



Independent Networks  
Association

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1 December

Dear Eleanor

### **Open letter on regulatory arrangements for independent distribution network operators**

Thank you for the opportunity to comment on the open letter. I am writing on behalf of the Independent Networks Association (INA) who represent Independent Distribution Network Operator (IDNO) licence holders that have over 1.75 million connections in Great Britain providing networks for customers in new housing developments, commercial estates, mixed public/private sector developments, EV charging, generation and storage facilities at Low Voltage (LV) and Extra High Voltage (EHV) levels. This number has more than doubled since 2019. IDNOs compete against themselves and incumbents to provide these networks for their customers. The use of IDNOs has grown significantly in popularity as, in order to win the business, IDNOs provide a tailored service to developers, working with them to provide agile solutions to enable them to progress their projects and enable growth that supports net zero goals in a timely fashion, at a time when we require a more dynamic and innovative approach to network provision.

The benefits of IDNOs are highlighted by independent studies. For example, the LSE's Building Back Faster study<sup>1</sup> showed that "Key differences with the traditional regulated utilities lie in the focus on mostly new installations to the latest technical standards, and in the range of strategic choices across the range of network design, build, and adoption once in commission. By using an independent network provider, they can now choose a single partner across all regions and countries of the UK." "The network connections provider can be integrated into the development team from planning to completion. The traditional "gaps" between developers and their regional utility operator are closed."

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<sup>1</sup> [Building-Back-Faster\\_22-October-2020.pdf \(ina.org.uk\)](#)



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Since the formation of the INA in 2020, IDNOs as responsible network operators have worked to address issues such as the disparities in design standards across Britain. So developers and the end customers of the networks can be satisfied that the infrastructure can accommodate home EV charging and low carbon heating, we developed the LV design standard<sup>2</sup>. This year we launched our customer commitment<sup>3</sup>, that all members of the INA have signed up to, which promotes and shares best practice for customers service, aligned with principle-based regulation for customers.

### **Charging reference points for connections at EHV levels**

We note one area of concern that you are seeking to address is in relation to undue risk for customers connecting at EHV where there is no reference point for tariffs. Under Licence Condition BA2<sup>4</sup>, IDNOs are required to set charges which do not exceed the host DNO charges for domestic consumers. In practice, although not prescribed, this methodology is also applied to charges for industrial and commercial customers in most cases. Where possible, INA members seek to provide clarity, simplicity and certainty to connecting customers regarding tariffs. This is not always possible at the EHV level where site-specific charging from DNOs is not made available and differences in whether DNOs are transparent with their boundary charges and if they do, whether these are provided in a timely fashion. In seeking to provide certainty and stability for customers, Ofgem should consider how these charges can be made transparent and timely.

In addition, under Licence Condition 13, IDNOs need to have at all times in force a Use of System Methodology Statement that explains how they calculate charges, this also applies to EHV connections. The Statement is submitted to Ofgem for approval before it can be used. This process ensures this voltage level is both regulated and transparent, without adding additional or onerous regulatory burdens. This also aligns with the Government's recently published consultation on Strengthening Economic Regulation in Energy, Water and Telecoms which states that regulators should be supporting investment, removing complexity through removing projects out of price-controlled processes.

Our experience is that customers connecting at this level are sophisticated purchasers of energy and demand significant transparency and understanding of tariff arrangements from IDNOs whilst carrying out their due diligence on project viability. We do not consider the risk facing customers connecting to IDNOs to be greater than for customers connecting to a DNO where site-specific charges apply.

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<sup>2</sup> [Low Voltage Design Standard - Independent Networks Association \(ina.org.uk\)](https://www.ina.org.uk/low-voltage-design-standard)

<sup>3</sup> [INA Customer Commitment - Independent Networks Association](https://www.ina.org.uk/customer-commitment)

<sup>4</sup> [IDNO licence stat con - Utility Distribution Networks \(UDN\) \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/statutory-consultation/licence-conditions/utility-distribution-networks)



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## Charging reference points for connections at Transmission levels

Your letter refers to the fair recovery of shared network costs among all customers being a particular concern for IDNOs seeking to connect directly to the transmission network and that this arrangement may have been part of the reason for customers to seek a connection to the transmission network directly from an IDNO. We would like to understand your concerns. We speculate that you may be referring to the possibility of a distribution or private wire customer connected directly to the transmission network avoiding paying the residual element of the tariff which they would have otherwise been liable for if they had connected to the DNO network. We recognise that this may create perverse incentives in determining the solution for connections for extremely large demand sites and it is important that network costs are fairly recovered. One of the intended outcomes of Ofgem's Targeted Charging Review was to remove incentives associated with the residual charge for distribution. We believe that this is a positive outcome for consumers and one which the INA fully supports. We believe that this needs to be resolved through the proper allocation of costs to incentivise behaviours for connection and ongoing use of the system.

