are being reviewed and any impacts (such as the DUoS SCR or enabling quicker connections) need to be properly considered.

We also think it is important to consider, in understanding customers' choosing alternative connection arrangements to the DNO, the role and scope of licence exempt networks. We believe that this is a solution which is becoming increasingly prevalent in delivering connections. If Ofgem has concerns about the shareability of assets, avoidance of shared costs or being able to be comfortable that a distributor is delivering for customers then it must review licence exempt networks and the arrangements and frameworks, to the extent which they exist, around licence exempt networks.

We are given to understand that two areas which Ofgem may be considering including in the scope were IDNOs' performance on guaranteed standards and the financial resilience of IDNOs. Taking the guaranteed standards performance of IDNOs, we fully understand that this is an area which Ofgem (and other interested stakeholders) should be interested in understanding how IDNOs are performing and an area which customers should receive at least the same service as DNO connected customers. We currently provide information to Ofgem on performance against these standards for both connections and outages and will continue to do so. We would also be happy to provide further details in this area should Ofgem require. The licence conditions on IDNOs oblige them to have in place an investment grade credit rating or other arrangements with prior written consent of Ofgem. We recognise given recent developments in the energy market that financial resilience may be an important topic for consideration, but we believe that the current arrangements should be working well and providing customers adequate security.

If you have questions in relation to the points made in the letter or the appendix, we would welcome continued engagement to ensure the best outcomes for existing and future customers.

Thomas Cadge
Head of Regulatory External Affairs

¹ https://ina.org.uk/wp-content/uploads/2020/10/Building-Back-Faster_22-October-2020.pdf

Appendix 1 – Responses to questions

1. *What do you consider to be the pros/cons of IDNOs connection EHV customers embedded within distribution networks.*

We believe that there are significant benefits to IDNOs connecting EHV customers within embedded distribution networks. The need to connect customers, especially generation customers or large EV charging stations, at EHV is increasing and ensuring that IDNOs can contribute to delivering these connections is likely to aid the decarbonisation of heat and transport. IDNOs have a proven track record of consistently delivering for customers and have been driven by a competitive market to be agile and efficient in the delivery of connections.

A well-functioning market for EHV connections where the adoption of such connections can be undertaken by DNOs and IDNOs will also drive innovative solutions without the need for regulatory intervention or stimulus. We note that Ofgem and DESNZ have generally been supportive of competition developing and have sought to extend competition in onshore transmission, and the benefits which are associated are also true of IDNOs offering connections at EHV to customers.

We note that Ofgem has some concerns about the long-term protections of customers where they are connected at EHV to an IDNO network. However, we believe that many of these concerns can be easily alleviated within the existing regulatory frameworks. For example, we do not share the concern that customers may be exposed to undue risk for long-term contracts agreed for EHV connections. It is true to say that there is no reference point by which an IDNO or their prospective customer may be able to benchmark the tariffs for an EHV connection, but this is also true of a prospective EHV connection to the DNO network.

DNOs and IDNOs have licence obligations to create use of system charging methodologies which are applicable to EHV customers, and these methodologies are subject to Ofgem approval. It is also incumbent on distributors to make charges in accordance with those approved methodologies. We don't, therefore, think it stands to reason that IDNO customers are subject to any undue risk from use of system charges. It is relevant to this discussion to point out that customers will have no more visibility of DNO tariff creation than IDNO tariffs as the EDCM models are not available to customers. The customer cannot verify that the EDCM and the associated power flow modelling has been applied correctly and that their charges are reasonable.

A significant proportion of the charges which are levied to suppliers for EHV connected customers on IDNOs are a direct pass through of the boundary charge which the DNO levies on the IDNO. This proportion of the tariff is outside of the IDNOs control, as mentioned above, IDNOs are unable to assess, verify or challenge this amount on behalf of the customer.

We understand that the DUoS SCR is seeking to address some of the inconsistency and lack of transparency in the way which EHV tariffs are calculated. This may lead a more direct comparison to be able to be applied by IDNOs and customers and, where this is possible, we would not be opposed to having a benchmark tariff. This would be subject to ensuring that costs are allocated accurately and appropriately to the correct voltages.

2. *What do you consider to be the pros/cons of IDNOs connecting directly to the transmission network?*

We believe that many of the benefits which applied to the above question on EHV connections can equally apply to connections directly to the transmission network insofar as there are competitive pressures acting on IDNOs which can bring benefits to customers.

Ofgem has stated that assets which are installed or adopted by an IDNO, including those which connect directly to the transmission network, are not as shareable or economic and

efficient as other options. We would like to understand Ofgem's rationale for this statement as we do not understand why infrastructure which is owned by an IDNO should be inherently less shareable or economic. IDNOs operate under broadly the same statutory framework as DNOs which requires them to offer connections between their network and another distribution system and they also have the same whole system licence condition which is applicable to the DNOs. For both of these reasons we believe that it is entirely possible for the operation of assets to be economic and efficient, and shareable irrespective of ownership. We have been working with DNOs at lower voltage tiers to overcome operational challenges and to ensure that asset boundaries can be operated seamlessly, we see no reason why these principles cannot apply to higher voltage tiers all the way to the transmission connections.

We have some sympathy with the possibility that shared costs may be avoided by customers who seek to connect directly to the transmission network via an IDNO rather than the DNO in that they may not be subject to any DNO charges which would include the residual part of the charge. We don't believe that it is in the interests of consumers for the avoidance of these costs to be a factor to influence decision making by connection customers as avoiding these costs (to the extent which they should not be avoided) may lead to an increase in costs being faced by other customers connected to the DNO network (including IDNO connections which are connected upstream to the DNO). However, we believe that this should be relatively easy to identify and develop a mechanism to remove this incentive. The relative size of the residual charge is, to some extent, arbitrary as it is driven by models which bear no relation to the reality of the whole of the DNO network. We remain unconvinced, in that respect, that the costs which are being recovered by the residual charge are truly shared costs. Without proper allocation of costs in a cost reflective way it is difficult to assert that customers connecting directly to the transmission network through an IDNO are avoided shared costs.