## Connection Configurations

Your letter suggests that some connection configurations *"may not be as shareable or economical and efficient as other options"*. We would welcome some clarity from Ofgem on what information that they have which indicates that there is any reason for IDNO connections to the Transmission network to be less shareable or efficient. The provisions of the Electricity Act requiring distributors to make a connection between their network and a premises or another network apply equally to all distributors and we see no reason why connections made by an IDNO should be any less shareable or less economic. This is reinforced by virtue of the application of SLC 31E<sup>5</sup> which requires all distributors to consider proposals which are beneficial for the whole system. As we move beyond the current ESO and ENA plans to improve the connections queue, we do think that there is the potential for more work can be done collaboratively with the ESO and DSO to look at where key parts of existing and future infrastructure, such as transformers and circuit breakers, can be shared more effectively.

It is important that customers on IDNO networks can continue to sell flexibility services to the Electricity System Operator (ESO) and the Distribution System Operator (DSO) as a way to ensure all networks are operating as efficiently as possible and help the national and regional system planners in their role of establishing the right outcomes of future network investment.

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<sup>5</sup> [Electricity Distribution Standard Licence Condition 31E: Flexibility Procurement Statements 2021 | Ofgem](#)



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## **The benefits to end-customers of IDNOs connecting directly to the transmission network**

The first part of this letter covers the benefits of the IDNO model for customers, the areas of Ofgem's concerns and the suggested areas where further steps could be taken to ensure all customers benefit. In addition, this section explains the specific benefits for this model to make connections into the transmission network.

Developers that previously focused on distribution connections are now seeking connections at 400kV, to connect to the transmission system. The biggest driver is customer choice, which IDNOs can help facilitate. The Competitively Appointed Transmission Owner (CATO) model will bring in competition in transmission, a noted Ofgem objective, but it is primarily focused on the delivery of large project reinforcement, and it may not be a good fit model for smaller connections or 'last mile' transmission infrastructure. IDNOs provide additional network development capability and capacity to satisfy demand from customers wanting last mile connection and network operation and it also supplements the existing capability and capacity of the TOs and DNOs.

The expansion of the IDNO model provides flexibility to provide local generation and storage for communities efficiently, without being constrained by the location of transmission grid supply points. Embedded distribution connection direct from transmission system is inherently reliable, dedicated, often easier and may be quicker to deliver where transmission substation is closer to the point of supply than the nearest DNO primary.

Developers see connecting via an IDNO also provides them with a simpler connection process. Typically, if a developer went via a DNO, the DNO would still need to go to Transmission Owner (TO) via the ESO to secure the same capacity. The DNO adds a layer of time and complexity as the DNO offer would still be subject to a Statement of Works (SoW) from the TO via the ESO. This results in delays in securing an offer from a DNO as opposed to securing the capacity direct and their queue position can be secured more quickly, allowing them to move more rapidly to financing and ultimately getting their project delivered. In addition, certain projects, such as data centres are seen as more investable if they are receiving direct connections to the transmission system.

There are also wider benefits for developers. It allows embedded distribution connection direct from transmission system that provides greater choice around their licenced boundary metering point. Companies wanting this sort of connection are generally project financed, with specialisms in battery, PV, and onshore wind, and will have little experience in the construction, operation, and maintenance of high voltage assets. Gaining this capability, even by contracting out, may be done at a considerable premium. This approach avoids them needing to become Statutory Undertakers to put cables in the public highway.



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Further project cost and risk for developers are also reduced because of the asset value contributions made by the IDNO.

### **Potential upcoming review of regulatory arrangements**

In discussions with Ofgem after the letter was published, we have noted the proposals to consider projects to review IDNOs further, particularly in the areas of financial resilience and delivery against Guaranteed Standards of Performance (GSOP). These are areas where Ofgem regulates IDNOs, sets licence conditions on IDNOs and where IDNOs already provide periodic data and returns to Ofgem. We believe that scrutiny or further analysis of the information already provided to Ofgem will help address any misperception of risk. The INA and its members welcome this scrutiny as we believe that it will demonstrate the clear benefits of responsible competition in network operation.

We look forward to working with Ofgem on this review and we also see it as an opportunity to address some wider questions of customer service that we have raised with Ofgem in the past around communications protocols between DNOs and IDNOs on faults and on compensation to ensure all customers are treated equitably and fairly, no matter who they connect with.

Yours sincerely,

**Nicola Pitts**  
**Executive Director**